Debt Affordability Study

2016

James L. McIntire
Washington State Treasurer

JAMES L. McINTIRE
State Treasurer

State of
Washington
Office of the
Treasurer

Fellow Washingtonians,

I am pleased to present the 2016 Debt Affordability Study – our annual update on the State's debt obligations, issuance trends and borrowing costs. The Debt Affordability Study provides comprehensive information and analysis to better inform policy makers as they decide how to cost-effectively finance capital investments.

In previous years, I have drawn attention to the rapid pace at which our State has taken on new debt. Borrowings to finance critical state projects benefited from low construction costs and historically low interest rates, but began to push the annual general fund debt service bill above $1 billion. At the same time, financing projects to expand and improve the State's transportation facilities used up nearly half of motor vehicle fuel tax revenues.

During this period, we brought attention to the State's effective financial management, its timely reporting of economic and financial information and the State's demonstrated ability to take action in challenging circumstances. This message helped to protect Washington's strong credit ratings and ensure access to low cost capital. Strong investor demand for the State's credit also helped us refund bonds, saving more than $1 billion in debt service.

In the last few years, the State's debt portfolio has stabilized as economic recovery and population growth have outpaced debt issuance. As this study shows, several metrics used to monitor debt affordability have improved. The share of revenues spent on repaying debt for capital projects has declined to rates not seen since 2009. The share of fuel taxes spent on paying debt service is falling as new Connecting Washington revenues outpace new borrowings. In future years, the constitutional debt limit amendment approved by voters will further reduce the burden of debt on the operating budget. And beginning in 2019, the State is expected to fund transportation projects with general obligation bonds backed by a broader pledge of transportation revenues.

Nonetheless, the annual total debt service bill has reached $2 billion and Washington's growing population and economy will require new investments in infrastructure. Our Constitution prudently ties the State's debt capacity to the State's revenue growth, but over time state revenues have not kept pace with Washington's economy. **This creates a modest but increasing structural deficit between the demand for infrastructure investments and our capacity for financing them.**

In addition, recent funding to respond to the McCleary lawsuit have been placed in dedicated funds outside of general state revenues. Because these revenues are not part of the base against which the debt limit is calculated, they cannot be used to expand debt capacity for school construction. **I recommend that all funds intended for basic education be structured as general state revenues so that we can fund the critical capital investments needed for our schools.**

For many years our State has been able to assess the capacity and affordability of debt for capital projects subject to the debt limit through the use of technical and rigorous modeling supported by several agencies, including the Legislature. **I recommend the development of a technical modeling process similar to that used for capital projects for transportation debt.** Active statewide engagement in the assessment of debt affordability for **both** capital and transportation projects can only strengthen our State's sound financial management.

Please consider my office as a resource as you make your critical decisions concerning Washington's infrastructure investments. Thank you.

Sincerely,

James L. McIntire,
State Treasurer and Chair, State Finance Committee

Debt Affordability Study

January 2016

James L. McIntire

Washington State Treasurer

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The State borrows to undertake capital projects such as building construction, land acquisition, and transportation projects. With each borrowing, the State makes a commitment to repay the debt with regular and approximately equal payments of principal and interest over the term of the borrowing. The term of the borrowing is always within the expected useful life of the assets being financed.

The alternative to debt financing is pay-as-you-go funding, or cash funding capital expenditures with revenues received over time. Debt financing is more expensive as the State pays interest, but funds are available for project construction sooner. Debt-financing can also promote tax equity as each asset is paid for over its useful life. However, leveraging future tax revenues with debt financing commits resources from future biennia for today's capital projects.

1. Debt Portfolio Overview

Following more than a decade of significant expansion, growth in the debt portfolio of the State of Washington is slowing to a more modest pace. New money issuance of bonds has declined somewhat from the peaks of 2010 and 2012 and a growing volume of bonds is maturing annually.

Washington's debt obligations include Various Purpose General Obligation (VP GO) bonds, Motor Vehicle Fuel Tax General Obligation (MVFT GO) bonds and Certificates of Participation (COPs). Transportation funding also includes Triple Pledge bonds (backed by toll revenues, motor vehicle fuel taxes, and ultimately the State's general obligation pledge), Federal Highway Grant Anticipation Revenue Bonds (GARVEEs) and a loan from the Federal Highway Administration (TIFIA).

At the end of 2015, Washington's debt portfolio stood at $20.6 billion, an increase of only three percent over two years. Within the portfolio, increasing issuance of VP GO and COP obligations has been partially offset by reduced issuance of bonds for transportation projects. Nonetheless, total annual payments of principal and interest will reach nearly $2.0 billion in FY 2016, accounting for approximately 6.3 percent of general fund state revenues and 40 percent of motor vehicle fuel tax revenues.

Figure 1. State of Washington Debt Outstanding ($ millions)

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
General Obligation Bonds					
Various Purpose	10,930	11,019	11,277	11,357	11,528
Motor Vehicle Fuel Tax	6,255	6,459	6,837	6,799	6,898
Triple Pledge	519	519	519	519	519
Subtotal	17,704	17,997	18,632	18,674	18,945
GARVEEs	-	500	786	786	724
TIFIA Bond	-	-	-	10	195
Certificates of Participation - State	533	565	608	616	770
Total	$ 18,236	$ 19,062	$ 20,027	$ 20,087	$ 20,633

Source: Office of the State Treasurer, CAFR

Figure 2. Outstanding Bonds and COPs FY 2000-2016* ($ billions)

