

# THE STATE OF WASHINGTON



## *General Obligation Investor Presentation*

*As of May 9, 2012*



## *Disclaimer*

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This presentation is not an offer to sell or a solicitation of an offer to buy any state bonds. There are no current offerings of state general obligation bonds. State bonds may only be purchased through a municipal securities broker-dealer. Any investment decision regarding state bonds should only be made after a careful review of the official statement prepared in connection with the bonds.

The information in this presentation is a summary of certain recent developments concerning the state. The presentation is not intended to contain all information material to investors in state bonds. The information speaks only as of its date and is subject to change. The state does not undertake to update this information.



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## *I. Overview*



## *Overview of the State of Washington*

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- Washington has a large and diverse economy.
  - The 14th largest state by real GDP and the 13th largest state by population.
- Wealth levels are above national averages.
  - \$44,294 per capita income in 2011, 106 percent of the national average.
  - Continued strength in high wage aerospace and software industries is expected to support income growth.
- A number of corporations have chosen Washington as their headquarters or as a major center of operations:
  - Amazon, Amgen, Costco, Microsoft, Nintendo, Nordstrom, F5 Networks, PACCAR, Starbucks and Weyerhaeuser.
  - Principal manufacturing site for Boeing.
- The state's policies and statutory framework have resulted in a history of prudent fiscal management.
  - Governor is required by law to propose a balanced budget.
  - The state has quarterly independent revenue forecasting.
  - The Governor and Legislature have repeatedly implemented mid-budget adjustments to ensure a balanced budget.
  - Recent constitutional amendment (November 2011) strengthened the Rainy Day Fund.
  - Initiatives cannot amend the Constitution. In recent years, the Legislature has taken action to modify voter approved initiatives.
- The state has one of the healthiest pension systems in the nation and has enacted significant reforms and benefit changes to ensure the long-term health and sustainability of the system.
  - The current total funded status for the plans is 102 percent.



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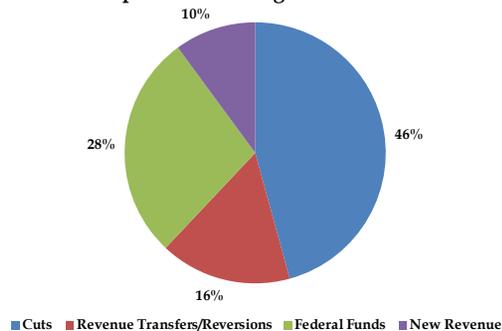
## *II. Budget and Financial Update*



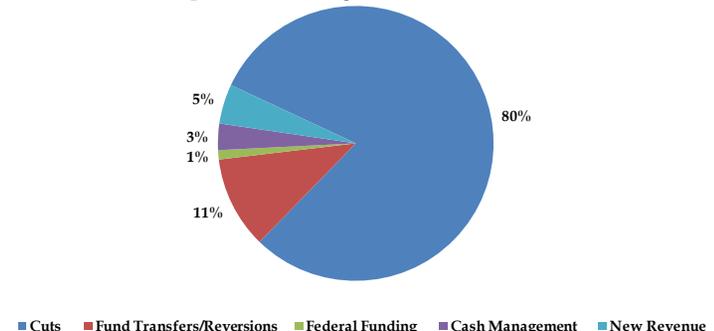
## The State's Fiscal Position is Sound

- Over the past two biennial budgets, the state has solved a \$19 billion budget gap, primarily through structural solutions.
  - The Governor has responded to revenue forecast reductions and budgetary shortfalls through across-the-board cuts by executive order and by calling special Legislative sessions to make mid-year adjustments to budgets.
  - The Legislature has overturned voter-approved initiatives to achieve savings when needed.
- Initial 2011-13 budget addressed a \$4.9 billion budget gap with \$4.5 billion in expenditure reductions, and some revenue fund shifts.
  - Reductions in state employees compensation and benefit structures (3% salary reduction, LEOFF savings) – \$199 million;
  - Education savings from reduced programmatic funds, reduced teacher salaries and benefit structures, suspension of voter initiatives related to class size reduction and teacher COLAs – \$1.7 billion;
  - Health and Human Services Reductions – \$1.5 billion;
  - Higher education - \$450 million; and
  - Eliminated automatic cost-of-living increases for retired workers in the PERS 1 and TRS 1 pension plans \$362 million.
- Following downward revisions in projected revenues showing an additional \$480 million shortfall, the Governor convened a special session in December 2011 which narrowed the gap primarily through expenditure reductions.
- The 2012 Supplemental Budget signed by the Governor on May 2, 2012 addressed outstanding shortfalls.
  - A modest \$96 million up-tick in the biennial revenue forecast.
  - The remaining \$1.2 billion budget gap was solved through an adjustment in the state's working capital reserve requirement, transfers, elimination of tax breaks, changes to local revenue sharing arrangements, and expenditure reductions.

