
THE STATE OF WASHINGTON



Investor and Rating Agency Presentation
September 29, 2014



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I. Economic and Revenue Forecast



Forecast Overview

The Washington economy is expected to be slightly stronger than the U.S. economy.

The Washington economy continues to grow slowly, with employment rising in most sectors.

A variety of Washington economic indicators are positive, including new vehicle registrations, higher multi-family housing permits, and higher personal income.

Overall, the September forecast for Washington is similar to the previous five forecasts.

The September Forecast increased 2013-15 Biennium General Fund Revenues by \$163 million to \$33.3 billion; Forecasted GF Revenues for the 2015-17 Biennium were increased by \$143 million to \$36.1 billion.

Downside uncertainty is attributable to slower economic growth in China, turmoil in the Middle East and Eastern Europe and concerns about the strength of the housing recovery.



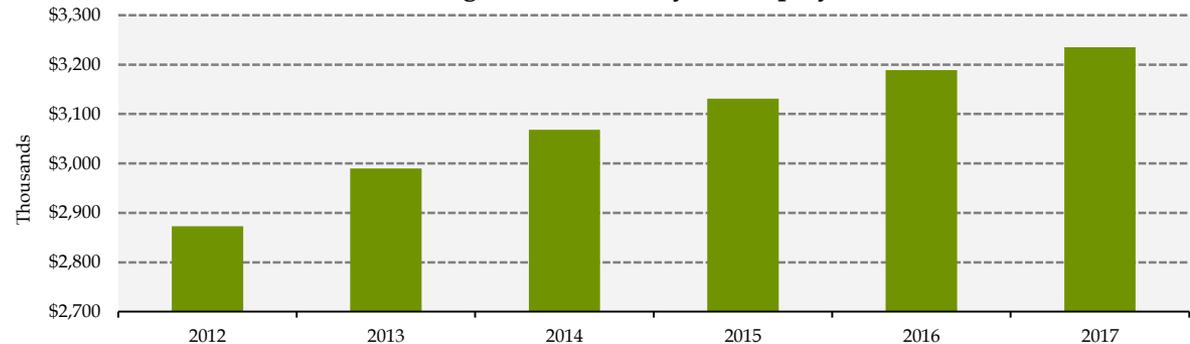
Employment and Income

The state's unemployment rate was 5.6% in August, down from 7.0% in August 2013.

The August Seattle area unemployment rate fell to 4.8%.

Personal income growth as been stronger than expected so far in 2014.

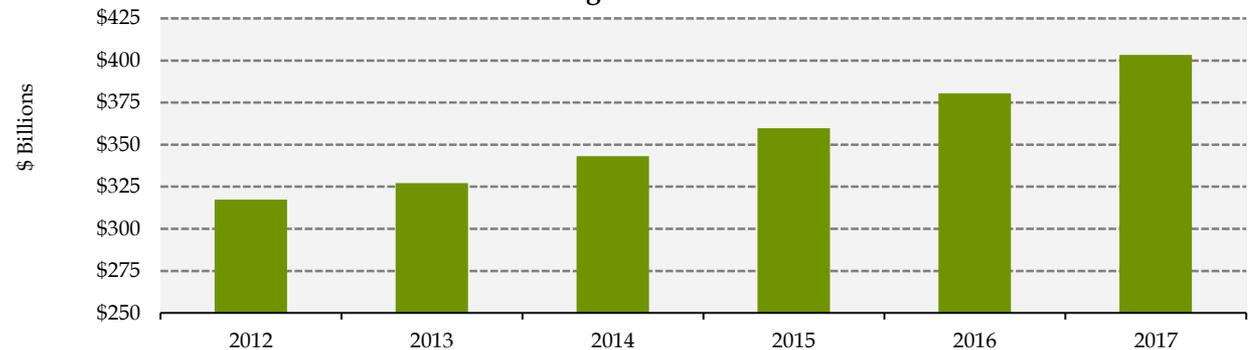
Washington Nonfarm Payroll Employment



Source: ERFC September 2014 forecast; historical data through 2013

- Since June, Washington added 21,600 jobs, with most growth in the private, service-providing industries. The construction sector added 2,500 new jobs in this period.
- Through August 2014, non-farm employment grew by 2.6% year-over-year.

