THE STATE OF WASHINGTON

Investor and Rating Agency Presentation
June 12, 2014
(Updated to Reflect Addendum to Preliminary Official Statement dated 6/17/14)
Table of Contents

I. Economic and Revenue Forecast
II. Legislative Developments
III. Department of Transportation
IV. Investments and Cash Management
V. Debt Plans
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I. Economic and Revenue Forecast
The Washington economy is likely to outperform the nation, but by a small margin.

The Washington economy continues to grow slowly, with employment rising in most sectors, except aerospace and the federal government.

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

State revenues are improving: adjusted revenue collections since February are $23.9 million (0.7%) above expectations.

The revenue forecast for the 2013-15 Biennium has been relatively consistent since its initial forecast in February 2012.

Threats to economic recovery include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and a weak Europe.
The state’s unemployment rate declined to 6.1% in April, down from 7.1% in April 2013.

The Seattle area unemployment rate was 5.0% in April 2014.

The personal income growth rate forecast for 2014 is 4.6%.

- In the four months since the February forecast, Washington added 21,800 jobs, with most growth in the private, service-providing industries. The construction sector added 2,900 new jobs.

- The forecast continues to assume a gradual decline in aerospace employment due primarily to improvements in productivity rather than reductions in production.
Seattle home prices have risen in each of the last 28 months. In March, seasonally adjusted home prices in the Seattle area were 11.6% higher than in the previous March.

- Total housing units authorized by building permits averaged 31,200 (SAAR) in the first quarter of 2014, slightly below the February forecast. Single-family housing was weaker than expected, and multi-family housing was somewhat higher than expected.

- Seattle area inflation has edged up and now exceeds the national average. Seattle April CPI was 2.4%, higher than the 2.0% rate for the U.S. city average. The higher than average inflation rate in Seattle is entirely due to more rapidly rising shelter costs.
Exports grew 10% in the first quarter of 2014 compared to the first quarter of 2013.

- Transportation equipment exports (mostly Boeing planes) increased 13.3% over the year and exports of agricultural products rose 3.4% over the year.

Source: WISER Trade Data; data through December 2013
Revenue Collection Performance

Revenue collections since the February forecast are now $23.9 million (0.7%) higher than forecasted.

- The 12-month moving average of year-over-year growth of Revenue Act collections decreased modestly to 4.7%.
- Non-Revenue Act cumulative collections since February are $26.8 million (6.2%) higher than forecasted.


*Current definition, adjusted for large payments/refunds and timing of payments
Adjusted sales tax collections were up 4.0% year-over-year for the first quarter of 2014.

B&O tax receipts are unchanged or declining slightly due to the July 2013 removal of the surcharge on service businesses.
Investor interest in commercial property has brought several months of elevated large commercial sales.

- Cumulative real estate excise tax (REET) collections are $8.4 million (7.6%) higher than forecasted.

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

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

*Adjusted for large one-time payments and refunds and payments under the amnesty program.

Source: ERFC; Quarterly revenue data through Q1 2014, February 2014 income estimates
II. Legislative Developments
The 2014 Supplemental Budget:

- The Legislature adopted modest adjustments to the 2013-15 operating budget, primarily to cover mandatory cost increases and meet key obligations.

- Reserves (including the Budget Stabilization Account) for 2013-15 total $878 million, an increase from $635 million, the estimate shown in the original biennial budget adopted in June 2013.

The 2014 four-year Budget Outlook adopted by the Economic and Revenue Forecast Council is in balance.

Additional revenue to fund the increased McCleary spending is perhaps one of the biggest challenges we will face in the next budget development period.
The 2013-15 budget signed into law in June 2013 addressed a $1 billion shortfall and added approximately $1 billion to K-12 education to begin meeting the state’s constitutional obligation to adequately fund basic education.

