
THE STATE OF WASHINGTON



Investor and Rating Agency Presentation
January 5, 2015



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I. Economic and Revenue Forecast



November Forecast Overview

The moderate pace of the economic recovery is expected to continue in both the U.S. and Washington economies.

The November forecast is similar to the forecast adopted in September.

- Oil prices have declined, but economic growth remains moderate.
- Employment gains and lower unemployment claims indicate a strengthening labor market. Washington employment is expected to increase by 2.8% this year, then to average 1.6% growth in 2015 through 2019.
- Nominal personal income growth is expected to reach 4.7% in 2014, averaging 5.6% annually from 2015 through 2019.

The level of uncertainty in the baseline forecast remains high. Risks to the baseline include the potential for slower economic growth in China, possible disruptions in the housing recovery and turmoil in the Middle East and Eastern Europe.

General Fund-State revenue forecast for the 2013-15 Biennium has been increased by \$108 million to \$33.440 billion, 9.1% higher than collections in the 2011-13 Biennium. The 2015-17 forecast has been increased by \$241 million to \$ 36.319 billion, or 8.6% higher than the current Biennium.



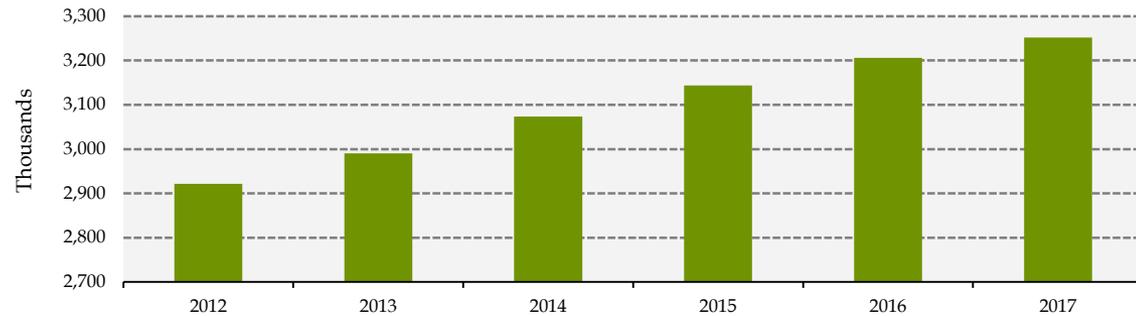
Employment and Income

The state's unemployment rate rose to 6.2% in November, from 6.0% in October.

The November Seattle area unemployment rate decreased to 4.7%.

Personal income growth has been revised upward based on upward revisions of property income (dividends, interest and rent).

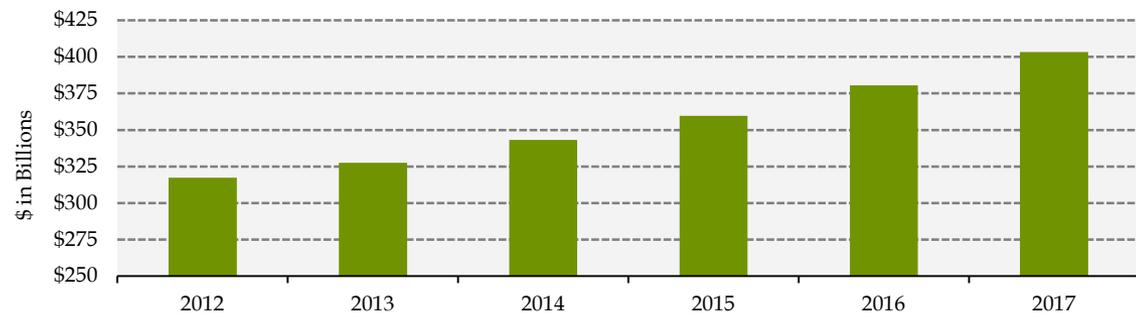
Washington Nonfarm Payroll Employment



Source: ERFC November 2014 forecast; historical data through 2013

- After 2.8% growth in 2014, employment is expected to grow at an average rate of 1.6% in 2015 – 2019.
- The forecast continues to assume a gradual decline in aerospace employment throughout the forecast due to improvements in productivity and restructuring.

Washington Personal Income



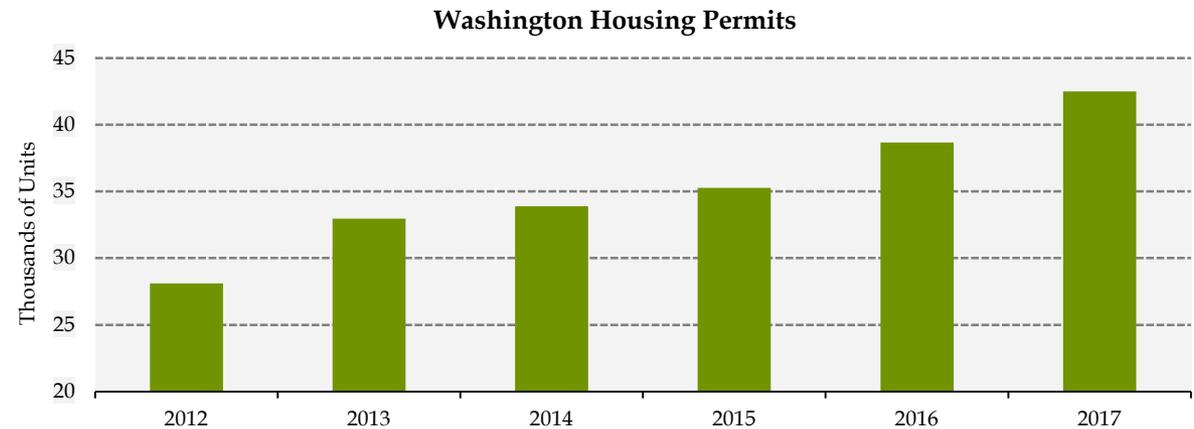
Source: BEA, ERFC November 2014 Forecast; historical data through 2013



Housing Sector and Inflation

After slowing for several months, Seattle home prices jumped by 0.7% in October (SA). Seattle home prices are up 6.3% over the previous October and 27.8% higher than in November 2011.