Washington Personal Income



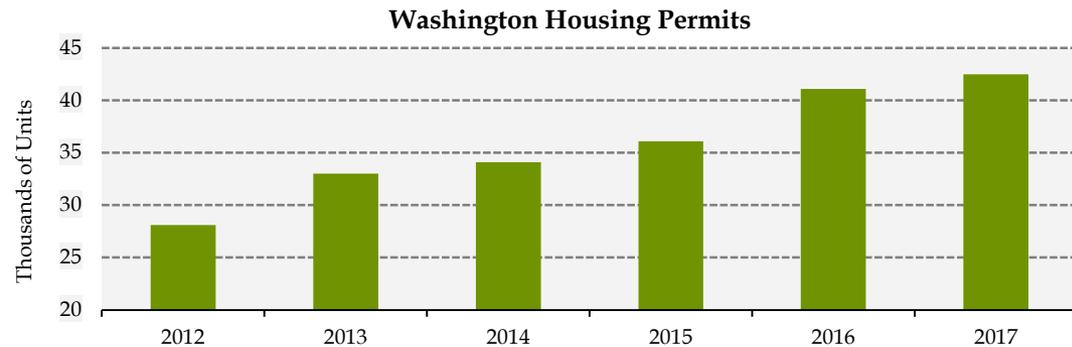
Source: BEA, ERFC September 2014 Forecast; historical data through 2013



Housing Sector and Inflation

Seattle home prices are up 8.6% over the previous June and 26.2% higher than November 2011.

- Total housing units authorized by building permits averaged 37,200 (SAAR) in the second quarter of 2014, slightly below the June forecast. Single-family housing was weaker than expected, and multi-family housing was somewhat higher than expected.



Source: Census, ERFC September 2014 forecast; historical data through 2013

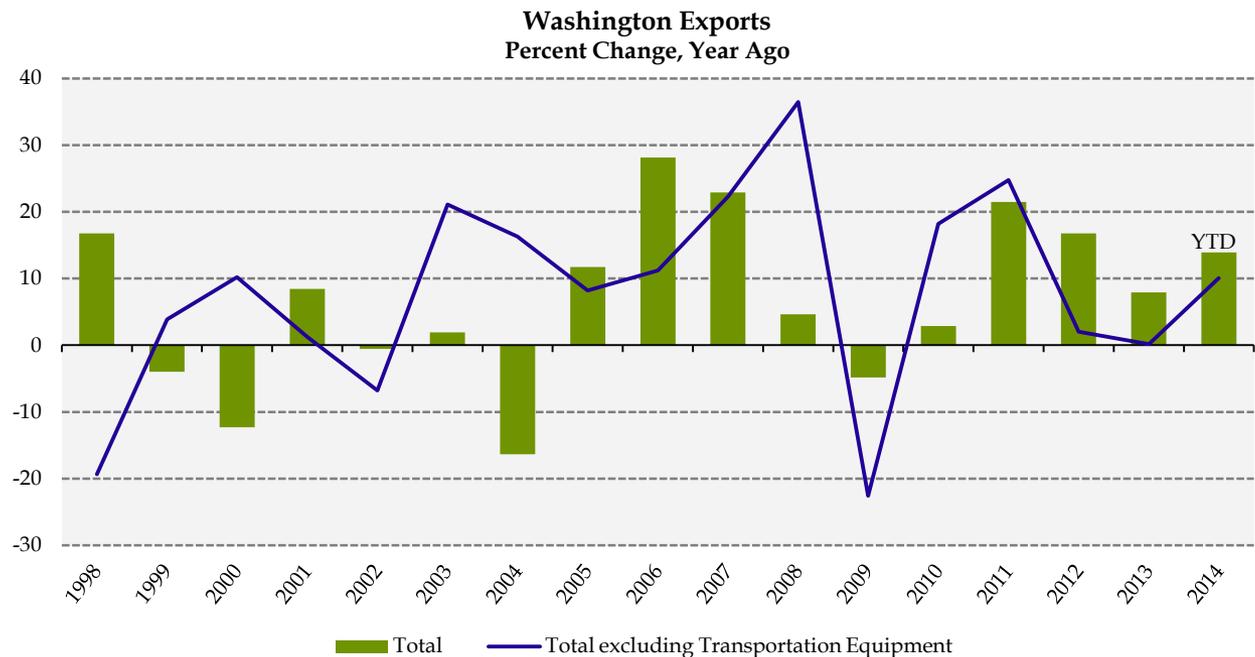
- Seattle area inflation has edged up and now exceeds the national average. Seattle CPI was 1.8% from August 2013 to August 2014, higher than the 1.7% rate for the U.S. city average. The higher than average inflation rate in Seattle is almost entirely due to more rapidly rising shelter costs.



