
THE STATE OF WASHINGTON



Investor and Rating Agency Presentation

June 12, 2014

(Updated to Reflect Addendum to Preliminary Official Statement dated 6/17/14)



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I. Economic and Revenue Forecast



Forecast Overview

The Washington economy is likely to outperform the nation, but by a small margin.

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

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.



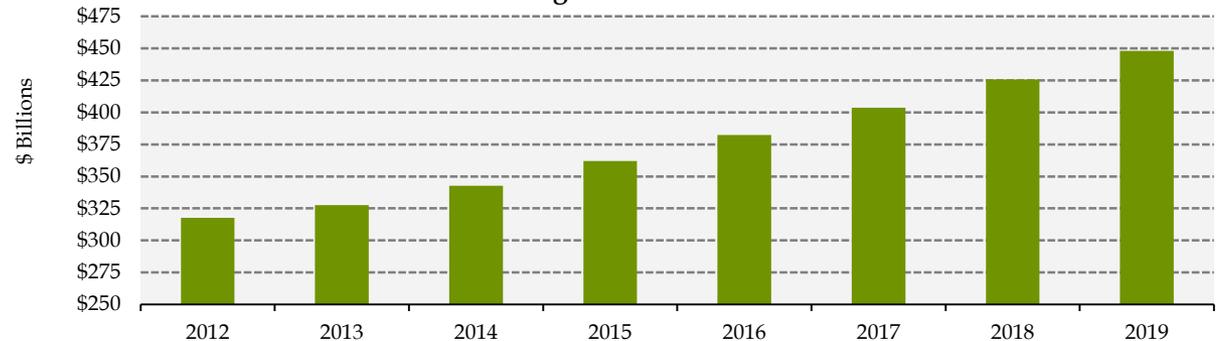
Employment and Income

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%.

Washington Personal Income



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

- 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.

Washington Nonfarm Payroll Employment



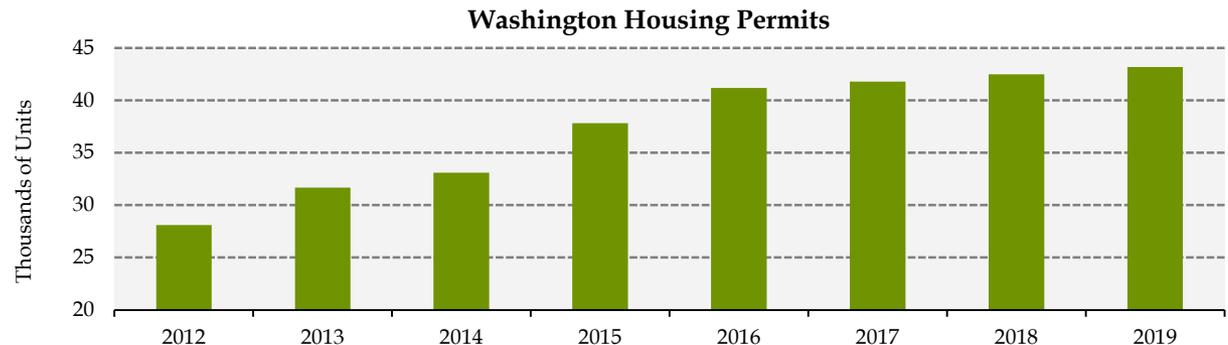
Source: ERFC Preliminary June 2014 forecast; historical data through 2013



Housing Sector and Inflation

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.