- Total housing units authorized by building permits averaged 33,100 (SAAR) in the third quarter of 2014. Single-family housing was again weaker than expected, and multi-family housing came in right on forecast.



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

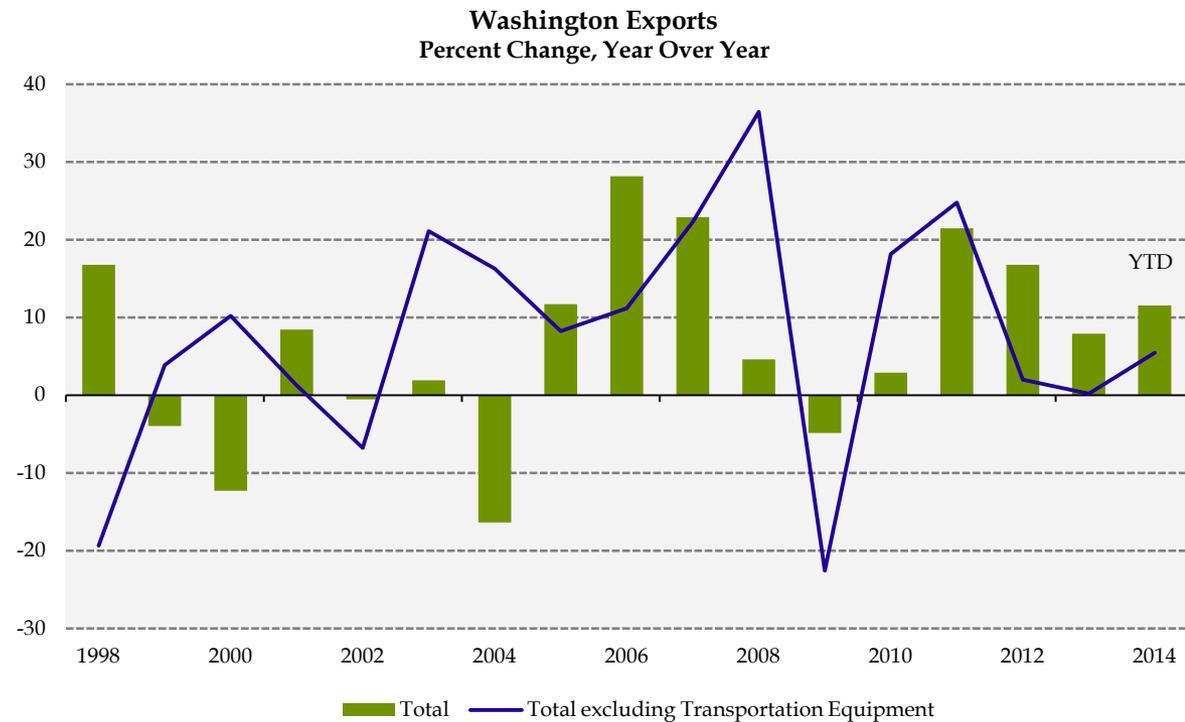
- Seattle area inflation has edged up and now exceeds the national average, as Seattle shelter costs continue to rise faster than the US city average. Seattle CPI was 2.1% from October 2013 to October 2014, higher than the 1.7% rate for the U.S. city average.



Washington Exports

Exports grew 9.2% in the third quarter of 2014 compared to the third quarter of 2013.

- Transportation equipment exports (mostly Boeing planes) increased 15.0% over the year and exports of agricultural products rose 29.8% over the same period.



Source: WISER Trade Data; data through October 2014

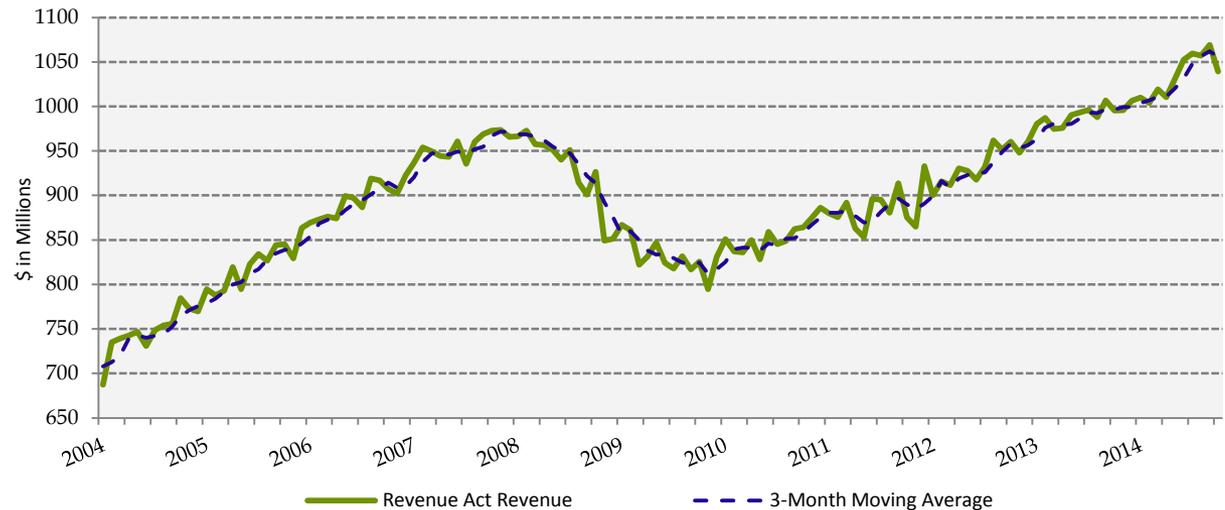


Revenue Collection Performance

Revenue Act Collections were up 7.2% Y-O-Y in the third quarter.