Washington Exports

Exports grew 11.9% in the second quarter of 2014 compared to the second quarter of 2013.

- Transportation equipment exports (mostly Boeing planes) increased 10.4% over the year and exports of agricultural products rose 62.5% over the year.



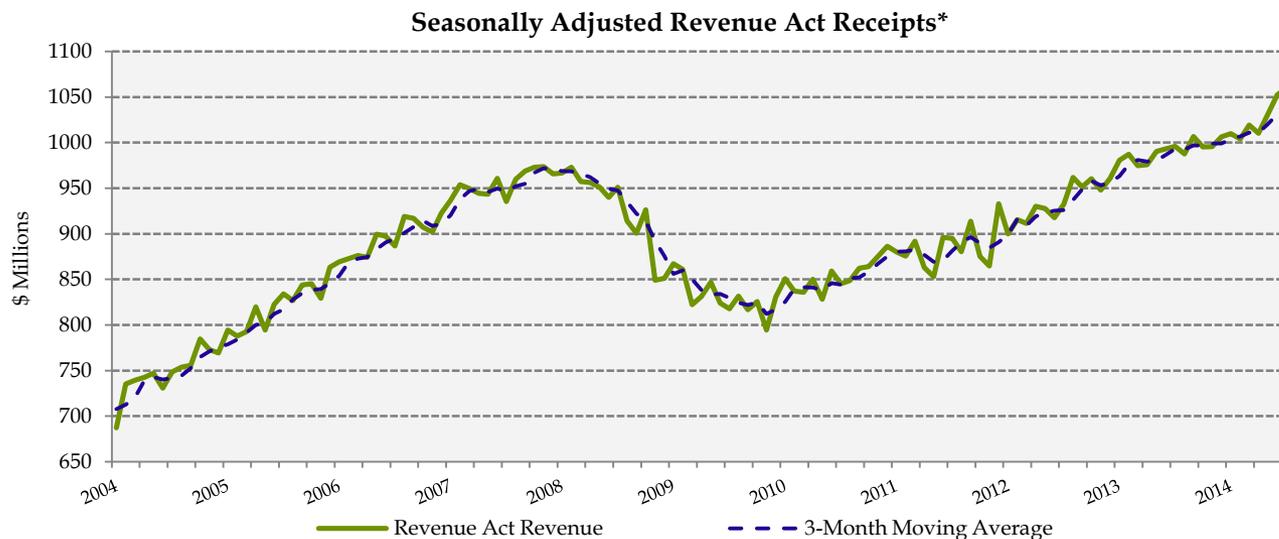
Source: WISER Trade Data; data through July 2014



Revenue Collection Performance

The 12-month moving average of year-over-year growth of Revenue Act collections remains at 4.3%.

- Seasonally adjusted Revenue Act Collections jumped in recent months.
- Sales tax collection growth was strong in the second quarter; growth in B&O and REET revenues is uneven.



Source: DOR, ERFC; January 2004 through July 2014 preliminary activity.

*Current definition, adjusted for large payments/refunds and timing of payments



Retail Sales Tax and B&O Receipts

Adjusted sales tax growth was strong in the second quarter.