### 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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Fund Balance</td>
<td>$156.4</td>
</tr>
<tr>
<td>November 2013 Forecast</td>
<td>33,576.4</td>
</tr>
<tr>
<td>February 2014 Forecast</td>
<td>60.4</td>
</tr>
<tr>
<td><strong>Current Revenue Totals</strong></td>
<td><strong>33,636.8</strong></td>
</tr>
<tr>
<td>Transfer to Budget Stabilization Account</td>
<td>($312.2)</td>
</tr>
<tr>
<td><strong>Fund Transfers and Other Resource Changes</strong></td>
<td><strong>469.4</strong></td>
</tr>
<tr>
<td><strong>Total Resources (including beginning fund balance)</strong></td>
<td><strong>$33,950.3</strong></td>
</tr>
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</table>

#### EXPENDITURES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enacted 2013-15 Budget, including the 2014 Supplemental</td>
<td>33,794.1</td>
</tr>
<tr>
<td>Anticipated Reversions</td>
<td>($140.0)</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>33,654.1</strong></td>
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</tbody>
</table>

#### RESERVES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Ending Balance</td>
<td>$296.2</td>
</tr>
<tr>
<td>Budget Stabilization Account Beginning Balance</td>
<td>269.7</td>
</tr>
<tr>
<td>Transfer from General Fund and Interest Earnings</td>
<td>312.9</td>
</tr>
<tr>
<td>Projected Budget Stabilization Account Ending Balance</td>
<td>$582.5</td>
</tr>
<tr>
<td><strong>Total Reserves (General Fund plus Budget Stabilization)</strong></td>
<td><strong>$878.7</strong></td>
</tr>
</tbody>
</table>
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 to K-12 schools. The 2014 supplemental budget added $58 million in funding for McCleary.

January 2014, the Supreme Court: 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.

A Joint Select Committee of the Legislature reported to the Court in April. Following its consideration of the Legislature’s report and the plaintiffs’ response, and finding that the Legislature’s report did not comply with the Court’s January 9, 2014, order to provide a complete plan and phase-in schedule for fully funding the basic education program, the Supreme Court on June 12, 2014, 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. A show cause hearing before the Supreme Court is scheduled for September 3, 2014.

Additional annual K-12 funding is estimated to reach $1.9 billion in FY 2019.

- The transportation component of basic education is fully funded;
- K-12 materials, supplies and operating costs ($726 million for 2015-17);
- All day-kindergarten ($311 million in 2017-19);
- Additional funding to reduce class size ($1.08 billion in 2017-19);
- Funding to provide cost-of-living adjustments for teachers.
III. Department of Transportation
2014 Supplemental Transportation Capital Budget Highlights

WSDOT has over 200 highway projects under construction in 2013-15, including:

- I-405/Kirkland vicinity widening
- I-90/Snoqualmie Pass East, widening
- US 395/NSC BNSF Railway Structures & Realignment
- SR 530 - Oso Slide Repair

2014 Enacted Supplemental Budget for the 2013-15 Biennium
Capital Projects
$5.3 billion

- Highway Preservation, $718.5 M
- Highway Improvements, $3,572.6 M
- Traffic Operations Capital, $14.3 M
- Ferries Capital, $379.0 M
- Rail Capital, $484.9 M
- Local Programs Capital, $75.5 M
- Facilities Capital, $23.9 M

* Includes an appropriation of $1.35 billion for the SR 520 Corridor, a portion is expected to be re-appropriated in the 2015-17 biennium.

Non-highway projects include:

- The construction of two 144-auto ferries, and
- Rail projects funded by the federal High-Speed Intercity Passenger Rail Program.
The February 2014 Forecast is up slightly from the previous forecast.

Next forecast expected June 19.

The February 2014 Forecast for 2013-15 projects transportation revenues to be $4.62 billion, $7.9 million (0.2%) higher than the November 2013 Forecast.

Toll rate increases for SR 520 and Tacoma Narrows Bridge were adopted by the Transportation Commission to take effect on July 1, 2014.

- Tolls for the Tacoma Narrows Bridge increased by 25 cents for all fares; electronic tolling is now $4.50, cash $5.50, and Pay-by-Mail $6.50.
- The Commission also approved a 2.5% toll increase for the SR 520 Bridge as planned.
In early May, the first two pontoons (V and W) were joined together near Medina.