- In the one month since the November forecast, General Fund-State revenue collections were very close to expectations.
- Growth in the remainder of the Biennium is expected to slow. Lower oil prices reduce B&O taxes for oil refineries and gas stations. Lower natural gas and electricity prices reduce public utility tax receipts.

Seasonally Adjusted Revenue Act Receipts*



*Current definition, adjusted for large payments/refunds and timing of payments
Source: DOR, ERFC; January 2004 through October 2014 preliminary activity



Retail Sales Tax and B&O Receipts

Adjusted sales tax collections were up 8.7% Y-O-Y in the second quarter and 8.4% in the third quarter.

Growth was strong in construction, auto sales and building materials.

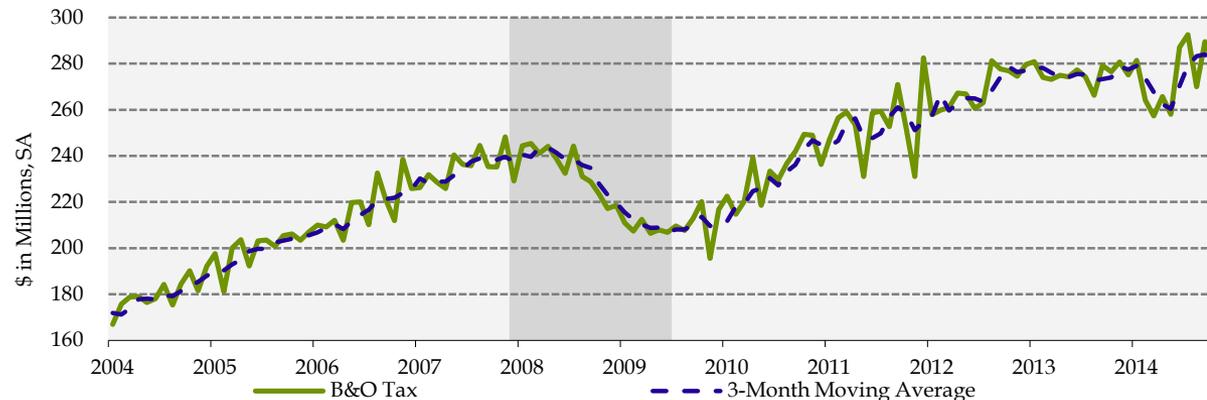
B&O growth remains uneven, although third quarter Y-O-Y collections were up by 6.5%.

Washington Retail Sales Tax Receipts*



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

Washington B&O Tax Receipts*



*Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds. Note the July 2013 removal of the surcharge on service businesses.

Source: ERFC; Monthly data through October 2014 preliminary activity



REET Activity and the Impact of Cannabis Sales

Sales of commercial property have been stronger than forecasted.

Cannabis revenue is somewhat above forecast.

- REET growth continues to exceed the forecast with strong sales of commercial property and some improvement in the residential market.



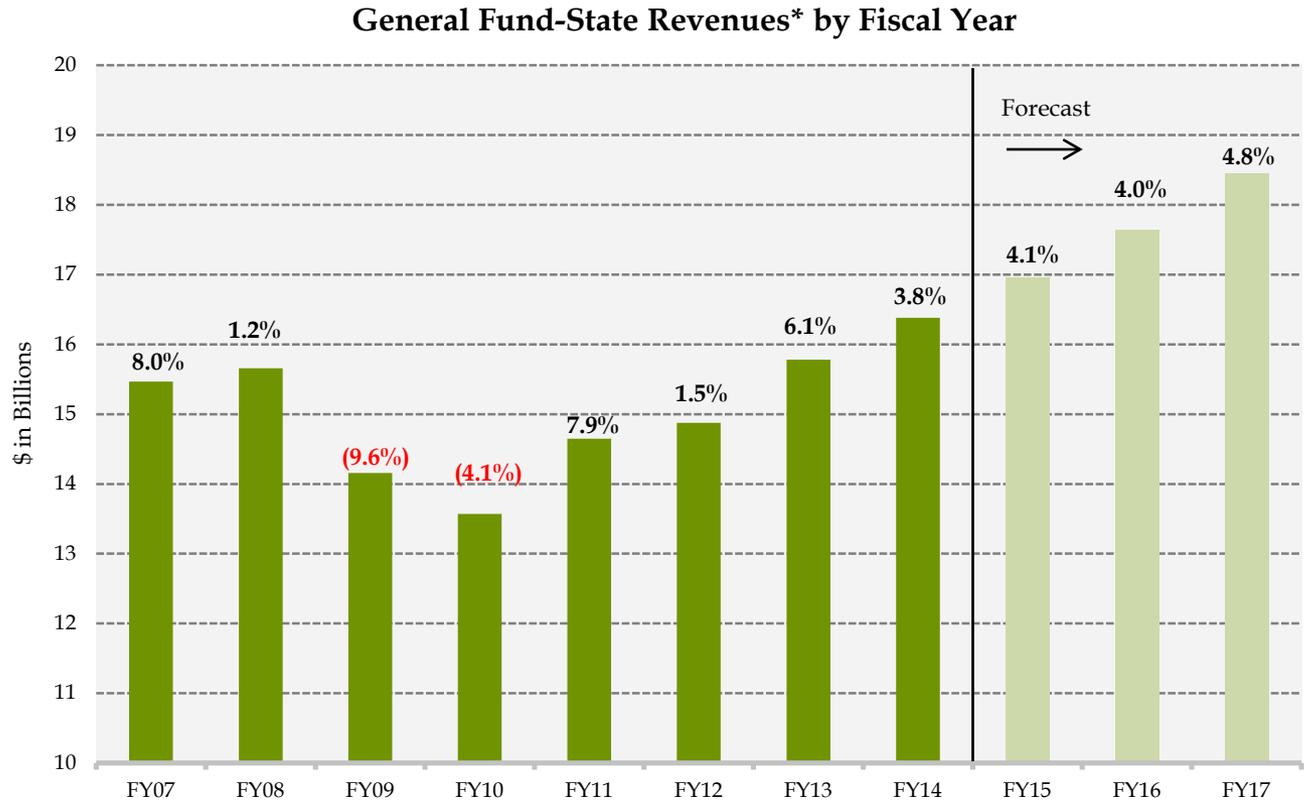
Source: ERFC; Monthly data through November 2014 preliminary activity

