*This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these Certificates in any jurisdiction in which such offer, solicitation or sale would be unlawful.*

**PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 26, 2016**

**SALE DATE: MARCH 8, 2016**
**NEW ISSUE, BOOK-ENTRY ONLY**

**Moody's Rating: Aa2**
**(See "RATING")**

**$74,460,000***

# STATE OF WASHINGTON
# CERTIFICATES OF PARTICIPATION, SERIES 2016A
# (STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)

**Evidencing and Representing Undivided Proportionate Interests**
**of the Owners Thereof in**
**State Payments to be Made by the State of Washington**
**Pursuant to the Master Financing Agreements**

**Dated: Date of Initial Delivery** **Due: July 1, as shown on page i hereof**

The State of Washington Certificates of Participation, Series 2016A (State and Local Agency Real and Personal Property) (the "Certificates") are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in payments to be made by the State of Washington (the "State") under Master Financing Agreements between the Corporation and the State (the "State Payments").

Except as otherwise described herein, State Payments are payable from payments to be made pursuant to the Agency Financing Agreements, each between the State and the applicable Agency ("Agency Payments"). In the event that any Local Agency fails to make any payment due under its Agency Financing Agreement, the Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Payment, the Treasurer is obligated further, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make the payment on behalf of the Local Agency. Agency Payments by any State Agency due under its Agency Financing Agreement are subject to appropriation and to any Executive Order reduction by the Governor. See "SECURITY FOR THE CERTIFICATES."

The interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2017. The principal evidenced and represented by the Certificates is payable in the stated maturity amounts on each July 1 as shown on page i.

The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment upon the occurrence of certain events. In addition, the Certificates will be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates if Term Certificates are specified. See "THE CERTIFICATES—Prepayment."

The Certificates will be executed and delivered in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. (the "Owner"), as owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. The Certificates will be issued in denominations of $5,000 each and any integral multiple thereof within a single maturity. Principal and interest evidenced and represented by the Certificates are payable by the fiscal agency of the State, as paying agent and fiscal agent (the "Fiscal Agent") (currently U.S. Bank National Association), to DTC, for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates, as described under "THE CERTIFICATES—Book-Entry System."

The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition and construction of certain real and personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies") and to pay issuance costs with respect to the Certificates.

THE MASTER FINANCING AGREEMENTS, INCLUDING THE STATE AGENCY FINANCING ADDENDA AND THE STATE AGENCY FINANCING LEASE ADDENDA, CONSTITUTE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE STATE PAYMENTS, THE AGENCY PAYMENTS OR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR ANY STATE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE NOR ANY STATE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING AGREEMENTS. ANY PAYMENTS BY THE TREASURER ON BEHALF OF A LOCAL AGENCY AND PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE LEGISLATURE AND TO EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING AGREEMENTS, ANY STATE AGENCY FINANCING ADDENDA OR ANY STATE AGENCY FINANCING LEASE ADDENDA.

*In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. While interest evidenced and represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest evidenced and represented by the Certificates received by certain S corporations may be subject to tax, and interest evidenced and represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."*

The Certificates are offered when, as and if executed and delivered, subject to the receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel to the State, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the State by Foster Pepper PLLC, Seattle, Washington, as Disclosure Counsel to the State.

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about March 31, 2016.

* Preliminary, subject to adjustment by the State as provided in the Official Notice of Sale.

No dealer, broker, salesperson, or other person has been authorized by the State to give any information or to make any representations with respect to the Certificates other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources that are believed to be current and reliable. The State, however, makes no representation regarding the accuracy or completeness of the information in Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM," which has been obtained from DTC's website, or other information provided by third parties. Estimates and opinions should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

In connection with the offering of the Certificates, the Underwriter may overallot or effect transactions that stabilize or maintain the market price of the Certificates at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue to be repeated in the future.

This Official Statement contains forecasts, projections and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the State, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the State that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or as guarantees of results.

If and when included in this Official Statement, the words "plan," "expect," "forecast," "estimate," "budget," "project," "intends," "anticipates" and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the State. These forward-looking statements speak only as of the date they were prepared.

The Certificates will not be registered under the Securities Act of 1933, as amended, in reliance upon an exception contained in such act.

The website of the State or any State department or agency is not part of this Official Statement, and investors should not rely on information presented in the State's website, or on any other website referenced herein, in determining whether to purchase the Certificates. Information appearing on any such website is not incorporated by reference in this Official Statement.

This Preliminary Official Statement has been "deemed final" as of its date by the State pursuant to Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, except for the omission of material permitted to be omitted by such Rule.

**CERTIFICATE PAYMENT SCHEDULE**

**$74,460,000[1]**
**STATE OF WASHINGTON**
**CERTIFICATES OF PARTICIPATION, SERIES 2016A**
**(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)**

**Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Agreements**

| Principal Payment Date (July 1) | Principal Component[2] | Interest Rate | Yield | Price | CUSIP Number[3] |
|---|---|---|---|---|---|
| 2017 | $ 7,150,000 | | | | |
| 2018 | 8,440,000 | | | | |
| 2019 | 8,730,000 | | | | |
| 2020 | 8,930,000 | | | | |
| 2021 | 7,140,000 | | | | |
| 2022 | 6,110,000 | | | | |
| 2023 | 4,340,000 | | | | |
| 2024 | 4,490,000 | | | | |
| 2025 | 4,595,000 | | | | |
| 2026 | 4,800,000 | | | | |
| 2027 | 3,575,000 | | | | |
| 2028 | 715,000 | | | | |
| 2029 | 590,000 | | | | |
| 2030 | 620,000 | | | | |
| 2031 | 640,000 | | | | |
| 2032 | 665,000 | | | | |
| 2033 | 690,000 | | | | |
| 2034 | 720,000 | | | | |
| 2035 | 745,000 | | | | |
| 2036 | 775,000 | | | | |
| Total | $74,460,000 | | | | |

(1) Preliminary, subject to adjustment by the State as provided in the Official Notice of Sale.

(2) Preliminary, subject to adjustment by the State as provided in the Official Notice of Sale. These amounts will constitute principal components of Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates; provided, however, that no principal component with a principal payment date on or before July 1, 2026, may be combined with a principal component with a principal payment date on or after July 1, 2027, in a single Term Certificate.

(3) The CUSIP data herein is provided by the CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the State and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Certificates. Neither the State nor the Underwriter takes responsibility for the accuracy of the CUSIP numbers.

## PARTICIPATING AGENCIES

The proceeds received from the sale of the Certificates will be applied to finance and/or refinance the costs of acquisition and construction of the following items of real and personal property for the following participating State Agencies and Local Agencies:

| Term (years) | Agency Name | Property | Amount[1] |
|---|---|---|---|
| 2 | Shelton School District No. 309[2] | Two Buses | $ 275,000 |
| 3 | Department of Enterprise Services | Computers and Services | 34,149 |
| 3 | Department of Enterprise Services | Computer Equipment | 38,131 |
| 3 | Department of Enterprise Services | Computer Equipment | 150,311 |
| 3 | Department of Enterprise Services | Laptops | 216,329 |
| 3 | Department of Enterprise Services | Computer Equipment | 226,750 |
| 4 | Department of Enterprise Services | Computers and Services | 177,354 |
| 4 | Department of Enterprise Services | Computer Equipment | 314,200 |
| 4 | Department of Enterprise Services | Computer Equipment | 450,653 |
| 4 | Department of Enterprise Services | CPUs; Laptops; Services | 785,655 |
| 4 | Department of Enterprise Services | Computer Equipment | 968,628 |
| 4 | Department of Social and Health Services | Computer Equipment | 5,985,936 |
| 5 | Department of Enterprise Services | Cisco Servers; Switches | 32,165 |
| 5 | Department of Enterprise Services | Servers | 50,480 |
| 5 | Department of Enterprise Services | Switches; Server | 51,860 |
| 5 | Department of Enterprise Services | Servers | 212,132 |
| 5 | The Evergreen State College | Industrial Dishwasher | 238,371 |
| 5 | Department of Enterprise Services | Automobiles | 883,961 |
| 5 | Department of Enterprise Services | Automobiles | 1,038,579 |
| 5 | Department of Enterprise Services | Automobiles | 1,192,633 |
| 5 | Department of Enterprise Services | Automobiles | 1,216,331 |
| 5 | City of Eatonville[2] | Police Vehicle | 40,000 |
| 5 | Lewis County Fire Protection District No. 3[2] | Command Vehicle | 45,000 |
| 5 | City of Ferndale[2] | Two Work Trucks and walk behind Cut Off Saw | 63,000 |
| 5 | City of Blaine[2] | Police Vehicle | 125,000 |
| 5 | Island County Fire Protection District No. 1[2] | Fire Engine | 258,425 |
| 5 | Oak Harbor School District No. 201[2] | Three School Buses | 338,948 |
| 5 | City of Orting[2] | Police and Utility Vehicles | 492,625 |
| 5 | Pend Oreille County[2] | Roll-off truck, 40-yard dumpsters and backhoe | 375,000 |
| 6 | Department of Enterprise Services | Automobiles | 1,246,866 |
| 6 | Department of Enterprise Services | Automobiles | 1,446,346 |
| 6 | Department of Enterprise Services | Automobiles | 1,590,403 |
| 6 | Department of Enterprise Services | Production Printers | 1,829,501 |
| 6 | Department of Enterprise Services | Automobiles | 2,007,385 |
| 6 | Department of Enterprise Services | Automobiles | 2,151,675 |
| 6 | Skagit Valley College | Refunding/Construction of campus center building | 1,555,877 |
| 7 | Department of Enterprise Services | Automobiles | 296,182 |
| 8 | Department of Enterprise Services | Automobiles | 105,022 |
| 8 | Cowlitz County Fire Protection District No. 2[2] | Fire Engine and Ambulance | 313,734 |
| 8 | Whatcom County Fire Protection District No. 8[2] | Fire Engine | 500,000 |
| 9 | Washington State University | Quad Tractor | 229,200 |
| 10 | Department of Enterprise Services | Isabella Bush Building ESCO Project | 376,954 |
| 10 | Department of Social and Health Services | Lakeland ESCO Project | 756,071 |
| 10 | Department of Social and Health Services | HVAC Controls, lighting upgrades, boiler plant automation | 1,134,862 |
| 10 | Shoreline Community College | Refunding/Remodeling of student union building | 9,132,641 |
| 10 | City of Ferndale[2] | Bobcat Loader, 1-Ton dump truck, 10-yard dump truck | 410,000 |
| 10 | City of Enumclaw[2] | Recycling Equipment | 759,357 |
| 10 | Cowlitz Fire Protection District No. 1[2][3] | Acquire Land | 200,000 |
| 11 | Washington State Parks and Recreation Commission | Refunding/Renovation of historic buildings, construction of buildings and installation of utilities | 1,914,288 |
| 11 | Edmonds Community College | Refunding/Construction of an addition to an existing building to house a bookstore and student union center | 6,260,246 |
| 11 | Department of Enterprise Services | Refunding/Construction of improvements to office building | 3,999,288 |
| 11 | Edmonds Community College | Refunding/Construction a black box theatre | 1,994,558 |
| 11 | Walla Walla Community College | Refunding/Construction of instructional building | 422,317 |
| 11 | Western Washington University | Refunding/Acquire land for park-and-ride facility | 1,729,972 |
| 11 | Pierce College | Refunding/Construction of health education center | 3,145,641 |
| 12 | Mason County[2] | Refunding/Construction of public works facility | 9,851,636 |
| 12 | Port District No. 2, Grant County (a/k/a Port of Royal Slope)[2] | Refunding/Acquisition of open space land for use as a spray field | 220,085 |
| 12 | Tacoma Community College | Refunding/Construction of early childhood education and learning center | 1,582,641 |
| 20 | The Evergreen State College[3] | Acquire Property | 11,700,000 |
| 20 | San Juan County Fire Protection District No. 5[2][3] | Fire Station Addition | 175,000 |

(1) Preliminary, subject to adjustment.
(2) Local Agencies; remainder are State Agencies.
(3) Real Property Participants.

**STATE FINANCE COMMITTEE**
**OF THE**
**STATE OF WASHINGTON**

JAMES L. McINTIRE.....Treasurer and Chairman

JAY INSLEE .....Governor and Member

BRAD OWEN .....Lieutenant Governor and Member

---

Ellen L. Evans..... Deputy State Treasurer—Debt Management

**CERTIFICATE COUNSEL AND DISCLOSURE COUNSEL TO THE STATE**

Foster Pepper PLLC
Seattle, Washington

**FINANCIAL ADVISOR TO THE STATE**

Public Financial Management, Inc.
Seattle, Washington

This Official Statement will be available upon request to the Office of the State Treasurer. This Official Statement is available via the Internet at the Office of the State Treasurer's Home Page:

**http://www.tre.wa.gov/investors/investorinformation.shtml**

## CONTACT INFORMATION

| | |
|---|---|
| **State of Washington** | Office of the State Treasurer<br>Legislative Building<br>Second Floor, Room 230<br>416 Sid Snyder Avenue SW<br>Olympia, Washington 98501<br>Phone: (360) 902-9000 |
| **Fiscal Agent** | U.S. Bank National Association<br>Corporate Trust-Services<br>1420 5th Avenue, 7th Floor,<br>Seattle, Washington 98101<br>Phone: (206) 344-4678 |
| **Certificate Counsel and Disclosure Counsel** | Foster Pepper PLLC<br>1111 Third Avenue, Suite 3400<br>Seattle, Washington 98101<br>Phone: (206) 447-4400 |
| **Financial Advisor** | Public Financial Management, Inc.<br>1200 Fifth Avenue, Suite 1220<br>Seattle, Washington 98101<br>Phone: (206) 858-5363<br>Email: sea-advisors@pfm.com |

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**OFFICIAL NOTICE OF SALE**

**$74,460,000***

**STATE OF WASHINGTON**
**CERTIFICATES OF PARTICIPATION, SERIES 2016A**
**(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)**

**Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Agreements**

Electronic bids will be received on behalf of the State of Washington (the "State") at the Office of the Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue SW, Olympia, Washington, for the purchase of the above-referenced certificates of participation (the "Certificates") at

**8:00 A.M., PACIFIC TIME, ON MARCH 8, 2016**

The Certificates will be sold on an all-or-none basis. Bids must be submitted electronically via the Qualified Electronic Bid Provider (defined below). See "Bidding Detail."

All bids received on behalf of the State by the bid time set forth above on such date will be reviewed and verified beginning at that time. Bids received after the bid time will not be considered. Bids will be considered and the winning bidder announced subsequently.

Bidders are referred to the Preliminary Official Statement for additional information regarding the State, the Certificates, the security therefor, and other matters.

***Modification; Cancellation; Postponement.*** Bidders are advised that the State may modify the terms of sale of the Certificates prior to the bidding. If such modification occurs, supplemental information with respect to the sale of the Certificates will be provided to the Qualified Electronic Bid Provider and i-Deal Prospectus prior to the sale. In addition, the State may cancel or postpone the date and time for the receipt of bids at any time prior to the opening of the bids. Notice of such cancellation or postponement will be communicated by the State through the Qualified Electronic Bid Provider and i-Deal Prospectus as soon as practicable following such cancellation or postponement. If a postponement occurs, bids will be received at the hour and place set forth above on any weekday as the State determines. As an accommodation to bidders, telephonic or facsimile notice of the postponement of the sale date and of the new sale date will be given to any bidder requesting such notice from Public Financial Management, Inc., financial advisor to the State, at telephone: (206) 858-5363. Failure of any bidder to receive such notice from the Qualified Electronic Bid Provider or i-Deal Prospectus will not affect the legality of the sale.

Each bidder (and not the State) is responsible for the timely electronic delivery of its bid. The official time will be determined by the State and not by any bidder or Qualified Electronic Bid Provider.

**Description of the Certificates**

***The Certificates.*** The Certificates, evidencing and representing principal in the aggregate amount of $74,460,000,* will be dated as of their date of initial delivery, which is expected to be March 31, 2016, and will be executed and delivered in fully registered form in denominations of $5,000 and any integral multiple thereof. The Certificates will evidence and represent interest at such rate or rates as are fixed at the time of sale, payable semiannually on each January 1 and July 1, beginning on January 1, 2017.

* Preliminary, subject to adjustment by the State as provided in this Official Notice of Sale.

The portions of the State Payments designated as principal and evidenced and represented by the Certificates will be payable as follows:

| Principal Payment Dates (July 1)* | Principal Component* |
|---|---|
| 2017 | $ 7,150,000 |
| 2018 | 8,440,000 |
| 2019 | 8,730,000 |
| 2020 | 8,930,000 |
| 2021 | 7,140,000 |
| 2022 | 6,110,000 |
| 2023 | 4,340,000 |
| 2024 | 4,490,000 |
| 2025 | 4,595,000 |
| 2026 | 4,800,000 |
| 2027 | 3,575,000 |
| 2028 | 715,000 |
| 2029 | 590,000 |
| 2030 | 620,000 |
| 2031 | 640,000 |
| 2032 | 665,000 |
| 2033 | 690,000 |
| 2034 | 720,000 |
| 2035 | 745,000 |
| 2036 | 775,000 |
| Total | $74,460,000 |

***Adjustment of Principal.*** The State has reserved the right to adjust the foregoing principal components upward or downward. The principal component due on any Principal Payment Date may not be adjusted by more than 15 percent, and the aggregate of such upward and downward adjustments will not exceed 10 percent; however, adjustments in excess of 10 percent can be made with the approval of the apparent winning bidder. Notice of any adjustment will be provided by the State to the successful bidder no later than noon, Pacific Time, on the date bids are to be received. The State is not responsible in the event and to the extent that any such adjustment affects the net compensation to be realized by the successful bidder.

***Term Certificates.*** Bidders have the option to designate the total Principal Component payable on any two or more consecutive Principal Payment Dates for the Certificates as mandatory prepayments with respect to the Term Certificates; provided, however, that no Principal Component with a Principal Payment date on or before July 1, 2026 may be combined with a Principal Component with a Principal Payment Date on or after July 1, 2027, in a single Term Certificate. If any of the Certificates are designated as Term Certificates by the successful bidder, those Certificates will be subject to mandatory prepayment. See "THE CERTIFICATES—Prepayment" in the Preliminary Official Statement. If no Term Certificates are designated, the Principal Components represented by Certificates payable on each Principal Payment Date will be as set forth above in this Official Notice of Sale, subject to adjustment as provided in this Official Notice of Sale.

***Optional Prepayment.*** The Certificates with Principal Payment Dates on and after July 1, 2027, are subject to optional prepayment prior to their respective stated Principal Payment Dates, as a whole, or in part in Authorized Denominations, on any date on or after July 1, 2026, upon the exercise by the State at the direction of any Agency of its option to prepay the Principal Components evidenced and represented by the Certificates, at the Prepayment Price (expressed as a percentage of the Principal Components prepaid) of 100 percent, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

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* Preliminary, subject to adjustment by the State as provided in this Official Notice of Sale. These amounts will constitute principal components of Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates. See "Description of the Certificates-*Term Certificates*."