Composition of Budget Solutions 2009-2011



Composition of Budget Solutions 2011-2013

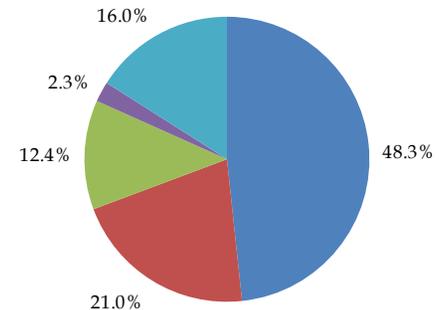




## Detail of the 2011-13 Supplemental Budgets

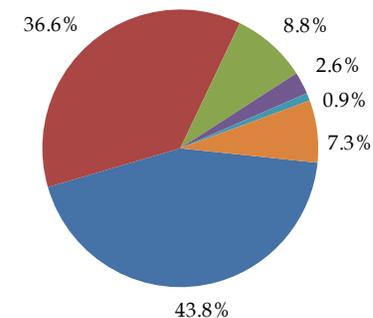
- The December 2011 early action supplemental cuts and transfers:
  - Health Care Authority - \$143 million;
  - Department of Social and Health Services - \$56 million;
  - Education - \$75 million;
  - Various Central Services charges - \$19 million;
  - Debt Service on Capital Budget - \$19 million;
  - All other expenditure changes - \$11 million;
  - Revenue transfers from other funds - \$106 million; and
  - HB 2169 Unclaimed Property - \$51 million.
- The 2012 Supplemental Budget improved revenues, cuts and transfers:
  - Revenue and economic improvement - \$96 million;
  - Downward revision of caseloads (need for state services) - \$300 million;
  - Additional net expenditure reductions - \$456 million;
  - Revenue sharing adjustments with local governments - \$74 million;
  - Adjustment of working capital reserve requirement - \$238 million;
  - One-time transfers - \$28 million; and
  - Elimination of tax breaks for out-of-state banks - \$14.5 million.
- Ending reserves include \$265 million in the budget stabilization account which cannot be spent without a two-thirds vote and a \$46 million general fund ending balance.

2011-13 Composition of Revenues



■ Retail Sales and Use ■ B&O ■ Property Tax ■ REET ■ Other

2011-13 Expenditures



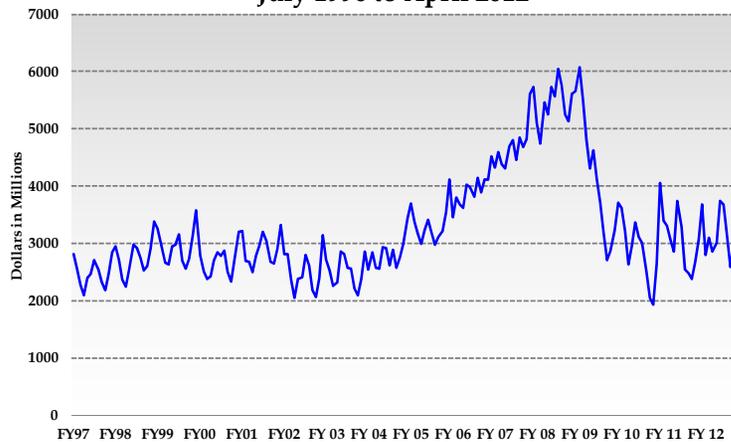
■ K-12 Schools ■ Human Services ■ Higher Education  
 ■ General Government ■ Natural Resources ■ Other\*



