

THE STATE OF WASHINGTON



Investor and Rating Agency Presentation
January 14, 2014



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State of Washington

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I. Overview



Overview of the State of Washington

The Washington economy continues its slow steady recovery.

- The positive effects of Washington's continued steady economic recovery can be seen in a variety of ways:
 - The state economy continues to outpace the nation in employment growth and below national average unemployment rates.
 - Home prices are rising, foreclosure activity is down, and permitting activity for new housing is strong.
 - Exports are up across most sectors of the economy.
 - Economic and revenue forecast revisions have been positive since the June enactment of the 2013-15 operating budget.
 - Governor Inslee's supplemental operating budget proposal uses the small increase in the revenue forecasts to cover marginal increases in costs and entitlement caseloads.
- A November special legislative session was called to pass an aerospace tax incentive, training and workforce development package.
- The 2014 Legislative Session slated to last 60 days will begin January 13, 2014 and is expected to include major topics such as:
 - A possible new transportation revenue package and project list;
 - The need to step up spending on K-12 education; and
 - Changes to the community mental health system.



II. Economic and Revenue Forecast



Forecast Overview

The Washington economy continues to outperform the U.S. economy.

State revenues are improving, and now exceed the pre-recession peak.

- The Washington economy continues to outperform the overall U.S. economy, with above average growth in personal income in the first half of 2013, faster employment growth, and an unemployment rate below the national average.
- A variety of other Washington economic indicators are also positive, including new vehicle registrations, higher housing permits, increasing employment in most sectors, and higher personal income.
- State revenues are improving: collections in the past 3 months exceed the January 2008 pre-recession peak despite the July 2013 sunset of a surtax on service businesses.
- The revenue forecast for the 2013-15 Biennium has been relatively consistent since its initial forecast in February 2012. Projected General Fund-State revenues for the biennium have been increased \$554 million, \$368 million for non-economic changes such as new tax legislation and \$186 million (0.6%) due to changes in the economic forecast.
- Uncertainty in the baseline remains high, mostly due to concerns about China, Federal fiscal policy, the potential for a slowdown in the housing market, and Europe.

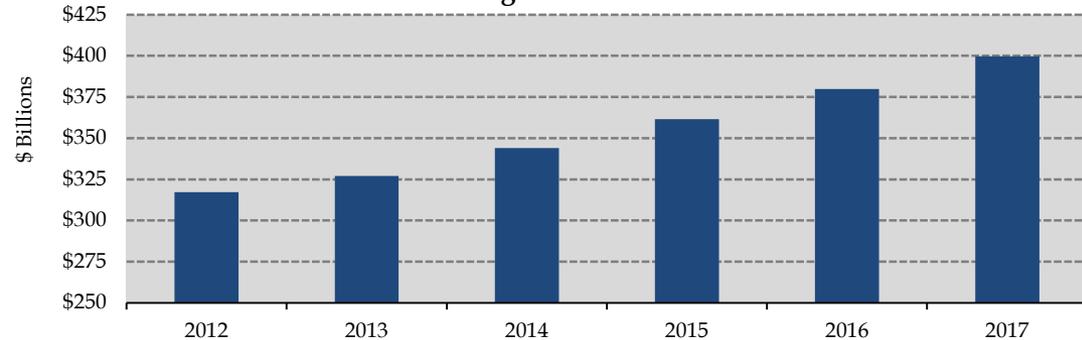


Employment, Income and Inflation

Personal income growth is expected to average 4.7% per year from 2013 to 2017.

In October 2013, the Seattle CPI was 0.6% higher than a year ago, slightly less than the 1.0% increase for the U.S. city average. Core inflation in Seattle was 1.2% compared to 1.7% for the nation.

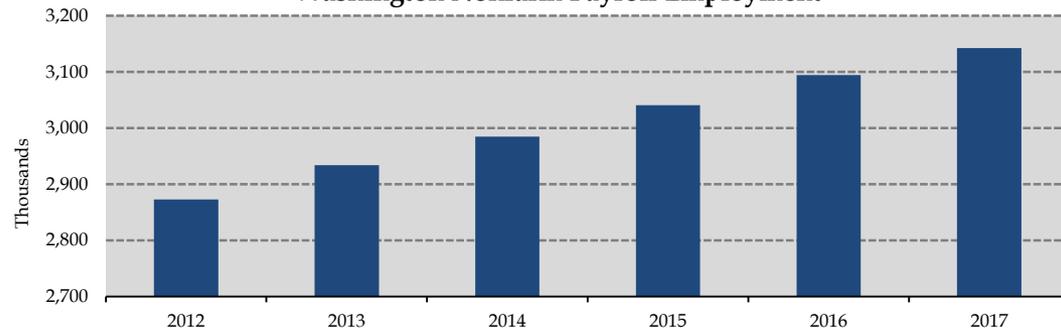
Washington Personal Income



Source: BEA, ERFC November 2013 Forecast; historical data through 2012

- Washington added 4,700 jobs in October and November 2013, with growth in most sectors; federal government, aerospace, and construction being exceptions.
- The state's unemployment rate declined from 7.5% in January 2013 to 6.8% in November 2013.
- The Seattle area unemployment rate is 5.6% in November 2013.

Washington Nonfarm Payroll Employment



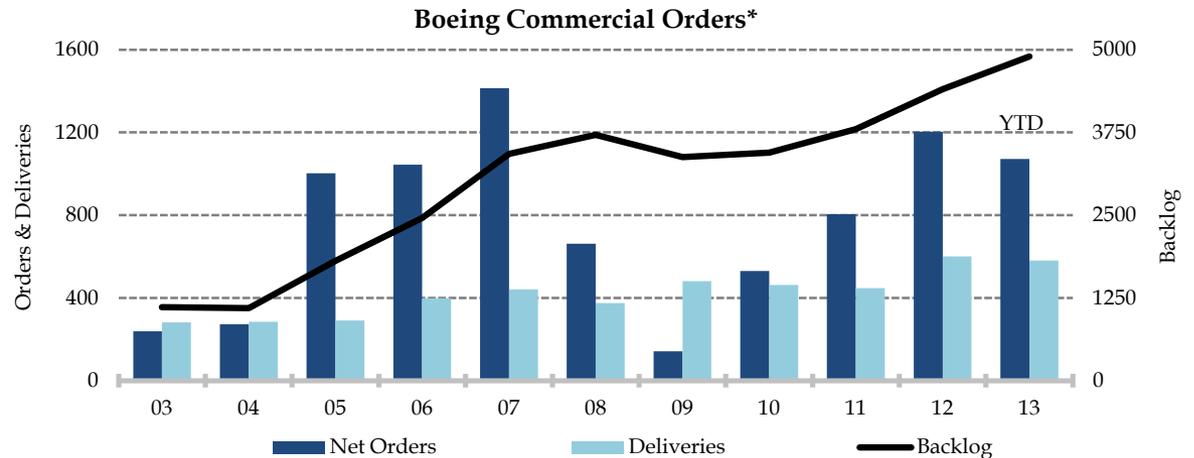
Source: ERFC November 2013 forecast; historical data through 2012