***Extraordinary Mandatory Prepayment.*** The Certificates are subject to mandatory prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss affecting Real Property financed and refinanced by the Certificates, from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date, and without premium. See "SECURITY FOR THE CERTIFICATES—Mandatory Prepayment; Special Prepayment" in the Preliminary Official Statement.

***Book-Entry Only.*** The Certificates will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Certificates purchased. See Appendix E–"DTC AND ITS BOOK-ENTRY SYSTEM" in the Preliminary Official Statement.

**Purpose**

The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition and construction of certain real and personal property and improvements for the benefit of certain State Agencies and Local Agencies, as shown on the table entitled "Participating Agencies" on page ii, and to pay issuance costs with respect to the Certificates. See "SOURCES AND USES OF CERTIFICATE PROCEEDS" in the Preliminary Official Statement.

**Security**

For a description of the security for the Certificates, see "SECURITY FOR THE CERTIFICATES" in the Preliminary Official Statement.

**Bidding Detail**

***Electronic Bids.*** Electronic bids for the Certificates must be submitted via the Qualified Electronic Bid Provider only. The State has designated Parity® as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Certificates. By designating a bidding service as the Qualified Electronic Bid Provider, the State does not endorse the use of such bidding service.

A bidder submitting an electronic bid for the Certificates thereby agrees to the following terms and conditions:

(1) If any provision in this Official Notice of Sale with respect to the Certificates conflicts with information or terms provided or required by the Qualified Electronic Bid Provider, this Official Notice of Sale, including any amendments issued through the Qualified Electronic Bid Provider and i-Deal Prospectus, shall control.

(2) Each bidder will be solely responsible for making necessary arrangements to access the Qualified Electronic Bid Provider for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale.

(3) The State shall not have any duty or obligation to provide or assure access to the Qualified Electronic Bid Provider to any bidder, and the State shall not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of the Qualified Electronic Bid Provider or any incomplete, inaccurate or untimely bid submitted by any bidder through the Qualified Electronic Bid Provider.

(4) The State is permitting use of the Qualified Electronic Bid Provider as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Certificates. The Qualified Electronic Bid Provider is acting as an independent contractor, and is not acting for or on behalf of the State.

(5) The State is not responsible for ensuring or verifying bidder compliance with any Qualified Electronic Bid Provider procedures.

(6) If the bidder's bid is accepted by the State, this Official Notice of Sale and the information that is transmitted electronically through the Qualified Electronic Bid Provider shall form a contract, and the bidder shall be bound by the terms of such contract.

(7) Information provided by the Qualified Electronic Bid Provider to bidders shall form no part of any bid or of any contract between the successful bidder and the State unless that information is included in this Official Notice of Sale.

Further information about the Qualified Electronic Bid Provider, including any fees charged, may be obtained by calling Bidcomp/Parity® at (212) 849-5021.

***Form of Bids.*** Bids for the Certificates must be unconditional, and for not less than all of the Certificates. By submitting a bid, each bidder agrees to all of the terms and conditions of this Official Notice of Sale, as they may be modified in accordance herewith. Bids for the Certificates must be submitted electronically via the Qualified Electronic Bid Provider. Bids may not be withdrawn or revised after the time that bids are due.

***Interest Rates Bid.*** Bidders for the Certificates may specify any number of interest rates in multiples of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1 percent), or both. The State does not require the use of ascending coupons. Bidders may not specify more than one interest rate with respect to Certificates with a common Principal Payment Date. Each Certificate must evidence and represent interest from its date to its respective Principal Payment Date. Each Principal Component must be reoffered at a yield that will produce a price of not less than 98 percent.

***Premium and Discount.*** No bid will be considered that offers to pay an amount less than 98 percent ($72,970,800) nor more than 120 percent ($89,352,000) of the aggregate Principal Components evidenced and represented by the Certificates.

**Selection of Winning Bid**

The Certificates will be sold to the bidder submitting a bid in conformance with this Official Notice of Sale that produces the lowest true interest cost ("TIC") to the State, based on the bid price, the interest rates specified in the electronic bid and the Principal Components identified in this Official Notice of Sale. The TIC will be the rate necessary, when using 360-day year and semiannual compounding, to discount the Principal and Interest Components with respect to the Certificates from the respective Principal Payment Dates to the initial delivery date of the Certificates (currently anticipated to be March 31, 2016) and to the price bid.

The successful bidder will be bound to purchase the Certificates with the Principal Components specified in this Official Notice of Sale, with adjustments, if any, as permitted herein, at such price, and with such interest rates, as are specified in its bid. If there are adjustments to the Principal Components payable on individual Principal Payment Dates, the premium or discount bid by the successful bidder will be adjusted to take into account original issue premiums or discounts for those Principal Payment Dates.

**Right of Rejection**

The State reserves the right to reject any or all bids and to waive any irregularity in any bid. In the event that two or more bidders submit bids at the same lowest TIC, the State will determine which bidder is awarded the Certificates in its sole discretion.

**Good Faith Deposit**

The successful bidder shall deliver a good faith deposit in the amount of $750,000 to the Treasurer. The good faith deposit may be paid in one of the following ways:

(1) By federal funds wire transfer delivered no later than 90 minutes following the successful bidder's receipt of the verbal award. Wiring instructions will be provided to the successful bidder at the time of the verbal award; or

(2) By certified or bank cashier's check made payable to the order of the State Treasurer and delivered to the Treasurer prior to the time of receipt of the bids.

Any good faith deposit submitted by a bidder whose bid is not accepted shall be returned promptly by the State, but the State shall not be liable for interest for any delay in such return.

If the bid is accepted, the good faith deposit will be deposited by the Treasurer and be applied to the purchase price of the Certificates when the same are delivered and paid for under the terms of the bid, or shall be retained as and for liquidated damages in case the successful bidder fails to accept the Certificates when ready for delivery or fails to complete payment therefor in accordance with the terms of the bid. Pending delivery of the Certificates, the good faith deposit may be invested for the sole benefit of the State.

**Rating**

The Certificates have been rated "Aa2" by Moody's Investors Service, Inc., and the State will pay the fees for this rating. Any other ratings are the responsibility of the successful bidder.

**Insurance**

The purchase of any insurance policy for the Certificates or the issuance of any commitment therefor will be at the sole option and expense of the successful bidder for the Certificates. Bids for the Certificates may not be conditioned upon obtaining municipal bond insurance or any other credit enhancement, and any increased costs of issuance of the Certificates resulting by reason of such insurance shall be paid by the successful bidder and shall not, in any event, be paid by the State. Payment of any insurance premium and satisfaction of any conditions to the issuance of a municipal bond insurance policy is the sole responsibility of the successful bidder. In particular, the State will neither amend nor supplement the financing documents in any way nor will it enter into any additional agreements with respect to the provision of any such policy.

*Failure of any insurance provider to issue or deliver its policy will not constitute cause for failure or refusal by the successful bidder to accept delivery of or tender payment for the Certificates.*

The successful bidder must provide the State with the municipal bond insurance commitment and information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two business days following the award of the bid by the State. The State will require delivery, on or prior to the date of initial delivery of the Certificates, of:

(1) a certificate from the insurance provider regarding the accuracy and completeness of the information provided for inclusion in the Official Statement,

(2) an opinion of counsel to the insurance provider regarding the enforceability of the municipal bond insurance policy, and

(3) a certificate with respect to certain tax matters,

each in form reasonably satisfactory to the State and Certificate Counsel.

**Delivery of Certificates**

***General.*** The Certificates will be delivered to DTC in New York, New York, or to the Fiscal Agent on behalf of DTC through Fast Automated Securities Transfer, against payment of the purchase price to the State, in immediately available federal funds less the amount of the good faith deposit. On or before the date of delivery of and payment for the Certificates, the successful bidder shall provide to the State such information as Certificate Counsel to the State deems necessary to determine the yield on the Certificates for purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Upon award of the Certificates, the successful bidder shall advise the State and Certificate Counsel of the initial reoffering prices at which each Principal Component of the Certificates is reasonably expected on the sale date to be

sold to the public (the "Initial Reoffering Prices") for the State's inclusion in the final Official Statement for the Certificates. Simultaneously with or before delivery of the Certificates, the successful bidder shall furnish to the State and Certificate Counsel a certificate in form and substance acceptable to Certificate Counsel:

(1) confirming the Initial Reoffering Prices;

(2) certifying that a *bona fide* offering of such Certificates has been made to the public (excluding bond houses, brokers and other intermediaries);

(3) stating the first price at which a substantial amount (at least 10 percent of each maturity) of such Certificates was sold to the public (excluding bond houses, brokers and other intermediaries);

(4) if the first price at which a substantial amount of any maturity of such Certificates does not conform to the Initial Reoffering Price of that maturity, providing an explanation of the facts and circumstances that resulted in that non-conformity; and

(5) stating which maturities, if any, are amortization installments of Term Certificates maturing in the years specified by the bidder.

The successful bidder for the Certificates must actually reoffer all of the Certificates to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

A draft form of such certificate will be available prior to the sale date from the State's financial advisor, Public Financial Management, Inc.

The Certificates will be delivered in "book-entry only" form in accordance with the Letter of Representations from the State to DTC. As of the date of award of the Certificates, the successful bidder must either participate in DTC or must clear through or maintain a custodial relationship with an entity that participates in DTC.

The State will furnish to the successful bidder one CD ROM transcript of proceedings; additional transcripts will be furnished at the successful bidder's cost.

If, prior to the delivery of any of the Certificates, the interest component evidenced and represented thereby becomes includable in the gross income of the recipients thereof for federal income tax purposes, or if legislation which would have the same effect if adopted into law is passed by either house of Congress or proposed by a joint conference committee, the successful bidder, at its option, may be relieved of the obligation to purchase the Certificates, and the State, at its option, may be relieved of the obligation to deliver the Certificates.

***Cancellation of Sale.*** The successful bidder has the right, at its option, to cancel its obligation to purchase the Certificates for which it submitted the winning bid if the State fails to cause the execution and delivery of such Certificates within 45 days from the award to the successful bidder, and in such event the successful bidder will be entitled only to the return of the principal amount of the good faith deposit.

**CUSIP Numbers**

It is anticipated that CUSIP identification numbers will be printed on the Certificates; however, neither the failure to print CUSIP numbers on any Certificate nor any error with respect thereto will constitute cause for failure or refusal by the successful bidder therefor to accept delivery of and pay for the Certificates.

***The State is responsible for obtaining CUSIP numbers, and all expenses for printing CUSIP numbers on the Certificates will be paid for by the State, but the CUSIP Global Services charge for assignment of those numbers is the responsibility of and shall be paid for by the successful bidder.***

**Legal Opinion**

The State will furnish to the successful bidder and have delivered with the Certificates the legal opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, in substantially the form attached to the Preliminary Official Statement as Appendix C.

**Continuing Disclosure**

The State will enter into an undertaking for the benefit of the beneficial owners of the Certificates to provide or to cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB") certain historical financial information and operating data of the State and notice of certain events pursuant to the requirements of paragraph (b)(5)(1) of Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). See "CONTINUING DISCLOSURE UNDERTAKING" in the Preliminary Official Statement. Within the past five years, the State has complied in all material respects with all prior written undertakings under the Rule.

**Closing Documents**

As a condition to the obligations of the successful bidder to accept delivery of and pay for the Certificates, the successful bidder will be furnished with the following, dated as of the date of the closing:

(1) a certificate of the State, signed on behalf of the State by the Treasurer's Representative, certifying that to her knowledge and belief, and after reasonable investigation, and in reliance on certificates from those individuals having substantive knowledge as to the subject matter contained therein, the Preliminary Official Statement relating to the Certificates did not as of its date, and the Official Statement relating to the Certificates did not as of its date or as of the date of closing, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect, and no event affecting the Certificates has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event is any representation being made with respect to information therein regarding DTC and its book-entry only system and regarding any municipal bond insurer and its municipal bond insurance policy, and information provided by the successful bidders regarding reoffering prices and yields) (the certifications in this paragraph do not apply to Appendix D to the Preliminary Official Statement and the Official Statement); and

(2) a certificate of an Assistant Attorney General of the State, based on such inquiry and investigation deemed sufficient by such Assistant Attorney General, to the effect that, except as otherwise disclosed in the Preliminary Official Statement or the Official Statement, there is no action, suit or proceedings or any inquiry or investigation by or before any court, governmental agency, public board or body in which the State has been served or, to the best of his/her knowledge, is threatened that seeks to restrain or enjoin the sale, execution or delivery of the Certificates or in any other manner affects the validity of the Certificates or the proceedings or authority pursuant to which they are to be sold, executed and delivered, or the validity or enforceability of the Trust Agreement, the Master Financing Agreements, the Site Leases, the Agency Financing Agreements or the Master Assignments.

**Official Statement**

The Preliminary Official Statement is in a form deemed final by the State for the purpose of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the State will deliver to the successful bidder not later than seven business days after the State's acceptance of such bidder's proposal, in sufficient quantities to permit the successful bidder to comply with the Rule, at the State's expense.

The successful bidder shall file, or cause to be filed, the final Official Statement with the MSRB within one business day following the receipt of the Official Statement from the State.

The successful bidder also agrees:

(1) to provide to the Treasurer, in writing, within 24 hours of the acceptance of the bid, pricing and other related information, including the initial reoffering prices of the Certificates, necessary for completion of the final Official Statement as set forth under "Delivery of Certificates–General";

(2) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements or amendments prepared by the State; and

(3) to take any and all actions necessary to comply with applicable SEC and MSRB rules governing the offering, sale and delivery of the Certificates to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases the Certificates.

**Additional Information**

Additional information relating to the Certificates may be obtained from the undersigned at the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue SW, Olympia, Washington 98501 (telephone: (360) 902-9007). The Preliminary Official Statement may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at *www.i-dealprospectus.com*; telephone (212) 849-5024.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By: /s/ Ellen Evans
Deputy State Treasurer—Debt Management

**OFFICIAL STATEMENT**

**STATE OF WASHINGTON**
**CERTIFICATES OF PARTICIPATION**

**$74,460,000***
**STATE OF WASHINGTON**
**CERTIFICATES OF PARTICIPATION, SERIES 2016A**
**(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)**

**Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in State Payments to be Made by the State of Washington Pursuant to the Master Financing Agreements**

## INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page and the appendices hereto, is to provide information relating to the State of Washington (the "State" or "Washington") and the $74,460,000* aggregate principal amount of State of Washington Certificates of Participation, Series 2016A (State and Local Agency Real and Personal Property) (the "Certificates"), proposed to be issued by the State.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers of the Certificates.

### General Description

The proceeds of the Certificates are to be used to finance and/or refinance the costs of acquisition and construction of improvements to certain parcels of real property (the "Projects") and the acquisition of certain personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies"), as shown on the table entitled "Participating Agencies" on page ii, and to pay issuance costs with respect to the Certificates.

The Certificates are being executed and delivered by U.S. Bank National Association as Fiscal Agent for the Certificates (the "Fiscal Agent"), pursuant to a Trust Agreement with respect to the Certificates, dated as of the Dated Date (the "Trust Agreement"), among the Fiscal Agent, the Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the State under a Master Financing Lease for real property (the "Master Financing Lease") and/or Installment Payments to be made by the State under a Master Financing Contract for personal property (the "Master Financing Contract" and together with the Master Financing Lease, the "Master Financing Agreements"), each dated as of the Dated Date, between the Corporation and the State. Base Rent Payments and Installment Payments are collectively referred to herein as "State Payments."

Capitalized terms used herein, if not specifically defined, are used as defined in Appendix I to the Trust Agreement. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

### Real Property

The respective parcels of real property on which the respective Projects of the participating Agencies are located (collectively, the "Sites") are being leased to the Corporation by the respective Agencies pursuant to separate Site Leases, each dated as of the Dated Date (the "Site Leases"), between each such Agency and the Corporation. Pursuant to the Master Financing Lease, the State will lease the Sites and the Projects thereon (collectively, the "Real Property") from the Corporation. Concurrently with the State's execution of the Master Financing Lease, each State Agency will execute a State Agency Financing Lease Addendum to the Master Financing Lease and each Local Agency will execute a Local Agency Financing Lease, each dated as of the Dated Date (collectively, the "Financing Leases"), to sublease its respective Real Property from the Corporation or the State, as applicable. Each participating Agency is required to make Agency Rent Payments to the State pursuant to its Financing Lease for the sublease of its respective Real Property.

* Preliminary, subject to adjustment by the State as provided in the Official Notice of Sale.

The Agency Rent Payments payable by the participating Agencies pursuant to the Financing Leases are, in the aggregate, at least equal to the corresponding Base Rent Payments payable by the State pursuant to the Master Financing Lease. Pursuant to a Master Assignment (the "Master Assignment (Real Property)"), dated as of the Dated Date, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to the Sites pursuant to the Site Leases, all of its rights to receive the Base Rent Payments from the State pursuant to the Master Financing Lease, its right to take all actions, exercise all remedies and give all consents under and pursuant to the Site Leases and the Master Financing Lease, and all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, the Financing Leases, and the Real Property. See "SECURITY FOR THE CERTIFICATES" and Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

**Personal Property**

Various Agencies have purchased personal property to be financed or refinanced with a portion of the proceeds of the Certificates (collectively, the "Personal Property" and, together with the Real Property, the "Property") on behalf of and as the agent of the Corporation. Pursuant to the Master Financing Contract, the State is purchasing the Personal Property from the Corporation. The State in turn is selling the Personal Property to the applicable Agencies pursuant to separate Local Agency Financing Contracts or State Agency Financing Addenda (collectively, the "Agency Financing Contracts"), dated as of the Dated Date, between the State and the applicable Agencies.

Each Agency is required to make Agency Installment Payments to the State pursuant to its Agency Financing Contract for the purchase of its respective items of Personal Property. The Agency Installment Payments payable by the participating Agencies pursuant to the Agency Financing Contracts in the aggregate are at least equal to the corresponding Installment Payments payable by the State pursuant to the Master Financing Contract. Pursuant to a Master Assignment (the "Master Assignment (Equipment)"), dated as of the Dated Date, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to receive the Installment Payments from the State pursuant to the Master Financing Contract, its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Contract, and all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Personal Property. See "SECURITY FOR THE CERTIFICATES" and Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

**State Payments and Agency Payments**

Except as otherwise described herein, payments due from the State under the Master Financing Agreements ("State Payments") are payable from Agency Rent Payments and Agency Installment Payments (together, the "Agency Payments") to be made pursuant to the Financing Leases and the Agency Financing Contracts (together, the "Agency Financing Agreements"). The obligation of each State Agency to make its Agency Payments is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. The State is not obligated to pay the State Payments other than from appropriated funds of the respective State Agencies and from Agency Payments received from Local Agencies. Payment of the Agency Payments of each Local Agency is secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Agency Financing Agreement, the Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Payment as required pursuant to its Agency Financing Agreement, the Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency. See "SECURITY FOR THE CERTIFICATES."