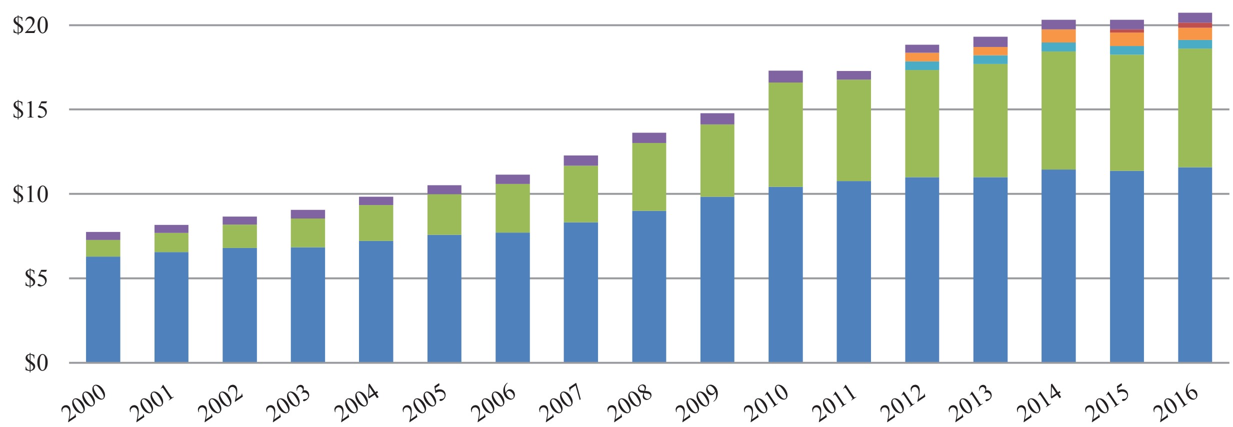


Figure 3. Bond and COP Issuance FY 2000-2016 ($ millions)**

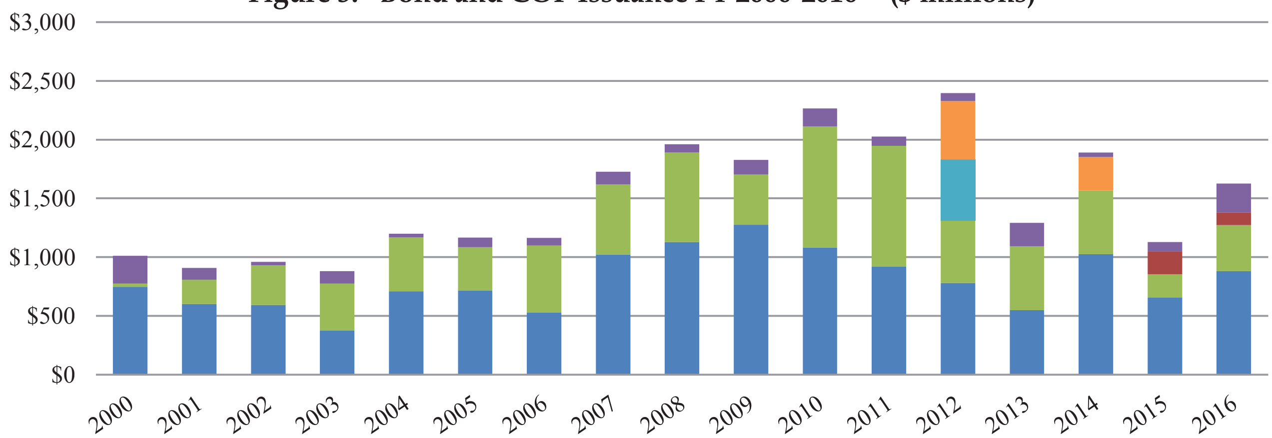
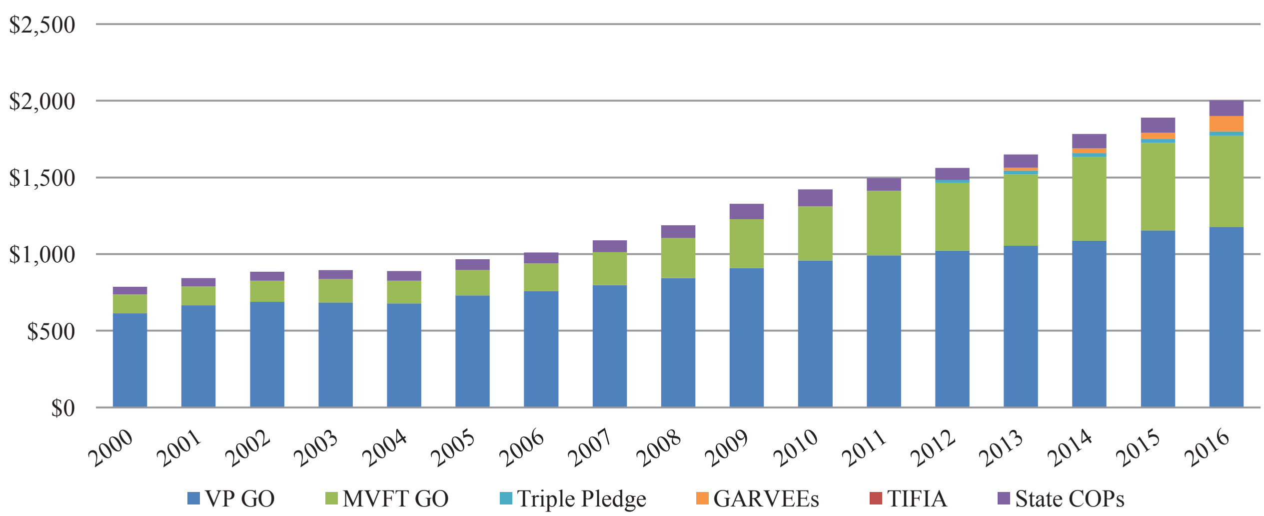


Figure 4. Debt Service Paid FY 2000-2016* ($ mllions)

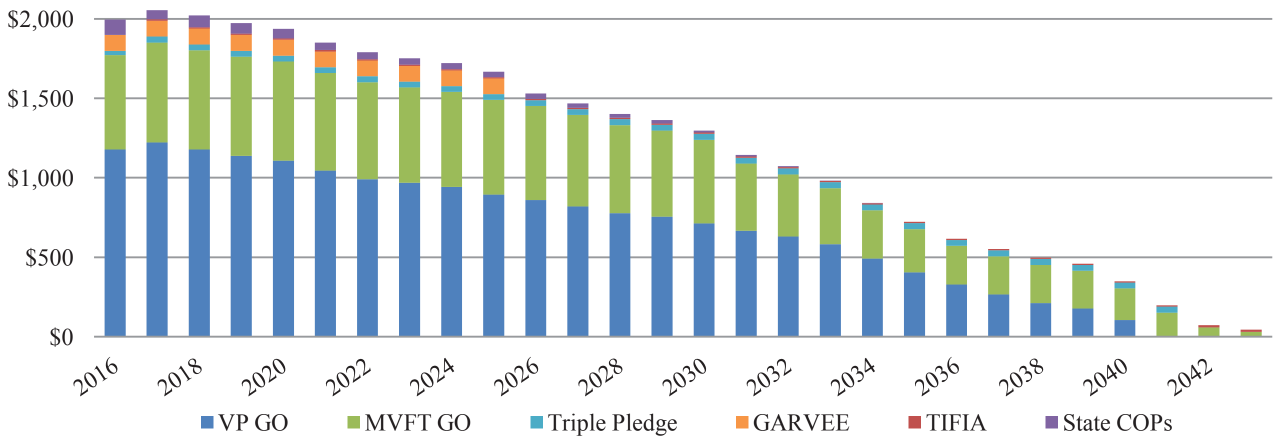


*FY 2016 estimate. **New money only. One half of MVFT GO bonds issued as Build America Bonds in FY 2010 are shown in FY 2011. No MVFT GO bonds were issued in FY 2011.

Source: Office of the State Treasurer

The State's borrowings have historically been structured with level debt service; much like a standard fixed-rate home mortgage, a portion of what has been borrowed is repaid every year and annual payments of principal and interest are approximately equal. With each bond sale, incremental debt service is added to each year through the final maturity. Approximately half of the State's current GO debt will be repaid by 2024, or in about 9 years.

Figure 5. Debt Service due on Bonds and State COPs by Fiscal Year* ($ millions)
(estimate as of February 2016)



*Includes projected February 2016 issuance.

Source: Office of the State Treasurer

REIMBURSABLE GENERAL OBLIGATION DEBT

Approximately $1.6 billion of the State's general obligation debt is reimbursable, or repaid from funds outside of general fund-state revenues and motor vehicle fuel tax revenues. Reimbursable VP GO debt includes: bonds for technical education facilities that are repaid from investment income on the Permanent Common School Fund, certain bonds for higher education facilities that are repaid from parking or student fees, bonds for a stadium and exhibit center repaid from admission, parking and certain sales taxes, and financings for "multimodal' facilities that are repaid from licenses and fees. In addition, nearly $1 billion MVFT GO and Triple Pledge bonds are paid from toll revenues from the Tacoma Narrows Bridge or the SR 520 Corridor. In these financings, state statute or bond covenants require that tolls are set to generate revenues to repay the debt.