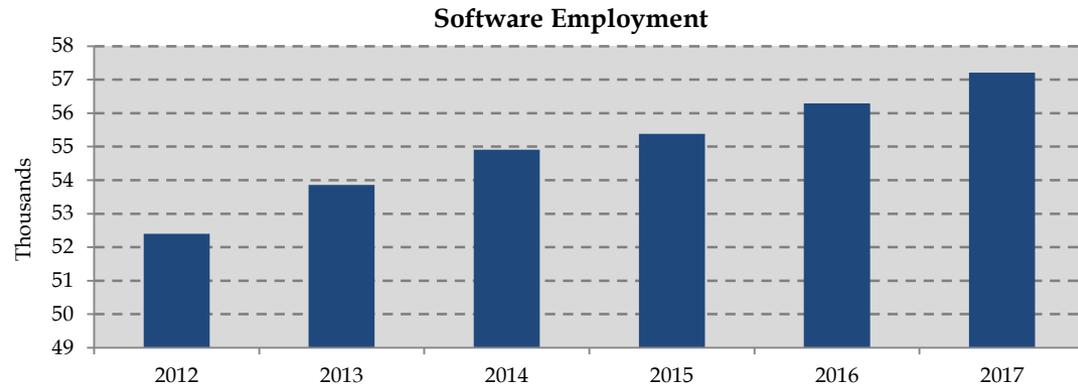
Aerospace and Software Industry

As of November 2013, aerospace employment had declined by 2,600 jobs since its November 2012 peak. Reductions are due primarily to improved productivity rather than to production cuts.

Software employment increased by 1,800 jobs through November 2013.



Source: Boeing Co., data through November 2013; *Excludes the military's new refueling tanker



Source: ERFC November 2013 forecast; historical data through 2012



Aerospace and Related Industries

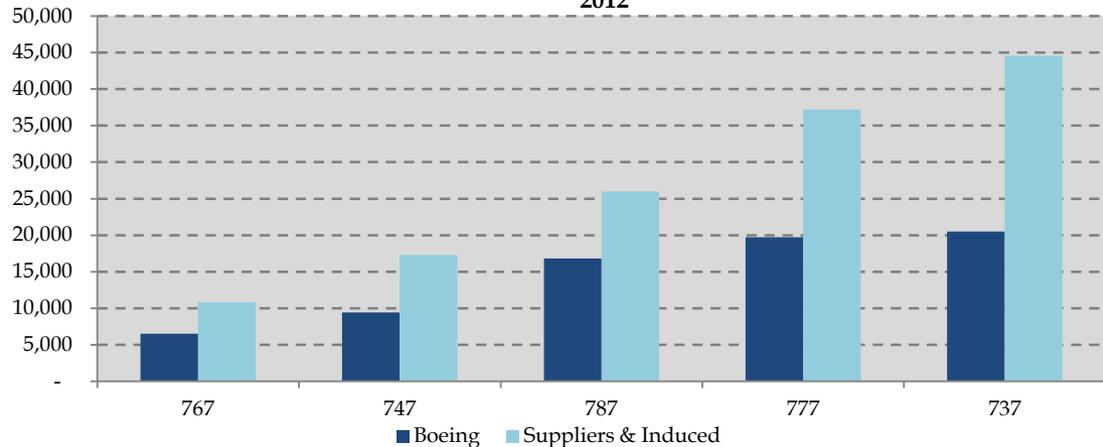
Aerospace and related industry employment in 2012 was 132,500 jobs, or 4.6% of state nonfarm employment.

Total wages in 2012 were \$11.5 billion, or 7.1% of state nonfarm wages.

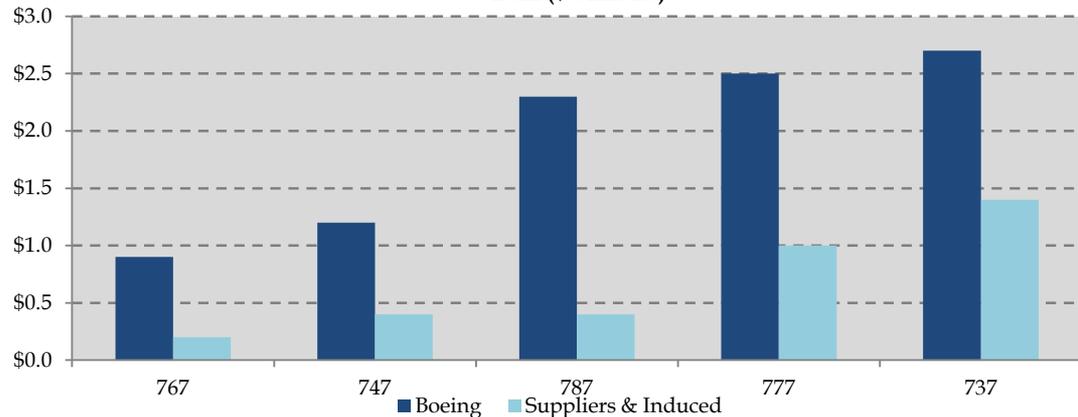
Exports in 2012 totaled \$37.1 billion, or 49.1% of state exports.