**Document Summaries**

For summaries of the Trust Agreement, the Master Financing Lease, the Master Financing Contract, the Financing Leases, the Agency Financing Contracts, the Master Assignments, and the Site Leases, see Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS." Such summaries and descriptions herein of the Certificates, the Master Financing Lease, the Master Financing Contract, the Financing Leases, the Agency Financing Contracts, the Master Assignments, and the Site Leases, and the Committee's authorizing resolutions and the references to and summaries of certain provisions of the Washington State Constitution (the

"Constitution") and laws of the State and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. Certain financial information regarding the State has been taken or derived from the audited financial statements and other financial reports of the State. General and economic information about the State is included in Appendix A—"GENERAL AND ECONOMIC INFORMATION," and audited financial statements for the State's fiscal year ended June 30, 2015, are included as Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

**State Finance Committee**

The Legislature, by statute, has delegated to the State Finance Committee (the "Committee") authority to supervise and control the issuance of all State bonds and other State obligations, including certificates of participation and other financing contracts, authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and pursuant to Chapter 3, Laws of 1981 (Section 43.33.030 of the Revised Code of Washington ("RCW")), the Office of the State Treasurer provides administrative support to the Committee. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

## THE CERTIFICATES

**Authorization**

The State is authorized by chapter 39.94 RCW, as amended (the "Act"), to enter into financing contracts, for the State and its agencies or on behalf of certain local agencies specified in the Act, to acquire real and personal property to be used by the State or its agencies or such local agencies, and to issue certificates of participation in those contracts. The term "local agency" is defined in the Act to include a library or regional library, an educational service district, the superintendent of public instruction, the school directors' association, a health district, or any county, city, town, school district, or other municipal corporation or quasi-municipal corporation. Financing contracts may include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, and refinancing contracts that provide for payment by the State over a term of more than one year.

All financing contracts of the State must be approved by the Committee, and financing contracts for the acquisition of real property by the State must receive the prior approval of the Legislature. The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the State's Department of Ecology did not create debt within the meaning of Article VIII, Section 1, of the Constitution.

By Resolution No. 987, adopted on October 7, 2003, the Committee authorized and approved the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the State pursuant to master financing contracts and/or master financing leases. The Committee also approved the forms of the Trust Agreement, the Master Financing Agreements, the Agency Financing Agreements, the Site Leases and the Master Assignments and authorized and approved the execution and delivery thereof in connection with each series of certificates of participation. Under the Committee's most recent Finance Plan, through Resolution No. 1171, the aggregate principal amount of financing contracts (including certificates of participation therein) of the State to be outstanding was set at $1,451,899,820, plus financing expenses and required reserves, including certificates expected to be issued to finance and/or refinance acquisition and construction of real estate and equipment for State agencies and local governments.

Agency Financing Contracts for the acquisition of personal property are being entered into by the State Agencies under the provisions of the Act and by Local Agencies under approving ordinances or resolutions passed or adopted pursuant to applicable State law.

The Legislature authorized The Evergreen State College to enter into a State Agency Financing Lease Addendum pursuant to Chapter 3, Laws of 2015, 3rd Sp. Sess., Section 7002(8).

The Board of Commissioners of the San Juan County Fire Protection District No. 5 approved its Local Agency Financing Lease by Resolution No. 2016-1, adopted on January 21, 2016. The Board of Commissioners of the

Cowlitz County Fire Protection District No. 1 approved its Local Agency Financing Lease by Resolution No. 011216, adopted on January 12, 2016.

See "SOURCES AND USES OF CERTIFICATE PROCEEDS–Purpose."

In connection with the refunding of the Refunded Certificates, the financing leases associated with the Refunded Certificates will be discharged, and each Agency associated with the Refunded Certificates will execute a Financing Lease, each dated as of the Dated Date, to sublease its respective Real Property from the Corporation or the State, as applicable.

**Book-Entry System**

When issued, the Certificates will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of The Depository Trust Company ("DTC")), as nominee of DTC. DTC will act as Securities Depository for the Certificates. Individual purchases are to be made only in book-entry form through DTC, and purchasers will not receive physical certificates representing their interest in the Certificates purchased. For information about DTC and its book-entry system, see Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

**Payment of Principal and Interest**

The Certificates represent undivided proportionate interests in State Payments to be made by the State pursuant to the Master Financing Agreements. The Certificates are to be dated as of their date of initial delivery. The principal components of the State Payments (the "Principal Components") evidenced and represented by the Certificates will be payable on the dates (each a "Principal Payment Date") and in the amounts as shown on page i. The Certificates are to be executed and delivered as fully registered certificates without coupons in denominations of $5,000 and any integral multiple thereof.

The interest components of State Payments (the "Interest Components") evidenced and represented by the Certificates will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, the "Certificate Payment Dates"), beginning on January 1, 2017, at the rates shown on page i. Such interest is to be computed using a 360-day year comprised of 12 30-day months.

When the Certificates are in book-entry form and held by DTC, payments of Principal Components and Interest Components on the Certificates will be made as provided in the operational arrangements of DTC as referenced in the Letter of Representations.

Pursuant to authority granted in chapter 43.80 RCW, the Committee appoints one or more fiscal agents with the authority to act as paying agent, transfer agent, authenticating agent and bond registrar for all obligations issued by the State and its political subdivisions. The fiscal agent appointed by the Committee from time to time is referred to herein as the "Fiscal Agent." The Committee currently has a contract with U.S. Bank National Association to act as the Fiscal Agent for a term that began February 1, 2015, and continues to January 31, 2019. Under the terms of the current fiscal agency contract, U.S. Bank National Association is to authenticate the Certificates for delivery to DTC and remit to DTC payments received from the State as principal and interest represented by the Certificates.

If at any time the Certificates are not in book-entry form, payment of the Interest Component evidenced and represented by each Certificate is to be made on each Interest Payment Date to and including the Principal Payment Date or Prepayment Date to the person whose name appears on the Certificate Register as the Owner thereof as of the close of business on the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date (the "Record Date"), such interest is to be paid by check or draft mailed by first class mail on such Interest Payment Date to such Owner at the address as it appears on such Certificate Register. Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is to be made upon presentation and surrender thereof by the Owner at the Principal Office of the Fiscal Agent.

**Prepayment**

***Optional Prepayment.*** The Certificates with Principal Payment Dates on and after July 1, 2027, are subject to optional prepayment prior to their respective Principal Payment Dates, as a whole or in part in Authorized Denominations on any date on or after July 1, 2026, upon the exercise by the State at the direction of any Agency of its option to prepay the Principal Components evidenced and represented by such Certificates, at the Prepayment Price (expressed as a percentage of the Principal Components prepaid) of 100 percent plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

***Extraordinary Mandatory Prepayment.*** The Certificates are subject to mandatory prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss to Real Property that result in prepayments of Financing Leases from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date, without premium. See "SECURITY FOR THE CERTIFICATES–Mandatory Prepayment; Special Prepayment."

***Mandatory Prepayment.*** The Certificates with a Principal Payment Date of July 1, 20__, and the Certificates with a Principal Payment Date of July 1, 20__ (collectively, the "Term Certificates"), are subject to mandatory prepayment prior to their stated Principal Payment Dates, in part in Authorized Denominations, from State Payments in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium, as follows:

| **20__ Term Certificates** | | **20__ Term Certificates** | |
|---|---|---|---|
| **Mandatory Prepayment Date** | **Principal Component** | **Mandatory Prepayment Date** | **Principal Component** |

* Principal Payment Date.

***Selection of Certificates for Prepayment.*** If the Certificates are in book-entry form at the time of prepayment, and less than all of the State Payments are being prepaid, the Fiscal Agent is to direct DTC to instruct the DTC Participants to select such Certificates for prepayment pro rata among all beneficial owners of the Certificates with the Principal Payment Date being prepaid. Neither the State nor the Fiscal Agent will have responsibility to insure that DTC or its Participants properly select such Certificates for prepayment. If the Certificates are not then in book-entry form at the time of prepayment, the Fiscal Agent is to select such Certificates for prepayment randomly to the greatest extent possible, subject to maintaining the Certificates in Authorized Denominations.

***Notice of Prepayment.*** Notice of prepayment is required to be given by the Fiscal Agent not less than 30 nor more than 60 days prior to the Prepayment Date, to the Treasurer, the Owner of each Certificate affected at the address shown on the Certificate Register on the date such notice is mailed, the Securities Depository and the Municipal Securities Rulemaking Board (the "MSRB"). Each notice of prepayment must state the date of such notice, the date of execution and delivery of the Certificates, the Prepayment Date, the Prepayment Prices, the place or places of prepayment (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number of the Certificates being prepaid, the source of the funds to be used for such prepayment, the Principal Component due and evidenced and represented by the Certificates, the distinctive certificate numbers of the Certificates or portions thereof to be prepaid, the rate or rates of interest evidenced and represented by the Certificates to be prepaid, and the Principal Payment Dates of the Certificates to be prepaid. The notice also must state that the interest evidenced and represented by the Certificates designated for prepayment will cease to accrue from and after such Prepayment Date, and that on said date there will become due and payable with respect to each of the prepaid Certificates the Prepayment Price of the Certificate to be prepaid, and interest, if any, accrued thereon to the Prepayment Date. Such notice must require that such Certificates be then surrendered at the address or addresses of the Fiscal Agent specified in the prepayment notice.

With respect to any notice of optional prepayment of Certificates, unless such Certificates are to be deemed to have been paid as set forth in the defeasance provisions of the Trust Agreement or unless the Fiscal Agent has cash or Government Obligations sufficient to pay the Prepayment Price, such notice may state that such prepayment shall be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such prepayment of money sufficient to pay the Prepayment Price due and evidenced and represented by such Certificates and interest payable with respect thereto, and that if such money is not so received the notice would be of no force and effect and the Fiscal Agent would not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such money is not so received, the prepayment would not be required to be made and the Fiscal Agent would be required within a reasonable time thereafter to give notice, in the manner in which the notice of prepayment was given, that such money was not so received.

***Partial Prepayment.*** Upon surrender of any Certificate prepaid in part only, the Fiscal Agent is required to provide a replacement Certificate or Certificates evidencing and representing a principal amount equal to the portion of the Principal Component evidenced and represented by such Certificate not prepaid, and deliver it to the Owner thereof. The Certificate so surrendered is required to be cancelled by the Fiscal Agent.

**Termination of Book-Entry System**

If DTC resigns as the securities depository and no substitute can be obtained, or if the State determines that it is in the best interest of the beneficial owners of the Certificates that they be able to obtain certificates, the ownership of the Certificates will be transferred to any person as described in the Trust Agreement and the Certificates will no longer be held in fully immobilized form. New certificates then will be issued in Authorized Denominations and registered in the names of the beneficial owners. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

**State and Fiscal Agent Responsibilities**

Neither the State nor the Fiscal Agent will have any responsibility or any liability to beneficial owners for any error, omission, action, or failure to act on the part of DTC or any Direct Participant or Indirect Participant of DTC with respect to the following: (1) proper recording of beneficial ownership interests of the Certificates or confirmation of their ownership interest; (2) proper transfers of such beneficial ownership interests; (3) the payment, when due, to the beneficial owners of principal or Prepayment Price or interest evidenced and represented by the Certificates; (4) any notices to beneficial owners; (5) any consent given; or (6) any other DTC or Participant error, omission, action or failure to act pertaining to the Certificates.

**Defeasance**

The Trust Agreement provides that if money and/or "Government Obligations" maturing at such times and bearing interest to be earned thereon in amounts sufficient to prepay the principal and interest evidenced and represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Master Financing Agreements are set aside irrevocably in a special trust account to effect such prepayment and are pledged for such purpose, then no further payments are required to be made to pay or secure the payment of such principal and interest evidenced and represented by such Certificates, and such Certificates are to be deemed thereafter not to be outstanding. See Appendix B–"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

## SOURCES AND USES OF CERTIFICATE PROCEEDS

**Purpose**

Proceeds of the Certificates will be used to (i) pay all or a portion of the costs of acquiring, constructing and/or remodeling real property projects for one State Agency and two Local Agencies; (ii) pay all or a portion of the cost of acquiring certain items of personal property for various State Agencies and Local Agencies; (iii) to redeem and/or defease through advance refunding certain outstanding certificates of participation (the "Refunded Certificates") previously executed and delivered and representing payments from State Agencies and Local Agencies relating to real property, in order to reduce the agency lease payments; and (iv) pay costs of issuance of the Certificates.

A complete listing of the participating Agencies and their respective real and personal property being financed or refinanced is shown on page ii under the heading "Participating Agencies." See "CERTAIN PARTICIPATING AGENCIES" below for a more detailed description of certain Agencies and their related projects.

**Plan of Refunding**

The Trust Agreement will provide for the refunding of certain certificates of participation shown in the tables below. The Trust Agreement will create an irrevocable trust fund to be held by the Fiscal Agent and to be applied solely to the prepayment of the applicable Refunded Certificates. A portion of the proceeds of the Certificates, together with certain prepaid Agency rent payments allocable to the Refunded Certificates, required to carry out the plan of refunding will be deposited with the Fiscal Agent and held in cash and/or invested in Government Obligations that will mature and bear interest at rates sufficient to pay the principal and interest evidenced and represented by the Refunded Certificates coming due on the respective prepayment dates of the Refunded Certificates.

The money and Government Obligations, if any, and earnings thereon described above will be held solely for the benefit of the purchasers of beneficial ownership interests in the Refunded Certificates.

The mathematical accuracy of (1) the computations of the adequacy of the money and maturing principal amounts of and interest on the Government Obligations, if any, to be held by the Fiscal Agent to pay principal and interest evidenced and represented by the Refunded Certificates as described above, and, if applicable, (2) the computations supporting the conclusion of Certificate Counsel that the Certificates are not "arbitrage bonds" under Section 148 of the Code, will be verified by Public Financial Management, Inc.

The Refunded Certificate Candidates consist of (1) the State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on behalf of Shoreline Community College) (the "2006G Certificates"); (2) the State of Washington Certificates of Participation, Series 2007A (State and Local Real Property) (the "2007A Certificates"); (3) the State of Washington Certificates of Participation, Series 2007C (State Real Property) (the "2007C Certificates"); and (4) the State of Washington Certificates of Participation, Series 2007F (State and Local Agency Real Property) (the "2007F Certificates").

The following tables list the Refunded Certificate Candidates.

**2006G Certificates**

| Principal Payment Date | Principal Component | Interest Rate | CUSIP No. | Prepayment Date |
|---|---|---|---|---|
| July 1, 2016 | $725,000 | 3.900% | 939719TX8 | N/A |
| July 1, 2017 | 755,000 | 4.000 | 939719TY6 | July 1, 2016 |
| July 1, 2018 | 785,000 | 4.000 | 939719TZ3 | July 1, 2016 |
| July 1, 2019 | 820,000 | 4.125 | 939719UA6 | July 1, 2016 |
| July 1, 2020 | 850,000 | 4.200 | 939719UB4 | July 1, 2016 |
| July 1, 2021 | 885,000 | 4.250 | 939719UC2 | July 1, 2016 |
| July 1, 2022 | 925,000 | 4.300 | 939719UD0 | July 1, 2016 |
| July 1, 2023 | 965,000 | 4.375 | 939719UE8 | July 1, 2016 |
| July 1, 2024 | 1,005,000 | 4.375 | 939719UF5 | July 1, 2016 |
| July 1, 2025 | 1,050,000 | 4.500 | 939719UG3 | July 1, 2016 |
| July 1, 2026 | 1,100,000 | 4.500 | 939719UH1 | July 1, 2016 |

**2007A Certificates**

| Principal Payment Date | Principal Component | Refunded Principal | Unrefunded Principal | Interest Rate | Original CUSIP No. | Prepayment Date |
|---|---|---|---|---|---|---|
| January 1, 2017 | $ 850,000[(1)] | $ 820,000 | $30,000 | 4.000% | 939719WW6 | N/A |
| January 1, 2018 | 880,000[(1)] | 850,000 | 30,000 | 4.000 | 939719WX4 | January 1, 2017 |
| January 1, 2019 | 915,000[(1)] | 885,000 | 30,000 | 4.000 | 939719WY2 | January 1, 2017 |
| January 1, 2020 | 920,000 | 920,000 | N/A | 4.200 | 939719WZ9 | January 1, 2017 |
| January 1, 2021 | 960,000 | 960,000 | N/A | 4.250 | 939719XA3 | January 1, 2017 |
| January 1, 2022 | 1,000,000 | 1,000,000 | N/A | 4.250 | 939719XB1 | January 1, 2017 |
| January 1, 2023 | 755,000 | 755,000 | N/A | 4.250 | 939719XC9 | January 1, 2017 |
| January 1, 2024 | 780,000 | 780,000 | N/A | 4.375 | 939719XD7 | January 1, 2017 |
| January 1, 2025 | 820,000 | 820,000 | N/A | 4.375 | 939719XE5 | January 1, 2017 |
| January 1, 2026 | 855,000 | 855,000 | N/A | 4.500 | 939719XF2 | January 1, 2017 |
| January 1, 2027 | 890,000 | 890,000 | N/A | 4.500 | 939719XG0 | January 1, 2017 |

(1) Partial maturity to be refunded.

**2007C Certificates**

| Principal Payment Date | Principal Component | Interest Rate | CUSIP No. | Prepayment Date |
|---|---|---|---|---|
| July 1, 2016 | $ 775,000 | 4.000% | 939719YT1 | N/A |
| July 1, 2017 | 805,000 | 4.000 | 939719YU8 | N/A |
| July 1, 2018 | 840,000 | 4.000 | 939719YV6 | July 1, 2017 |
| July 1, 2019 | 880,000 | 4.000 | 939719YW4 | July 1, 2017 |
| July 1, 2020 | 905,000 | 4.000 | 939719YX2 | July 1, 2017 |
| July 1, 2021 | 945,000 | 4.125 | 939719YY0 | July 1, 2017 |
| July 1, 2022 | 985,000 | 4.200 | 939719YZ7 | July 1, 2017 |
| July 1, 2023 | 1,025,000 | 4.250 | 939719ZA1 | July 1, 2017 |
| July 1, 2024 | 1,065,000 | 4.300 | 939719ZB9 | July 1, 2017 |
| July 1, 2025 | 1,115,000 | 4.375 | 939719ZC7 | July 1, 2017 |
| July 1, 2026 | 1,165,000 | 4.500 | 939719ZD5 | July 1, 2017 |
| July 1, 2027 | 1,210,000 | 4.500 | 939719ZE3 | July 1, 2017 |

**2007F Certificates**

| Principal Payment Date | Principal Component | Interest Rate | CUSIP No. | Prepayment Date |
|---|---|---|---|---|
| January 1, 2017 | $ 820,000 | 4.000% | 939719C99 | N/A |
| January 1, 2018 | 850,000 | 4.000 | 939719D23 | July 1, 2017 |
| January 1, 2019 | 885,000 | 4.000 | 939719D31 | July 1, 2017 |
| January 1, 2020 | 920,000 | 4.250 | 939719D49 | July 1, 2017 |
| January 1, 2021 | 960,000 | 4.250 | 939719D56 | July 1, 2017 |
| January 1, 2022 | 1,005,000 | 4.250 | 939719D64 | July 1, 2017 |
| January 1, 2023 | 1,045,000 | 4.250 | 939719D72 | July 1, 2017 |
| January 1, 2024 | 1,090,000 | 4.250 | 939719D80 | July 1, 2017 |
| January 1, 2025 | 1,135,000 | 4.500 | 939719D98 | July 1, 2017 |
| January 1, 2026 | 1,185,000 | 4.500 | 939719E22 | July 1, 2017 |
| January 1, 2027 | 1,240,000 | 4.500 | 939719E30 | July 1, 2017 |
| January 1, 2028 | 1,295,000 | 4.500 | 939719E48 | July 1, 2017 |

**Sources and Uses**

The following table shows the sources and uses of Certificate proceeds:

**SOURCES AND USES**

| | |
|---|---|
| **Sources** | |
| Principal Component of Certificates | $ |
| [Net] Original Issue [Premium/Discount] | |
| **Total Sources** | $ |
| **Uses** | |
| Deposit to Acquisition Fund (Personal Property) | $ |
| Deposit to Project Fund (Real Property) | |
| Deposit to Refunding Escrow Account | |
| Costs of Issuance (1) | |
| Underwriting Spread | |
| **Total Uses** | $ |

(1) Includes fees for services of the rating agency, financial advisor, certificate counsel, disclosure counsel, and other costs.