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

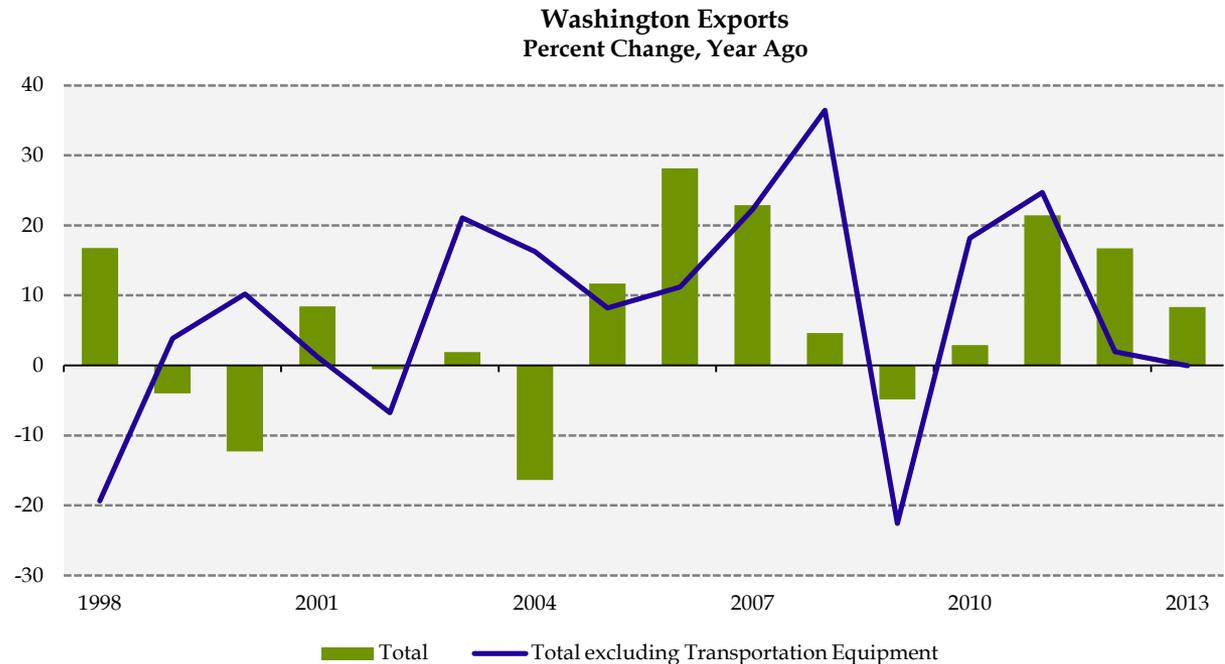
- Seattle area inflation has edged up and now exceeds the national average. Seattle April CPI was 2.4%, higher than the 2.0% rate for the U.S. city average. The higher than average inflation rate in Seattle is entirely due to more rapidly rising shelter costs.



Washington Exports

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.



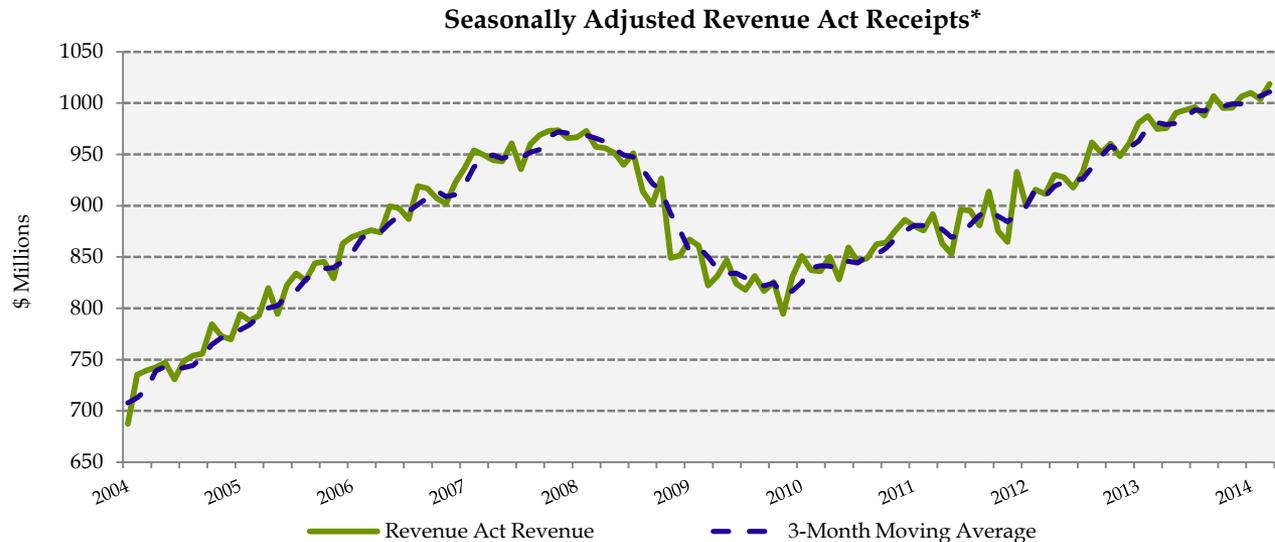
Source: WISER Trade Data; data through December 2013



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.