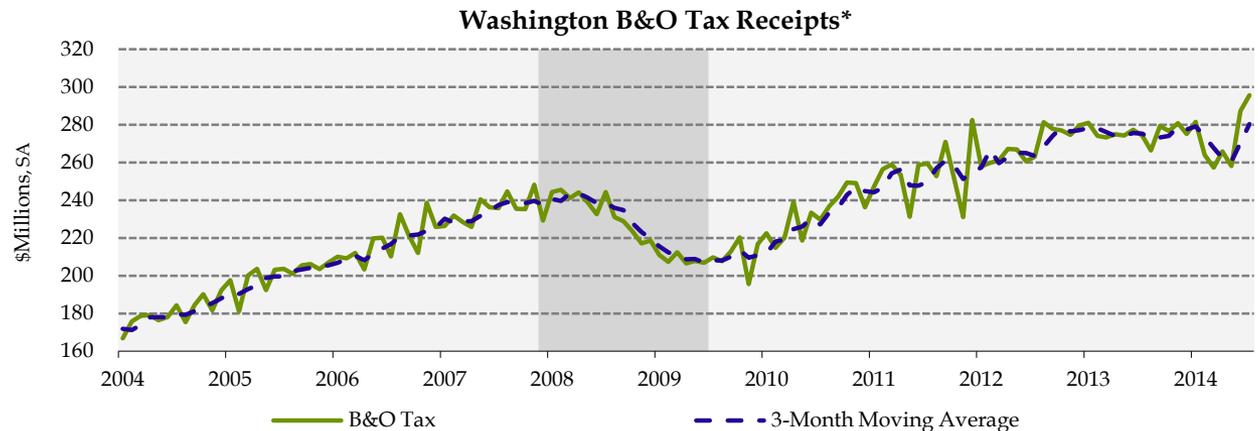
B&O growth is uneven, but underlying trend is positive.

Preliminary year-over-year growth rate for July activity is 6.3%.

Note the July 2013 removal of the surcharge on service businesses.



*Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change.
Source: ERFC; Monthly data through July 2014 preliminary activity



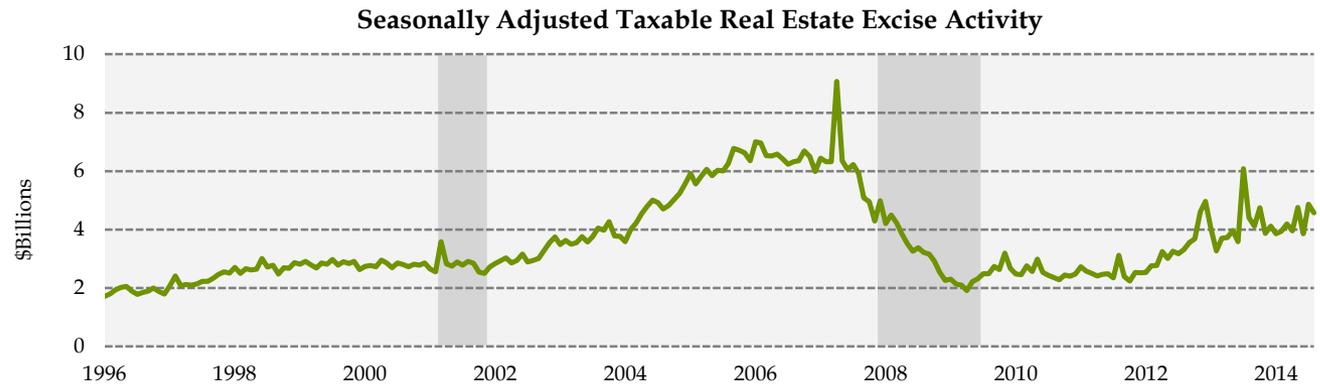
*Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds.
Source: ERFC; Monthly data through July 2014 preliminary activity



REET Activity

Sales of commercial property have been stronger than forecasted.

- REET growth is uneven due to low residential inventory, commercial sales.