## CERTAIN PARTICIPATING AGENCIES

The State Agency and Local Agencies for which the acquisition or construction of or improvements to real property is being financed and their respective projects are further described below. Other than The Evergreen State College, which is acquiring real and personal property, this section does not describe Agencies that are acquiring personal property.

**State Agency – The Evergreen State College**

***The Project.*** The Evergreen State College purchased a building in the Hilltop area of the City of Tacoma that has housed college programs for about 15 years. The building is 32,000 square feet, has 200 parking spaces and occupies a city block. The total cost of the project is estimated at $12,500,000, of which an estimated $850,000 is to be paid from college funds, and $11,650,000 is expected to be funded from proceeds of the Certificates. The financing contract will have a 20-year term.

***The State Agency.*** The Evergreen State College was established in 1971. The main campus consists of nearly 1.5 million square feet on 1,000 forested acres in the City of Olympia, the State capital. The college has a second campus in Tacoma, Washington, and extension programs are offered at Grays Harbor Community College and on six tribal reservations. The college is governed by an eight member Board of Trustees, who are appointed by the Governor and administered by a President and four Vice Presidents.

**Local Agency – San Juan County Fire Protection District No. 5**

***The Project.*** The San Juan County Fire Protection District No. 5 constructed a building to house two fire engines given to them by the San Juan Island Fire Department. The structure is identical to one built in 2008 for the same purpose. The total cost of the project is estimated at $185,000, of which an estimated $10,000 is to be paid from district funds, and $175,000 is expected to be funded from proceeds of the Certificates. The financing contract will have a 20-year term.

***The Local Agency.*** The San Juan County Fire Protection District No. 5 was established in 1962. The district serves the entirety of Shaw Island, which has an area of seven square miles and a population of 240. It is an all-volunteer department with 25 volunteers between firefighters and emergency medical technicians. The district is governed by three member board of commissioners

**Local Agency – Cowlitz County Fire Protection District No. 1**

***The Project.*** The Cowlitz County Fire Protection District No. 1 purchased land in August 2015 and expects to construct a new larger fire station on such land in the future. The total cost of the project is estimated at $212,000, of which an estimated $12,000 is to be paid from district funds, and $200,000 is expected to be funded from proceeds of the Certificates. The financing contract will have a 10-year term. The District is also pursuing grants to supplement this financing.

***The Local Agency.*** The Cowlitz County Fire Protection District No. 1 encompasses the area known as Woodland Bottoms and outside the City of Woodland city limits. The district is approximately 36 square miles in size, and serves a population of 3,894 residents. The district is governed by a three member board of commissioners, elected by the citizens. The district is an all-volunteer department with 37 volunteer firefighters and three non-firefighting volunteers spread over three stations.

## THE CORPORATION–WASHINGTON FINANCE OFFICERS ASSOCIATION

The Corporation is the Washington Finance Officers Association, a Washington nonprofit corporation the members of which consist of State and local government finance officials in the State. The Corporation was formed primarily for educational purposes, including promoting the improvement of government finance in the State. The Corporation acts as the nominal purchaser, seller, lessee, and sublessor in connection with the Certificates and various other certificate of participation financings undertaken by the Treasurer for the benefit of the State and local government agencies. In connection with the Certificates, the Corporation is acting as the lessee under each Site Lease, as lessor under the Master Financing Lease, as original purchaser of the Personal Property and as seller under the Master Financing Contract. As of the closing, the Corporation will irrevocably assign and transfer all of its right, title and interest in and to the Site Leases, the Master Financing Agreements and the Agency Financing Agreements, and thereafter will have no rights or interest with respect to the Certificates, the Projects, the Property, the Master Financing Agreements, the Agency Financing Agreements, or the Site Leases. The Corporation has not participated in the preparation of this Official Statement and is not responsible for any of the statements or information herein.

## SECURITY FOR THE CERTIFICATES

### Introduction

As described under "INTRODUCTION," the proceeds of the Certificates will be used to finance and/or refinance the costs of acquisition and construction of improvements to certain real property and the acquisition of certain personal property for the benefit of certain State Agencies and Local Agencies. The respective parcels of real property are being leased to the Corporation by the respective participating Agencies pursuant to separate Site Leases. Pursuant to the Master Financing Lease, the State will lease the Sites and the Projects thereon from the Corporation. The Corporation or the State, as applicable, in turn is subleasing each parcel of Real Property back to the related Agency pursuant to separate Local Agency Financing Leases or State Agency Financing Lease Addenda (collectively, the "Financing Leases"). The Agency Rent Payments payable by the participating Agencies pursuant to the Financing Leases are, in the aggregate, at least equal to the corresponding Base Rent Payments payable by the State pursuant to the Master Financing Lease. Pursuant to the Master Assignment (Real Property), the Corporation is assigning to the Fiscal Agent all of its rights to the Sites and rights to receive the Base Rent Payments from the State and its rights to take all actions and exercise all remedies under the Site Leases and the Master Financing Lease.

Pursuant to the Master Financing Contract, the State is purchasing the personal property from the Corporation and the State, in turn, will sell the Personal Property to the applicable Agencies pursuant to separate State Agency Financing Addenda or Local Agency Financing Contracts (together, the "Agency Financing Contracts"). Each Agency is required to make Agency Installment Payments to the State pursuant to its Agency Financing Contract and the Agency Installment Payments payable by the participating Agencies, in the aggregate, are at least equal to the corresponding Installment Payments payable by the State pursuant to the Master Financing Contract. Pursuant to a Master Assignment (Equipment), the Corporation is assigning to the Fiscal Agent all of its rights to take all actions and exercise all remedies and all interest in the Master Financing Contract and the Agency Financing Contracts and in and to the Personal Property.

As further described in this section, the obligation of each State Agency to make its Agency Payments is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. The State is not obligated to pay the State Payments other than from appropriated funds of the respective State Agencies and from Agency Payments received from Local Agencies. Payment of the Agency Payments of each Local Agency is secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Agency Financing Agreement, the Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Payment as required pursuant to its Agency Financing Agreement, the Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency.

**State Payments**

The Certificates represent undivided proportionate interests in State Payments. Pursuant to the Master Financing Agreements, the Corporation will lease or sell the Property to the State. In consideration thereof, the State is required to make State Payments to the Fiscal Agent, as assignee of the Corporation, during the terms of the Master Financing Agreements. State Payments are comprised of Principal Components and/or Interest Components. State Payments are due on each Certificate Payment Date.

Except as otherwise described below, State Payments due from the State under the Master Financing Agreements are payable solely from Agency Payments to be made by the respective Agencies pursuant to the related Agency Financing Agreements. The total of the Agency Payments payable by the participating Agencies on each Agency Payment Date pursuant to the Agency Financing Agreements is at least equal to the State Payment payable by the State pursuant to the Master Financing Agreements on the next succeeding Base Rent Payment Date and Installment Payment Date. Agency Payments are due one month prior to the corresponding Base Rent Payment Date and Installment Payment Date. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING LEASE—Rent Payments," "—Sources of Payment of Base Rent Payments," and "—Agency Rent Payments; Deposit and Investment," and "MASTER FINANCING CONTRACT—Title to the Property," "—Security Interest," "—Installment Payments," "—Sources of Payment of Installment Payments" and "—Agency Installment Payments; Deposit and Investment."

Pursuant to the Master Assignments, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to receive the State Payments; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Agreements; and all of its remaining right, title and interest in, to and under the Master Financing Agreements, the Site Leases and the Agency Financing Agreements, and in and to the Property. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER ASSIGNMENT (REAL PROPERTY)," "MASTER ASSIGNMENT (EQUIPMENT), and "FINANCING LEASES—Assignment."

**State Intercept**

If any Local Agency fails to make any Agency Payment due under its Agency Financing Agreement, the Treasurer is obligated pursuant to the related Master Financing Agreement to withhold an amount sufficient to make that payment from the Local Agency's share, if any, of State revenues or other amounts that are authorized or required by law to be distributed by the State to that Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; *provided*, that the use of any such revenues or amounts to make the payments is otherwise authorized or permitted by State law. This withholding will continue until all payments due under the related Agency Financing Agreement have been made. Amounts withheld by the Treasurer are to be applied to make any payment due under the related Agency Financing Agreement on behalf of the Local Agency, or to reimburse the Treasurer for any payment made by the Treasurer.

THERE CAN BE NO ASSURANCE AS TO THE AVAILABILITY OF FUNDS FOR INTERCEPT BY THE TREASURER WITH RESPECT TO ANY LOCAL AGENCY UPON THE LOCAL AGENCY'S FAILURE TO MAKE ANY AGENCY PAYMENT PURSUANT TO ITS AGENCY FINANCING AGREEMENT.

**Payment History**

The principal and interest represented by certificates of participation in lease or other payment obligations that are payable by the State have always been paid when due. The State never has failed to appropriate funds to meet its lease, installment sale or other payment obligations with respect to outstanding certificates of participation. No local agency has failed to make its lease, installment sale or other payment obligations with respect to agency financing contracts or agency financing leases with the State in respect of outstanding certificates of participation.

**Conditional State Payment Obligations**

If any Local Agency fails to make any Agency Payment due under its Agency Financing Agreement, the Treasurer is obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency within 10 Business Days after the Agency Payment was due.

The Treasurer currently has appropriation authority sufficient to make any such payments that may come due within the current biennium. The Treasurer has covenanted in the Master Financing Agreements to include in its biennial budget all scheduled Agency Payments due during such biennium pursuant to any Agency Financing Agreement with a Local Agency, and to use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make any such payments.

**Limited Obligation of State**

THE MASTER FINANCING AGREEMENTS, INCLUDING THE RELATED STATE AGENCY FINANCING ADDENDA AND STATE AGENCY FINANCING LEASE ADDENDA, CONSTITUTE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE STATE PAYMENTS, THE AGENCY PAYMENTS OR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR ANY STATE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY STATE AGENCY IS PLEDGED TO THE PAYMENT OF ANY STATE PAYMENTS OR AGENCY PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING AGREEMENTS.

**Non-appropriation and Executive Order Reduction**

ANY PAYMENTS BY THE TREASURER ON BEHALF OF A LOCAL AGENCY AND ANY PAYMENTS BY A STATE AGENCY ARE SUBJECT TO APPROPRIATION BY THE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING AGREEMENTS, ANY STATE AGENCY FINANCING ADDENDA OR ANY STATE AGENCY FINANCING LEASE ADDENDA.

An appropriation from the State General Fund to a State Agency for its operating budget (including Agency Payments under any Financing Lease or Agency Financing Contract) is made by the Legislature in an aggregate dollar amount and not specifically for each item in the State Agency's budget. In reducing budgeted expenditures to reflect reduced allotments of appropriations from the State General Fund in response to an Executive Order, a State Agency may choose to reduce its expenditures for certain purposes but not for others. Each State Agency in its Financing Lease or Agency Financing Contract covenants to use its best efforts to obtain allotments by the Office of Financial Management of appropriated funds sufficient to make all required Agency Payments thereunder, and, to the extent permitted by law, the State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided by Property acquired under a Financing Lease or Agency Financing Contract, the State Agency will allocate a sufficient portion of such amounts to the payment of the Agency Payments due under its Financing Lease or Agency Financing Contract for the acquisition of that Property. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL

DOCUMENTS" under the headings "FINANCING LEASES—Covenants and Agreements of the Agency" and "AGENCY FINANCING CONTRACTS—Covenants and Agreements of the Agency."

**Extraordinary Mandatory Prepayment; Special Prepayment**

***Eminent Domain; Loss of Title.*** The State has covenanted to, upon the special mandatory prepayment of Agency Rent Payments by any Agency pursuant to its Financing Lease, prepay or cause to be prepaid from eminent domain awards or sale proceeds received pursuant to the Master Financing Lease, and from the net proceeds of title insurance, if any, pursuant to the Master Financing Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, so that the aggregate annual Base Rent Payments for the related Property from and after such Prepayment Date are in approximately equal amounts, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

***Insurance Proceeds.*** The State has covenanted to, upon the special optional prepayment of Agency Rent Payments by any Agency pursuant to its Financing Lease, prepay or cause to be prepaid from net insurance proceeds received pursuant to the Master Financing Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, so that the aggregate annual Base Rent Payments for the related Property from and after such Prepayment Date are in approximately equal amounts, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

***Provision for Payment in Accordance with Trust Agreement.*** To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal Components of Base Rent Payments in Authorized Denominations, such amounts must be applied by the Treasurer to provide for the payment thereof pursuant to the Master Financing Lease.

**Permitted Termination Events**

Under each State Agency Financing Addendum or State Agency Financing Lease Addendum, each of the following constitutes a "Permitted Termination Event":

(1) the Legislature determines not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agency Payments due during the next occurring biennium, or

(2) the Governor issues an Executive Order mandating an emergency reduction in State funding; provided, that the State Agency delivers written notice thereof to the Treasurer as required by the State Agency Financing Addendum or State Agency Financing Lease Addendum.

Upon a Permitted Termination Event, subject to the provisions of the Master Financing Agreements, State Agency Financing Addenda and the State Agency Financing Lease Addenda, the State may terminate a State Agency Financing Addendum or State Agency Financing Lease Addendum and the related obligation of the Treasurer under the Master Financing Agreements.

The occurrence of a Permitted Termination Event does not constitute an Agency Event of Default, a Master Financing Agreement Event of Default or an Event of Default, and remedies of re-entry and re-letting of the Real Property during the term of the related Site Lease and the return of the Personal Property are the sole remedies available to the Treasurer and the Corporation upon such occurrence. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING LEASE—Permitted Termination Events"; "MASTER FINANCING CONTRACT—Permitted Termination Events"; "FINANCING LEASES—Permitted Termination Events"; and "AGENCY FINANCING CONTRACTS—Permitted Termination Events."

**Agency Payments**

Pursuant to each Agency Financing Agreement, the Agency is required to make its Agency Payments to the State with respect to its Property. Agency Payments are composed of principal and interest components and are payable,

during the term of the applicable Agency Financing Agreement, on the first day of each month immediately preceding the related Certificate Payment Date. The Agency Payments in the aggregate are at least equal to the corresponding State Payment.

Each State Agency has covenanted in its Agency Financing Agreement to take such action as may be necessary to include all of its Agency Payments due thereunder in its biennial budget and to use its best efforts to obtain appropriations by the Legislature in amounts sufficient to make all such Agency Payments.

Each Local Agency has covenanted in its Agency Financing Agreement to take such action as may be necessary to include all of its Agency Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Agency Payments. The obligation of each Local Agency to make its Agency Payments is a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. Each Local Agency executing an Agency Financing Agreement has covenanted and agreed that it will levy taxes, to the extent permitted by law, in such amounts and at such times necessary, within and as a part of the tax levy permitted to the Local Agency without a vote of its electors, to provide funds, together with other money legally available for that purpose, to make its Agency Payments.

See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING LEASE—Rent Payments," "—Sources of Payment of Base Rent Payments," and "—Agency Rent Payments; Deposit and Investment"; "MASTER FINANCING CONTRACT—Installment Payments," "—Sources of Payment of Installment Payments" and "—Agency Installment Payments; Deposit and Investment"; "FINANCING LEASES—Agency Rent Payments" and "—Sources of Payment of Agency Rent Payments"; and "AGENCY FINANCING CONTRACTS—Agency Installment Payments" and "—Sources of Payment of Agency Installment Payments."

**Substitution of Real Property**

Under the Master Financing Lease and the corresponding provisions of the Financing Leases, the Treasurer may substitute and consent to the substitution, for a parcel of Property, of another parcel or parcels of real property by first filing with the Fiscal Agent, as Assignee of the Corporation:

(1) an Opinion of Counsel to the effect that such substitution (a) is permitted under the Master Financing Lease and (b) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(2) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Treasurer and the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the respective Financing Lease equal to or greater than the Agency Rent Payments due thereunder from time to time thereafter;

(3) a certificate of the Agency to the effect that such substitute Property is free and clear of any mortgages, deeds of trust, liens, or other similar encumbrances, other than Permitted Encumbrances, and is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(4) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

**Release of Real Property**

Under the Master Financing Lease and corresponding provisions of the Financing Leases, the Treasurer may release and consent to the release of a portion of the Property leased under any Site Lease, and subleased under and pursuant to the Master Financing Lease and the related Financing Lease, by first filing with the Fiscal Agent, as assignee of the Corporation:

(1) an Opinion of Counsel to the effect that such release (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(2) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the respective Financing Lease equal to or greater than the Agency Rent Payments due from time to time thereunder;

(3) provision by such Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone, and other utilities) as existed prior to such release; and

(4) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

**Substitution of Personal Property**

Under the Master Financing Contract and the corresponding provisions of the Agency Financing Contracts, the Treasurer may substitute and consent to the substitution for an item of Property acquired for and on behalf of an Agency of other personal property by filing with the Fiscal Agent, as assignee of the Corporation:

(1) a certificate of such Agency stating that such substitute Property:

    (a) has a remaining useful life equal to or greater than the Property for which it is being substituted;

    (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;

    (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;

    (d) is of equal usefulness and value as the Property for which it is being substituted;

    (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

    (f) is expected to be used by such Agency immediately and for the term of its Agency Financing Contract; and

(2) an Opinion of Counsel to the effect that the substitution will not cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

**State Payments and Agency Payments Not Subject to Abatement**

The State Payments payable by the State pursuant to the Master Financing Agreements, and the Agency Payments payable by the respective Agency pursuant to the Agency Financing Agreements, are *not* subject to abatement upon damage to or destruction of any of the Property, nor are such payments otherwise subject to diminution, reduction, postponement, counterclaim, defense, or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason.