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

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



Sales Tax and B&O Receipts

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.



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



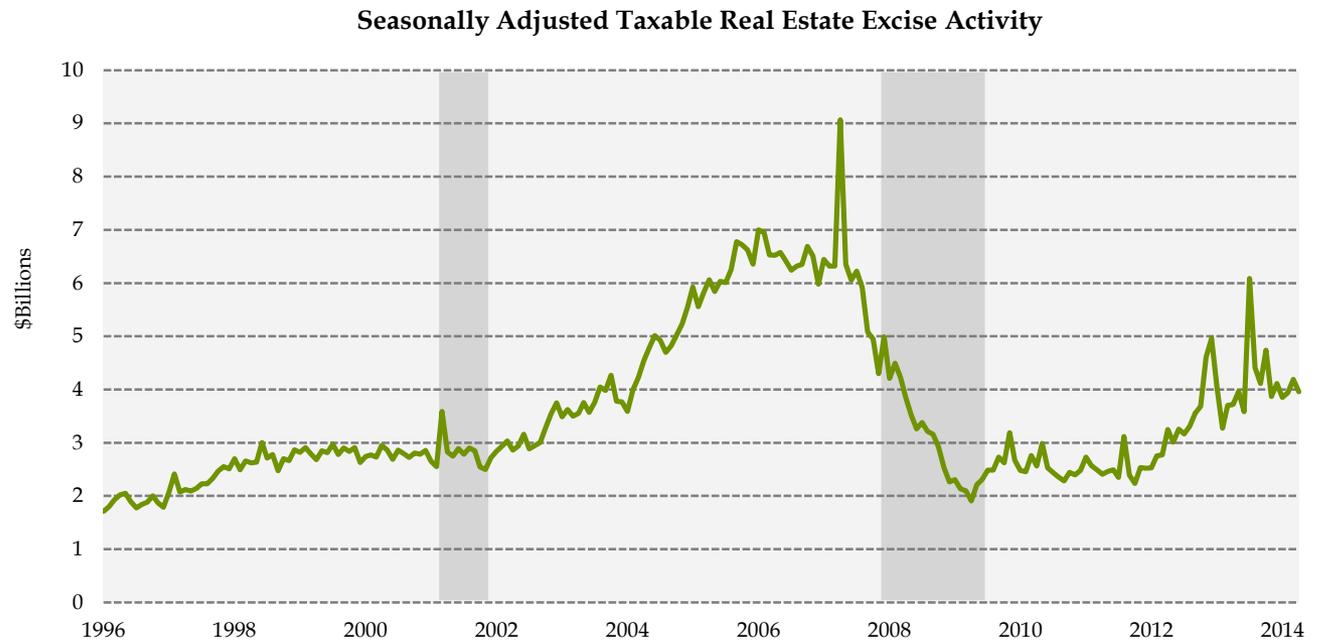
*Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds.
Source: ERFC; Monthly data through March 2014 preliminary activity



REET Activity

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.