- Excise tax and license fees from cannabis sales are expected to total \$5.7 million in the current Biennium and \$36.1 million in the 2015-17 Biennium. Adding in the associated retail sales and B&O taxes, the GF-S impact of cannabis sales is estimated at \$10.9 million in 2013-15 and \$68.1 million in 2015-17.



Forecasted Revenue (as of November 2014)

The November Forecast adds \$108 million to General Fund-State revenues in the 2013-15 Biennium and \$241 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, November 2014



II. Governor's Proposed Budget



Budget Challenge (as of November 2014)

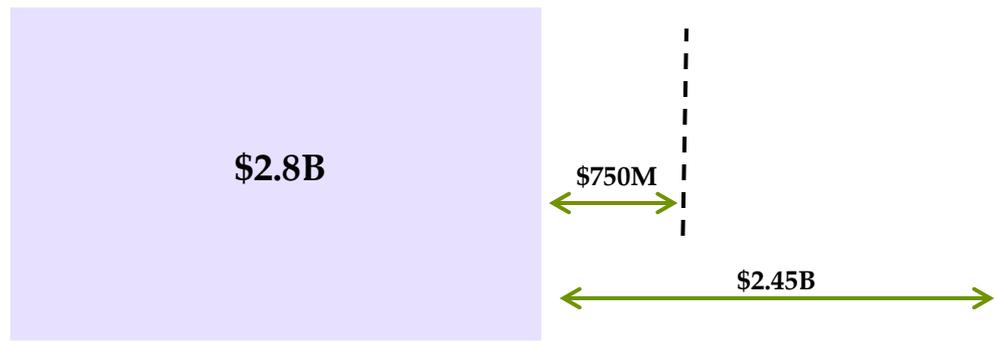
In building the Governor's proposed budget, Washington faced a \$4.45 billion budget shortfall.

Though state revenues were expected to grow by \$2.8 billion from 2013-15 to 2015-17, costs were projected to increase by \$7.25 billion.

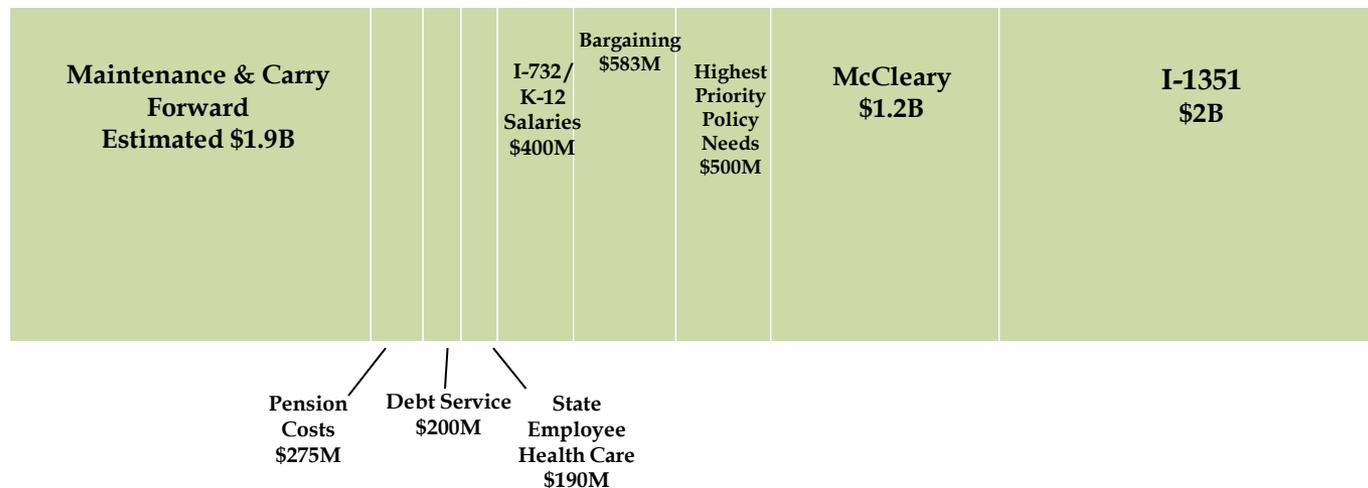
Approximately \$1.2 billion of the shortfall was the cost of phasing-in the state Supreme Court order known as the McCleary decision that mandates lawmakers fully fund K-12 education commitments