Sources: Community Attributes Inc., U.S. Bureau of Economic Analysis, WISERTrade

**Total Employment in Washington by Aircraft Family
2012**



**Total Wages in Washington (including benefits) by Aircraft Family
2012 (\$ billions)**



Sources: Community Attributes Inc.; Washington State Office of Financial Management



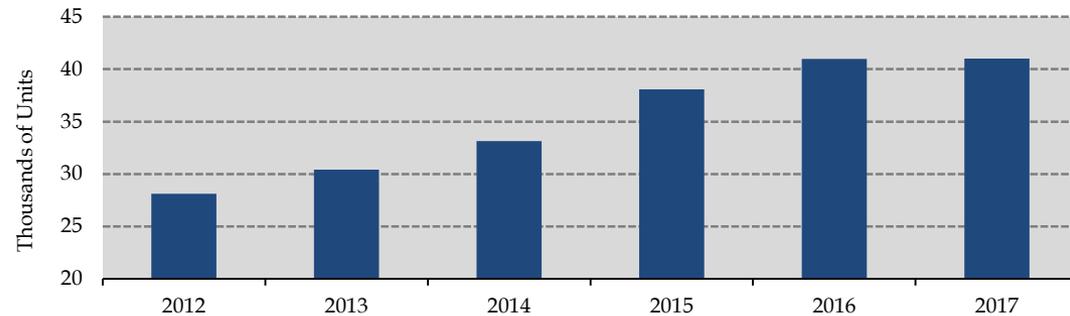
Housing Sector

The housing permit forecast is for continued growth.

Seattle home prices have risen in each of the last 19 months. In September, seasonally adjusted home prices rose 0.7% or 13.2% year-over-year.

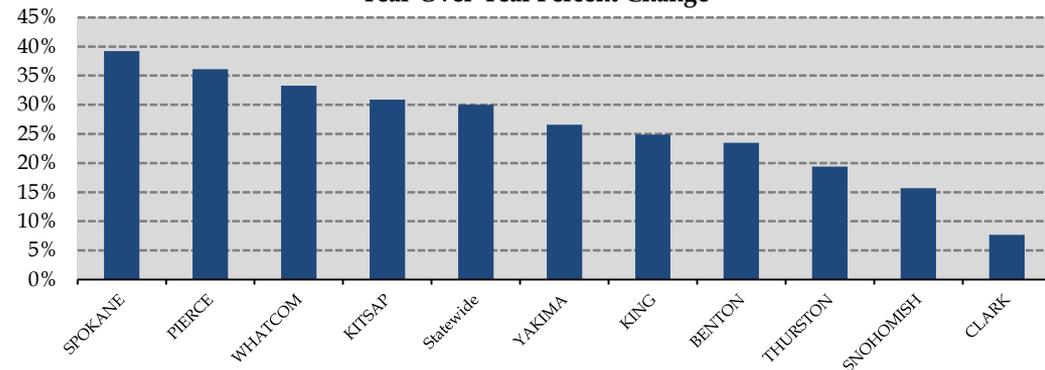
- After a very strong first quarter with an average of 36,000 (SAAR) total housing units authorized by building permits, residential housing activity has slowed to 30,800 average units in January - October. However, the housing permit forecast is for continued growth with 33,100 units expected in 2014, rising to 41,000 units in 2016 and 2017.
- Existing home sales have been growing strongly across the state.

Washington Housing Permits



Source: ERFC November 2013 forecast; historical data through 2012

**Existing Home Sales
Year-Over-Year Percent Change***



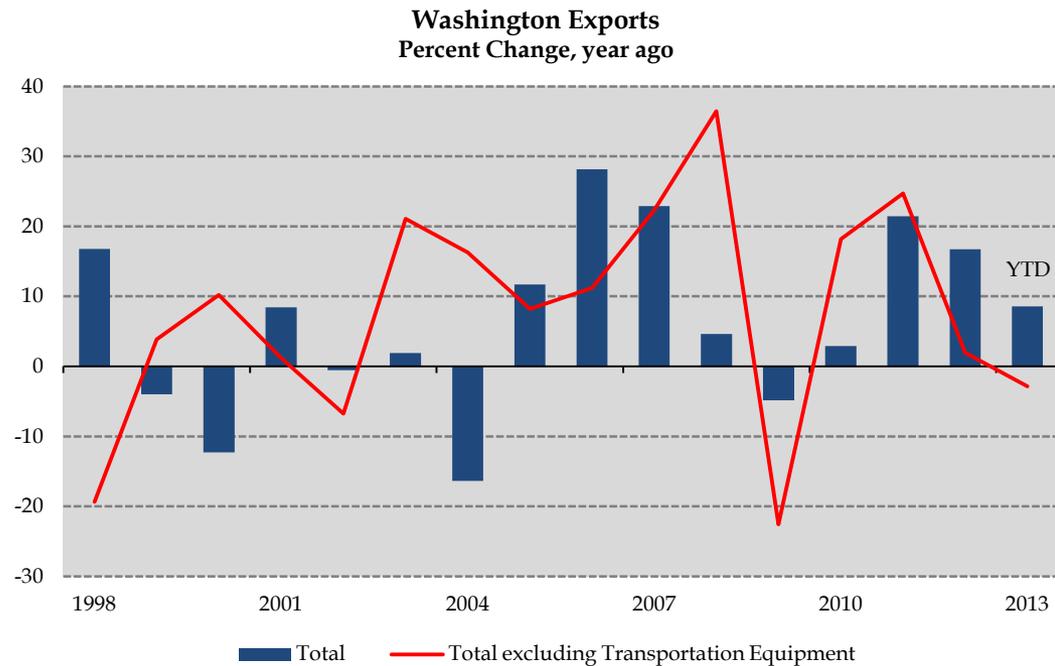
Ten Counties with highest existing home sales, Q3 2013. Source: WA Center for Real Estate Research, ERFC; 2013Q3 data



Washington Exports

Exports grew 8.6% in the first 10 months of 2013 compared to the same period in 2012.

- Non-transportation sectors experiencing notable export growth so far this year include forestry products (+50.6%), petroleum and coal products (+22.8%), and livestock (+22.1%).
- Transportation equipment exports have grown 20.0% through October compared to the first 10 months of 2012. This compares to 36.0% growth for all of 2012.