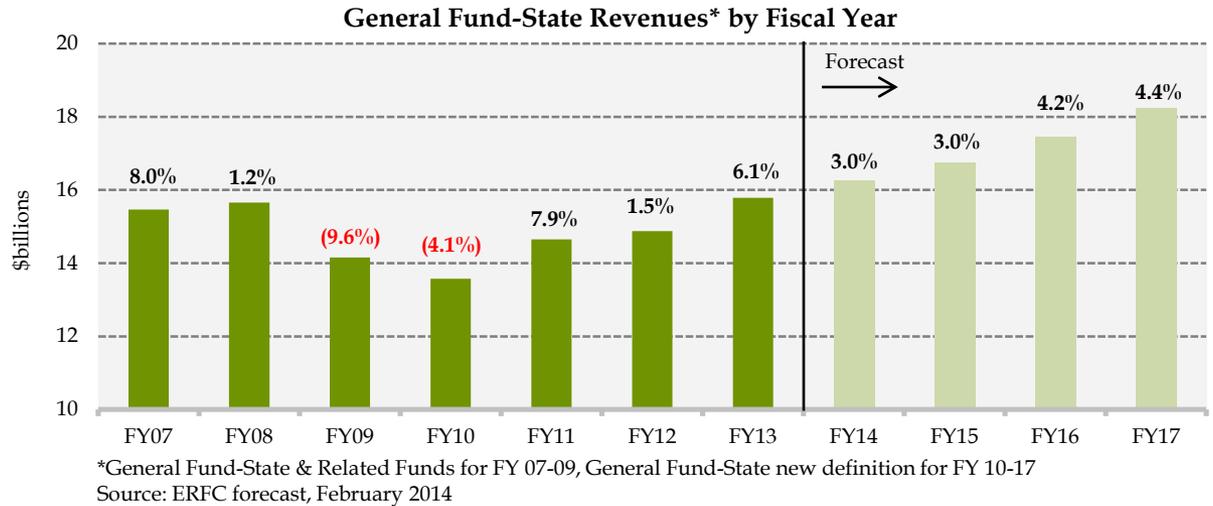
Source: ERFC; Monthly data through April 2014 preliminary activity



Forecasted Revenue (as of February 2014)

The new revenue forecast on June 17, 2014, adds \$157 million for the 2013-15 biennium and another \$238 million for 2015-17 biennium in General Fund-State revenues.

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



Source: ERFC; Quarterly revenue data through Q1 2014, February 2014 income estimates
 *Adjusted for large one-time payments and refunds and payments under the amnesty program.



II. Legislative Developments



Legislative Developments and Challenges

*2014 Supplemental
Budget:
A "hold-steady"
budget*

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.



General Fund-State 2013-15 Budget Balance Sheet

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

Beginning Fund Balance	\$ 156.4
November 2013 Forecast	33,576.4
February 2014 Forecast	60.4
Current Revenue Totals	33,636.8
Transfer to Budget Stabilization Account	\$ (312.2)
Fund Transfers and Other Resource Changes	469.4
Total Resources (including beginning fund balance)	\$ 33,950.3

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	\$ 296.2
Budget Stabilization Account Beginning Balance	269.7
Transfer from General Fund and Interest Earnings	312.9
Projected Budget Stabilization Account Ending Balance	\$ 582.5
Total Reserves (General Fund plus Budget Stabilization)	\$ 878.7



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:

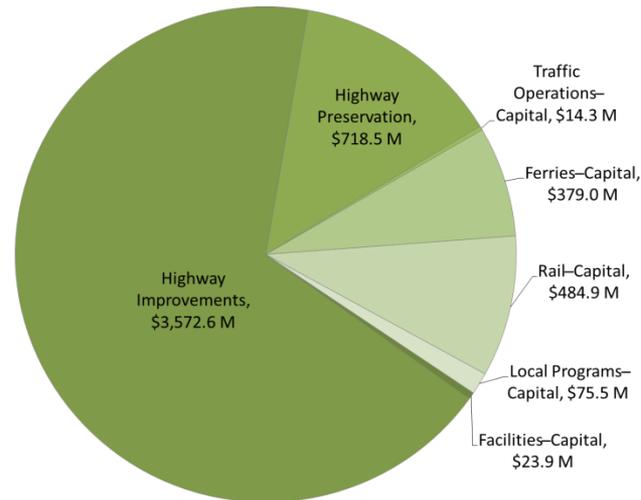
I-405/Kirkland vicinity widening

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



* 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.



Transportation Revenue Forecast (February 2014)

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.