Projected Additional Revenue

(Inc. GF-State, Education Legacy Trust Fund, Opportunities Pathways Account)



Projected Additional Spending



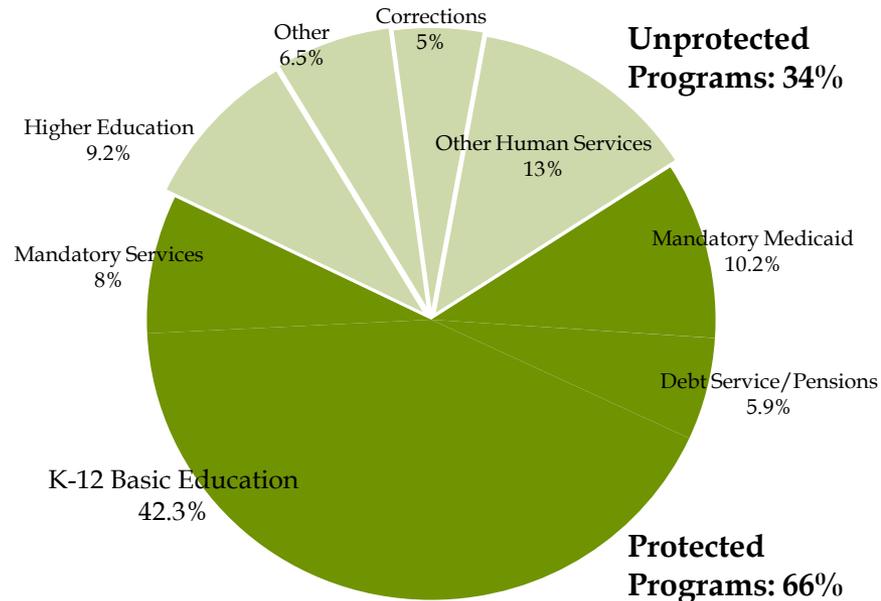


Without New Revenue

The Governor has stated that an all-cuts budget "would be devastating and hit especially hard in higher education, human services and public safety."

The Governor is required by law to propose an operating budget for 2015-17 that balances against existing revenue. This requires cuts and savings in the 1/3 of the state's budget not protected by constitutional and federal requirements.

If adopted, a current law revenue budget would cut deeply into early learning, human service, corrections, higher education and local government assistance programs.





Preferred 2015-17 Proposed Budget

The proposed budget addresses the McCleary decision by fully funding legislative commitments to increase basic education under House Bill 2776 -- one year earlier than the statutory deadline.

The Governor's preferred budget proposal relies on a mix of spending cuts, ongoing fund transfers, new revenues and temporary use of reserves.

- His preferred budget proposal includes \$423 million in General Fund-State reductions: \$211 million in program spending cuts and \$212 million in savings from maximizing federal revenues and shifting programs and services to dedicated fund sources.
- Transfers of dedicated fund sources, predominantly ongoing, provide \$217 million to the General Fund-State.
- New revenues and tax extensions are expected to generate \$1.4 billion in 2015-17 and \$2.9 billion in the 2017-19 Biennium.
- Because the revenue package is weighted to the second year of the Biennium, the budget uses a one-time appropriation from the Budget Stabilization Account of \$450 million in FY 2016.
- Total reserves are projected to total \$910.8 million at the end of the 2015-17 Biennium, unrestricted General Fund balances of \$474.4 million and a Budget Stabilization Account balance of \$436.4 million.

The Legislature will consider the Governor's proposal when it convenes January 12, 2015.



Preferred Budget Proposal: New Revenue

The proposed budget funds projected expenditures for core services and education enhancements in future biennia.

The Governor's budget process and proposal began with spending cuts and efficiencies.

But after more than a half decade of cutting services and neglecting important obligations, further reductions alone cannot meet the state's budget needs.

To meet the state's highest-priority needs, the Governor's budget proposes:

- A new capital gains tax (\$798 million in 2015-17)
- A new carbon pollution charge (\$379 million in 2015-17)
- Increase cigarette tax and tax e-cigarettes and vapor products (\$56 million in 2015-17)
- Repeal five tax exemptions (\$282 million in 2015-17)
- Targeted tax reductions (\$94 million in 2015-17)

New revenue proposals are on-going, with the exception of targeted tax breaks that sunset (generally after 10 years).



Preferred Budget Proposal: Expenditures

The proposed budget increases education spending by \$2.3 billion while protecting and improving other vital state services.

The Governor's budget includes major investments in education:

- Early learning expansion (\$156 million)
- Full funding of HB 2776 commitments to K-3 class size reduction, full day kindergarten, and for materials, supplies and operating costs (\$1.3 billion)
- Promote student success and improve graduation rates (\$60 million)
- Increase in higher education financial aid (\$125 million)

The proposal does not provide full funding for Initiative 1351, the measure voters approved in November to reduce class sizes in K-12.

The budget increases funding for mental health and children's programs to improve services and respond to court challenges (\$89 million).

The budget funds \$332 million GF-S in salary increases for state employees, including funding of new collective bargaining agreements. It also includes \$386 million for cost of living increases for teachers and other K-12 employees.

The proposal provides increased pension contributions of \$293 million GF-S.



General Fund-State 2013-15 Budget Balance Sheet

The November Forecast revised 2013-15 revenues upward by over \$100 million.