Figure 6. GO Debt Outstanding Net of Reimbursables ($ millions)

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	12/31/2015
Various Purpose	10,764	10,981	10,980	11,433	11,358	11,528
Reimbursables	(928)	(856)	(823)	(747)	(671)	(638)
Motor Vehicle Fuel Tax	6,004	6,353	6,712	7,010	6,890	6,898
Reimbursed from TNB Tolls	(597)	(567)	(536)	(502)	(471)	(454)
Triple Pledge	-	-	519	519	519	519
Paid from SR 520 Tolls	-	-	(519)	(519)	(519)	(519)
Total Net of Reimbursables	$ 15,243	$ 15,910	$ 16,334	$ 17,194	$ 17,105	$ 17,334
Total GO Debt	$ 16,768	$ 17,334	$ 18,211	18,962	$ 18,767	$ 18,945

Source: Office of the State Treasurer

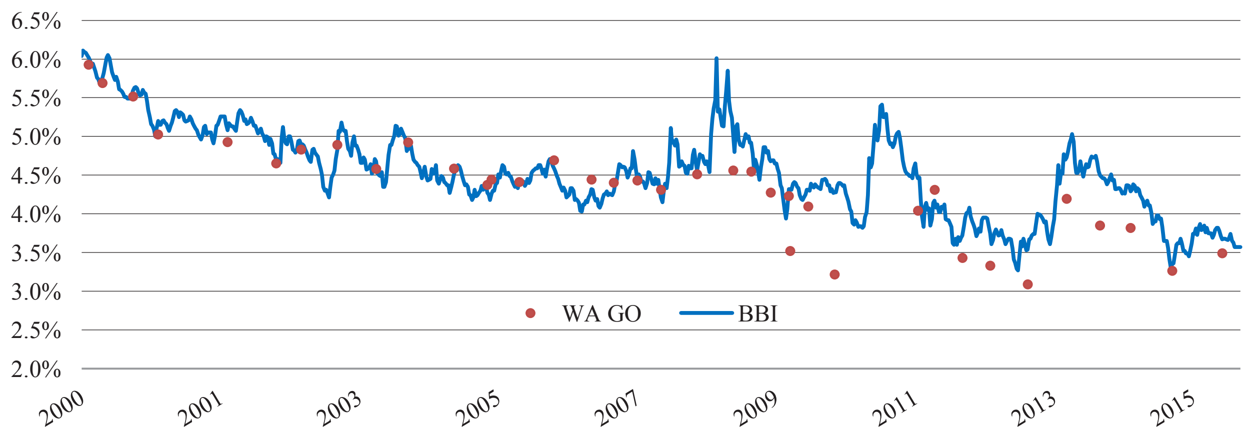
Refundings

The Office of the State Treasurer regularly monitors the debt portfolio to identify opportunities to lower borrowing costs by refunding bonds. All refundings are executed in accordance with debt policies of the State Finance Committee which specify minimum savings thresholds. From January 2009 through January 2016, low market interest rates and the State's stable rating enabled the State to refund $9.3 billion general obligation bonds, saving taxpayers $1.2 billion in nominal principal and interest payments or $981 million on a present value basis. Seventy percent of these savings are credited to the general fund, the remainder to the transportation budget.

Borrowing Costs

The State executes most bond sales through a competitive electronic auction process. Through most of 2015, borrowing costs remained near historical lows as the Federal Reserve deferred raising short-term interest rates. At the most recent sale of general obligation bonds with a 25-year final maturity and level debt service, the True Interest Co (TIC) was 3.49%. The weighted average cost of funds on the entire VP GO portfolio currently stands at 3.40 %.

Figure 7. GO Borrowing Costs vs. 20-Year Bond Buyer Index CY 2000-2015



Source: Office of the State Treasurer

2. Bonds: Issuance and Debt Service

Various Purpose General Obligation Bonds

Various Purpose General Obligation (VP GO) bonds are issued to pay for a wide variety of projects including K-12 school construction, higher education facilities, correctional facilities, environmental preservation, state office buildings, and public works infrastructure. In recent years, bonds have funded from 35 to nearly 60 percent of the biennial capital budget. The reliance on bond financings fluctuates over time depending on operating budget requirements and as state revenues expand or constrain debt capacity.

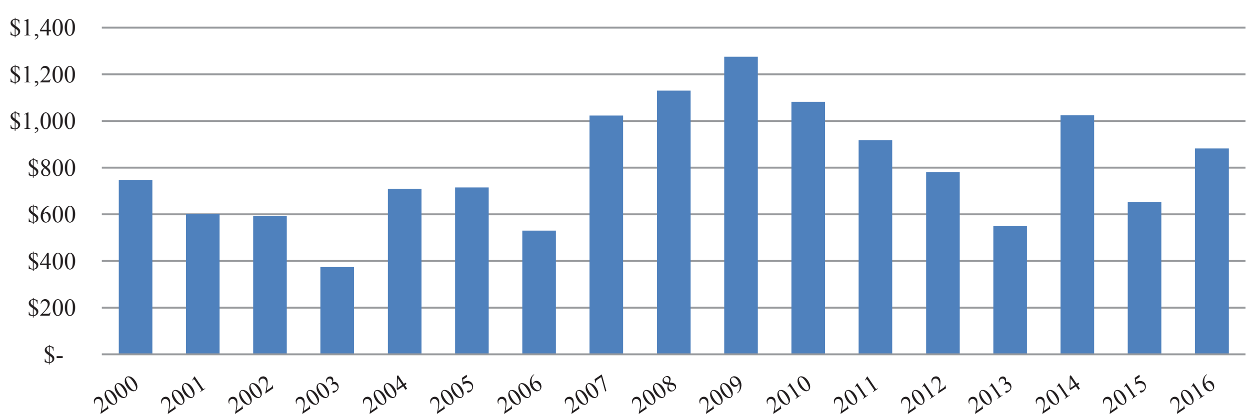
The State irrevocably pledges its full faith, credit and taxing power to the payment of general obligations of the State. The ability of the State to make this pledge is provided in the State Constitution.

There is no express provision in the Constitution or in state law on the priority of payment of debt service on state debt as compared to the payment of other State obligations. The constitutional mandate regarding payment of State debt, however, does require that the Legislature appropriate sufficient funds to pay State debt when due, and provides expressly for judicial enforcement of the State's payment obligation on that debt. No other provision of the Constitution contains comparable language providing courts with authority to compel payment of other State obligations.

General obligation bonds are the State's most highly rated obligations and offer the lowest cost of funds.

Annual issuance of VP GO bonds is again increasing after declining from 2009 to 2013. Excluding refundings, issuance of VP GO bonds peaked at $1.27 billion in FY 2009 and is expected to total approximately $880 million in FY 2016.