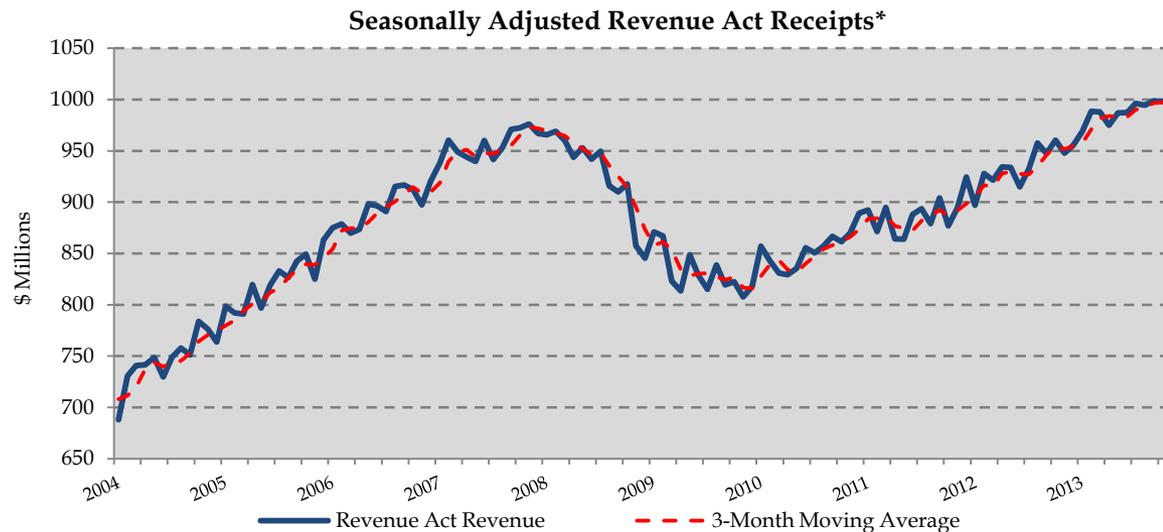
Source: WISER Trade Data; data through October 2013



Revenue Collection Performance

Revenue Act collections for October economic activity increased by 4.9% year-over-year (adjusted for large one-time payments and refunds); collections in the third quarter grew by 6.1% year-over-year.

- Revenue Act collections in all three months of the third quarter exceeded the February 2008 pre-recession peak despite the expiration of the B&O service tax surcharge in July of this year.
- Non-Revenue Act collections for October economic activity decreased by 2.0% year-over-year; collections in the third quarter grew by 16.7% year-over-year.
- New construction helped to increase FY 2013 property taxes by 2.2% over FY 2012 levels.
- The forecast does not yet include any revenue from marijuana legalization due to continued uncertainty over the rules and structure of the market.



Source: DOR, ERFC; January 2004 through October 2013 preliminary activity.

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

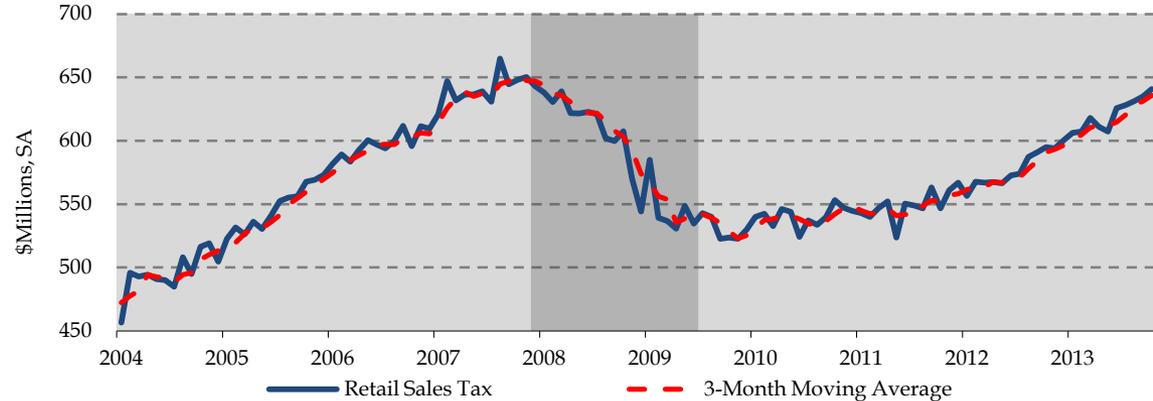


Sales Tax and B&O Tax Receipts

The growth rate of retail sales tax revenues is improving largely due to increased revenue from construction and motor vehicle sales.

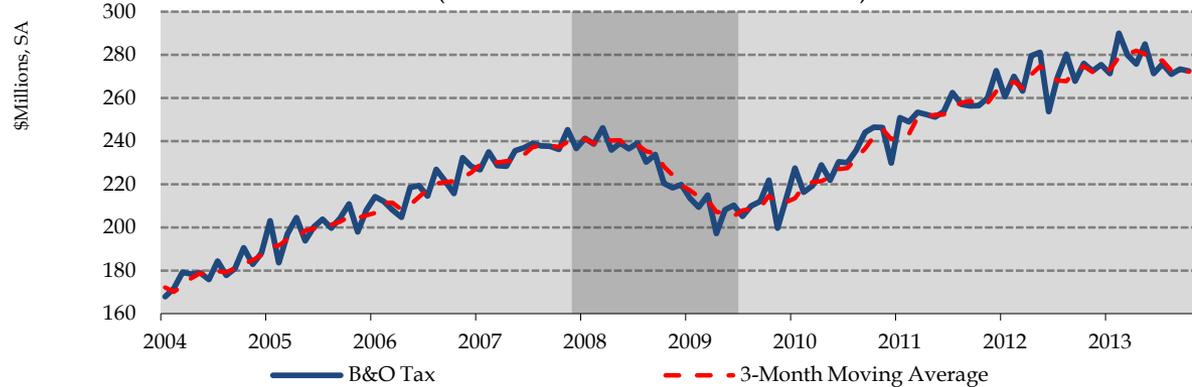
B&O tax receipts have slowed recently due to the removal of the surcharge on service businesses.

Washington Retail Sales Tax Receipts*
(45% of 2013 General Fund-State Resources)



*Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change.
Source: ERFC; Monthly data through October 2013 preliminary activity

Washington B&O Tax Receipts*
(20% of 2013 General Fund-State Resources)



*Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds.
Source: ERFC; Monthly data through October 2013 preliminary activity



REET Activity

Investor interest in commercial property has brought several months of elevated large commercial sales.