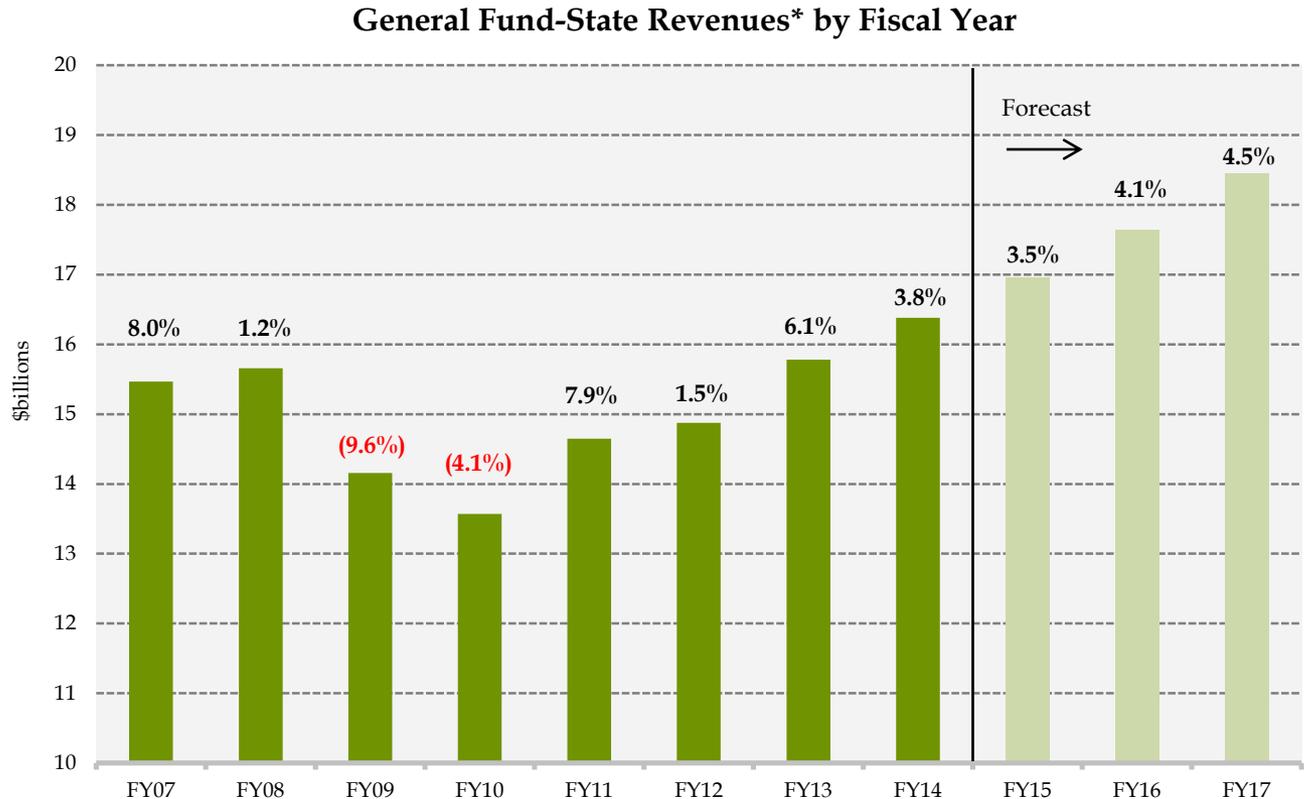


Source: ERFC; Monthly data through August 2014 preliminary activity



Forecasted Revenue (as of September 2014)

The September Forecast adds \$163 million to General Fund-State revenues in the 2013-15 biennium and \$143 million to the 2015-17 biennium.



*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
Source: ERFC forecast, September 2014



II. Legislative Developments



General Fund-State 2013-15 Budget Balance Sheet

FY 2015 Year-End Balances are expected to exceed \$1.1 billion.

**2013-15 Enacted Budget (including the 2014 Supplemental Budget)
General Fund-State, Education Legacy Trust, and Opportunity Pathways
(and Budget Stabilization Account)
(Dollars in Millions)**

RESOURCES

Beginning Fund Balance	\$ 156.4
June 2014 Forecast	33,783.2
September 2014 Forecast	168.5
Current Revenue Totals	33,951.7
Transfer to Budget Stabilization Account	\$ (313.7)
Fund Transfers and Other Resource Changes	427.5
Total Resources (including beginning fund balance)	\$ 34,237.6

EXPENDITURES

Enacted 2013-15 Budget, including the 2014 Supplemental	33,794.1
Anticipated Reversions	(140.0)
Total Expenditures	33,654.1

RESERVES

Projected Ending Balance	\$ 583.5
Budget Stabilization Account Beginning Balance	269.7
Transfer from General Fund and Interest Earnings	314.4
Projected Budget Stabilization Account Ending Balance	\$ 584.0
Total Reserves (General Fund plus Budget Stabilization)	\$ 1,167.5



Developments Regarding the McCleary Decision

*Supreme Court
2012: The state is
not making ample
provisions for the
basic education of
Washington's K-12
public school
students.*

The 2013 legislative budget added approximately \$1 billion in state funding for K-12 schools. The 2014 supplemental budget added \$58 million in K-12 funding.