Figure 8. Issuance of Various Purpose General Obligation Bonds FY 2000-2016* ($ millions)



*Excludes refundings. FY 2016 estimate includes projected February 2016 issuance. Source: Office of the State Treasurer

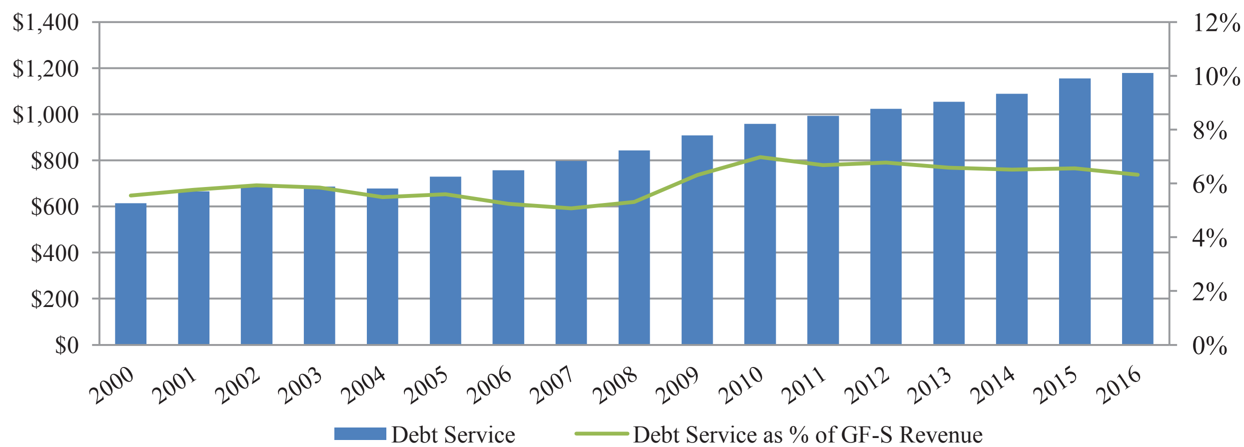
Figure 9. Capital Budget 2001-03 to 2015-17 Biennia ($ millions)

Bond Appropriations	2001-03	2003-05	2005-07	2007-09	2009-11*	2011-13	2013-15	2015-17
Governmental Operations	184	245	293	540	633	387	845	803
Human Services	255	350	462	465	180	124	120	164
Natural Resources	297	333	377	694	836	587	920	861
Higher Education	683	819	1,064	1,138	861	505	611	774
K-12 Education	29	140	263	370	627	615	578	886
Total Bond Appropriations	$ 1,449	$ 1,886	$ 2,460	$ 3,207	$ 3,138	$ 2,218	$ 3,074	$ 3,489
Total Funds Appropriated	$ 4,060	$ 4,392	$ 5,214	$ 6,649	$ 5,407	$ 4,980	$ 6,427	$ 6,564
Percent Funded by Bonds	35.7%	42.9%	47.2%	48.2%	58.0%	44.6%	47.8%	53.2%

*2009-11 total appropriations do not include Federal ARRA funds.

Source: Office of Financial Management, Legislative Evaluation & Accountability Program Committee

Figure 10. VP GO Debt Service: FY 2000-2016* ($ millions)
Totals as Percent of General Fund-State Revenues**



*FY 2016 estimate. **General fund revenues include the Education Legacy Trust and Opportunity Pathways accounts which are used for K-12 and higher education, as reported on a cash basis by the Economic and Revenue Forecast Council.

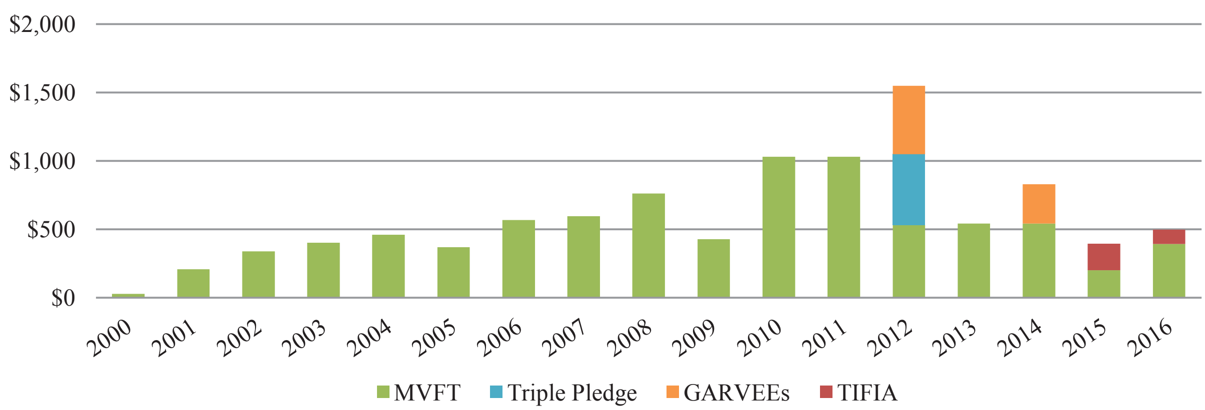
Source: Economic & Revenue Forecast Council

The portion of state resources used for debt service continues to edge lower as revenue growth outpaces debt issuance. Prior to the great recession, the portion of general fund revenues spent on debt service was in the 5 percent range. From 2007 to 2010, annual revenues fell by $2 billion while debt service continued to climb, driving up the share of revenues used to repay debt from 5 percent to 7 percent of the budget. In 2016, debt service on VP GO bonds is projected to total nearly $1.2 billion or 6.3% of general state revenues.

TRANSPORTATION BONDS: MVFT GO, TRIPLE PLEDGE AND GARVEE BONDS

Motor Vehicle Fuel Tax General Obligation (MVFT GO) bonds are paid from state excise taxes on motor vehicle fuels and are backed by the full faith, credit and taxing power of the State. Proceeds of MVFT GO bonds are constitutionally restricted to highway capital projects for public highways, county roads, bridges, city streets, and the ferry system. MVFT GO bonds carry the same ratings as VP GO bonds and borrowing rates are the same.

Figure 11. Issuance of Transportation Bonds: FY 2000-2016* ($ millions)



*Excludes refundings. FY 2016 estimate. One half of MVFT GO bonds issued as Build America Bonds in FY 2010 are shown in FY 2011. No MVFT GO bonds were issued in FY 2011.

Source: Office of the State Treasurer

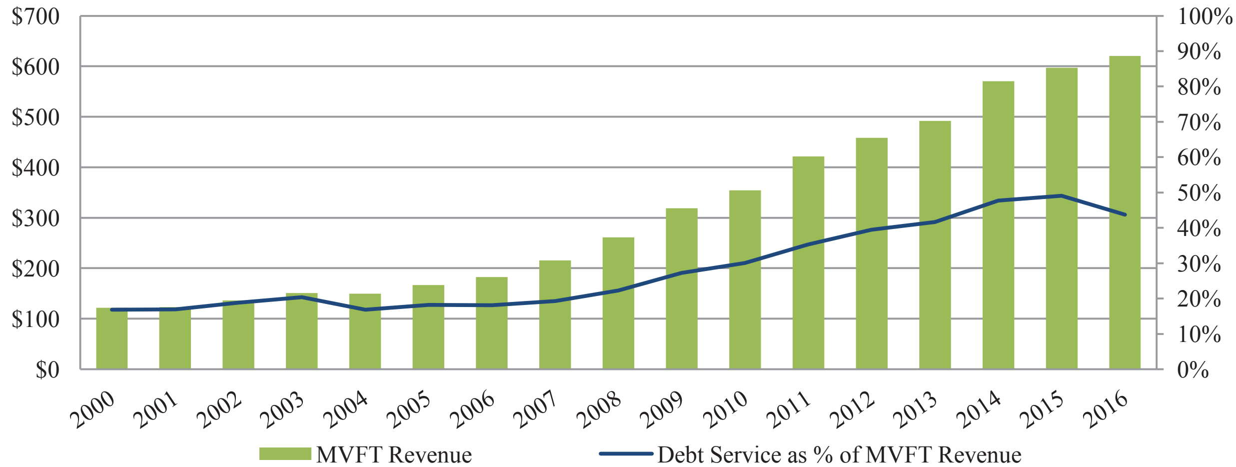
Over the past decade Washington has significantly increased its reliance on MVFT GO bonds to support legislative spending plans associated with gas tax hikes. Fully leveraging revenues from the gas tax increases of the 2003 Nickel Act and the 2005 Transportation Partnership Act increased the State's annual MVFT GO issuance from $65 million in the 1990s to over $500 million by 2013. In 2015, the Legislature approved further increases in gas taxes in the Connecting Washington transportation package and directed these revenues to specific capital projects.