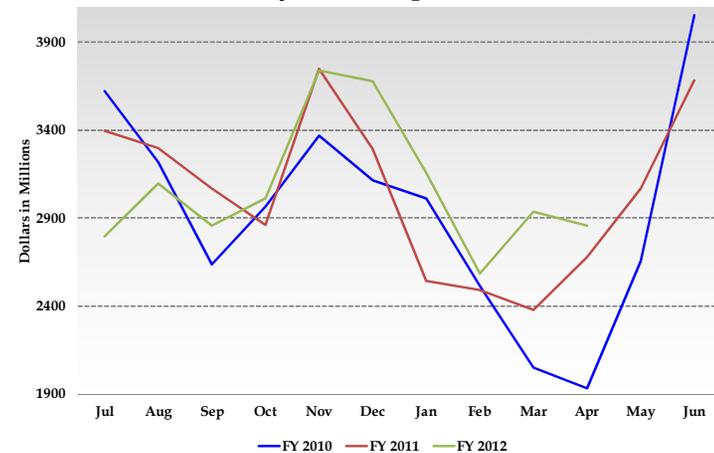
## The State's Overall Liquidity is Robust

- The state has strong cash management policies.
- The state does not currently expect nor plan to borrow short-term for cash flow purposes.
- The state maintains sound liquidity.
- Balances are continuously monitored in coordination with OFM.

Treasury/Trust  
Month Ending Balances  
July 1996 to April 2012



Treasury/Trust  
Month Ending Balances  
July 2010 to April 2012





## The State's Pension System is Healthy

- Funded status of the state's pension system is one of the best in the nation.
  - The current total funded status for the plans is 102 percent.
- In recent years, the funded status has improved due to investment performance, funding, and benefit changes enacted in the 2011 Legislative session.
- Investment returns for the 2010 and 2011 fiscal years were 13.2 percent and 21.1 percent, respectively.
- With passage of Chapter 362, Laws of 2011, the Legislature repealed the automatic cost of living adjustment for PERS and TRS plans 1.
  - Lowering the UAAL in PERS1 and TRS1 by approximately 36 percent; and
  - Decreasing the required employer UAAL contribution rates for the 2011-13 biennium by over 35% for PERS1 and over 60% for TRS1.
- Legislation signed by the Governor in 2012 reduces certain benefits for future hires, saving state and local governments \$1.6 billion over 25 years.
- Investment rate of return assumptions are also stepped down, from 8.0% to 7.7%, which changes the timing of future pension contribution requirements.
  - It results in temporary increases in contributions (additional prefunding), followed by lower contributions in later years.
- The state's UAAL has decreased year-over-year.

Funded Ratios - 2010	
PERS 1	74%
PERS 2/3	113%
TRS 1	84%
TRS 2/3	116%
SERS 2/3	113%
PSERS 2	129%
LEOFF 1	127%
LEOFF 2	124%
WSPRS	118%
<b>Total</b>	<b>102%</b>

Source: Office of the State Actuary. June 30, 2010 Actuarial Valuation Report.

UAAL*	2009	2010
PERS1	\$4,208	\$3,094
TRS1	\$2,676	\$1,345
<b>Total</b>	<b>\$6,884</b>	<b>\$4,439</b>

\*\$s in Millions.

Source: Office of the State Actuary. June 30, 2010 Actuarial Valuation Report.



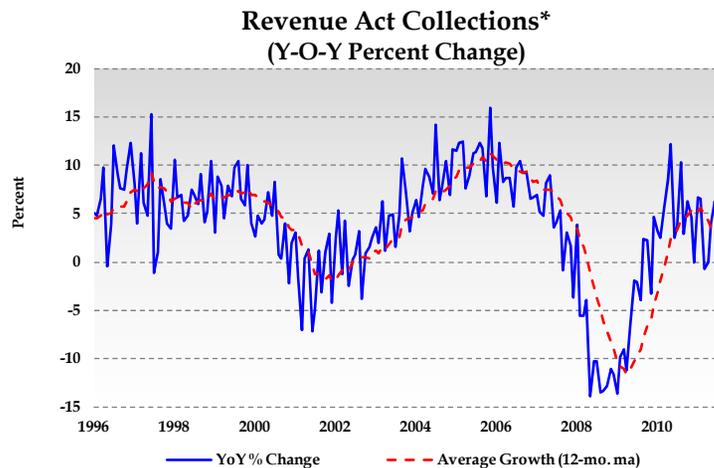
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### *III. Economic and Revenue Update*