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

Eastside corridor improvements, including transit and HOV improvements, are over 80% complete.
### Traffic and Toll Revenue*

<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Toll Transactions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>19,862,000</td>
<td>20,220,601</td>
<td>+ 2.7%</td>
</tr>
<tr>
<td>Jul – Apr 2014</td>
<td>17,235,000</td>
<td>17,574,792</td>
<td>+ 2.0%</td>
</tr>
<tr>
<td><strong>Gross Toll Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>$62,591,000</td>
<td>$61,301,711</td>
<td>- 2.1%</td>
</tr>
<tr>
<td>Jul – Apr 2014</td>
<td>53,707,000</td>
<td>53,974,796</td>
<td>+ 0.5%</td>
</tr>
<tr>
<td><strong>Net Toll Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>47,122,000</td>
<td>47,020,970</td>
<td>- 0.2%</td>
</tr>
<tr>
<td>Jul – Apr 2014</td>
<td>41,122,000</td>
<td>42,719,130</td>
<td>+ 3.9%</td>
</tr>
</tbody>
</table>

*FY 2013 data is compared to Sep 2012 forecast. Jul – Apr 2014 data is compared to Oct 2013 forecast.
Seattle Tunnel Partners is working to repair damage to the SR 99 tunneling machine.

Tunneling is expected to resume in March 2015.

Seattle Tunnel Partners has begun constructing the 120 foot-deep circular pit to access and repair the SR 99 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 27, 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.
The Oso slide occurred on March 22, 2014.

Approximately one mile of SR 530 was covered with mud and debris, portions of which were up to 25 feet deep.

Funding to repair the highway will come primarily from the Federal Highway Administration.

Clearing of SR 530 began on May 9th, funded primarily by FEMA ($3.4 million contract).

The SR 530 profile will be raised because the Stillaguamish River bottom is higher than before the slide.

SR 530 opened to one-way traffic on June 1 (guided by pilot car).

Depending on roadway condition, WSDOT hopes to have SR 530 open to traffic by October.
IV. Investments and Cash Management
The state maintains conservative investment practices and policies.

## Investment Practices are Conservative

### Average Daily Balances by Security Class

<table>
<thead>
<tr>
<th></th>
<th>May 2014</th>
<th></th>
<th>June 2013 – May 2014*</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Treasury and Treasurer's Trust Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Agency</td>
<td>1,602,105</td>
<td>38.7</td>
<td>1,781,037</td>
<td>41.6</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>1,083,789</td>
<td>26.2</td>
<td>846,556</td>
<td>19.8</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>25,807</td>
<td>0.6</td>
<td>387,192</td>
<td>9.0</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>130,916</td>
<td>3.2</td>
<td>137,716</td>
<td>3.2</td>
</tr>
<tr>
<td>LGIP Deposit</td>
<td>1,131,963</td>
<td>27.3</td>
<td>970,257</td>
<td>22.6</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>165,538</td>
<td>4.0</td>
<td>161,268</td>
<td>3.8</td>
</tr>
</tbody>
</table>

|                        |          |          |                       |          |
| 4,140,118              | 100      |          | 4,284,026             | 100      |

**Weighted Average Maturity:** 523 days

<table>
<thead>
<tr>
<th><strong>LGIP</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Agency</td>
<td>7,678,609</td>
<td>65.7</td>
<td>6,369,644</td>
<td>63.0</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>854,588</td>
<td>7.3</td>
<td>1,124,466</td>
<td>11.1</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>1,975,551</td>
<td>16.9</td>
<td>1,690,346</td>
<td>16.7</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>1,118,159</td>
<td>9.6</td>
<td>877,330</td>
<td>8.7</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>62,450</td>
<td>0.5</td>
<td>53,540</td>
<td>0.5</td>
</tr>
</tbody>
</table>

|                       |          |          |                       |          |
| 11,689,358            | 100      |          | 10,115,326            | 100      |

**Weighted Average Maturity:** 43 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.
V. Debt Plans
The Office of the State Treasurer plans semi-annual sales of general obligation bonds.

### Debt Issuance Plan Estimates Through July 2014

#### June 2014
- **TOP Refunding**
  - $43,435,000
  - $43,435,000
- **Various Purpose G.O.**
  - $228,535,000
- **Taxable**
  - $85,980,000
- **Various Purpose G.O. Refunding**
  - $392,575,000
- **MVFT G.O. Refunding**
  - $402,035,000
- **Total**
  - $1,109,125,000

#### August 2014
- **Certificates of Participation**
  - $85,000,000
  - $85,000,000

#### Jan/Feb 2015
- **Various Purpose G.O.**
  - $388,099,000
- **MVFT G.O.**
  - $350,000,000
- **Taxable**
  - $55,595,000
- **Total**
  - $793,694,000