In FY 2015, debt service on MVFT GO bonds rose to nearly $600 million, representing 30 percent of state transportation revenues, and half of pledged motor vehicle fuel tax revenues. This is more than double the $215 million paid with only 20 percent of MVFT revenues in 2007. In 2016, the amount of leverage will decline as revenue increases with the Connecting Washington gas tax hikes and the addition of vehicle related license fees to revenues pledged to new bonds.

Triple Pledge bonds are MVFT GO bonds which are first paid from toll revenue as part of the financing for the SR 520 Corridor (Series 2012C MVFT GO (SR 520 Corridor Program – Toll Revenue)). Triple Pledge Bonds carry the same ratings as VP GO bonds and borrowing rates are the same.

In addition, the State has issued two forms of transportation bonds which are not backed by the general obligation pledge: (1) Federal Highway Grant Anticipation Revenue Bonds, or GARVEE bonds are secured solely by funds received from the Federal Highway Administration, and (2) the TIFIA bond is a draw-down loan from the Federal Highway Administration which is paid solely from SR 520 toll revenues. The SR 520 Corridor Program is the only program for which the Legislature has authorized issuance of GARVEE bonds.

Figure 12. MVFT GO Debt Service: FY 2000-2016* ($ Millions)
Totals and as Percent of MVFT Revenue



*FY 2016 estimate. Debt service includes all bonds pledging MVFT revenue.

Source: Office of the State Treasurer

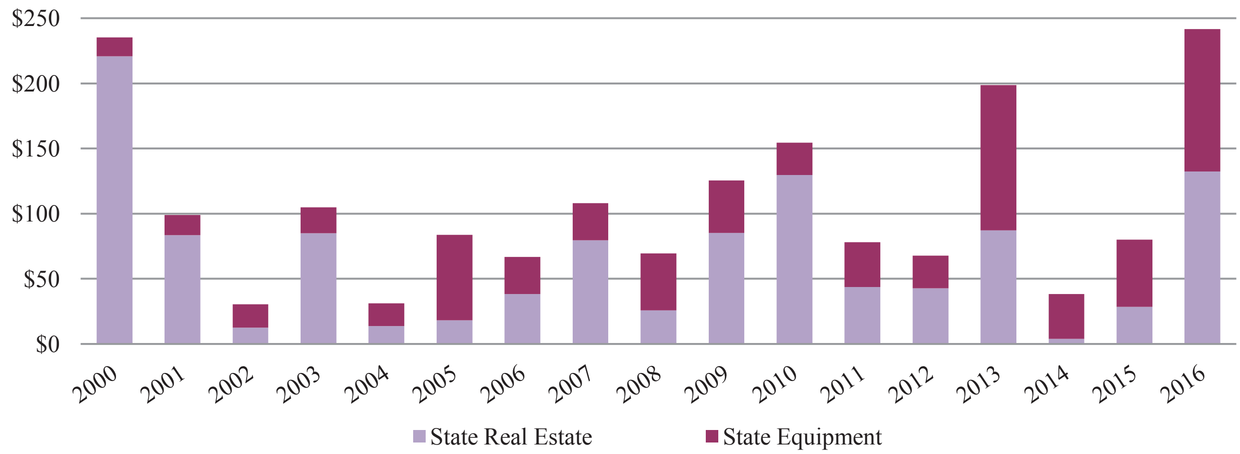
3. Certificates of Participation: Issuance and Lease Payments

The State often acquires real estate and equipment by issuing certificates of participation (COPs) which finance new construction, facility improvements, the acquisition of land or buildings, or personal property such as vehicles, computer hardware and office equipment. In this type of financing, the State leases property to a designated non-profit organization (without transferring ownership) and then makes periodic payments to lease the property back over the life of the financing. The term of each lease is set in relation to the useful life of the asset being financed. COPs are generally issued with 20-year maturities for real estate projects and 3 to 10-years for equipment. Multiple financings are often pooled together to achieve economies of scale in borrowing and issuance costs. Approximately half of outstanding COPs will be paid off in about 5 years.

COPs are not backed by the full faith and credit of the State. Instead, each agency pledges its appropriation. Accordingly, COPs typically are rated one notch below general obligation debt and borrowing rates are somewhat higher. In practice, most state agencies, particularly community and technical colleges, rely on revenue sources such as student fees that are not considered general state revenues to make lease payments. Local governments can participate in the State's COP program if their borrowings are supported by a local government general obligation pledge and meet the credit criteria of the Office of the State Treasurer.

State real estate acquisitions financed with COPs must be authorized by the Legislature. The Office of the State Treasurer requires prior legislative approval for major equipment acquisitions. On average, annual COP issuance has increased since 2001. Approximately $107 million real estate COPs were authorized by the Legislature in the 2015-17 Capital Budget and $100 million state equipment COPs are expected to be issued in the same period.

Figure 13. COP Issuance: FY 2000-2016* ($ millions)



*New money only. FY 2000 includes a $185 million issue for the Washington Convention and Trade Center that has subsequently been defeased. FY 2016 estimate.

Source: Office of the State Treasurer

4. Constraints on Debt Issuance

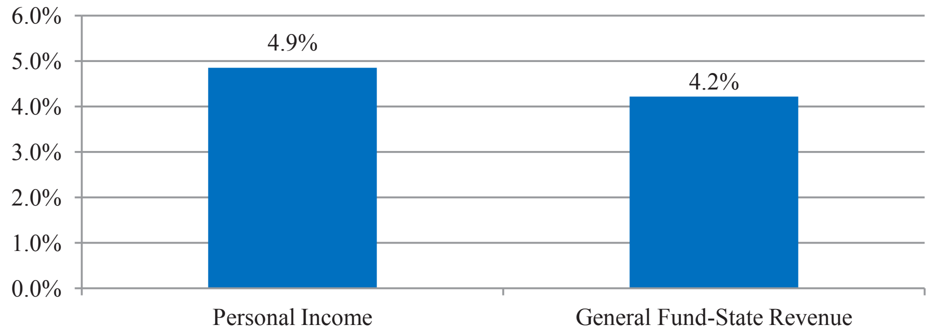
Constitutional Debt Limit

The Washington State Constitution places a firm limit on the amount of debt service the State can pay on certain forms of debt. Beginning in 1889, the State had a fixed debt limit of $400,000. In 1972, this was replaced with a limit on annual debt service (payments of principal and interest) which sets the maximum annual debt service (MADS) in relation to a historical average of the State's general state revenues. More specifically, the Constitution requires that maximum annual payments of debt subject to this limit not exceed a specified percentage (currently 8.50 percent, declining to 8.00 percent effective fiscal year 2035) of the average general state revenues for the six preceding fiscal years. Debt service on nearly all VPGO debt is subject to the constitutional limit.

Under the Constitution, *general state revenues* include all state money received in the State treasury, with the exception of: (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise than for general purposes of the State; (3) retirement system moneys and performance bonds and deposits; (4) trust fund moneys, including moneys received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness.

Linking the State's debt capacity to the State's revenue growth is intended to support sound financial management and ensure that debt service payments do not strain Washington's ability to provide other services to its residents. However, as capital needs tend to grow with the economy, challenges arise when the pace of state revenue growth does not keep up with economic growth. In fact, general fund revenues now account for a smaller share of Washington total personal income down from 7 percent in the mid-1990's to less than 4.5 percent in recent years. Looking forward, the Economic and Revenue Forecast Council projects that personal income will increase at an average rate of 4.9 percent over the next several decades while general fund revenues grow by only 4.2 percent. This differential is likely to hinder the State's capacity to finance needed infrastructure investments.