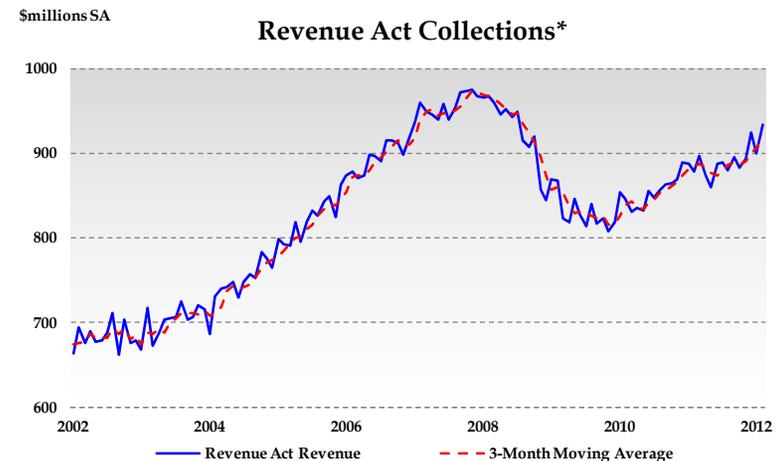


## Strong Recent Revenue Performance and Upward Collections Trend

- General Fund-State revenue collections have been on an upward path since November 2009.
- For the March 11 - April 10, 2012 period (corresponds to February 2012 economic activity):
  - Revenue Act collections increased 7.1% Y-O-Y, adjusted for large one-time payments and refunds.
  - Unadjusted for large one-time payments and refunds, Revenue Act collections up 6% Y-O-Y.
  - 2.7% higher than the February forecast.
- Preliminary unadjusted EFRC estimates indicate:
  - Retail sales tax collections up 3.4% Y-O-Y.
  - B&O taxes up 15.5% Y-O-Y.
- With two months of collections since February, the state is 1% (\$17.2 million) above the forecast.



\*Growth adjusted for definition change and unusually large assessment payments, refunds, etc.  
Source: ERFC Economic and Revenue Update. April 2012.

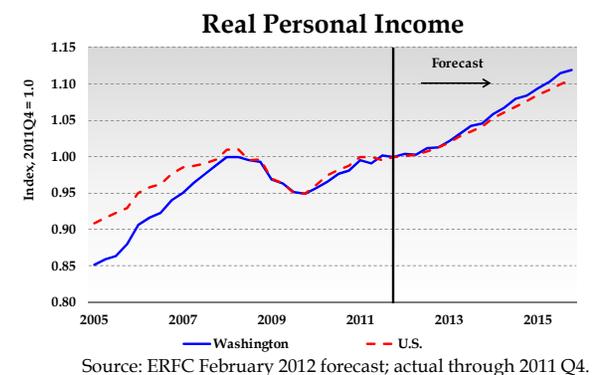
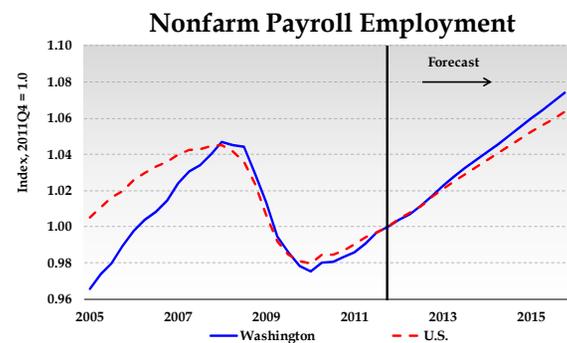
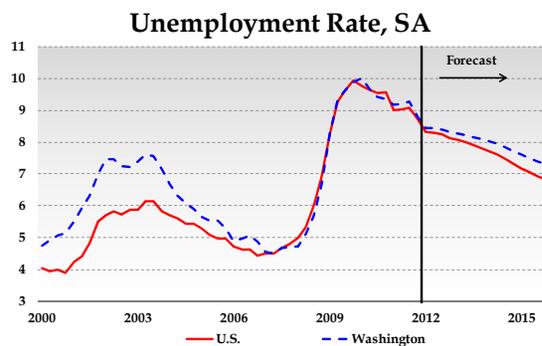


\*Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act.  
Source: DOR and ERFC; monthly data through February 2012 activity.