January 2014: The Supreme Court noted that although meaningful steps were taken in the 2013 legislative session, the state is not on target to meet the funding requirements by the 2017-2018 school year. The Supreme Court ordered the Legislature to submit a complete plan to implement its school funding program.

April 2014: A Joint Select Committee of the Legislature reported to the Court.

June 2014: The Supreme Court ordered the state to address why it should not be held in contempt and, if found in contempt, to address why certain relief requested by the plaintiffs should not be granted.

September 2014: The Supreme Court issued an order finding the State in contempt for failing to submit a complete plan for fully implementing its program, but held in abeyance sanctions and other remedial measures to allow the Legislature the opportunity to comply with the order during the 2015 legislative session.



Developments Regarding Pensions

The Supreme Court unanimously upheld the constitutionality of legislation that repealed gain sharing benefits and the UCOLA.

Legislation adopted in 2011 ended automatic, annual, service-based adjustments which had been paid annually to eligible PERS and TRS Plans 1 retirees since 1995 (“UCOLA”). This elimination of the annual increase reduced the UAAL in PERS and TRS Plans 1 from \$6.884 billion in 2009 to \$4.439 billion in 2010.

Legislation adopted in 2007 repealed a benefit that the Legislature had granted retirees in 1998 known as “gain sharing,” which was a pension enhancement provided in years of extraordinary investment return (1998 and 2000).

Litigation was filed challenging the legislation described above.

On August 14, 2014, the Supreme Court issued two unanimous opinions upholding the constitutionality of the legislation repealing the gain sharing benefits and the UCOLA.



III. Department of Transportation



Transportation Budget

*Major WSDOT
highway projects
under construction
include*

*I-405/Kirkland
vicinity widening*

*I-90/Snoqualmie
Pass East, widening*

*US 395/NSC BNSF
Railway Structures
& Realignment*

2013-15 biennium WSDOT operating and capital budget

\$6.8 billion

\$1.5 billion operating

\$5.3 billion capital

2015-17 biennium WSDOT operating and capital budget request

\$5.0 billion

\$1.5 billion operating

\$3.4 billion capital

This 26% decline in funding is primarily due to reductions in capital expenditures as the department makes progress toward completing construction of projects funded from the 2003 Nickel and 2005 Transportation Partnership Packages.



SR 520 Corridor Project

Construction is complete on 66 of the 77 total bridge pontoons; 8 pontoons are now underway and are expected to be floated out in fall 2014.

The new SR 520 floating bridge is expected to be open to traffic in spring 2016.



September progress:

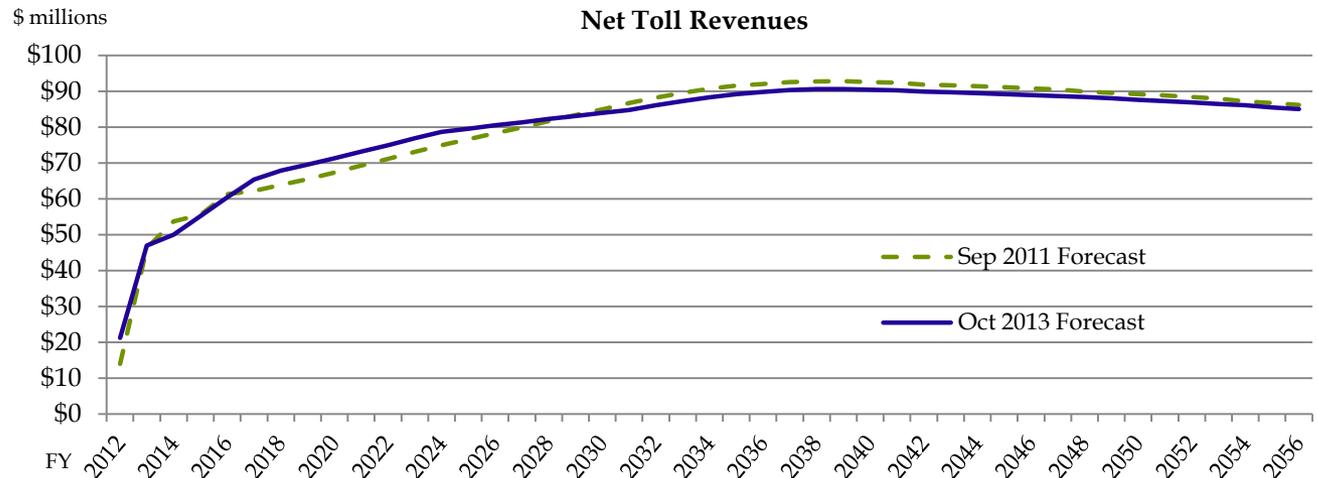
- Crews completed the West Connection Bridge to connect the existing four lanes in Seattle with the new, six-lane floating bridge when it opens in spring 2016.
- The SR 520 program opened the new transit/HOV lanes on the Eastside in their final configuration. The remaining Eastside project elements are scheduled for completion later this year.