- Real estate excise tax (REET) activity in the third quarter increased by 50.6% year over year. Real estate excise taxes represent 3% of 2013 General Fund-State resources.
- The residential market has strengthened, with both prices and sales volumes increasing.



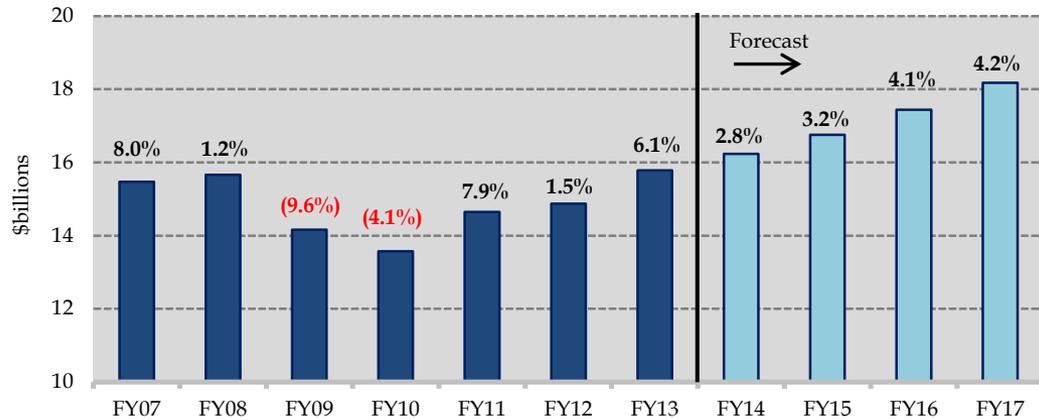
Source: ERFC; Monthly data through October 2013 preliminary activity



Forecasted Revenue

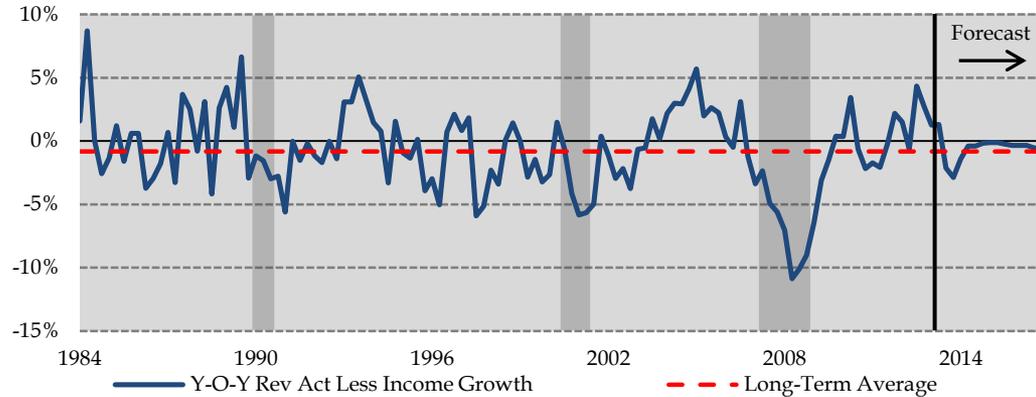
Construction activity and vehicle purchases have been major contributors to revenue growth.

General Fund-State Revenues* by Fiscal Year



*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
 Source: ERFC forecast, November 2013

Year-Over-Year Revenue Act* Growth Less State Personal Income Growth



Source: ERFC; Quarterly revenue data through Q3 2013, November 2013 income estimates
 *Adjusted for large one-time payments and refunds and payments under the amnesty program.



III. Governor's Budget



General Fund-State Enacted 2013-15 Budget Balance Sheet

The 2013-15 budget signed into law in June 2013 addressed a \$1 billion shortfall and put nearly \$1 billion into K-12 education to begin meeting the state's constitutional obligation to adequately fund basic education.

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

RESOURCES

Beginning Fund Balance	\$	156.4
September 2013 Forecast		33,595.6
November 2013 Forecast		(19.2)
Current Revenue Totals		33,576.4
Transfer to Budget Stabilization Account	\$	(311.9)
Total Resources (including beginning fund balance)	\$	33,879.4

EXPENDITURES

Enacted 2013-15 Budget		33,641.8
Anticipated Reversions		(140.0)
Total Expenditures		33,501.8

RESERVES

Projected Ending Balance	\$	377.6
Budget Stabilization Account Beginning Balance		269.7
Transfer from General Fund and Interest Earnings		312.6
Projected Budget Stabilization Account Ending Balance	\$	582.2
Total Reserves (General Fund plus Budget Stabilization)	\$	959.8



Governor's 2013-15 Proposed Supplemental Budget

Governor Inslee proposed modest adjustments to the 2013-15 operating budget, primarily to cover cost increases and meet key obligations.

A "hold-steady" budget

- Most of the added spending covers mandatory cost increases, meets legal or contractual obligations and continues delivering services at current levels.
 - One third of the mandatory cost increases are driven by rising school enrollment and program caseloads.
 - More than 10,000 new K-12 students;
 - More students qualify for the College Bound scholarship program.
 - Additional funding for the state's Medicaid programs resulting from a lower federal match for some individuals.
 - New spending to increase prison capacity, and to fund critical information technology infrastructure upgrades.
- Governor Inslee noted that by sticking to a minimal supplemental budget, the state will be better positioned a year from now to begin tackling the significant fiscal challenges of the 2015-17 biennium.
- During a special session in November 2013, the Legislature authorized expansion of the state's investment in aerospace-related education and workforce development to provide incentives for Boeing to assemble its new 777X jetliner in the state. Consideration of a possible new transportation package will not move forward before the regular Legislative session.