**Covenants**

The Master Financing Lease and Master Financing Contract include various covenants of the State and the Financing Leases and Agency Financing Contracts include covenants of the applicable Agency. The Trust Agreement contains covenants of the Corporation, the State and the Fiscal Agent. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING LEASE-Covenants and Agreements of the State"; "MASTER FINANCING CONTRACT—Covenants and Agreements of the State"; TRUST AGREEMENT—Covenants of the Corporation, the State and the

Fiscal Agent"; "FINANCING LEASES—Covenants and Agreements of the Agency"; and "AGENCY FINANCING CONTRACTS—Covenants and Agreements of the Agency."

**Events of Default and Remedies; Limitations on Exercise of Remedies**

The Master Financing Lease, Master Financing Contract, Financing Leases, Financing Contract and Trust Agreement specify Events of Default under the respective agreement and Remedies upon an Event of Default under the agreement. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING LEASE—Events of Default" and "—Remedies"; "MASTER FINANCING CONTRACT—Events of Default" and "—Remedies"; "TRUST AGREEMENT—Events of Default; Remedies"; FINANCING LEASES—Agency Event of Default" and "—Rights of Treasurer Following Agency Event of Default"; FINANCING CONTRACT—Agency Event of Default" and "—Rights of Treasurer Following Agency Event of Default."

***Real Property.*** Upon the occurrence of an Event of Default under the Master Financing Lease or the Financing Leases, the Fiscal Agent, as assignee of the Corporation, may pursue any available legal or equitable remedy, which may include suing for rent as the same becomes due or re-entering the Real Property for the benefit of the owners of the Certificates, and terminating the Master Financing Lease or the Financing Leases, as appropriate, and accelerating the unpaid rent or suing for damages.

The remedies provided in the Master Financing Lease, the Financing Leases and/or the Trust Agreement, however, may be unenforceable under certain circumstances due to the application of principles of equity, to State or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the State and the Agencies under the laws of the State. Moreover, due to the essential governmental nature of the Real Property or portions thereof, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto. In addition, the enforcement of remedies provided in the Master Financing Lease, the Financing Leases and the Trust Agreement could prove both expensive and time-consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default or an Agency Event of Default, to re-enter and re-let the applicable Real Property, it is unknown whether any such re-entry, re-letting or other disposition would result in the collection of amounts sufficient to make the related Agency Rent Payments. Moreover, the Fiscal Agent would not be obligated to re-let the Real Property in the manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

Under the Master Financing Lease or Financing Leases, if by reason of "force majeure" the State or Agency is unable in whole or in part to carry out the terms of the Master Financing Lease, the State or Agency, as applicable, shall not be deemed in default during the continuance of such inability. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING LEASE—Events of Default" and "FINANCING LEASES—Agency Event of Default."

***Personal Property.*** Upon the occurrence of an Event of Default under the Master Financing Contract, the Fiscal Agent, as assignee of the Corporation, may pursue any available legal or equitable remedy against the State, which may include suing for Installment Payments then due and thereafter becoming due, or enforcing the observance or performance of any covenant, agreement or obligation of the State under the Master Financing Contract. Also, by written notice to the State, the Fiscal Agent may request the State to promptly return the item or items of Personal Property with respect to which such default occurred to the Fiscal Agent in good condition at the State's own expense. The State has covenanted in the Master Financing Contract to comply with such request.

Upon the occurrence of an Agency Event of Default under an Agency Financing Contract, the Fiscal Agent may pursue any available legal or equitable remedy against the related Agency, which may include suing for Agency Installment Payments then due and thereafter becoming due, or enforcing the observance or performance of any covenant, agreement or obligation of the Agency under the Master Financing Contract. Also, by written notice to the Agency, the Fiscal Agent may request the Agency to promptly return the item or items of Personal Property with respect to which such default occurred to the Treasurer in good condition at the Agency's own expense. In addition, the Fiscal Agent may declare an amount equal to all unpaid Agency Installment Payments to become due and payable under the Agency Financing Contract, including but not limited to the Agency Interest Components accrued and unpaid, to be immediately due and payable without further demand. However, the Fiscal Agent's remedies

against the State upon the occurrence of an Agency Event of Default are limited to requiring the State to assemble the Personal Property and make it available to the Fiscal Agent.

The remedies provided in the Master Financing Contact, the Agency Financing Contracts and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity, to State or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the State and the Agencies under the laws of the State of Washington. Moreover, due to the essential governmental nature of the Personal Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-sale of the Personal Property. In addition, the enforcement of remedies provided in the Master Financing Contract, the Agency Financing Contracts and the Trust Agreement could prove both expensive and time consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default or an Agency Event of Default, to repossess and re-sell the applicable Personal Property, it is unknown whether such actions would result in the collection of amounts sufficient to make the related Agency Installment Payments. Moreover, the Fiscal Agent would not be obligated to re-sell the Personal Property in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

Under the Master Financing Contract or Agency Financing Contracts, if by reason of "*force majeure*" the State or Agency is unable in whole or in part to carry out the terms of the Master Financing Contract, the State or Agency, as applicable, shall not be deemed in default during the continuance of such inability. See Appendix B-"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS" under the headings "MASTER FINANCING CONTRACT-Events of Default" and "AGENCY FINANCING CONTRACTS-Agency Event of Default."

**Acceleration**

The Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Master Financing Agreements. The Certificates, however, are not subject to acceleration upon the occurrence of an Agency Event of Default under any related Agency Financing Agreement. See Appendix B—"DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS."

**Potential Effect of Local Agency Bankruptcy**

Under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"), a municipality must be specifically authorized by applicable State law to seek relief from creditors under Chapter 9. In Washington, Chapter 39.64 RCW, entitled the "Taxing District Relief Act," authorizes any "taxing district," such as any county, city, town, school or other district, for example, that may participate as a Local Agency in the State's certificate of participation financing program, to voluntarily petition for relief under the predecessor bankruptcy code to Chapter 9. However, Chapter 9 does not authorize creditors to petition to place a Local Agency into bankruptcy involuntarily.

For a Local Agency to be eligible for relief under Chapter 9, it would be required to meet several pre-petition requirements, including establishing that the Local Agency is insolvent, that it desires to effect a plan of adjustment for its debts, that prior to filing a bankruptcy petition it negotiated in good faith with its creditors to obtain agreement on a debt adjustment plan, and that its bankruptcy petition was filed in good faith. Showing compliance with these requirements may entail substantial delay, litigation and expense.

Under Chapter 9, a federal bankruptcy court may not appoint a receiver for a Local Agency or order the dissolution or liquidation of a Local Agency. The voluntary filing of a bankruptcy petition by a Local Agency would result in an automatic stay of any collection action against the Local Agency unless it is permitted by order of the bankruptcy court or a debt adjustment plan is confirmed by the bankruptcy court.

The principal practical effect of the filing of a bankruptcy petition by a Local Agency would be potentially to delay action otherwise permitted to be taken by the Treasurer against the Local Agency to remedy any default by the Local Agency under its Financing Lease or Financing Contract with the Treasurer, including withholding of State revenues or other amounts authorized or required by law to be distributed by the State to the Local Agency as described under "SECURITY FOR THE CERTIFICATES—State Intercept." However, the filing of a bankruptcy petition by a Local Agency would not affect the obligation of the Treasurer under the Master Financing Agreements, to the extent of legally available appropriated funds and subject to Executive Order reduction, to make a payment on behalf of such

a Local Agency that the Local Agency has failed to make under its Financing Lease or Financing Contract as described under "SECURITY FOR THE CERTIFICATES—Conditional State Payment Obligations."

**Additional Certificates**

Each Agency may make additions or improvements to or alterations of the applicable Project so long as such additional improvements are constructed and installed in accordance with applicable laws and regulations and do not diminish the value or usefulness of the Real Property.

The Treasurer may enter into additional Master Financing Leases with the Corporation to finance all or any portion of the costs of such additions or improvements so long as such leases do not reduce the obligation of the State to make Base Rent Payments under the Master Financing Lease and will not, in the opinion of Certificate Counsel, adversely affect the tax-exempt status of the Interest Component of State Payments evidenced and represented by the Certificates. If the Treasurer enters into any additional Master Financing Lease for this purpose, the Corporation may be granted an interest in the Real Property under an additional Site Lease of all or any portion of the Real Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in such additional Master Financing Lease. The owners of certificates of participation in any additional Master Financing Lease will be secured proportionally, without preference, with the Owners with respect to any payments received by the Fiscal Agent in regards to the Real Property following the occurrence of an Event of Default or Permitted Termination Event. See Appendix B-"MASTER FINANCING LEASE-Appointment of Agents; Acquisition and Construction of Projects; Changes to the Project; Additions to Property; Substitution and Release of Property" for a description of the ability of the State to enter into Additional Master Financing Leases with respect to the Property.

The State may issue additional certificates of participation to finance other real and personal property by State and local agencies subject to the maximum authorized as described under "THE CERTIFICATES–Authorization."

## FINANCIAL STATEMENTS

Audited financial statements for the State for the Fiscal Year ended June 30, 2015, are included as Appendix D. These statements have been audited by the Auditor, an independent elected official. As described under "CONTINUING DISCLOSURE UNDERTAKING," the State is obligated to provide its audited financial statements to the Municipal Securities Rulemaking Board. In an effort to provide more timely reporting, the State released its audited financial statements for Fiscal Years 2010 through 2015 within 150 days of the fiscal year-end.

## ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the State government and Washington as a whole is contained in Appendix A—"GENERAL AND ECONOMIC INFORMATION." Pursuant to State law, the Office of Economic and Revenue Forecast Council (the "Forecast Council") provides State economic and revenue results and forecasts on a quarterly basis, generally in each March (February in even-numbered years), May or June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released in June 2016. As described in Appendix A, State law requires that State budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the Forecast Council's official economic and revenue forecasts. The Forecast Council's most recent forecast was released in February 2016, and that forecast is summarized in Appendix A. The Forecast Council also provides monthly updates of certain other information, including estimates of collections. In addition, the State prepares transportation forecasts, including forecasts of motor vehicle fuel excise tax collections, and forecasts about the State's entitlement caseloads.

## LITIGATION

Based on an inquiry with the Attorney General's Office, there is no litigation now pending against the State in any way restraining or enjoining the sale, issuance or delivery of the Certificates, or in any manner challenging the validity of the Certificates, the security for the Certificates or the proceedings or authority pursuant to which they are to be sold and issued or the collection or application of any money pledged for the payment of the Certificates.

The State and its agencies are parties to routine legal proceedings that normally occur as a consequence of regular governmental operations. At any given point, there are lawsuits involving State agencies that could, depending on the outcome of the litigation or the terms of a settlement agreement, impact the State's or such agencies' budgets and expenditures to one degree or another. Some of these lawsuits are discussed in Appendix A and Appendix D. The State operates a self-insurance liability program for third-party claims against the State for injuries and property damage and purchases a limited amount of commercial insurance for these claims. The State maintains a risk management fund and is permitted to reserve up to 50 percent of total outstanding and actuarially determined liabilities. See Notes 7.E, 10 and 13.B in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" and "RISK MANAGEMENT" and "LITIGATION" in Appendix A—"GENERAL AND ECONOMIC INFORMATION."

## BALLOT MEASURES

Under the Constitution, the voters of the State have the ability to initiate legislation by initiative, and by referendum to modify, approve or reject all or a part of recently enacted legislation. Initiatives are new legislation proposed to the Legislature or for voter approval by petition of the voters. Referenda can be required on recently-enacted legislation through a petition of the voters, or a referendum on new legislation may be required by the Legislature itself. The Constitution may not be amended by initiative or referendum.

Any initiative or referendum approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the relevant statute is subject to amendment or repeal by the Legislature by a simple majority vote.

***Initiatives.*** The Constitution requires an initiative petition to contain a number of signatures at least equal to eight percent of all votes cast for Governor in the most recent gubernatorial election in the State. There are two types of initiatives: (1) initiatives to the people and (2) initiatives to the Legislature. If certified to have sufficient signatures, initiatives to the people are submitted for a vote of the people at the next State general election. If certified to have sufficient signatures, initiatives to the Legislature are submitted to the Legislature at its next regular session. The Legislature is required to adopt the initiative, reject the initiative or approve an alternative to the initiative. The latter two options require that the initiative or the initiative and the Legislature's alternative be placed on the ballot.

***Referenda.*** The Constitution requires a petition for referendum to contain a number of signatures at least equal to four percent of all votes cast for Governor in the most recent gubernatorial election in the State. There are two types of referenda: (1) referendum measures and (2) referendum bills. Referendum measures are laws recently passed by the Legislature that are placed on the ballot because of petitions signed by voters. Referendum bills are proposed laws referred to the voters by the Legislature.

## LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale by the State of the Certificates are subject to the delivery of the approving legal opinion of Foster Pepper PLLC, Certificate Counsel to the State ("Certificate Counsel"). The proposed form of the legal opinion of Certificate Counsel is attached hereto as Appendix C. The opinions of Certificate Counsel are given based on factual representations made to Certificate Counsel, and under existing law, as of the date of initial delivery of the Certificates, and Certificate Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Certificate Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Certificate Counsel will be compensated only upon the issuance and sale of the Certificates.

## TAX MATTERS

### Tax Exemption of the Certificates

***Exclusion From Gross Income.*** In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates

will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

***Continuing Requirements.*** The State is required to comply with certain requirements of the Code after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Certificates. The State will covenant to comply with those requirements, but if the State fails to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. Certificate Counsel has not undertaken and does not undertake to monitor the State's compliance with such requirements.

***Corporate Alternative Minimum Tax.*** While interest on the Certificates is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Certificates, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

***Tax on Certain Passive Investment Income of S Corporations.*** Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Certificates, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

***Foreign Branch Profits Tax.*** Interest on the Certificates may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Certificates are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

***Possible Consequences of Tax Compliance Audit.*** The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Certificates, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Certificate Counsel cannot predict whether the IRS would commence an audit of the Certificates. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Certificates could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of its ultimate outcome.

**Certain Other Federal Tax Consequences**

***Certificates Not "Qualified Tax-Exempt Obligations" for Financial Institutions.*** Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in

the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The State is a governmental unit that, together with all subordinate entities, has issued more than $10,000,000 of tax-exempt obligations during the current calendar year and has not designated the Certificates as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Certificates is deductible for federal income tax purposes.

***Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.*** Under Section 832 of the Code, interest evidenced and represented by the Certificates received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

***Effect on Certain Social Security and Retirement Benefits.*** Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest evidenced and represented by the Certificates into account in determining gross income.

***Other Possible Federal Tax Consequences.*** Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences as to which prospective purchasers of the Certificates may wish to consult their own tax advisors.

***Potential Future Federal Tax Law Changes.*** Current and future legislative proposals, if enacted into law, may directly or indirectly cause interest on the Certificates to be subject in whole or in part to federal income taxation, prevent the beneficial owners of the Certificates from receiving the full benefits of the current federal tax status of interest on the Certificates, or affect, perhaps significantly, the market value or marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation or regulations.

## CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the Treasurer has agreed in the Master Financing Agreements to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the beneficial owners of the Certificates (the "Undertaking").

***Annual Disclosure Report.*** The State covenants and agrees in the Undertaking that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning for the Fiscal Year ended June 30, 2016, the State will provide or cause to be provided either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, an annual report (the "Annual Disclosure Report"), which will consist of the following:

(1) audited financial statements of the State prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the State, and the State's audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;

(2) historical financial and operating data for the State of the type set forth in Appendix A; and

(3) a narrative explanation of any reasons for any amendments to the Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

The State regularly updates Appendix A, which may involve adding additional financial and operating data, displaying data in a different format, or eliminating data that are no longer material.

Any or all of the items listed above may be included by specific reference to other documents available to the public on the Internet website of the MSRB or filed with the SEC. The State will clearly identify each document so included by reference. The MSRB has indicated that it intends to make continuing disclosure information submitted to it publicly available on the Internet on its Electronic Municipal Market Access ("EMMA") system website.

The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided herein; provided that any audited financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such statements are not available by the Submission Date.

If the State's fiscal year changes, the State may adjust the Submission Date by giving notice of such change in the same manner as notice is to be given of the occurrence of a Listed Event defined below.

The State agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of its failure to provide the Annual Disclosure Report on or prior to the Submission Date.

***Listed Events.*** The State agrees to provide or cause to be provided, in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Certificates (the "Listed Events"): (1) principal and interest payment delinquencies; (2) nonpayment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of owners of the Certificates, if material; (8) Certificate calls (other than scheduled mandatory redemptions of Term Certificates), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing the repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the State, as such "Bankruptcy Events" are defined in the Rule; (13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

***Termination or Modification of Undertaking.*** The State's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. The Undertaking, or any provision thereof, is to be null and void if the State:

(1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Certificates; and

(2) notifies the MSRB, in a timely manner, of such opinion and the cancellation of the Undertaking.

The State may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The Treasurer will give notice to the MSRB of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles, the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

(1) notice of such change will be given in the same manner as for a Listed Event, and

(2) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

***Remedies.*** The right of a registered owner or beneficial owner to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the State's obligations thereunder, and any failure by the State to comply with the provisions of the Undertaking will not be a default with respect to the Certificates.

***Additional Information.*** Nothing in the Undertaking will be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by the Undertaking. If the State chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a Listed Event in addition to that specifically required by the Undertaking, the State will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

***Prior Compliance.*** Within the past five years, the State has complied in all material respects with all prior written undertakings under the Rule.

## RATING

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "Aa2" to the Certificates. The State has furnished certain information and materials to Moody's regarding the Certificates and the State. Such rating reflects only the view of such rating agency and is not be a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such rating will reflect only the view of such rating agency and is not a recommendation to buy, sell or hold the certificates. An explanation of the significance of such rating may be obtained from Moody's Investors Service Inc.

There is no assurance that such rating will be maintained for any given period of time or that it may not be raised, lowered, suspended, or withdrawn entirely by the rating agency if, in its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such rating may have an adverse effect on the market price of the Certificates. The State undertakes no responsibility to oppose any such change or withdrawal.

## UNDERWRITING

The Certificates are being purchased by _____ (the "Underwriter") at a price of $_____, representing the aggregate principal amount of the Certificates, [plus original issuance premium, less original issue discount and] less Underwriter's discount of $_____. The Underwriter has represented that the Certificates are to be reoffered at the prices or yields set forth on page i. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on page i hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

## FINANCIAL ADVISOR

Public Financial Management, Inc. has served as financial advisor to the State in connection with the issuance and sale of the Certificates. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Certificates. Public Financial Management, Inc. makes no guaranty, warranty or other representation on any matter related to the information contained in this Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities. A portion of compensation payable to the financial advisor is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the Underwriter.

## MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The State has duly authorized the execution and delivery of this Official Statement.

STATE OF WASHINGTON

By: _____

Deputy Treasurer–Debt Management

51498135.5

# APPENDIX A

# GENERAL AND ECONOMIC INFORMATION

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# INTRODUCTION

## State Overview

The State of Washington (the "State" or "Washington"), the nation's 42nd state, was created in 1889 by an act of the U.S. Congress. The State is located on the Pacific Coast in the northwestern corner of the continental United States and comprises 71,303 square miles, including the more than 1,000 square miles of salt water known as Puget Sound.