SR 520 Corridor Project: Traffic and Revenues vs. Projections

Gross and net toll revenues are on target.

Traffic and Toll Revenue*	Forecast	Actual	Variance
Toll Transactions			
FY 2013	19,862,000	20,220,601	+ 2.7%
FY 2014	20,727,000	20,963,343	+ 1.1%
Gross Toll Revenues			
FY 2013	\$62,591,000	\$61,301,711	- 2.1%
FY 2014	64,656,000	64,632,277	0.0 %
Net Toll Revenues			
FY 2013	\$47,122,000	\$47,020,970	- 0.2%
FY 2014	50,017,000	51,138,217	+ 2.2%



*FY 2013 data is compared to Sep 2012 forecast. Actual performance compared to 2013 Traffic and Revenue forecast. Actual figures for FY 2014 are preliminary until the completion of the annual financial audit.



Alaskan Way Viaduct Tunnel Project

Seattle Tunnel Partners is working to repair damage to the SR 99 tunneling machine.

Tunneling is expected to resume in late March 2015.

On December 6, Bertha stopped tunneling after experiencing increased temperatures. The cutter head will be removed and damage to the seals and main bearing will be repaired.

Seattle Tunnel Partners has now installed all 84 underground piles which make up the underground walls of the 120 foot-deep circular pit that crews will use to access and repair the tunneling machine.

South End: Half of the viaduct has been replaced by a new section of SR 99 that connects to the remaining viaduct along the waterfront. A new overpass west of the Seattle stadiums opened on January 2014.

North End: Work continues in the area where the machine will emerge in late 2015.

STP has released a revised schedule showing a tunnel opening of November 2016. It is not known how damage to the tunneling machine will affect the project's budget. The responsibility for additional costs and delays may be subject to litigation.



IV. Investments and Cash Management



Investment Practices are Conservative

The state maintains conservative investment practices and policies.

Average Daily Balances by Security Class

Treasury and Treasurer's Trust Funds**	August 2014		September 2013 - August 2014*	
	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	2,523,687	55.3	1,950,693	43.6
U.S. Treasury	848,244	18.6	939,548	21.0
Repurchase Agreements	48,387	1.1	251,904	5.6
Bank Deposits	182,427	4.0	145,092	3.2
LGIP Deposit	802,687	17.6	1,020,690	22.8
Certificates of Deposit	161,499	3.5	162,744	3.6
	4,566,931	100	4,470,671	100

Weighted Average Maturity: 612 days

LGIP	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	6,674,526	69.5	6,678,726	66.1
U.S. Treasury	799,850	8.3	897,151	8.9
Repurchase Agreements	1,100,503	11.5	1,577,063	15.6
Bank Deposits	968,155	10.1	884,129	8.8
Certificates of Deposit	61,935	0.6	59,787	0.6
	9,604,969	100	10,096,856	100

Weighted Average Maturity: 48 days

* Average Balance

** LGIP is predominately invested in obligations of the US Government and US Government agencies, or repos using the same obligations.