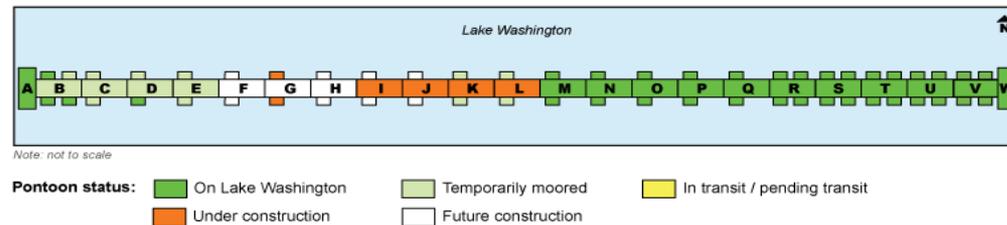
SR 520 Corridor Project

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.



Floating Bridge Pontoon Status



Eastside corridor improvements, including transit and HOV improvements, are over 80% complete.

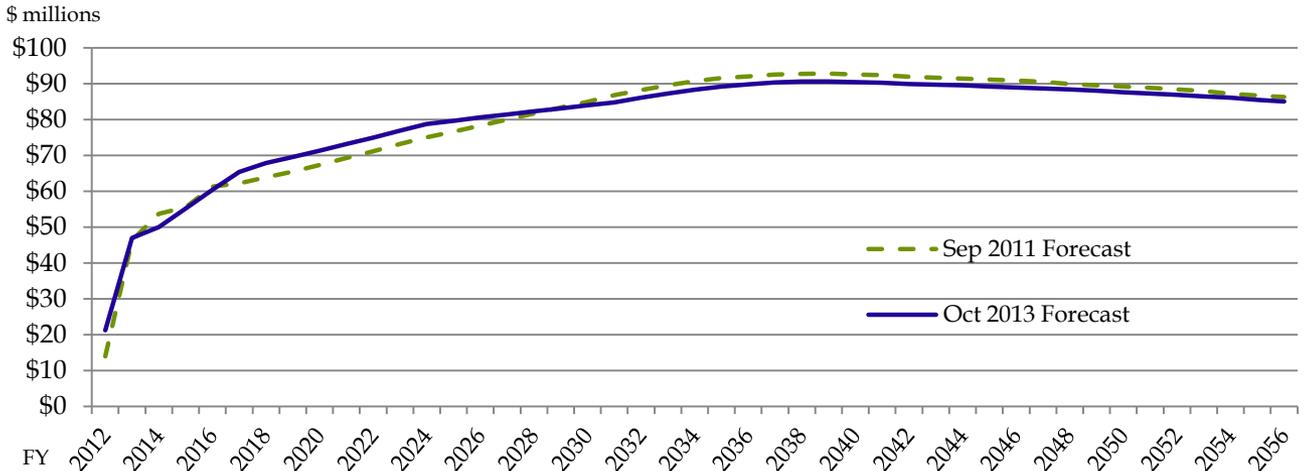


SR 520 Corridor Project: Traffic and Revenues vs. Projections

Traffic and Toll Revenue*

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

Net Toll Revenues



*FY 2013 data is compared to Sep 2012 forecast. Jul - Apr 2014 data is compared to Oct 2013 forecast.



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 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.



SR 530 (Oso) Slide

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.



Before the slide, SR 530 and Steelhead Drive



After the slide

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



Investment Practices are Conservative

The state maintains conservative investment practices and policies.

Average Daily Balances by Security Class

Treasury and Treasurer's Trust Funds**	May 2014		June 2013 – May 2014*	
	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	1,602,105	38.7	1,781,037	41.6
U.S. Treasury	1,083,789	26.2	846,556	19.8
Repurchase Agreements	25,807	0.6	387,192	9.0
Bank Deposits	130,916	3.2	137,716	3.2
LGIP Deposit	1,131,963	27.3	970,257	22.6
Certificates of Deposit	165,538	4.0	161,268	3.8
	4,140,118	100	4,284,026	100

Weighted Average Maturity: 523 days

LGIP	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	7,678,609	65.7	6,369,644	63.0
U.S. Treasury	854,588	7.3	1,124,466	11.1
Repurchase Agreements	1,975,551	16.9	1,690,346	16.7
Bank Deposits	1,118,159	9.6	877,330	8.7
Certificates of Deposit	62,450	0.5	53,540	0.5
	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