Figure 14. Long-term Economic and Revenue Growth Projections: FY 2020-2040



Source: Economic & Revenue Forecast Council, Office of Financial Management, Global Insight

The Legislature, OFM and the Office of the State Treasurer have developed a model to estimate debt capacity and to assess the affordability of bonds subject to the Constitutional debt limit. The debt model is used both for long term debt planning and as an "early warning" mechanism during times of decreasing revenues. It estimates debt service and debt capacity over a 30-year period as a function of the Constitutional debt limit, projected general state revenues and future interest rates. The model also assumes a fixed growth rate for biennial bond authorizations and that bonds authorized for each biennium are issued over a four year period using 25-year, level debt service bond structures. Projections are reviewed at least quarterly and both revenue and interest rate assumptions are aligned with those of the Economic and Revenue Forecast Council over the forecast horizon.

The model determines the maximum bond authorization as the dollar amount that causes projected future MADS to equal the specified percentage of projected average general state revenues, given the assumed growth in general state revenues and in future biennial bond authorizations and the resultant future bond issuance. To the extent the maximum bond authorization for the current biennium is increased, future projected maximum bond authorizations are decreased to keep MADS below the limits and vice versa. Thus, the model provides regularly updated measures of current and projected future debt capacity governed primarily by projected growth in general state revenues.

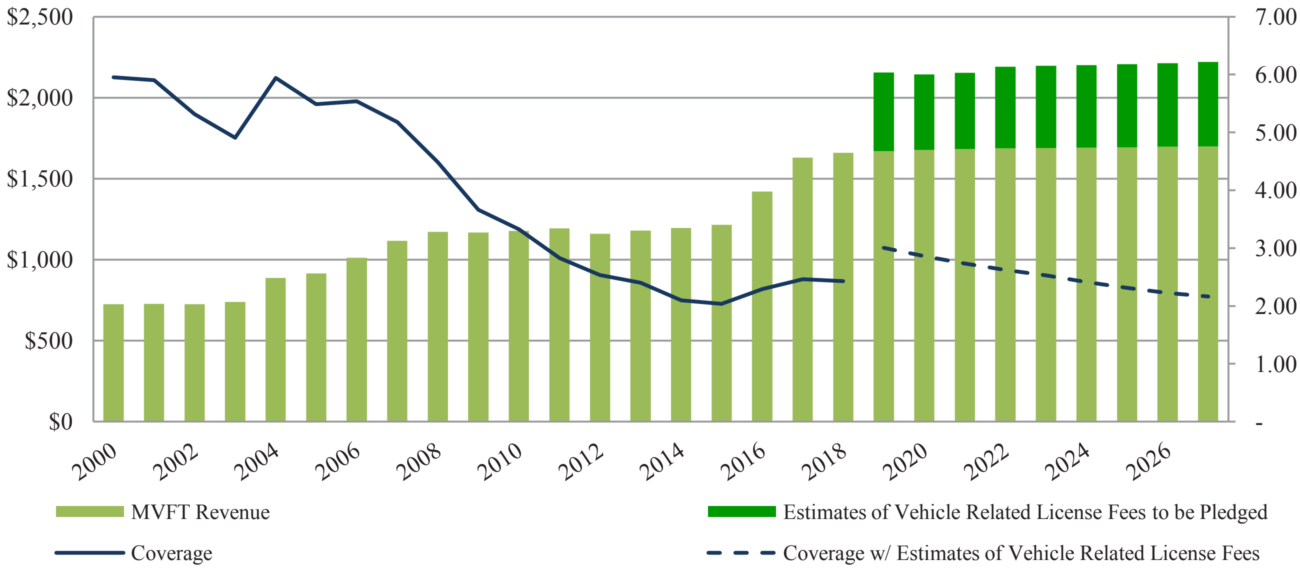
Exemptions from the Constitutional Debt Limit

Article VIII of the Constitution excludes certain types of debt from the debt limit, most notably debt payable from motor vehicle fuel taxes, from license fees on motor vehicles and from interest on the permanent common school fund, provided that there are sufficient revenues *"from such sources to pay the principal and interest due on all obligations for which said source of revenue is pledged."* All forms of non-recourse revenue debt as well as debt approved by both the Legislature and a majority of the voters are also excluded from the limit.

MVFT GO Bonds. MVFT GO bonds are exempt from the constitutional debt limit provided there are sufficient MVFT revenues to pay debt service. Mindful of the constitutional provision, legislative bond authorizations for MVFT GO bonds include a statutory commitment to continue to impose excise taxes on motor vehicle fuels in amounts sufficient to pay principal and interest. The State Finance Committee's MVFT GO authorizing resolutions include this pledge and it is incorporated into the contractual obligation made by the State to investors. MVFT revenues currently represent approximately 60 percent of all state transportation revenues.

In 2015, the Legislature approved an 11.9-cent gas tax hike and certain license fees in the Connecting Washington package. The Legislature also authorized the issuance of $5.3 billion general obligation bonds for transportation projects backed by a new broader pledge of both motor vehicle fuel taxes and vehicle-related license fees. Issuance under the new pledge is not expected until FY 2019. Over the next few years, the ratio of

Figure 15. Coverage: Revenues vs. MVFT GO Debt Service ($ millions)



*Debt service projections based on the 2015 transportation budget request. Source: Transportation Revenue Forecast Council, WSDOT

revenues to debt service (the coverage ratio) will rise as the growth in MVFT revenues outpaces additional debt service. In 2019, coverage will rise further with the issuance of bonds pledging a broader range of revenues. Over time, the coverage ratio is expected to edge lower depending on the phasing of construction, the pace of bond funding and the cost of funds.

Triple Pledge Bonds. Issuance of Triple Pledge bonds – paid from toll revenues, and backed by MVFT revenues and the general obligation pledge of the State – is constrained in two ways. First, these bonds are exempt from the Constitutional debt limit as they pledge MVFT revenues. MVFT revenues must be sufficient to pay triple pledge bond debt service. In addition, issuance of triple pledge bonds is constrained by contractual rate covenants and additional bonds tests determined by the ratio between net toll revenues on the SR 520 Corridor and maximum annual debt service.

GARVEE Bonds. GARVEE bonds are exempt from the limit, but are constrained by a contractual additional bonds test. The State may not issue additional GARVEE bonds unless pledged federal transportation funds (or more specifically obligation authority) received during one of the two prior federal fiscal years are at least 3.5 times maximum annual debt service on outstanding GARVEE bonds. The State Finance Committee has adopted a more restrictive policy - increasing this ratio to 3.75 – which ensures that most federal funds will remain available to support the State's ongoing preservation and improvement program. No additional GARVEE issuance has been authorized. Technically, capacity is estimated to be approximately $350 million.

Certificates of Participation. COPs are not subject to the constitutional debt limit as these obligations do not constitute debt as defined by the Constitution. Budgetary consideration is given to future annual appropriations necessary for each real estate or equipment financing. In addition, the State Finance Committee sets the maximum aggregate principal amount of outstanding financing contracts.