Washington's population was 6,724,540 according to the 2010 U.S. Census, making the State the 13th most populous in the United States. As of April 1, 2015, the State had an estimated population of 7,061,410. The State's capital is Olympia at the southern end of Puget Sound, and the State's largest city, Seattle, also on Puget Sound, is approximately 60 miles north of Olympia.

Washington is a geographically diverse state with two mountain ranges that divide the State's land area. The Olympic Mountains separate the Olympic Peninsula – generally regarded as the largest rain forest in the Northern Hemisphere – from Puget Sound and the rest of the State. The Cascade Mountains extend from the northern border of the State with British Columbia, Canada, south to the State of Oregon. Mount Rainier, a 14.4 thousand-foot dormant volcano in the middle of the Cascade Range, is the fifth highest and most heavily glaciated peak in the lower 48 states.

Washington includes an international trade, manufacturing, technology, biotechnology and business service corridor that extends along Puget Sound from the City of Everett at the north end, south to Seattle and Tacoma. This corridor includes approximately 75 percent of the State's population and economic activity. A number of companies have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Boeing Commercial Airplanes, Costco, Expedia, Expeditors International of Washington, Microsoft, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Washington is home to some of the leading global health research institutes and non-profits, including the Bill and Melinda Gates Foundation, World Vision, U.S., PATH and the Fred Hutchinson Cancer Research Center. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th among the states in the United States in terms of real gross domestic product ("GDP") in 2014.

East of the Cascade Mountains is the center of dairy operations and production of crops such as wheat, potatoes, tree fruits and grapes within the State. Washington leads the nation in apple and hops production and, on both sides of the Cascade Mountains, produces wine, flower bulbs and lumber, wood pulp, paper and other wood products. The Olympic Peninsula and the Puget Sound region include one of the country's primary aquaculture and fish- and shellfish-processing areas.

Washington is one of the most trade-intensive states in the nation, as measured by the dollar value of per capita exports, and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. The Ports of Seattle and Tacoma, the State's largest ports, are closer to Asian ports than any other continental port in the United States. Seattle-Tacoma International Airport is Washington's primary airport, serving the region's air passengers and cargo.

The State's ferry system, the largest ferry system in the United States and the second-largest ferry system in the world for the number of vehicles carried, is owned and operated by the Washington State Department of Transportation ("WSDOT") and has 10 routes that connect islands and other areas within and along the coast of Puget Sound.

See "DEMOGRAPHIC AND ECONOMIC INFORMATION" for additional economic and demographic information about the State.

## State Government

Under the State Constitution (the "Constitution"), the legislative authority of the State is vested in the Legislature, and general elections are held on the first Tuesday in November in each even-numbered year. The State is divided into 49 legislative districts, each of which elects two representatives and one senator. Senators serve four-year terms, with one-half of the seats open in each general election. Representatives serve two-year terms, with every seat open

in each general election. The Legislature convenes annual regular sessions (beginning the second Monday in January) of 105 days in odd-numbered years and 60 days in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to 30 days, and the Legislature itself may call special sessions with a two-thirds' vote of the members of each house.

Nine state executive officers are elected at-large to four-year terms at general elections held in the same years as elections for the President of the United States: the Governor, Lieutenant Governor, Secretary of State, Treasurer, Auditor, Attorney General, Superintendent of Public Instruction, Commissioner of Public Lands and Insurance Commissioner.

The nine justices of the State Supreme Court (the "Supreme Court") are elected at-large to six-year terms, with three seats open in each general election.

**State Finance Committee**

The Legislature, by statute, has delegated to the State Finance Committee (the "Committee") authority to supervise and control the issuance of all State bonds and other state obligations, including financing leases, authorized by the Legislature. The Committee is composed of the Governor, Lieutenant Governor and Treasurer. The Treasurer is designated as Chairman of the Committee, and the Office of the State Treasurer provides administrative support to the Committee. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of the Committee's official duties in accordance with prescribed policies of the Committee. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

In 2010, the Legislature authorized the Committee to delegate to the State Treasurer the authority, by resolution, to (1) accept offers to purchase bonds, notes, or other evidences of indebtedness of the State and to sell and deliver such bonds, notes, or other evidences of indebtedness to the purchasers thereof; (2) determine the date or dates, price or prices, principal amounts per maturity, delivery dates, interest rate or rates (or mechanisms for determining the interest rate or rates); and (3) set other terms and conditions as the Committee may deem necessary and appropriate; with each such delegation to be limited to bonds, notes, or other evidences of indebtedness which the Committee has authorized to be issued.

## BUDGETING AND ACCOUNTING

**Budget and Appropriation Process**

The State operates on a July 1 to June 30 fiscal year ("Fiscal Year") and is required under State law to budget on a biennial basis. State law requires that the Governor submit a balanced budget to the Legislature no later than December 20 in the year preceding the session during which the biennial budget is to be considered. The operating, capital and transportation budgets are prepared separately. As described below, the Governor is required to include in the budget, and the Legislature is required to appropriate, amounts sufficient to pay debt service on all of the State's outstanding general obligation bonds. See "GENERAL FUND–General Fund Expenditures–*Payment of General Obligation Debt*" and "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels."

Formulation of the State's biennial budget begins in May of even-numbered years, when the Office of Financial Management ("OFM") distributes instructions to all State agencies, establishing budget guidelines and information requirements. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate to match the Governor's policy choices. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program and policy choices are prepared for the Governor by the Director of OFM. As described below, State revenues and expenditures are limited by statutes enacted by the Legislature and sometimes also are limited by initiatives or referenda approved by the voters. See "GENERAL FUND–Expenditure Limitations" below and "INTRODUCTION—Ballot Measures" in the front portion of this Official Statement.

Under State law, the Governor's budget submitted to the Legislature must include estimates of all anticipated revenues and all proposed operating and capital expenditures, including debt service requirements on State general obligation indebtedness. Revenues are estimated for a fiscal period from the sources, and at the rates, authorized by

law at the time of submission of the budget document and are based upon the most recent economic and revenue forecast as described below. See "GENERAL FUND–Economic and Revenue Forecast" and "–Caseload Forecast." A "fiscal period" is the Fiscal Year or biennium for which an appropriation is made as specified within the act making the appropriation.

The Governor must submit a balanced budget to the Legislature. Specifically, State law requires that in the Governor's proposed budget the total of the beginning undesignated fund balance and estimated revenues, less working capital and other reserves, equal or exceed the total of proposed expenditures without reliance upon increases in indebtedness, changes in existing tax rates or other statutory changes. The Governor also may submit a second, alternative budget for the same fiscal period to include expenditures from revenue sources derived from proposed changes in statutes.

Within a biennium, the Governor may submit supplemental budgets to the Legislature during the regular session or during any special session. See "GENERAL FUND–General Fund–State Operating Budget."

Legislation adopted in 2012 requires that the Legislature must pass a four-year budget that leaves a positive ending fund balance in the General Fund and related funds. With certain exceptions, estimated appropriations necessary to maintain the continuing cost of existing programs and services may not exceed the projected available fiscal resources for the next ensuing biennium.

State law also provides that if for any applicable fund or account the estimated receipts for the next fiscal period, plus cash beginning balances, is less than the aggregate of estimated disbursements proposed by the Governor for the next ensuing fiscal period, the Governor must include proposals as to the manner in which the anticipated cash deficit is to be met, whether by an increase in State indebtedness, by the imposition of new taxes, by increases in tax rates or by an extension of existing taxes. The Governor also may propose planned elimination of the fund's or account's anticipated cash deficit over one or more fiscal periods. See "–Fiscal Monitoring and Controls."

The Legislature is obligated under the Constitution to appropriate money for debt service requirements on State general obligation indebtedness. Appropriations for the payment of bond principal and interest requirements on each series of bonds normally are included in an omnibus appropriation act. Each operating and transportation budget enacted by the Legislature also includes an appropriation providing that, in addition to the specified dollar amounts appropriated for (among other things) bond retirement and interest, there also is appropriated such further amounts as may be required or available for those purposes under any proper bond covenant made under law.

The Legislature engages in extensive budget deliberations and committee hearings. After revenue and expenditure appropriation bills are passed by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto one or more sections of the bills.

Typically, the Legislature enacts three budgets: an operating budget, a capital budget and a transportation budget. The transportation budget includes both operating and capital transportation-related expenditures. Of the three State budgets, the operating budget is the largest. Sales and other excise taxes deposited to the General Fund are the major State funding source for operating expenditures; proceeds of State bonds have funded approximately one half of capital expenditures. The transportation budget is funded primarily from bond proceeds, excise taxes on motor vehicle and special fuels, license fees and other state revenues, federal funds and local and private funds.

**Economic and Revenue Forecasting**

To assist the State in financial planning and budgeting, the State's Economic and Revenue Forecast Council (the "Forecast Council") prepares quarterly economic and revenue forecasts. Forecasts of transportation revenues are prepared by the State's Transportation Revenue Forecast Council, and the State entitlement caseload forecasts are prepared by the State's Caseload Forecast Council. The Forecast Council is an independent State agency consisting of seven members, two appointed by the Governor, one appointed by each of the two largest political caucuses of the Senate and House of Representatives, and the Treasurer. The Forecast Council approves the official economic and revenue forecasts for the State and reviews revenue collections monthly during each biennium. State law requires that the development of State budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the official economic and revenue forecasts of the Forecast Council and that the State's transportation budget be based upon the transportation forecast prepared by the Transportation Revenue Forecast

Council. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue–Transportation Revenue Forecast Council."

In mid-February (March in odd-numbered years), June, September and November, the Chief Economist prepares an official State economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions. The forecasts are based in part upon forecasts of the United States economy and forecasts of State entitlement caseloads. See "GENERAL FUND–Economic and Revenue Forecast" and "–Caseload Forecast." Each November, the Forecast Council must submit a budget outlook for State revenues and expenditures through the next biennium. The Forecast Council also must submit a budget outlook for the Governor's proposed budget and for the budget enacted by the Legislature. See "GENERAL FUND–State Budget Outlook."

**Fiscal Monitoring and Controls**

When it enacts a biennial budget, the Legislature appropriates funding to State agencies for various purposes. Once the budget bills are signed by the Governor, OFM works with State agency fiscal staff to allot annual and biennial appropriations into monthly amounts. Revenues also are allotted for the biennium based upon forecasts prepared by the Forecast Council and for non-forecasted accounts, based upon information prepared by the administering agencies. Taken together, monthly allotments of expenditure authority and revenue form detailed monthly spending plans within the statutory maximums specified by appropriations in the biennial budget.

State agencies generally are prohibited from incurring cash deficits. State law does allow, however, for temporary negative cash balances in a specific fund or account if the temporary deficiency (1) results from disbursements under a spending plan approved by OFM; (2) was authorized by OFM within a fiscal period; (3) is in a fund or account neither in the State treasury nor in the custody of the Treasurer if the cash deficiency does not continue past the end of the biennium; or (4) is in a construction account and the deficiency is due to seasonal cash deficits pending receipt of proceeds from authorized bond or note sales.

OFM monitors spending plans on a monthly basis and recommends actions the Governor may take to adjust spending and revenue as appropriate. If at any time during the current fiscal period the Governor projects a cash deficit in a specific fund or account, the Governor may order across-the-board reductions in allotments to that fund or account to prevent the cash deficit. The Legislature may direct that a cash deficit in a particular fund or account be eliminated over one or more fiscal periods. Unused appropriation authority resulting from an across-the-board reduction in a fund or account is placed in reserve status and reverts to the fund of origin at the end of the fiscal period. Across-the-board reductions are not made to funding for basic education, pension benefits or general obligation debt service funding and can be made only within a fund with a cash deficit. In addition, the Governor may direct cabinet agencies to limit their discretionary spending. See "GENERAL FUND–State Operating Budget."

**Accounting and Auditing**

State law requires expenditures and revenues to be based upon generally accepted accounting principles ("GAAP"), and revenues typically are treated on a modified accrual basis so that funds are recognized when they become measureable and available. The State also is required to maintain accounting records in conformance with GAAP. OFM is the primary authority for the State's accounting and reporting requirements. The accounting system generates monthly and other periodic financial statements at the State-wide combined level and at the agency, fund and program levels for use by OFM and State agencies in monitoring expenditures and in preparing budgets and the State's annual financial statements. The State uses fund accounting, which includes governmental funds to account for governmental activities, proprietary funds (including the Workers' Compensation Fund, Unemployment Compensation Fund and Guaranteed Education Tuition Program Fund) and fiduciary funds (including for pensions and other employee benefits).

The State Auditor's Office audits the State-wide combined financial statements for each Fiscal Year. The Auditor is an elected official. See Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

## GENERAL FUND

The State provides for most of its general operations through the General Fund. Most of the State's unrestricted revenues are deposited to the General Fund, and most of the State's general expenditures and general obligation debt service are paid from the General Fund. Debt service on general obligation bonds to which excise taxes on motor vehicle and special fuels are pledged is payable first from the State's Motor Vehicle Fund and, if those funds are insufficient, from the General Fund. Debt service on general obligation bonds to which toll revenue is pledged is payable from toll revenue and, if those revenues are insufficient, from excise taxes on motor vehicle and special fuels and then from the General Fund. Certain tax revenues are deposited into the Education Legacy Trust Account and Opportunity Pathways Account, and used for K-12 and higher education purposes. As described below and in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS," the State also maintains a number of other funds and several hundred accounts.

### General Fund Revenue

Most of the General Fund-State revenue is derived from State taxes and federal funds, with other charges, interest, license and other fees and miscellaneous income making up the remaining General Fund-State revenue. See "General Fund-State Operating Budget" and Table 4.

General Fund-State tax revenues consist primarily of sales taxes, business and occupation taxes, other excise taxes and property taxes. There is no State income tax. Not all money deposited in the General Fund constitutes General Fund-State revenues or is available for the payment of general obligation debt service (e.g., restricted federal funds and local and private revenue). See "General Fund Expenditures–*Payment of General Obligation Debt*" and "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt."

According to a Supreme Court decision, tax measures need only be passed by a majority of both houses of the Legislature under the Constitution and cannot be further restrained by initiative or other legislative action. The Supreme Court did not address the issue of any limitations with respect to legislation that raises fees.

***Excise Taxes.*** The retail sales tax and its companion use tax represent the largest source of State tax revenue. Retail sales and use taxes are applied to a broad base of tangible personal property, certain digital products and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property and other transactions not taxed in many other states. Unless waived or deferred by the Legislature, the State and local governments are obligated to pay the same retail sales and use taxes as other taxpayers. The Legislature, and the voters of the State through the initiative process, have changed the base of the State retail sales and use taxes on occasion, and this may occur again in the future. Among the various items not subject to the State retail sales and use taxes are most personal and professional services and motor vehicle and special fuels (all of which are subject to the separate excise taxes described below), food and food ingredients (excluding prepared food), trade-ins, manufacturing machinery and purchases for resale. The State retail sales and use tax rate was last increased in 1983. Certain local taxing jurisdictions also are authorized to impose retail sales and use taxes. In some circumstances the Legislature has granted credits to local jurisdictions against the State sales tax for the local retail sales and use taxes. These credits have the effect of reducing the amount of State sales tax revenues retained by the State. Current State and local retail sales and use tax rates are shown in Table 1.

**Table 1**
**State and Local Retail Sales and Use Tax Rates**

| | General | New and Used Vehicles |
|---|---|---|
| **State** | 6.5% | 6.8% |
| **Local** | 0.5 to 3.1 | 0.5 to 3.1 |

*Source: Department of Revenue.*

In November 2015, the voters approved an initiative that reduces the State's sales tax rate from 6.5 percent to 5.5 percent effective April 15, 2016, unless the Legislature refers to voters a constitutional amendment requiring

two-thirds legislative approval or voter approval to raise taxes and a majority legislative approval for fee increases. OFM has estimated that if the Legislature does not refer to the ballot a constitutional amendment, the initiative would decrease State revenues by an estimated $163.2 million in the 1.5 months of collections in Fiscal Year 2016 and by $1.43 billion in Fiscal Year 2017, the first full year of collection. In January 2016, a King County Superior Court judge issued an order that the initiative is unconstitutional and, therefore, void. On January 25, 2016, the State filed an appeal of the order to the State Supreme Court.

The State business and occupation ("B&O") tax is applied to "gross receipts" (the value of products, gross income from sales or certain other income) from business activities conducted within the State. B&O tax rate reductions and tax credits for specific categories of businesses are enacted from time to time. Certain local taxing jurisdictions also are authorized to impose business and occupation taxes. The State's current B&O tax rates vary, depending upon the classification of business activities, and in general range from 0.13 percent to 1.63 percent of gross receipts; most are under 0.5 percent. See "General Fund–State Operating Budget" and Table 4.

The State imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required by statute to retain 1.3 percent of the proceeds of this tax to defray costs of collection and on a monthly basis to pay over to the Treasurer the balance of the proceeds. Of the proceeds received by the Treasurer, beginning July 1, 2013, and ending June 30, 2019, the Treasurer is required to deposit a total amount equal to 7.7 percent into three designated accounts. The balance is deposited to the General Fund. Certain local taxing jurisdictions are authorized to impose real estate excise taxes. In most areas in which a local real estate excise tax is imposed, the maximum local rate is 0.5 percent of the sales price.

***Property Taxes.*** Property taxes apply to all real property and tangible personal property located within the State, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Taxable personal property includes machinery, equipment and supplies owned by businesses. Inventories are exempt from property tax. Most personal property owned by individuals is exempt from property taxation.

The assessed value of most property is determined by the county assessor. The State constitution requires the uniform assessment of property. The assessment standard is fair market value of the property according to its highest and best use (agricultural, open space, and timber land are eligible for valuation based on current use). For the purpose of allocating the State property tax across the counties, the county determined assessed value is equalized to 100 percent of market value as determined by the State Department of Revenue.

The State constitution limits the aggregate of all State and local taxing district property taxes to one percent of the true and fair value of the property ($10 per $1,000 of value). The limit does not apply to taxes necessary to prevent the impairment of a contract when ordered to do so by a court of last resort. Taxes imposed within the limit are called regular taxes and, generally, do not require voter approval. By statute, the State is allocated a rate of $3.60 per $1,000 of value. Local taxing districts are allocated the remainder of the limit. If tax rates cause the limit to be exceeded then certain local district rates are reduced as necessary to satisfy the limit. Local taxing districts may impose property taxes in excess of this limit for operating and capital purposes. These excess property taxes are subject to voter approval.

Growth in the amount of the State property tax is limited to the lesser of 101 percent, or 100 percent plus inflation of the highest property tax imposed in the three most recent years, plus an additional amount resulting from new construction and improvements to property in the preceding year. The average annual State property tax growth rate over the past 10 years has been 2.5 percent. When growth in assessed value exceeds the growth allowed by this limit the district's tax rate is reduced. Due to significant increases in property values since 1980, the State property tax rate declined from its $3.60 maximum rate to $2.14 per $1,000 of market value in calendar year 2015. For each individual local property taxing district, the annual growth in the amount of its regular property tax is subject to a similar limit.

By statute, the State's property tax is deposited to the General Fund and may be used only for the support of common schools (K-12), including debt service on bonds issued by the State for capital construction projects for common schools.