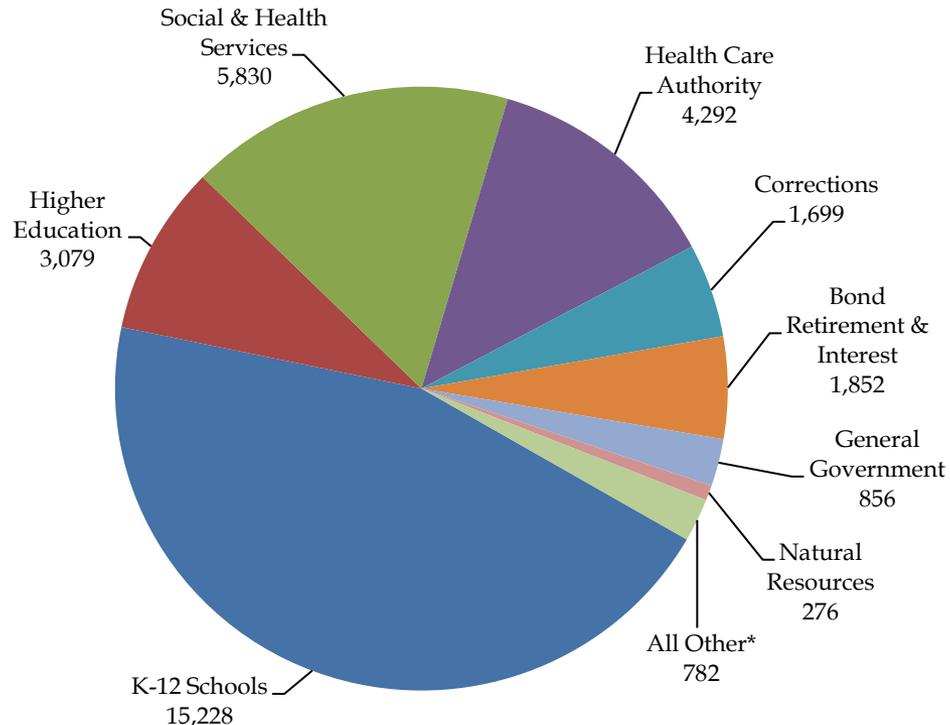


2013-15 Governor's Proposed Budget Highlights

Budget Stabilization Account funded with transfer of \$312 million from the General Fund.

Required contributions to pension systems have been funded.

Governor's Proposed 2013-15 Operating Budget (Includes 2014 Supplemental)



*All other includes Other Human Services, Other Education, Transportation, Contributions to Retirement Systems and Other Appropriations.

- Reserve levels improve with a projected ending fund balance of \$811 million - \$582 million of which is in the constitutionally protected Budget Stabilization Account and \$229 million in unrestricted funds.



IV. Washington Health Benefit Exchange



Most Recent Key Metrics

Metrics as of
December 23, 2013.

Website traffic and call center

- Unique visitors: 1,007,907
- Accounts created: 283,647
- Call center volume (Dec. 1 – Dec. 23): 83,207
- Average call center wait time (Dec. 1 – Dec. 23): 14 minutes

Enrollments and applications

- Qualified Health Plan (QHP)* enrollments: 65,472
- Total enrollments
(including Medicaid): 213,759
- QHP applicants (need to pay): 69,606
- QHP in-process applicants: 179,205

*Qualified Health Plan (QHP) enrollments include individuals who have selected and submitted payment for a qualified health plan (private plan).



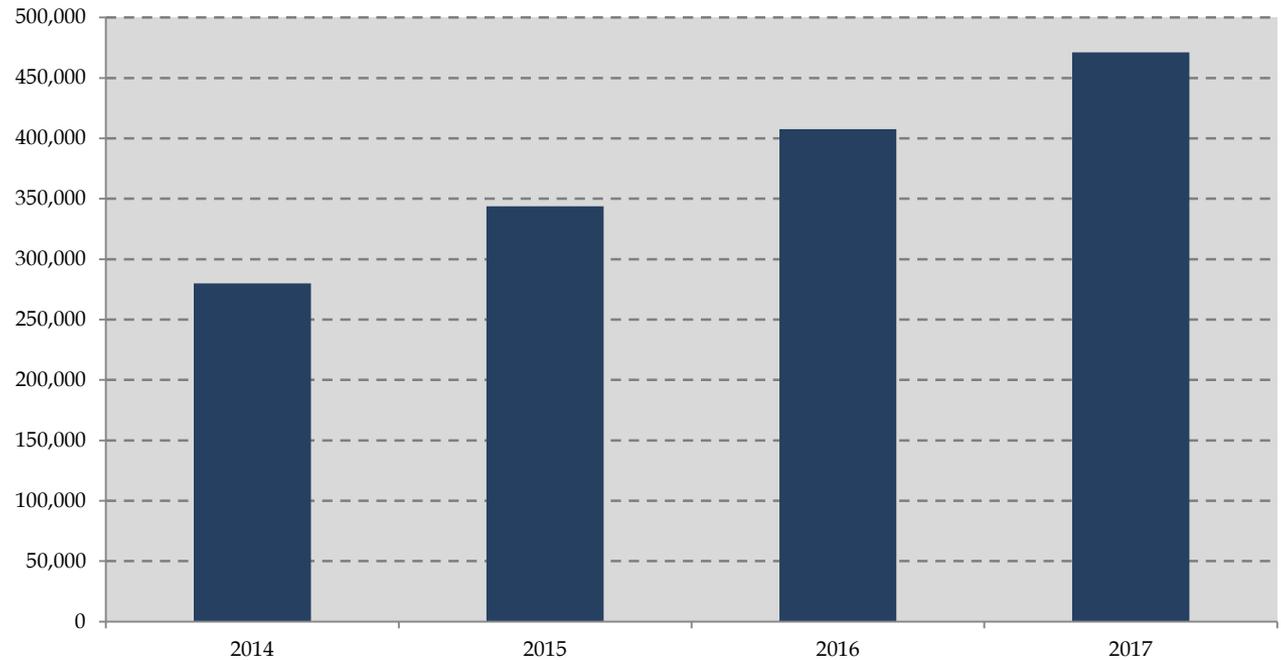


Projected Membership Growth

New Member QHP enrollment is expected to reach 280,000 in 2014.

"New" Members

Projected QHP Member Enrollment (2014 - 2017 Year End)



Source: Milliman, Inc.