## Employment and Income Continue to Improve

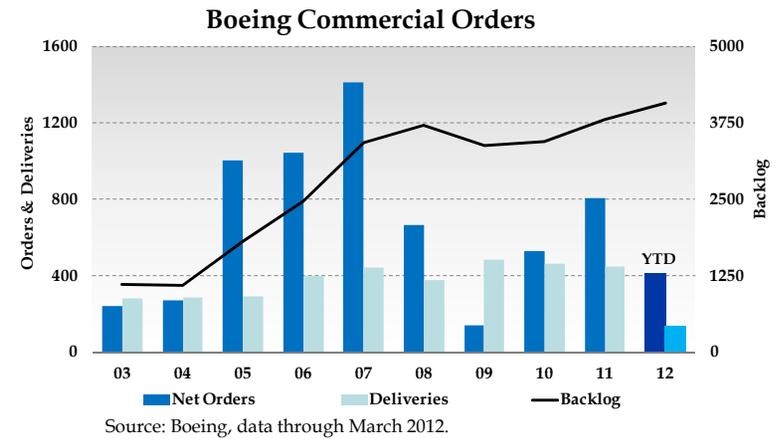
- Washington's unemployment rate has been declining.
  - Unemployment rate dropped to 8.3% in March and February, from 8.4% in January and 8.6% in December.
- Employment growth positive although slowing. In February:
  - Private service-providing industries added 3,100 jobs;
  - Public sector lost 700 jobs; and
  - The manufacturing sector continued to exhibit growth with 400 jobs.
- Washington's personal income rose by 5.3% to \$302.5 billion in 2011.
- Washington's economy is expected to continue to modestly outperform the U.S. economy, with employment and personal income recovering faster than the U.S.



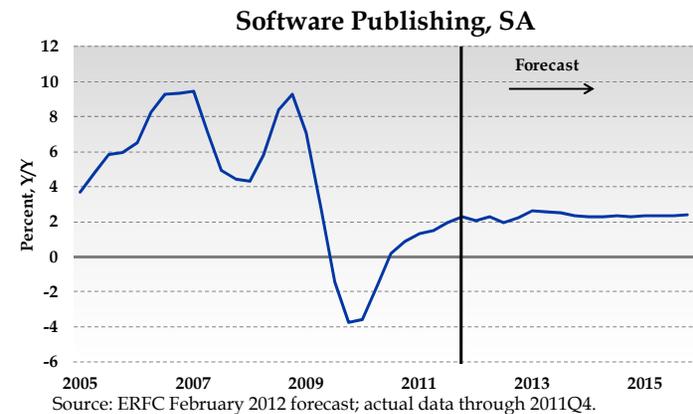


## Key High Wage Industries in Washington are Healthy

- Boeing has over seven years of commercial orders on its books.
- The aerospace sector added 100 jobs in February and 300 in January.



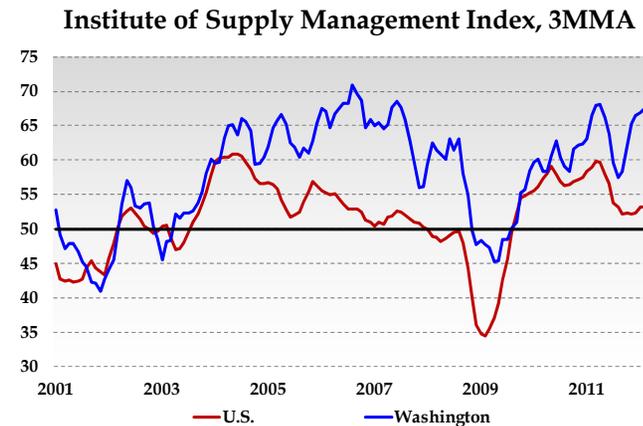
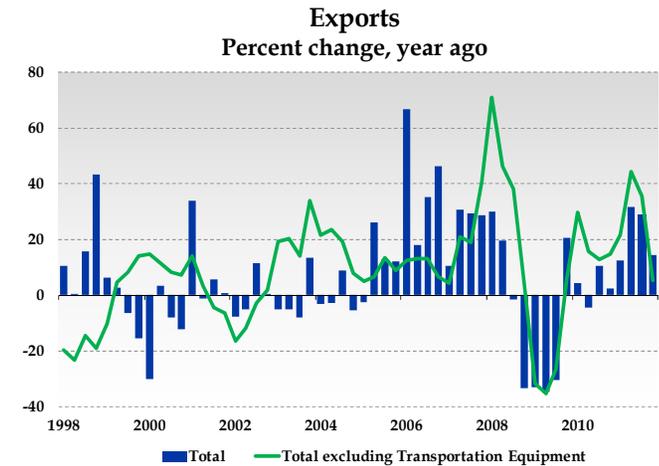
- Software publishing employment is growing.
- The software sector added 100 jobs in February and 100 in January.





## Washington Exports and Manufacturing Sectors are Strong

- Washington export growth has slowed but remains a strength in the economy.
  - Transportation equipment exports were up 27% Y-O-Y in the fourth quarter of 2011.
  - 2011 exports were just below the 2008 peak.
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- Washington manufacturing has been outperforming the nation.
    - An index greater than 50 implies growth.