***Other State Tax Revenue.*** The State imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products. A recent initiative legalizing marijuana approved a 37 percent excise tax on the retail sale of marijuana.

***State Non-Tax Revenue.*** The largest components of State non-tax revenue include revenues derived from the sale of supplies, materials and services; fines and forfeitures; income from property; and income from liquor sales.

***Federal Revenue.*** Legislative appropriations for federal programs are designated specifically to be funded from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred. Use of federal funds is subject to audit, and often federal funds are payable only on a reimbursement basis. The State also may be required to appropriate and expend its own funds as a condition to receiving the federal revenue. As shown in Tables 4 and 5, federal funds in Fiscal Year 2011 included funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Federal revenues may be deposited into the General Fund, but are not General Fund-State revenue. See "General Fund Expenditures–*Payment of General Obligation Debt,*" "General Fund–State Operating Budget," and "TRANSPORTATION–RELATED REVENUES AND EXPENDITURES."

***Private and Local Revenues.*** Revenues provided to the State by private individuals, local governments (but not the federal government), commercial enterprises and foundations under agreements that restrict the use of such revenues and revenues received as payment for private or local purchases of goods or services or as reimbursement for expenditures by the State are separate from General Fund-State revenues.

***Tax and Other Revenue Collection.*** Four State agencies are responsible for administering the major State taxes: the Department of Revenue, the Department of Licensing, the Liquor and Cannabis Board, and the Office of the Insurance Commissioner. The Treasurer receives the revenues from the collecting agencies and is required to deposit and distribute the funds as directed by law. Nearly all State agencies collect some form of revenue. See Table 4.

**General Fund Expenditures**

The State's largest General Fund expenditures are for education, social and health services, and corrections. As described below, most of these expenditures are mandated either by State law (education, corrections and debt service) or by federal law (Medicaid and certain other human services). Federal funds are available to pay some of the federally-mandated costs.

***K-12 Education.*** The State constitution provides that "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders" and "The legislature shall provide for a general and uniform system of public schools." As shown in Table 5, a significant portion of the General Fund budget supports public schools.

In 2007, a coalition of parents, students, school districts, teachers' unions and other nonprofit organizations filed a lawsuit, *McCleary v. State of Washington*, challenging the State's approach to funding local school districts. In 2012, the Supreme Court found that the State was not making ample provision for the basic education of Washington's K-12 public school students. The 2013-15 Biennium Budget adopted in June 2013 funded approximately $1 billion in reforms for K-12 public education. In January 2014, the Supreme Court issued an order that although meaningful steps were taken in the 2013-15 Biennium Budget, the State was not yet on target to meet its funding requirements by the 2017-18 school year and ordered the Legislature to submit a plan for implementing its school funding program for each year between now and the 2017-18 school year.

An April 29, 2014 report to the Supreme Court issued by a Joint Select Committee of the Legislature described legislative increases in funding provided in the 2013-15 Biennium and outlined statutorily enacted funding increases for the 2015-17 and 2017-19 Biennia for K-12 materials, supplies, and operating costs ("MSOC"), all-day kindergarten, and funding to reduce class sizes in grades K-3. Following its consideration of the Legislature's report and the plaintiffs' response, and finding that the Legislature did not comply with the Supreme 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 was held on September 3, 2014. On September 11, 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. As described under "General Fund—State Operating Budget—*2015-17 Biennium Budget*," the adopted 2015-2017 Biennium Budget funds an additional $2.9 billion in K-12 expenditures over the 2013-15 Biennium Budget. The increase includes $1.3 billion in enhancements to the State's program of basic education and $618 million in State-funded compensation increases. It also continues full funding for costs of prior basic education enhancements into the 2015-17 Biennium, provides inflationary increases, and funding for additional enrollment and other investments. See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's orders regarding funding K-12 education.

School districts in the State do not have authority to collect regular, ongoing property taxes, but they do have authority to seek voter approval for excess property taxes to fund certain specified purposes, including general fund maintenance and operations levies. The Supreme Court has ruled that the Legislature's duty to make ample provision for funding basic education programs includes the requirement that funding be accomplished by means of dependable and regular tax sources and that relying on local excess levies is neither dependable nor regular. In the 2015 session, the Legislature did not reach consensus on legislation for further basic education reforms related to school staff compensation. The State could be required to increase State salary allocations to pay for some school district employee compensation costs that are currently funded from school district local levies.

In July 2015, the Joint Select Committee issued its fourth report to the Supreme Court, which states that the enacted 2015-17 Biennium Budget fulfills the funding commitments adopted in 2009 and 2010 legislation, including (1) fully funding the enhanced statutory formula for materials, supplies, and operating costs in the 2015-16 school year, (2) funding full implementation of all-day kindergarten in the 2016-17 school year, one year ahead of the statutory schedule, (3) making progress toward funding K-3 class size reductions with the remaining increment to be funded in the next biennial budget, (4) adding funding to other education programs, and (5) establishing a new school construction grant program to provide State assistance to construct classrooms for the implementation of K-3 class size reduction and all-day kindergarten. The report also acknowledges several bills that did not pass that, among other things, addressed reducing local school district reliance on local levies.

On August 13, 2015, the Supreme Court issued an order pursuant to its previous finding that held the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018. In its order, the Supreme Court fined the State $100,000 per day until it adopts a complete compliance plan, payable into a segregated account for the benefit of basic education. OFM has been accounting for this fine. The order recognizes that the 2015-17 Biennium Budget makes significant progress in the areas of pupil transportation, establishing all-day kindergarten, and other per-student expenditure goals. The order, however, also notes that the State did not indicate how the Legislature intends to pay for facilities needed for all-day kindergarten and smaller class sizes, and to fund the actual cost of recruiting and retaining competent teachers, administrators, and staff needed to deliver a quality education. Another report to the Supreme Court will be due following the 2016 legislative session.

The plaintiffs in McCleary have suggested various actions the Supreme Court could take: (1) impose monetary or other contempt sanctions against the Legislature, (2) prohibit expenditures on certain other matters until the court's ruling is complied with, (3) order the Legislature to pass legislation to fund specific amounts or remedies, (4) prohibit the State from limiting an education program to less than all eligible students in a given grade, (5) order the sale of State property to fund constitutional compliance, (6) invalidate education funding cuts to the budget, and (7) prohibit any funding of an unconstitutional education system. The State has opposed these sanctions on the basis that they are unconstitutional and outside the Supreme Court's authority, beyond the scope of the case and therefore not properly available to the Supreme Court, or harmful and unlikely to promote legislative progress. The Supreme Court has not indicated its view as to any of the proposed sanctions, and the State cannot predict the Legislature's next steps or the Supreme Court's response. The Governor's proposed 2015-17 supplemental budget proposes modest increases in education funding. See "General Fund-State Operating Budget—Governor's Supplemental 2015-17 Budget." In February 2016, the Legislature enacted legislation that provides for independent consulting services to collect data on K-12 compensation and establishes an education funding task force to report to the Legislature prior to the 2017 legislative session. The legislation also provides for the Legislature to take action by the end of the 2017 legislative session to eliminate school district dependency on local levies for implementation of the State's program of basic education.

State voters have also acted to increase school expenditures by passing I-732 to provide automatic cost of living adjustments for teachers and other school employees and I-728 to reduce K-12 class sizes. The Legislature temporarily suspended these two initiatives as part of an amended 2009-11 Biennium Budget and the 2011-13 Biennium Budget. The 2012 Legislature permanently repealed I-728 pertaining to class size reductions and in 2013 the Legislature again suspended I-732 through the end of the 2013-15 Biennium. The 2015-17 Biennium Budget fully funds the I-732 cost of living increases for teachers and other education employees, with small increases above inflation. State funding will provide for a 3.0 percent salary increase in the 2015-16 school year and an additional 1.8 percent increase in the 2016-17 school year.

In November 2014, the voters approved I-1351, which directs the Legislature to allocate funds to reduce class sizes and increase staffing support for students in all K-12 grades over a four-year period, with additional class-size reductions and staffing increases in high-poverty schools. OFM projects that the fiscal impact of I-1351 would be an increase of State expenditures of $2 billion for the 2015-17 Biennium and $4.7 billion through 2019, based on changes in the statutory funding formulas for K-12 class sizes and staffing levels, and through increases in State levy equalization payments directed by current law. This estimate does not include costs of new facilities that may be necessary to accommodate smaller class sizes. In the 2015 session, the Legislature, by the required super-majority vote, statutorily deferred implementation of I-1351 for four years. In the adopted budget for the 2015-17 Biennium, the Legislature funded reduced class sizes in kindergarten through third grade only. See "General Fund—State Operating Budget—*2015-17 Biennium Budget*." See also "General Fund–State Operating Budget," and "BALLOT MEASURES–Initiatives" in the front portion of the Official Statement.

***Higher Education.*** State-supported higher education institutions include two research universities, four regional universities, and 34 community and technical colleges servicing more than 245,000 full-time equivalent students for the 2014-15 academic year. The Legislature makes appropriations from the General Fund to support a portion of the core academic funds delivered by these institutions, including the cost of instruction, financial aid, State-sponsored research, and public service activities. In addition, the Legislature may authorize appropriations from the capital budget for instructional and research facilities at higher education institutions. The State Board of Community and Technical Colleges receives the appropriation and administers the budget for all community and technical colleges. The amount of the appropriations for higher education is not formulaic or determined by case loads. Unlike K-12 education, the Washington constitution and statutes do not require a level of State support of higher education. The two primary sources of funding at public institutions for the cost of instruction are tuition and State support.

***Social and Health Services.*** The Department of Social and Health Services ("DSHS") provides services that include protective services for children, the aged and mentally disabled people and services for people in institutions and other residential care facilities. While in the past the largest expenditure within DSHS was the Medical Assistance Program, as of July 1, 2011, this program became part of the Health Care Authority. See *"Washington State Health Care Authority"* below.

The Economic Services Program provides support to families with limited incomes and to disabled people who cannot work. The federal government provides funds for the Temporary Assistance for Needy Families Program and for several other, smaller programs.

DSHS is also responsible for supporting community mental health programs and for operating State psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, foster care programs and vocational rehabilitation services.

***Washington State Health Care Authority.*** This agency brings together the two largest purchasers of health care in State government – the Public Employees Benefits program and "Washington Apple Health" (Medicaid). The Public Employees Benefits program provides health care coverage for more than 350,000 public employees, dependents, retirees and others authorized by the Legislature. Apple Health provides health care coverage for more than 1.8 million Washington residents, including low-income seniors, pregnant women, persons with disabilities, and 50 percent of all children. Apple Health covers more than 534,000 newly eligible adult clients as a result of the Medicaid expansion, which raised Medicaid's income eligibility ceiling to 138 percent of the federal poverty level.

Although the Apple Health budget has grown significantly as a result of the Affordable Care Act, the State's cost of covering the expanded population is minimal because the federal government covers 100 percent of that expense

through 2016. This influx of federal funding is estimated to have saved the State budget more than $300 million in the 2013-15 Biennium. Between 2017 and 2019, the State will gradually pick up a percentage of this cost, and in 2020 and beyond, the State will incur 10 percent of the costs. Over 2.1 million Washington residents receive their coverage through Medicaid and the Public Employee Benefits program, which is one-third of the State's non-Medicare population.

State law also directs the Health Care Authority to address health care cost containment, evidence based medicine, common performance measures, access to care, new financial incentives for the delivery system and adoption of health information technology and health information exchange. The Health Care Authority is the recent recipient of a four-year, $65 million grant under the State Innovation Models program to help implement the State's Healthier Washington initiative. As part of this initiative, the Public Employee Benefits program will offer a new plan option in 2016 to State employees under its Accountable Care Program, promising higher quality and lower costs to the beneficiary and the State. Also in 2016, Medicaid will implement fully integrated managed care for physical and behavioral health services in southwest Washington, which is to be implemented across the State by 2020.

***Health Benefit Exchange.*** The State successfully established a health benefit exchange to assist residents to find, compare and enroll in health insurance plans. The Washington Health Benefit Exchange (the "Exchange"), which began as a project within the Health Care Authority, is its own entity in a "public-private partnership" that is separate from the State, but works closely with several State agencies. The Exchange enrolls Apple Health applicants and subsidizes commercial insurance customers who qualify under income limits below 138 and 400 percent of the federal poverty level. As of September 2015, approximately 152,500 individuals had enrolled in qualified health plans through the Exchange. The third open enrollment period began on November 1, 2015 and is expected to run through January 31, 2016. Medicaid enrollments have no enrollment periods, and applicants can apply for and receive that coverage year-round.

***Corrections.*** As of September 30, 2015, the Department of Corrections ("DOC") had 12 correctional institutions and 16 work release facilities and leased additional rental beds in-State. As of September 2015, the offender population was approximately 17,400 in the prison system; the prison confinement was 99.3 percent of operational capacity.

***Employees and Employee Benefits.*** The State had 110,537 full-time equivalents ("FTEs") as of June 30, 2015 and 108,893 FTEs as of June 30, 2014. Approximately half of these FTEs are represented by collective bargaining organizations. There are 29 different collective bargaining organizations currently representing State employees. The largest, the Washington Federation of State Employees, represents approximately 36,000 State employees. State law provides that nothing in the State collective bargaining statute permits or grants to any employee the right to strike or refuse to perform his or her official duties.

The State, through the Public Employees Benefits Board program, provides medical, dental, life and long-term disability coverage to eligible State employees as a benefit of employment. Coverage is provided through private health insurance plans and self-insured products. The State's share of the cost of coverage for State employees is based on a per capita amount determined annually by the Legislature and allocated to State agencies. State employees pay for coverage beyond the State's contribution. The average monthly cost for the premiums was $1,052 in Fiscal Year 2015, with $910 paid by the State and $142 by the employee. State employees accrue vested vacation leave at a variable rate based on years of service, which in general cannot exceed 240 hours per year. It is the State's policy not to set aside funds for future payments for compensated absences. State employees accrue sick leave at the rate of one day per month without limitation. The State does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the State is liable for 25 percent of the employee's accumulated sick leave. For a discussion of the state retirement plans and post-employment benefits, see "RETIREMENT SYSTEMS."

***Payment of General Obligation Debt.*** Statutes authorizing bonds and other general obligations of the State require the Treasurer to withdraw from "general State revenues" and deposit into the Bond Retirement Accounts the amounts required for payment of debt service. The term "general State revenues" is defined in Article VIII of the Constitution and, as described below, not all money deposited in the General Fund constitutes "general State revenues" available for the payment of debt service (e.g., restricted federal funds or local and private revenue are excluded). See the description of general State revenues under "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–*Constitutional General Obligation Debt Limitation*" and Table 4.

Some general obligation bond statutes provide that the General Fund will be reimbursed for bond debt service from discrete revenues that are not considered "general State revenues." For example, some tuition fees charged by institutions of higher education are used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. In addition, a portion of net lottery and retail sales tax proceeds collected in King County reimburse the State for debt service payable on bonds issued to finance construction of a stadium and exhibition center in Seattle. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

**Expenditure Limitations**

Since the passage of Initiative 601 in 1993, the State has been prohibited from increasing expenditures from the General Fund during any Fiscal Year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in State personal income for the prior 10 Fiscal Years, adjusted for actual expenditures in the previous year and for certain money transfers and program cost shifts (to take into account federal and local revenue). Under current law, voter approval would be required to exceed the expenditure limit, except in case of an emergency. If revenues collected exceed the amount of revenues that may be expended under the expenditure limitation, the excess revenues are to be deposited to the Budget Stabilization Account as described in the next subsection. Each November, the Expenditure Limit Committee adjusts the limit for the previous and current fiscal year, and projects a limit for the following two years. In November 2014, the committee projected the spending limit for the 2013-15 Biennium at $32.7 billion and for the 2015-17 Biennium at $35.4 billion.

**Budget Stabilization Account**

In 2008, the Constitution was amended to create a Budget Stabilization Account. By June 30 of each Fiscal Year, the Budget Stabilization Account receives 1.0 percent of the general State revenues that Fiscal Year. Money may be appropriated from the Budget Stabilization Account by a majority vote of the members of each house of the Legislature if (1) forecasted State employment growth for any Fiscal Year is estimated to be less than 1.0 percent or (2) the Governor declares an emergency resulting from a catastrophic event that necessitates government action to protect life or public safety. Amounts may be withdrawn from the Budget Stabilization Account at any time by the favorable vote of three-fifths of the members of each house of the Legislature. In addition, when the balance in the Budget Stabilization Account equals more than 10 percent of the estimated general State revenues in that Fiscal Year, the amount above 10 percent may be appropriated to the Education Construction Fund by a majority vote of the members of each house of the Legislature. In November 2011, voters approved a measure that requires that "extraordinary growth in State revenues," which is defined as the amount by which the growth in State revenues exceeds by one-third the average biennial growth in State revenues over the prior five biennia, be transferred to the Budget Stabilization Account at the end of each fiscal biennium.

**Cash Management and Liquidity**

As discussed under "INVESTMENTS—Treasury and Treasurer's Trust Funds," the Treasurer manages and invests State funds. Investments within the Treasury and Treasurer's Trust Funds are commingled for investment purposes. These funds historically have had sufficient liquidity to meet all cash flow demands.

**Economic and Revenue Forecast**

State law requires the Forecast Council to prepare an economic and revenue forecast on a quarterly basis. Additionally, the Forecast Council is required to publish monthly updates that include economic data releases and a report of revenue collections for the previous monthly collection period. The most recent economic and revenue forecast was released on February 17, 2016 (the "February 2016 Forecast"). The next forecast is expected to be released in June 2016. The forecasts are available on the Forecast Council's website (www.erfc.wa.gov).

***February 2016 Forecast.*** The February 2016 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in February 2016, modified according to the Forecast Council's standard practice to reflect the Blue Chip GDP forecast published in the Blue Chip Economic Indicators and oil prices based on futures markets. February 2016 Forecast lowers projections of economic activity and state revenues from the November Forecast. The main changes from the previous forecast are lower state real personal income, lower inflation and weaker nonresidential construction activity.

The February 2016 Forecast decreased General Fund Revenues for the 2015-17 Biennium by $67 million to $37.137 billion ($37.837 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 10.3 percent higher than the 2013-15 Biennium. Forecasted General Fund Revenues for the 2017-19 Biennium were decreased by $442 million to $40.125 billion ($40.892 billion including the Education Legacy Trust Account and Opportunity Pathways Account), or 8.0 percent higher than the forecast for the 2015-17 Biennium.

The Washington economy continues to expand, with employment rising in most sectors. Total nonfarm employment in November, December and January grew by a seasonally adjusted 23,900 jobs. Combined with revised jobs data for the third quarter, January 2016 employment is now 8,300 higher than expected in November 2015. The February 2016 Forecast expects business and professional service employment to grow by more than three percent per year through 2018 and continues to assume a gradual decline in aerospace employment through 2019. Despite a slower pace of construction activity than assumed in November, construction employment is expected to continue to grow at a faster pace than overall employment. The State's seasonally adjusted unemployment rate was 5.5 percent in December 2015, up 0.2 percent from November 2015 and down from 6.3 percent in December 2014. The December 2015 seasonally adjusted unemployment rate in the Seattle metropolitan area increased to 4.6 percent from 4.2 percent in November 2015.