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

2013-15 Budget (Including the 2015 Proposed Supplemental Budget) General Fund-State, Education Legacy Trust, and Opportunity Pathways and Budget Stabilization Account (Dollars in Millions)	
RESOURCES	
Beginning Fund Balance	\$ 156.4
September 2014 Forecast	33,951.7
November 2014 Forecast	115.2
Current Revenue Totals	34,066.9
Enacted Transfer to Budget Stabilization Account	\$ (316.1)
Enacted Fund Transfers and Other Resource Changes	441.2
Governor's Proposed Budget Transfer from Budget Stabilization Account	87.5
Governor's Proposed Budget Other Resource Changes	10.9
Total Resources (including beginning fund balance)	\$ 34,446.8
EXPENDITURES	
Enacted 2013-15 Budget, including the 2014 Supplemental	33,794.1
Actual and Assumed Reversions	(149.7)
Governor's Proposed Expenditure Changes	180.7
Total Expenditures	33,825.1
RESERVES	
Projected Ending Balance	\$ 621.7
Budget Stabilization Account Beginning Balance	269.7
Transfer from General Fund and Interest Earnings	317.2
Governor's Proposed Budget Transfer to General Fund	(87.5)
Projected Budget Stabilization Account Ending Balance	\$ 499.4
Total Reserves (General Fund plus Budget Stabilization)	\$ 1,121.1



Preferred Budget Proposal: General Fund-State 2015-17 Budget Balance Sheet

FY 2017 Year-End Balances are expected to exceed \$900 million.

The November Forecast revised 2015-17 revenues upward by over \$240 million.

2015-17 Proposed Budget General Fund-State, Education Legacy Trust, and Opportunity Pathways and Budget Stabilization Account (Dollars in Millions)	
RESOURCES	
Beginning Fund Balance	\$ 621.7
September 2014 Forecast	36,743.5
November 2014 Forecast	241.3
Current Revenue Totals	36,984.8
Enacted Transfer to Budget Stabilization Account	\$ (365.1)
Enacted Fund Transfers/Other Resource Adjustments	40.8
Governor's Proposed Transfer From Budget Stabilization Account	450.0
Governor's Proposed Tax and Revenue Changes	1,517.3
Governor's Proposed Fund Balance Transfers	216.7
Total Resources (including beginning fund balance)	\$ 39,466.1
EXPENDITURES	
Governor's Proposed 2015-17 Expenditures	38,991.7
Total Expenditures	38,991.7
RESERVES	
Projected Ending Balance	\$ 474.4
Budget Stabilization Account Beginning Balance	499.4
Transfer from General Fund and Interest Earnings	387.0
Governor's Proposed Transfer to General Fund	(450.0)
Projected Budget Stabilization Account Ending Balance	\$ 436.4
Total Reserves (General Fund plus Budget Stabilization)	\$ 910.8



III. Department of Transportation

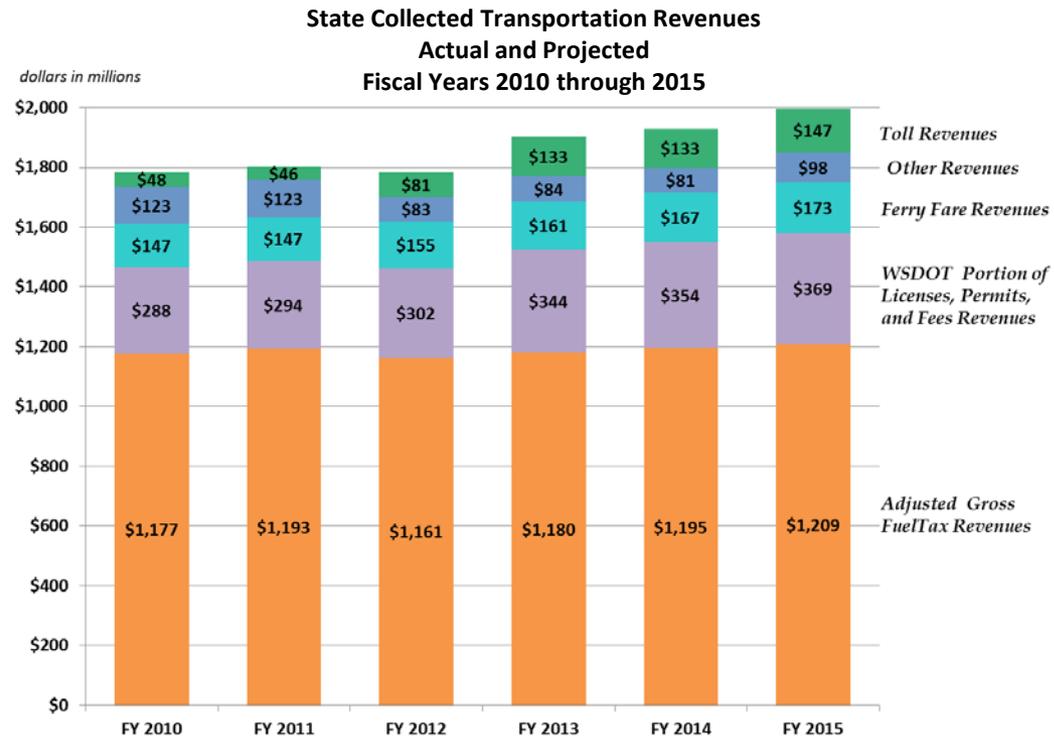


Transportation Revenue Forecast

The November Forecast estimates 2013-15 transportation revenues to total \$4.65 billion, 7.4% above 2011-13 revenues.

2015-17 revenues are forecast to rise by 0.2% to \$4.8 billion over the September Forecast.