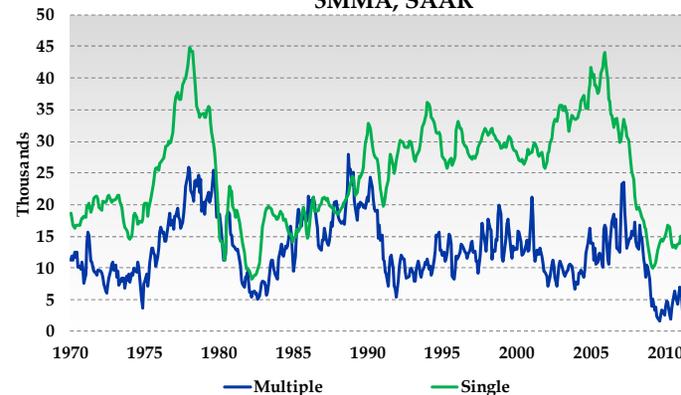




## Construction and Housing Remain Weak but are Experiencing Modest Gains

- Single-family housing continues to struggle but multi-family construction is improving.
- Multi-family building permits:
  - Trend is positive due to rising rents and declining vacancies. Permits increased 19.9% in 2011; and
  - January - February permits average close to forecast.
- Single-family permits have surprised on the upside:
  - Permits in the first two months of the quarter totaled 14,100 compared to the forecast of 12,300 for the entire quarter.
- The S&P Case-Shiller home price index for Seattle increased 0.8% in January, the first monthly increase in eight months.
- For the second month in a row, the construction sector added nearly 500 net new jobs.

Washington Housing Units Authorized by Building Permits  
3MMA, SAAR

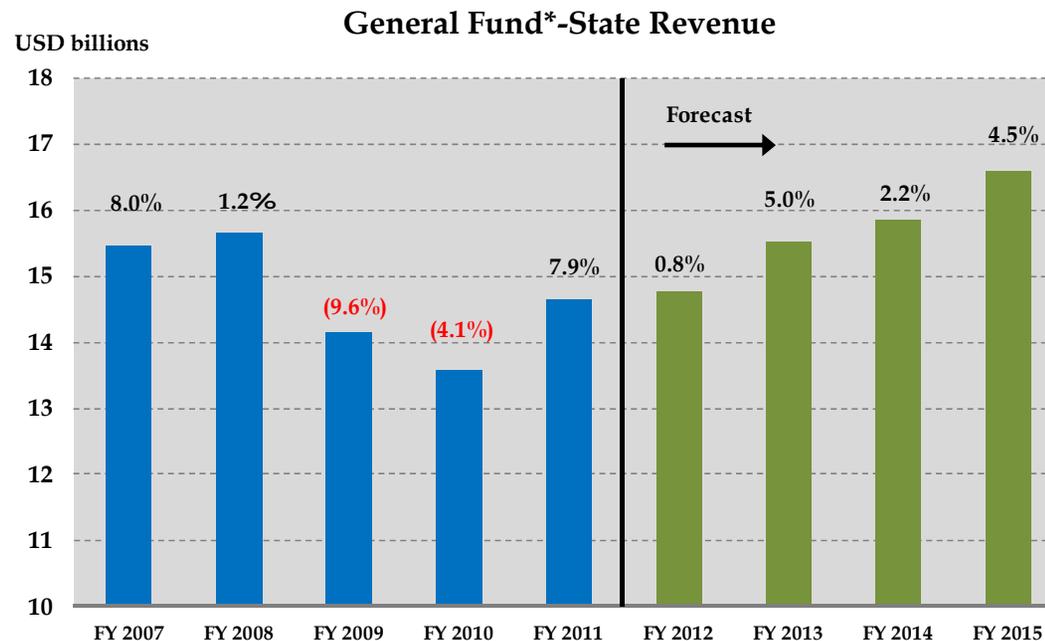


Source: U.S. Census Bureau; data through February 2012.



## General Fund Forecast Shows Signs of Improvement

- The February forecast for the 2011-13 Biennium is \$96 million higher than the November forecast.
- With two months of collections since February, revenues are 1% (\$17.2 million) above the forecast.
- 2011-13 Biennium revenues are expected to be 7.3% above the 2009-11 Biennium and increase by 7.1% in the 2013-15 Biennium.
- The next ERFC forecast update is June 20, 2012.



\*General Fund & Related Funds for FY 07-09, General Fund - new definition for FY 10-13.  
Source: ERFC forecast, February 2012.