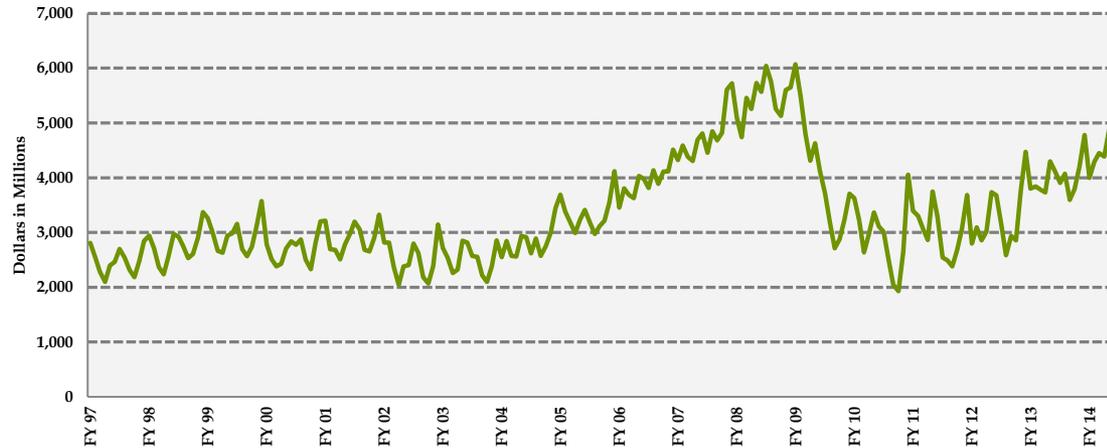


Investment Practices are Conservative

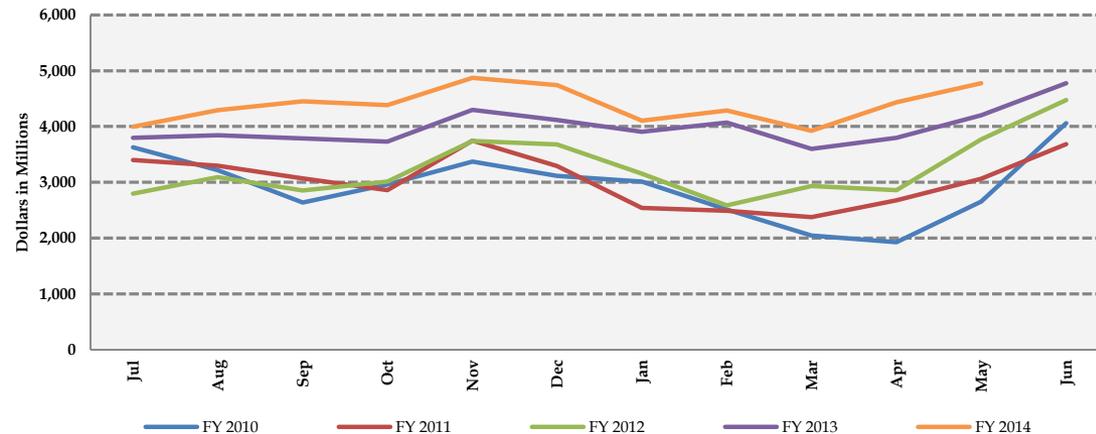
The state has strong cash management policies and sound liquidity, conservative investment policies and practices.

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

Treasury/Trust Month Ending Balances
July 1996 to May 2014



Treasury/Trust Month Ending Balances
July 2010 to May 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 July 2014

June 2014

TOP Refunding	\$	<u>43,435,000</u>
	\$	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		<u>402,035,000</u>
	\$	1,109,125,000

August 2014

Certificates of Participation	\$	<u>85,000,000</u>
	\$	85,000,000

Jan/Feb 2015

Various Purpose G.O.	\$	388,099,000
MVFT G.O.		350,000,000
Taxable		<u>55,595,000</u>
	\$	793,694,000

Source: Office of the State Treasurer. Estimates as of June 11, 2014.
Totals may not add due to rounding.