5. Other State Obligations

Contingent Obligations

Contingent obligations are obligations the State may face in the event that other governmental entities are not able to meet their financial commitments. These include voter-approved school district bonds supported by the State School Bond Guarantee Program and local government leases financed through the State's COP program. It is important to note that the State has never been called upon to pay debt service on any bonds guaranteed in the School Bond Guarantee Program or on any local government lease financed by a COP. If the State does at some point step in to make up a temporary shortfall, the debt remains the responsibility of the local government.

Neither of these programs involves state debt, and they have provided significant value to other government entities. Since its inception in 2000, the School Bond Guarantee Program has saved school districts an estimated $11 million annually.

Figure 16. Contingent Obligations Outstanding ($ thousands)

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	12/31/2015
School Bond Guarantee Program	8,350,546	8,333,934	8,547,542	8,983,648	9,326,856	9,675,857
Certificates of Participation - LOCAL	83,901	83,167	78,093	84,445	81,225	80,006
Total	$8,434,447	$8,417,101	$8,625,635	$9,068,093	$9,408,081	$9,755,863

Source: Office of the State Treasurer

Other Financial Liabilities

63-20 Revenue Bonds

The State has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the State. With this type of financing, a non-profit corporation issues bonds on behalf of the State and uses the proceeds to manage the design and construction of a facility. Once the project has been completed, the State leases the facility from the non-profit and the lease payments are pledged to the repayment of the bonds. The State does not take title to the property until the bonds have been paid. The State's lease payments are subject to appropriation risk and across-the-board cuts by the Governor. The State's 63-20 financings were issued for 20 and 30 years. Borrowing costs on these financings are higher than those on similarly structured COPs.

Figure 17. 63-20 Bonds Outstanding ($ thousands)

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	12/31/2015
63-20 Bonds						
Edna Lucille Goodrich Building*	53,295	52,820	51,580	43,435	43,435	41,870
1500 Jefferson Building	305,810	304,510	299,055	293,330	287,315	287,315
Total	$359,105	$357,330	$350,635	$336,765	$330,750	$329,185

*Bonds for the Edna Lucille Goodrich Building were refunded in June 2014.

Source: Office of the State Treasurer

Guaranteed Education Tuition Program

The Washington Guaranteed Education Tuition Program ("GET program") is a 529 prepaid college tuition plan that allows Washington residents to prepay for college tuition. Individual accounts are guaranteed by the State to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses.

The budget enacted in the 2015 Legislative session reduced tuition for state colleges and universities. Payout values for units redeemed during the 2015-16 and 2016-17 academic years are unchanged from the value in effect before the tuition reduction. For academic years thereafter, the GET Committee is authorized to make program adjustments necessary to ensure that the total payout value of each account is not decreased or diluted as a result of the tuition changes. The GET Committee has suspended new program enrollments and most purchases of new units for up to two years. The GET Committee is currently exploring establishing a direct fund 529 college savings plan.

According to the actuarial valuation performed by the Office of the State Actuary ("OSA"), the market value of GET program assets as of June 30, 2015 totaled $2.86 billion, in excess of the "best estimate" of the actuarially determined present value of obligations of $2.04 billion. However, OSA has noted that it is difficult to fully estimate the full extent of the 2015 legislation to reduce tuition at all public institutions of higher learning in FY2016 and FY2017 and to limit tuition growth in future years.

Pensions

The pension plans of the State of Washington are consistently recognized as some of the better funded plans in the nation. The State administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2014, the plans covered an estimated 530,000 eligible state and local government employees. The Office of the State Actuary's (OSA) most recent actuarial valuation shows that the funded status for all the state-administered retirement plans combined as of June 30, 2014 is 93 percent comparing liabilities estimated using the Projected Unit Credit cost method to the Actuarial Value of Assets. Estimating liabilities for the same period using the Entry Age Normal cost method adjusts the funded status of all the State administered plans combined to 87 percent. Under the new GASB reporting standards, the State's share of Net Pension Liabilities for the fiscal year ended June 30, 2015 is $1,529 million.

OPEBs (Other Post Employment Benefits)

The State provides health care benefits to its retirees through implicit and explicit subsidies. But unlike the State's pensions, both the implicit and explicit subsidies are not contractual obligations to retirees. The State allows retirees not yet eligible for Medicare to use their own money to pay for health insurance at group rates negotiated for public employees (an implicit subsidy). While there is no contractual liability for the State, including retirees in this purchasing pool marginally increases overall insurance rates. The State provides an explicit subsidy to reduce Medicare-eligible retiree Part A and B premiums by an amount determined each year by the Public Employee Benefits Board (PEBB). Like the implicit subsidy, this is also not a contractual obligation because each year the Legislature determines whether or not to include it in the state budget.

Obligations of Other State Entities

College and University Revenue Bonds

The State has issued VPGO bonds and COPs to finance major campus construction projects for five state universities, the state college and 34 community and technical colleges. In addition, certain state colleges and universities are authorized to independently issue revenue bonds for the construction of certain types of revenue-generating facilities for student housing, dining and parking. These revenue bonds are payable solely from revenues derived from the operation of the constructed facilities.

Figure 18. Higher Education Revenue Bonds Outstanding ($ thousands)

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015
University of Washington	1,073,369	1,447,953	1,660,115	1,764,855	1,709,066
Washington State University	366,130	430,995	488,620	530,840	596,825
Eastern Washington University	31,720	55,025	54,005	52,435	50,810
Central Washington University	135,430	133,269	129,658	126,339	122,781
The Evergreen State College	5,755	5,360	4,950	4,525	4,080
Western Washington University	79,043	77,423	75,483	72,443	68,638
Total	$1,691,447	$2,150,025	$2,412,831	$2,551,437	$2,552,200

Source: Office of Financial Management

Conduit Issuers/Financing Authorities

Washington State has created four financing authorities that can issue non-recourse bonds to make loans to qualified borrowers for capital projects: the Washington State Housing Finance Commission, the Washington Higher Education Facilities Authority, the Washington Health Care Facilities Authority and the Washington Economic Development Finance Authority. Bond issued by these authorities are not legal or moral obligations of the State and debt service is payable solely from repayments of loans for which the bonds were issued. All four financing authorities are financially self-supported and do not receive funding from the State.

Figure 19. Conduit Issuer Debt Outstanding ($ thousands)

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015
WA Housing Finance Commission	3,736,479	3,622,082	3,490,997	3,411,461	3,419,567
WA Higher Ed. Facilities Authority	671,779	674,828	706,243	766,485	759,833
WA Health Care Facilities Authority	5,300,000	5,425,000	5,484,000	5,452,000	5,609,000
WA Economic Dev. Finance Authority	768,613	838,121	758,663	702,442	682,472
Total	$10,476,871	$10,560,031	$10,439,903	$10,332,388	$10,470,872

Source: CAFR

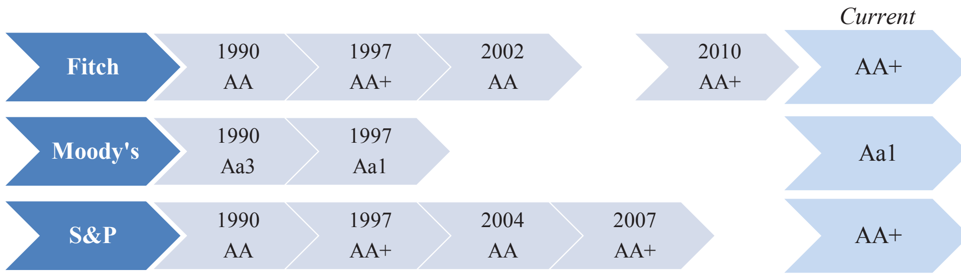
Tobacco Settlement Securitization

The Tobacco Settlement Authority (TSA) was created to securitize a portion of the State's revenue from the tobacco litigation settlement. In 2002, the TSA issued $517.9 million in bonds and transferred $450 million to the State to be used for increased health care, long-term care, and other programs. The TSA bonds are not obligations of the State. As of June 30, 2015, $273.2 million bonds were outstanding.