- The November Forecast of Gross Fuel Taxes; Licenses, Permits and Fees; and Ferry Fare revenues are projected to increase to \$2.0 billion in FY 2015, up 3.4% from the previous year.
- FY 2015 Gross Fuel Tax revenues are projected to increase slightly from last year.





Governor's Preferred Transportation Budget Proposal

In December 2014, Governor Inslee proposed a \$3.8 billion capital transportation budget for 2015-17.

Governor Inslee has proposed operating and capital budgets for the 2015-17 Biennium

2015-17 Proposed

\$5.5 billion
\$1.7 billion operating
\$3.8 billion capital

2013-15 Supplemental

\$6.8 billion
\$1.5 billion operating
\$5.3 billion capital

Provides 28% less funding for capital projects in 2015-17.

Capital expenditures are being reduced as the department makes progress toward completing construction of projects funded from the 2003 Nickel and 2005 Transportation Partnership Packages.



SR 520 Corridor Project

74 of the 77 bridge pontoons have been constructed; the final 3 pontoons are under construction and are expected to be floated out in spring 2015.

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



January 2015 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 in summer 2014. The remaining Eastside project elements are expected to be completed in 2015.
- The contract for the West Approach Bridge North was executed in August, 2014. Construction is underway with work expected to be completed in June 2017.



SR 520 Corridor Project: Actual Traffic and Revenue 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%
FY 2015 YTD	9,037,000	8,923,869	- 1.3%
Gross Toll Revenues			
FY 2013	\$62,591,000	\$61,301,711	- 2.1%
FY 2014	64,656,000	64,632,277	0.0 %
FY 2015 YTD	28,558,000	28,323,521	- 0.8%
Net Toll Revenues			
FY 2013	\$47,122,000	\$47,020,970	- 0.2%
FY 2014	50,017,000	51,138,217	+ 2.2%
FY 2015 YTD**	20,829,000	20,127,052	- 3.4%

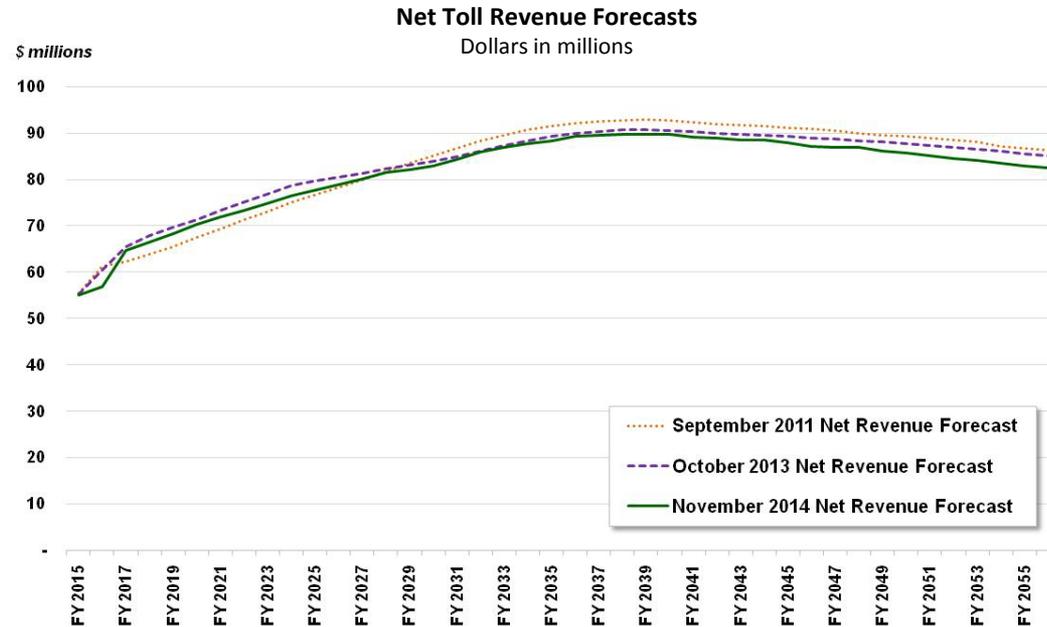
*FY 2013 data is compared to the September 2012 forecast, FY 2014 data is compared to the October 2013 forecast, and FY 2015 YTD (July – November) is compared to the November 2014 forecast. FY 2015 YTD figures are preliminary until the completion of the annual financial audit.

**Actuals do not include miscellaneous revenue.



SR 520 Corridor Project: November 2014 Traffic and Revenue Study

Net revenue projections are down slightly over the forecast horizon when compared to 2011 and 2013 forecasts.



- Net toll revenue projections.
 - Through FY 2056, the November 2014 net revenues are projected to be 1.7% lower than the October 2013 forecast and 2.1% lower than the September 2011 forecast.
 - Reductions in the gross T&R forecast have a negative effect on net revenue projections which are partially offset by lower forecasted toll collection costs over the forecast horizon.



Alaskan Way Viaduct Tunnel Project

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

In December 2013, 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 excavated the access pit to a depth of 90 feet; the final depth is 120 feet. Excavation of the pit will resume in early January once non-structural support piles have been demolished and the in-fill areas grouted. Work continues at the North End of the project where the machine will emerge in late 2015.

On December 5, 2014, the project's settlement monitoring system detected approximately one inch of ground settlement near the pit area. On December 12, 2014, work was suspended to gather more survey data and to allow WSDOT to review STP's contingency plan for turning off the dewatering wells. Data showed the recently measured settlement had stabilized and work resumed on December 16, 2014.