Source: Office of the State Treasurer

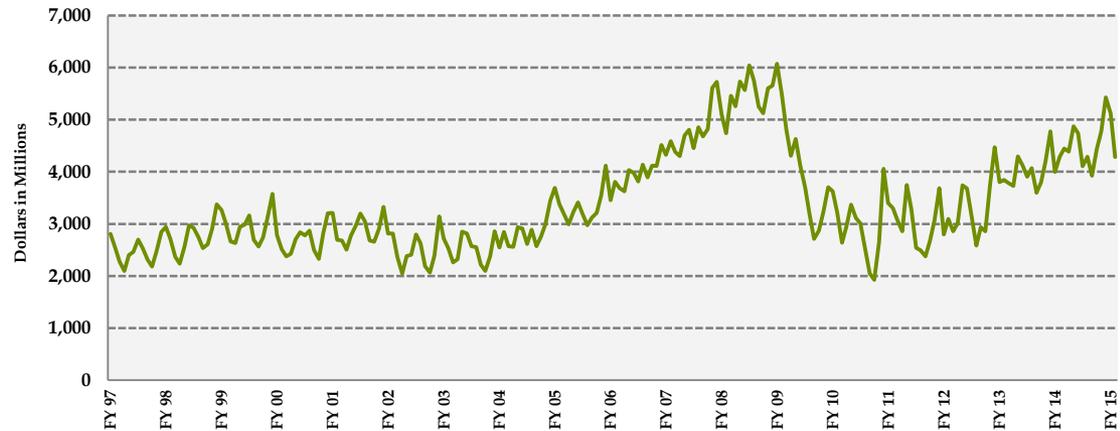


Investment Practices are Conservative

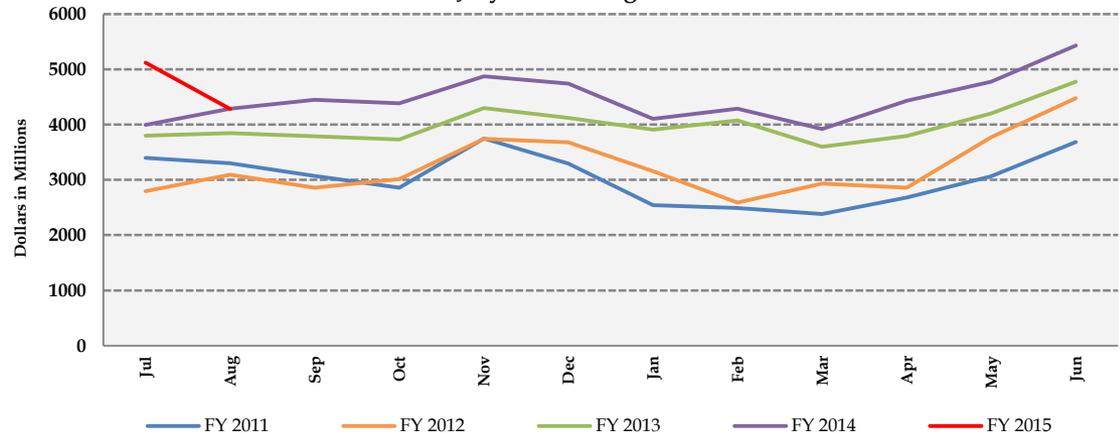
The state has strong cash management policies and sound liquidity, conservative investment policies and practices.

The state does not currently expect nor plan to borrow short-term for cash flow purposes.

Treasury/Trust Month Ending Balances
July 1996 to August 2014



Treasury/Trust Month Ending Balances
July 2010 to August 2014





V. Debt Plans



Forward Calendar

The Office of the State Treasurer plans semi-annual sales of general obligation bonds.

Debt Issuance Plan Estimates Through March 2015

October 2014

Various Purpose G.O. Refunding	\$	459,435,000
MVFT G.O. Refunding		<u>194,260,000</u>
	\$	653,695,000

Jan/Feb 2015

Various Purpose G.O.	\$	326,120,000
MVFT G.O.		350,000,000
Taxable		<u>56,155,000</u>
	\$	732,275,000

March 2015

Certificates of Participation	\$	<u>60,000,000</u>
	\$	60,000,000

Source: Office of the State Treasurer. Estimates as of September 26, 2014.
Totals may not add due to rounding.