Early Support and Planning

2012

- Board begins governing authority
- ESSHB 2319 passed
 - Deloitte Consulting signs on as system integrator
 - Exchange names first CEO

2011

- HCA receives one-year \$22.9 million grant to design and develop Exchange
- SSB 5445 passed creating Exchange as “public private partnership”
- Governor names 11 member, bipartisan Exchange Board members

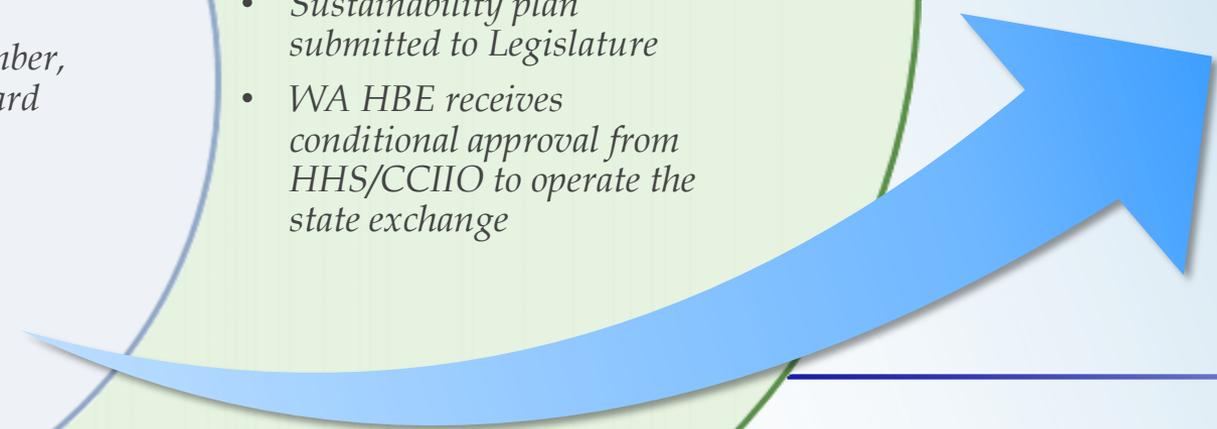
- Washington becomes second Level 2 establishment grant recipient, \$128 million
 - Exchange Board approves brand as Washington Healthplanfinder
 - Sustainability plan submitted to Legislature
 - WA HBE receives conditional approval from HHS/CCIIO to operate the state exchange

2013

- Legislative action taken on sustainability, ESHB 1947.
- Call center opens, first TV ads
- **Open Enrollment begins Oct. 1**

2014

- Coverage purchased in the Exchange begins Jan. 1.
- Open enrollment ends March 31.
- Open enrollment for 2015 coverage begins in Oct 15.





How has Washington State had Early Success?

- Early, bipartisan support
 - Leadership of elected officials, legislation, grants
 - Bipartisan Board
- Collaboration of key state agencies
- Key stakeholder engagement
- Public private partnership
- Key system issues
 - Good vendor partnerships
 - Strong independent quality assurance and independent verification and validation
 - Scope management
 - Early decisions (e.g., anonymous browsing)
 - Go Live SWAT team
- Strong marketing and outreach, engaged community partners



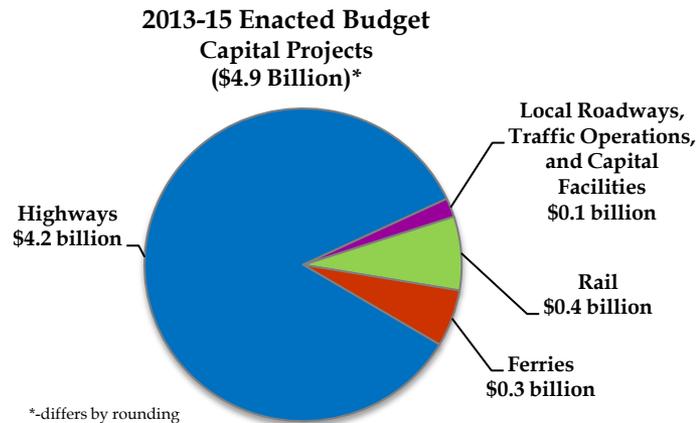
V. Department of Transportation



2013-15 Transportation Capital Budget Highlights

The 2013-15 Enacted Transportation budget appropriated \$4.9 billion for capital projects.

Governor Inslee proposed a \$5.2 billion Capital Transportation Budget for 2013-15.



\$332.5 million for SR 520 Corridor Account and \$18.0 million for the Motor Vehicle Account appropriation will be placed in unallotted status for 2013-15, which reduces the capital expenditure level to \$4.6 billion.

- The 2013-14 enacted transportation budget:
 - Continued construction of the bored tunnel to replace the Alaskan Way Viaduct.
 - Continued construction in the SR 520 Corridor.
 - Continued work on the I-5 Tacoma HOV project.
 - Continued improvements in the Kirkland/ Bellevue I-405 Corridor .
 - Construction of two new 144-Auto Vessels.
- Governor's Inslee's 2014 Supplemental Budget Proposal provides slightly more funds for capital projects in 2013-15 reflecting re-appropriations on existing projects.



SR 520 Project

Floating bridge and landings construction continues on Lake Washington.



- Construction is complete on 46 of the 77 total bridge pontoons; 14 pontoons are now underway. Assembly of pontoons and construction of columns atop pontoons have begun; three fixed piers in Medina and one fixed pier in Seattle are complete.
- Eastside construction continues with substantial progress on the new 6-lane highway, 3 lidded overpasses, 5 stormwater facilities and 2 transit stops. Eight fish-friendly culverts and corridor walls are nearly complete.
- Issues with spalling and end-wall cracking found in the first cycle of pontoons have resulted in a number of change orders that are the responsibility of WSDOT.
 - Pontoon repairs are complete on two of four pontoons. Repairs on the other two are underway. When complete they will ensure a 75-year design life.
 - On January 8, 2014, WSDOT announced that change orders resulting from a WSDOT design error have consumed much of the project's risk reserve and contingency. As of December 31, 2013, executed changes resulting from this total nearly \$131 million. With the execution of a pending change order to address time-related impacts of WSDOT-caused delay from late delivery of pontoons, the total cost of the error is expected to be approximately \$208 million.
 - Due to this issue, the execution of other project changes, and the need for a risk reserve, WSDOT has determined that approximately \$170 million in additional project funding is required. It is likely that interim project milestones will be delayed several months, including a delay in opening the floating bridge to traffic from mid-2015 to April 2016.
- West Approach Bridge (north) Project is finalizing 90% design and the construction contract will be awarded in mid-2014.