STP has released a revised schedule showing tunneling will resume in late April 2015 with the tunnel opening in August 2017. 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				
	December 2014		January 2014 - December 2014*	
Treasury and Treasurer's Trust Funds**	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	2,623,654	56.3	2,094,109	47.2
U.S. Treasury	1,033,763	22.2	994,336	22.4
Repurchase Agreements	--	--	115,685	2.6
Bank Deposits	105,912	2.3	151,933	3.4
LGIP Deposit	751,396	16.1	923,847	20.8
Certificates of Deposit	147,803	3.2	160,777	3.6
	4,662,528	100	4,440,687	100
Weighted Average Maturity:		592 days		
LGIP	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	7,152,326	76.7	6,734,870	67.5
U.S. Treasury	1,010,922	10.8	842,926	8.5
Repurchase Agreements	448,738	4.8	1,376,904	13.8
Bank Deposits	654,240	7.0	955,309	9.6
Certificates of Deposit	61,935	0.7	62,357	0.6
	9,328,161	100	9,972,366	100
Weighted Average Maturity:		43 days		

* Average Balance

Source: Office of the State Treasurer

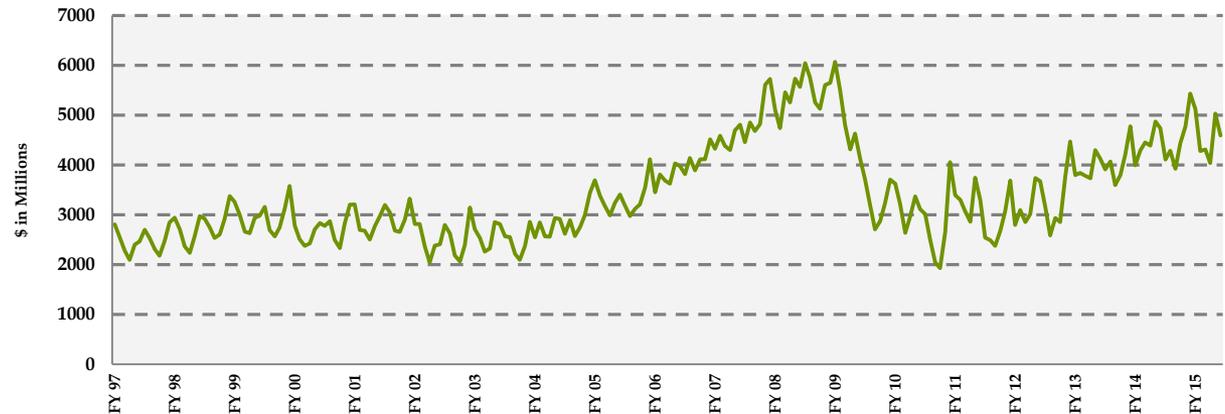


Investment Practices are Conservative

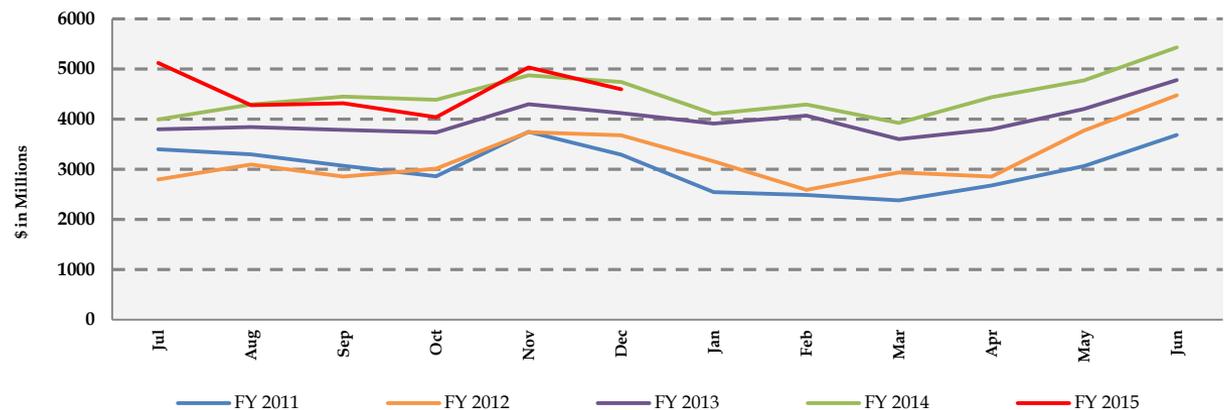
The state has strong cash management policies and sound liquidity.

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

Treasury/Trust Month Ending Balances
July 1996 to December 2014



Treasury/Trust Month Ending Balances
July 2010 to December 2014





V. Debt Plans



Forward Calendar

The Office of the State Treasurer plans semiannual sales of general obligation bonds, with advance and current refundings as and when market conditions permit.

Debt Issuance Plan Estimates Through July 2015			
Jan/Feb 2015			
	Various Purpose GO	\$	269,190,000
	MVFT /GO		205,520,000
	GO Taxable	\$	<u>58,205,000</u>
	New Money Total	\$	532,915,000
	VP GO Refunding	\$	464,520,000
	VP GO Refunding	\$	123,435,000
	MVFT /GO Refunding		<u>303,680,000</u>
	Refunding Total	\$	891,635,000
	Total Jan/Feb 2015	\$	<u>1,424,550,000</u>
March 2015			
	COP Pooled	\$	<u>30,000,000</u>
	Total March 2015	\$	30,000,000
June/July 2015			
	Various Purpose GO	\$	400,000,000
	MVFT/ GO	\$	<u>300,000,000</u>
	Total June/July 2015	\$	700,000,000

Source: Office of the State Treasurer. Estimates as of December 31, 2014.

Totals may not add due to rounding.