6. Credit Ratings and Debt Metrics

Washington continues to be characterized by high income levels, solid population growth and a diverse state economy. For these reasons, the State continues to receive high marks from credit rating agencies. The State's ratings from Fitch, Moody's, and S&P are in the second highest category. These strong and stable ratings are critical to ensure that the State pays low interest rates on all borrowings.

Figure 20. History of Washington State GO Ratings 1990-2015



These same economic and demographic characteristics also provide insight as to why Washington's debt ratios are higher than the national medians and higher than debt ratios in other similar states. Washington's debt burden places it among the top 10 states in the nation as measured by: debt per capita, debt as a percentage of personal income, debt service as a percentage of governmental expenditures, and debt as a percentage of gross state product. While citing the State's debt levels as a potential risk, each rating agency has recognized that fundamental credit strengths of the State mitigate the above-average debt burden.

Fitch (October 2015)

> *Washington's debt levels are in the upper moderate range and well above average for a U.S. state, with pro forma net tax-supported debt as of Oct. 8, 2015 equal to 5.7% of personal income. Debt is primarily GO. Capital needs are substantial, particularly for transportation, and tolling is part of the funding solution. Positively, the state has increased its focus on debt affordability. In November 2012, voters approved a constitutional amendment that tightened the constitutional debt limit.*

Moody's (September 2015)

> *Washington's debt ratios are more than twice Moody's 2015 50-state median level; net tax-supported debt as a percentage of personal income is 6.2%, compared with Moody's 50-state median of 2.5%. Despite the significant increase in total debt outstanding during the previous decade, the debt-to-personal income ratio has remained fairly stable due to Washington's strong personal income growth. Washington's net-tax supported debt per capita ($2,892) is more than twice the national median of $1,012. Annual debt service costs relative to revenue available for debt service (Moody's calculation) was also relatively high at 9.8% in fiscal 2014 versus a median of 5.3%.*

Standard and Poor's (September 2015)

> *Washington's debt is moderately high by several of our measures. Debt pay down is average, with 44% of outstanding principal amortized over 10 years. Gross GO and lease appropriation-backed debt service is moderate, at 5.46% of the funds' expenditures from which it pays debt service. Portions of the state's debt are funded from self-supporting or reimbursable sources, however. Considering just the general fund, adjusted for these offsetting revenues, we estimate that debt service was 6.4%, moderate in our view.*

Figure 21. 2015 Debt Metrics: A Comparison to National Medians

	Moody's[1]	S&P[2]
Net Tax-Supported Debt		
Washington	**$20,422,165**	**$18,109,000**
Median of States	$3,834,300	$3,850
WA Rank Compared to Other States	6th	8th
Net Tax-Supported Debt Per Capita		
Washington	**$2,892**	**$2,564**
Median of States	$1,012	$957
WA Rank Compared to Other States	6th	7th
Net Tax-Supported Debt as % of Personal Income		
Washington	**6.20%**	**5.17%**
Median of States	2.50%	2.40%
WA Rank Compared to Other States	5th	6th
Net Tax-Supported Debt as % of GSP[3]		
Washington	**5.00%**	**4.24%**
Median of States	2.21%	2.02%
WA Rank Compared to Other States	5th	9th
Debt Burden as % of Total General Spending		
Washington		**5.46%**
Median of States		3.65%
Debt Per Capita + Pension Liability (UAAL) Per Capita		
Washington		**$3,728**
Median of States		$4,010
WA Rank Compared to Other States		27th

1. 2015 State Medians. Moody's U.S. Public Finance. June 24, 2015
2. 2015 U.S State Debt Review. Standard & Poor's. October 19, 2015
3. GSP – Gross State Product
4. 2015 U.S. State Pension Roundup. Standard & Poor's. June 18, 2015.

Credit analysts recognize the importance of a state's overall liability profile when reviewing debt affordability. While the debt metrics above place the State in the top for each of these debt metrics, Washington's relative ranking improves significantly when the broader liability profile is taken into account. For example, as shown in Figure 20, in 2015 Washington ranks 7th in debt per capita. However, if both per capita pension liabilities and debt per capita are measured, its ranking drops below the median to the 27th position.

Washington's debt metrics improved modestly in 2015 compared to previous years. Debt is smaller in relation to person income and debt service account for a smaller share of general spending.

It is useful to compare Washington's debt metrics with those of other states with comparable or higher credit ratings and similar demographic characteristics. Many of these states have fundamentally different economic, revenue, debt and income characteristics. Within this list of states, only Massachusetts has higher debt per capita and more debt as a percentage of personal income. In Delaware, Florida, Georgia, Massachusetts, and Oregon debt service payments are a larger share of general spending.

Figure 22. Comparing the State of Washington to Other States

	Ratings (S&P/ Moody's/ Fitch) [1]	Debt Per Capita[2]	Debt as % of Personal Income[2]	Debt Service as % of General Spending[3]	Debt as % of GSP[3,4]	Total Net Tax-Supported Debt ($ millions)[2]
Washington						
2015	**AA+/ Aa1/ AA+**	**$2,892**	**6.2%**	**5.5%**	**4.2%**	**$20,422**
2014	**AA+/ Aa1/ AA+**	**$2,924**	**6.4%**	**5.6%**	**4.2%**	**$20,386**
Colorado	AA/ AA1/ NR	$478	1.0%	2.2%	0.9%	$2,563
Delaware	AAA/ Aaa/ AAA	$2,438	5.5%	6.9%	3.5%	$2,281
Florida	AAA/ Aa1/ AAA	$973	2.4%	6.0%	2.6%	$19,365
Georgia	AAA/ Aaa/ AAA	$1,043	2.8%	7.0%	2.0%	$10,533
Maryland	AAA/ Aaa/ AAA	$1,889	3.5%	5.0%	3.2%	$11,291
Massachusetts	AA+/ Aa1/ AA+	$4,887	8.7%	8.0%	7.5%	$32,968
Minnesota	AA+/ Aa1/ AA+	$1,538	3.2%	3.1%	2.7%	$8,392
Missouri	AAA/ Aaa/ AAA	$606	1.5%	3.6%	1.3%	$3,674
Nevada	AA/ Aa2/ AA+	$665	1.7%	3.2%	1.4%	$1,887
North Carolina	AAA/ Aaa/ AAA	$739	1.9%	3.3%	1.4%	$7,346
Ohio	AA+/ Aa1/ AA+	$1,109	2.7%	3.6%	1.8%	$12,857
Oregon	AA+/ Aa1/ AA+	$1,636	4.1%	7.3%	3.6%	$6,495
Texas	AAA/ Aaa/ AAA	$406	1.0%	1.6%	0.6%	$10,947
Utah	AAA/ Aaa/ AAA	$1,060	3.0%	5.4%	2.4%	$3,118
Virginia	AAA/ Aaa/ AAA	$1,356	2.8%	3.9%	2.2%	$11,286
Median		$1,012	2.5%	3.7%	2.0%	$3,834

1. Ratings as of November 20, 2015.
2. 2015 State Medians. Moody's U.S. Public Finance. June 24, 2015
3. 2015 U.S State Debt Review. Standard & Poor's. October 19, 2015
4. GSP - Gross State Product