SR 520 Project

FY 2013 actual traffic exceeded 2011 and 2012 projections.

FY 2013 actual net revenues were within \$100,000 or 0.2% of 2012 projections.

2013 projections of net revenue are down slightly over the forecast horizon when compared to 2011 and 2012 forecasts.

Transactions				
Fiscal Year	CDM Smith Forecast		Actuals	Actual vs. Sep 2012 Variance
	Sep 2011 Forecast	Sep 2012* Forecast		
FY 2013	18,973,000	19,682,000	20,220,601	2.7%

Gross Toll Revenue (\$ millions)				
Fiscal Year	CDM Smith Forecast		Actuals	Actual vs. Sep 2012 Variance
	Sep 2011 Forecast	Sep 2012* Forecast		
FY 2013	61.81	62.59	61.30	-2.1%

Net Toll Revenue (\$ millions)				
Fiscal Year	Forecast		Actuals	Actual vs. Sep 2012 Variance
	Sep 2011 Forecast	Sep 2012* Forecast		
FY 2013	46.31	47.12	47.02	-0.2%

*Modified to incorporate nickel rounding of toll rates in fiscal years 2014-16, as adopted by the Washington State Transportation Commission in May 2013.



Alaskan Way Viaduct

South end viaduct replacement project was on budget and one year early.

On December 6, Bertha encountered a steel pipe that has temporarily halted boring.

- Tunneling started on July 30, 2013. The tunneling machine has traveled just over 1,000 feet of its 9,270 foot journey.
- South Portal: A new overpass near the tunnel's future south portal is scheduled to open in January 2014.
- North Portal: The pit where the machine will emerge in late 2014 is being excavated at the north end of downtown.



A surveyor sets up gear near the south end of the SR 99 tunnel. Bertha, the SR 99 tunneling machine completed her first 1,000 feet of tunneling on December 5.

- Sources of funding include state, federal, and local funds and contributions from tolling.



VI. Investments and Cash Management



Investment Practices are Conservative

The state maintains conservative investment practices and policies.

Average Daily Balances by Security Class				
	December 2013		December 2012-December 2013*	
Treasury and Treasurer's Trust Funds**	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	2,033,393	42.6	1,648,028	40.4
U.S. Treasury	936,060	19.6	646,372	15.9
Repurchase Agreements	514,032	10.8	788,518	19.3
Bank Deposits	139,395	2.9	114,702	2.8
LGIP Deposit	993,365	20.8	723,661	17.7
Certificates of Deposit	162,088	3.4	156,387	3.8
	4,778,333	100	4,077,668	100
Weighted Average Maturity:		516 days		
LGIP	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	6,711,843	69.7	5,245,763	53.7
U.S. Treasury	880,343	9.1	1,672,740	17.1
Repurchase Agreements	1,243,046	12.9	2,140,040	21.9
Bank Deposits	739,452	7.7	659,915	6.8
Certificates of Deposit	61,098	0.6	44,324	0.5
	9,635,782	100	9,762,782	100
Weighted Average Maturity:		57 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.

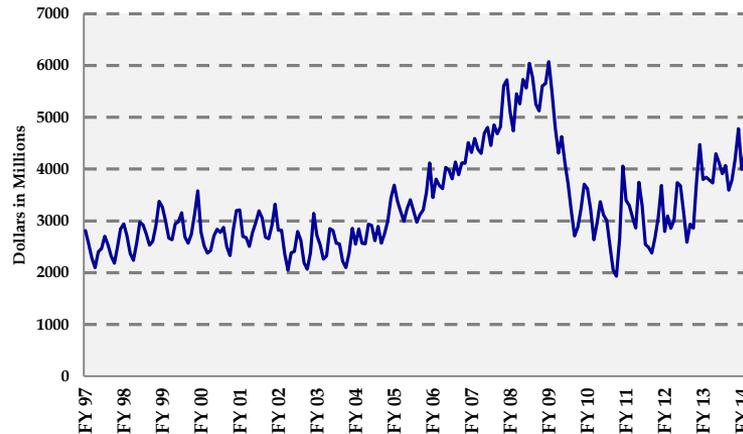


The State's Overall Liquidity is Robust

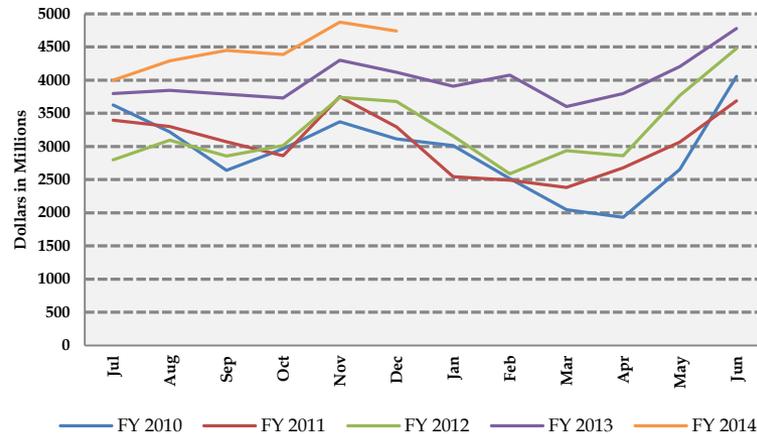
The state has strong cash management policies and sound liquidity, conservative investment policies and practices.

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

Treasury/Trust Month Ending Balances
July 1996 to December 2013



Treasury/Trust Month Ending Balances
July 2010 to December 2013





VII. Debt Plans



Forward Calendar

The Office of the State Treasurer plans semi-annual sales of general obligation bonds in 2014.

Debt Issuance Plan Estimates Through July 2014

January 2014

Various Purpose G.O.	\$	355,075,000
MVFT G.O.	\$	273,915,000
Taxable	\$	<u>88,110,000</u>
	\$	717,100,000

March 2014

Certificates of Participation	\$	<u>50,000,000</u>
	\$	50,000,000

July 2014

Various Purpose G.O.	\$	421,560,000
MVFT G.O.	\$	290,000,000
Taxable	\$	<u>112,640,000</u>
	\$	824,200,000

Source: Office of the State Treasurer. Estimates as of December 20, 2013.
Totals may not add due to rounding.