The most recent data show that Washington nominal personal income grew at an annual rate of 5.2 percent in the third quarter of 2015, down from the 5.8 percent pace in 2014. Personal income for all of 2015 is forecasted to grow at a 5.5 percent rate, slowing to 4.2 percent in 2016.

Washington exports declined in 2015 for the first time since 2009. Transportation equipment exports (mostly Boeing planes) declined by 6.3 percent while all other exports dropped by 18.1 percent over the year. The declines likely reflect the negative influence of a stronger dollar and weak economic growth abroad.

Single-family housing permits in the fourth quarter of 2015 exceeded forecasts while multi-family housing permits in those months came in below the forecast. Seasonally adjusted Seattle area home prices in November 2015 were 9.7 percent higher than the previous November and just 2.2 percent below the May 2007 peak. Car and truck sales continue to trend upward, reaching a new all-time high in January 2016.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the February 2016 Forecast was based.

**Table 2**
**Summary of Economic Factors**
*(% Annual Change, Calendar Year)*

| | | | | | | Forecast | |
|---|---|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Personal Income[(1)]** | 2.1 | 6.0 | 6.8 | 1.4 | 5.8 | 5.5 | 4.2 |
| **Nonfarm Payroll Employment** | (0.9) | 1.3 | 1.7 | 2.4 | 2.7 | 2.8 | 2.0 |
| **Housing Units[(2)]** | 21.6 | 0.8 | 34.8 | 17.2 | 2.8 | 17.9 | (4.1) |

(1) In the fall of 2013, the Bureau of Economic Analysis released State personal income estimates with revisions extending back to 1929. The revised data increased 2012 Washington personal income by $2.9 billion.
(2) Reflects single-family and multi-family units authorized by permits.

*Source: Washington State Economic and Revenue Forecast: February 2016.*

***Alternative February 2016 Economic Forecasts.*** As required by statute, the Forecast Council also adopts an optimistic and a pessimistic forecast. The level of uncertainty in the baseline forecast remains high and the probability of risks on the downside exceed risks on the upside.

In the optimistic scenario, a pickup in total productivity growth and an increase in household formation, as well as stronger global growth, help the economy gain momentum. Residential and nonresidential construction picks up, equity markets recover, consumer spending grows, and labor market growth accelerates. In Washington, aerospace employment flattens out; software and construction employment growth is stronger; and the population grows at a faster pace.

In the pessimistic scenario, weak commodity prices and a slowing global economy trigger a mild recession and a sharp downturn in the U.S. stock market. As a result, consumer confidence declines and spending slows, housing starts weaken and demand waivers; businesses pull back on investment, employment growth slows, and unemployment rises. In Washington, employment in aerospace declines faster than in the baseline; software and construction employment also decline. The softer labor market leads to slower growth in wages and personal income compared to the baseline.

**Caseload Forecast**

The Caseload Forecast Council is charged with forecasting the entitlement caseloads for the State. The forecast identifies the number of persons expected to qualify for and to require the services of public assistance programs, State correctional institutions, State correctional non-institutional supervision, State institutions for juvenile offenders, the common school system, long-term care, medical assistance (including the Affordable Care Act), foster care and adoption support.

The Caseload Forecast Council meets three times per year in February, June and November and adopts a formal projection of caseloads for the current biennium. The November forecast is used in preparing the Governor's proposed budget, and the March caseload forecast is used by the Legislature in the development of the omnibus biennial appropriations act. The Caseload Forecast Council consists of six members: two members appointed by the Governor and one member appointed by the Chair of each of the two largest political caucuses in the Senate and House of Representatives.

**State Budget Outlook**

State law requires the Forecast Council to oversee the preparation of and approve the state Budget Outlook. The Budget Outlook is prepared by a State Budget Outlook Work Group, consisting of staff from the Office of Financial Management, the legislative fiscal committees, the Caseload Forecast Council and the Economic and Revenue Forecast Council. The Budget Outlook and an overview of the methodology used to develop the outlook is available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–State Operating Budget."

***November 2015 State Budget Outlook.*** In November 2015, the Work Group revised the Budget Outlook for the enacted budget adopted by the Forecast Council in July 2015. Revenues forecasts reflect the November 2015 Forecast of the Forecast Council. Projected fund transfers reflect those enacted in the 2015 legislative session. Projected expenditures reflect the continuing cost of existing programs and services called for in existing laws, taking into account revised caseload forecasts, revised per capita costs and other key assumptions. The November 2015 Budget Outlook projects an unrestricted ending balance in the General Fund, Education Legacy Trust Account and Opportunity Pathways Account of $359 million for the 2015-17 Biennium and negative $473 million for the 2017-19 Biennium. Major adjustments to projected expenditures include higher than expected rate and caseload increases for low-income health care ($197 million in the 2015-17 Biennium; $305 million in the 2017-19 Biennium), caseload and other cost increases in corrections and juvenile rehabilitation ($50 million in the 2015-17 Biennium; $55 million in the 2017-19 Biennium), and caseload, utilization and rate increases in mental health, long-term care and developmental disabilities ($36 million in the 2015-17 Biennium; $75 million in the 2017-19 Biennium).

**General Fund-State Operating Budget**

***General.*** The State's operating budget includes appropriations for the general day-to-day operating expenses of State agencies, colleges and universities and public schools. Employee salaries and benefits, leases, goods and services and public assistance payments are typical operating expenses. More than half of the operating budget is funded by unrestricted revenues from the General Fund, with the balance from federal and other funding sources.

During the economic downturn that began in 2008, the Governor and Legislature modified the State operating budget several times in response to lower actual and projected general State revenues and higher costs associated with growth in mandatory caseloads, school enrollment and medical assistance costs. During the 2009-11 Biennium, quarterly forecast updates of revenues declined while expenses increased due to the cost of providing certain services. Several times during the Biennium, the Governor proposed and the Legislature adopted supplemental operating budgets to deal with the shortfalls. In addition, in the fall of 2010, the Governor issued an Executive Order

directing across-the-board cuts for General Fund agencies. During the 2009-11 Biennium, General Fund expenditures were reduced by $1.059 billion. The General Fund benefited from $2.6 billion in ARRA funds as well as approximately $337 million in federal funds from the extension of the federal Medical Assistance percentage enhancement and $208 million in new education funding. New revenue was raised through a combination of permanent and temporary tax increases and transfers from the Budget Stabilization Account and other accounts.

***2011-13 Biennium Budget.*** The Legislature adopted a General Fund budget for the 2011-13 Biennium in the spring of 2011 that included expenditures of $31.7 billion and total resources (including the beginning fund balance) of $31.9 billion, leaving a proposed ending General Fund-State Fund balance of $163 million (including the Budget Stabilization Account). During an "early action" special legislative session in December 2011, the Legislature approved a supplemental budget that provided $480 million in savings and/or revenues. In April 2012, the Legislature adopted a revised supplemental budget with $30.788 billion of expenditures for the 2011-13 Biennium, including a $265 million balance in the Budget Stabilization Account and $40 million General Fund ending balance. Among the spending reductions during the 2011-13 Biennium were a 3.0 percent reduction in compensation for State employees, increases to State employees' share for health insurance premiums, increased pension contribution rates, reduced funds targeted to reduce class sizes, reductions in K-12 teacher and administrative staff salaries, elimination of the automatic cost-of-living increases for retired workers in the PERS 1 and TRS 1 pension plans, reduced benefits for workers hired starting in May 2013, reduced State support of higher education through cuts in academic services and reductions in salary, temporary suspension of two voter-approved education initiatives to reduce class sizes and provide an annual cost of living increase for school employees, and cuts for health and human services. The Legislature gave the State's universities the authority to raise tuition beyond the budgeted tuition increase. The budgets did not include major tax increases; they did, however, eliminate some tax deductions and include some fee increases and other transfers. The budgets did not reduce required spending on basic education, debt service or federally-mandated Medicaid.

***2013-15 Biennium Budgets.*** The operating budget enacted in June 2013 for the 2013-15 Biennium was $33.5 billion in State general and related funds, including a total reserve of $632 million at the end of the biennium ($576 million of which is in the Budget Stabilization Account). Related funds include the Education Legacy Trust Fund that enhances K-12 schools with funds from the estate tax and Public Works Assistance Account fund balances and on-going revenues and the Opportunity Pathways Account that pays for certain student financial aid programs with revenue from lottery proceeds.

The Legislature addressed an estimated $2.5 billion shortfall in general and related funds for the 2013-15 Biennium with spending reductions of $1.55 billion; increased revenue of $250 million (mainly from changes to the estate tax and telecommunications tax statutes); $519 million in fund transfers and revenue redirections; and by assuming that $140 million in spending authority would be unused by the end of the 2013-15 Biennium. Spending reductions included $351 million from opting into the Medicaid expansion offered in the federal health reform, $320 million from the continued suspension of I-732 that would have given cost of living adjustments to teachers, $272 million from reauthorizing the Hospital Safety Net Assessments, $156 million from lower child care caseloads, $60 million in K-12 program expenditures, and $65 million in other human services. The budget added $119 million in new funding for higher education and assumed no tuition increases for the 2013-15 Biennium. The budget also made required contributions to the State's retirement systems and restored the 3.0 percent temporary pay reduction taken by all State employees for the 2011-13 Biennium.

***Special Session and Supplemental 2013-15 Budgets.*** During a special session held in November 2013, the Legislature authorized expansion of the State's investment in aerospace-related education and workforce development and aerospace tax incentives to provide incentives to Boeing to assemble its new 777X jetliner in the State. Boeing subsequently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the State.

In March 2014, the Legislature adopted a supplemental operating budget for the 2013-15 Biennium that made modest adjustments to the adopted 2013-15 Biennium budget, including increasing General Fund spending by $155 million. The supplemental budget included total expenditures of $32.731 billion and total resources of $32.869 billion (including the beginning fund balance), leaving a proposed General Fund-State fund balance of $316 million and Budget Stabilization Account balance of $582 million at the end of the 2013-15 Biennium.

In February 2015, the Legislature adopted an early supplemental operating budget to fund emergent costs for several agencies for the 2013-15 Biennium. In June 2015, the Legislature adopted the final supplemental budget that made modest adjustments to the adopted 2013-15 Biennium budget.

***2015-17 Biennium Budget.*** The Legislature adopted an operating budget for the 2015-17 Biennium in June 2015 for the General Fund, the Education Legacy Trust and the Opportunity Pathways Account that includes expenditures of $38.082 billion and total resources (including the beginning fund balance of $910 million) of $38.425 billion. The budget leaves total reserves of $1.237 billion, $343 million unrestricted fund balances and $894.1 million in the Budget Stabilization Account. The 2015-17 Biennium Budget represents a $4.4 billion increase from the 2013-15 Biennium Budget.

The K-12 budget is designed to fund legislative commitments to increase basic education funding and respond to the Supreme Court's orders in the McCleary case. The budget increases expenditures for K-12 education from the 2013-15 Biennium by $2.9 billion including funds to reduce class sizes for K-3 grades, implement full-day kindergarten statewide, and provide additional funding for school operating budgets, teacher compensation and basic education enhancements. See "GENERAL FUND—General Fund Expenditures—*K-12 Education*."

The budget increases expenditures for higher education by $293 million from the 2013-15 Biennium to expand financial aid, increase faculty and staff salaries, and to compensate colleges and universities for legislatively enacted tuition reductions. The budget includes an additional $134 million to expand early learning and related child care programs; an additional $98 million to expand mental health related programs; an additional $115 million for home care worker compensation, training and benefits; and an additional $173 million for modest pay raises of 3.0 percent effective July 1, 2015 and 1.8 percent effective July 1, 2016, for State employees.

The budget finances the increased expenditures with (1) the $3.17 billion forecasted increase in general State revenues from the 2013-15 Biennium, (2) forecasted net revenues of $216 million from increased taxes and the elimination of certain tax exemptions, (3) fund transfers to the General Fund of $178 million, (4) drawing down the beginning fund balance of $910 million, (5) assumed annual reversions (under-expenditures) of $86 million, and (6) shifting funding of approximately $46 million in expenditures from the General Fund to other funds.

***Governor's Supplemental 2015-17 Budget.*** In December 2015, the Governor proposed a 2016 supplemental budget that proposes modest adjustments to the adopted budget primarily to pay for caseload increases, emergency responses to wildfires and mental health needs. The Governor noted that while the forecasted revenue for the current biennium has increased by approximately $245 million, the State's costs have grown by more than $700 million since June 2015. The Governor's proposed supplemental budget provides for total resources of $38.814 billion for the General Fund-State, Education Legacy Trust Account and Opportunity Pathways Account, total expenditures of $38.567 billion, and total reserves of $961.2 million, including $714.2 in the Budget Stabilization Account. In addition, the Governor proposed legislation to raise the minimum salary for beginning teachers, give all other teachers a 1.0 percent raise, and increase funding for teacher mentoring programs.

The following table summarizes the actions taken by the Legislature and other adjustments made to develop a budget for the 2015-17 Biennium.

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**Table 3**
**2015-17 General Fund-State, Education Legacy Trust, and Opportunity Pathways Accounts Adjustments**
**November 2012 through February 2016**
*($ in millions)*

| | General Fund-State | Education Legacy Trust and Opportunity Pathways Accounts[2] | Total |
|---|---|---|---|
| **Beginning Balance** | | | |
| Unrestricted Funds | 991 | 20 | 1,011 |
| Budget Stabilization Account | 513 | - | 513 |
| **Revenue** | | | |
| November 2012 Forecast | 35,355 | 479 | 35,834 |
| March 2013 Forecast | (49) | (65) | (114) |
| June 2013 Forecast | 51 | 78 | 129 |
| September 2013 Forecast | 342 | 145 | 487 |
| November 2013 Forecast | (84) | (20) | (104) |
| February 2014 Forecast | 82 | 10 | 92 |
| June 2014 Forecast | 238 | 8 | 246 |
| September 2014 Forecast | 143 | (1) | 142 |
| November 2014 Forecast | 247 | 31 | 278 |
| February 2015 Forecast | 124 | 11 | 135 |
| June 2015 Forecast | 309 | 17 | 326 |
| September 2015 Forecast | 140 | 4 | 144 |
| November 2015 Forecast | 113 | (12) | 101 |
| February 2016 Forecast | (67) | (11) | (78) |
| Transfer to Budget Stabilization Account | (373) | - | (373) |
| **Total Revenue** | 36,571 | 674 | 37,245 |
| **Other Resource Changes** | | | |
| Enacted Revenue Transfers | 178 | - | 178 |
| Prior Period Adjustments | 41 | - | 41 |
| 2015 Revenue Legislation | 193 | 26 | 219 |
| **Total Other Resource Changes** | 412 | 26 | 438 |
| **Total Resources** | 37,974 | 720 | 38,694 |
| **Spending** | | | |
| Enacted 2015-2017 Budget | 37,507 | 711 | 38,218 |
| Governor's Vetoes | - | - | - |
| Estimated Reversions[1] | (172) | - | (172) |
| **Total Spending** | 37,335 | 711 | 38,046 |
| **Ending Balance and Reserves** | | | |
| Unrestricted Ending Fund Balance | 639 | 9 | 648 |
| Budget Stabilization Account Ending Balance | 892 | - | 892 |
| **Total Reserves** | 1,531 | 9 | 1,540 |

(1) Estimated spending authority that will not be used by the end of the biennium.
(2) Certain tax revenues are deposited into Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
Totals may not add due to rounding.
*Source: Office of Financial Management.*

***Revenues and Expenditures.*** The State separates its General Fund revenues and expenditures into three categories: General Fund-State, General Fund-Federal and General Fund-Private/Local to indicate the general source of revenues. Tables 4 and 5 summarize such revenues and expenditures for the Fiscal Years 2011 through 2015 and forecasted expenditures for Fiscal Years 2016 and 2017. Table 4 is derived from the Forecast Council's forecast

documents, which include forecasts of revenues through Fiscal Year 2017 (other than federal and local and private revenues and fund transfers, which are not part of the forecast). The information in Table 5 is extracted from the State's budget documents. The information in Tables 4 and 5 will not match the State's financial statements attached as Appendix D. The State budgets revenues on a cash basis and expenditures on a modified accrual basis. Revenues reported in the State's financial statement attached as Appendix D are on the modified accrual basis. Additionally, certain governmental activities are excluded from budgetary schedules because they are not appropriated. Examples include federal surplus food commodities, electronic food stamp benefits and the distribution of resources collected on behalf of local governments. Further, certain debt service expenditures are appropriated as operating transfers. These transfers are reported as expenditures on Table 5 and as transfers in the State's financial statement attached as Appendix D. The General Fund balance sheet shown in the financial statements attached as Appendix D has three revenue sources: State, federal and private/local. General Fund-State in Tables 4 and 5 is the portion supported by State revenues (taxes, fees, other State charges, transfers, and other revenues).

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**Table 4**
**Revenues and Resources**
**General Fund, Education Legacy Trust Account and Opportunity Pathways Accounts**
Fiscal Years ended June 30
(Cash Receipts) *($ in millions)*

| | 2011 | 2012 | 2013 | 2014 | 2015 | Forecast 2016[6] | Forecast 2017[6] |
|---|---|---|---|---|---|---|---|
| **Beginning Budget Stabilization Account Balance** | 95 | 1 | 130 | 270 | 415 | 513 | 695 |
| **Beginning General Fund Balance** | (561) | (92) | (381) | 168 | 373 | 991 | 1,050 |
| **General Fund State Revenues** | | | | | | | |
| **State Tax Revenues** | | | | | | | |
| Retail Sales Tax | 6,620 | 6,745 | 7,169 | 7,679 | 8,208 | 8,772 | 9,121 |
| Business and Occupation Taxes | 3,010 | 3,126 | 3,307 | 3,246 | 3,391 | 3,615 | 3,757 |
| Use Taxes (General Fund portion) | 534 | 480 | 518 | 558 | 585 | 644 | 634 |
| Property Taxes | 1,840 | 1,898 | 1,936 | 1,974 | 2,019 | 2,047 | 2,089 |
| Real Estate Excise Taxes | 373 | 399 | 535 | 616 | 741 | 795 | 720 |
| Other Excise Taxes[1] | 18 | 17 | 16 | 16 | 31 | 66 | 95 |
| Other Taxes[2] | 1,804 | 1,827 | 1,875 | 1,876 | 1,932 | 1,988 | 1,998 |
| **Subtotal State Tax Revenues** | 14,199 | 14,492 | 15,356 | 15,965 | 16,907 | 17,927 | 18,414 |
| **State Non-Tax Revenues** | | | | | | | |
| Licenses, permits and other fees | 87 | 99 | 105 | 128 | 137 | 142 | 139 |
| Liquor profits and fees | 117 | 49 | 141 | 124 | 82 | 75 | 87 |
| Investment income | (12) | (10) | (10) | (3) | 2 | 5 | 8 |
| Lottery transfers | 9 | - | - | 9 | 1 | - | - |
| Other Non-Tax Revenue | 248 | 244 | 191 | 160 | 155 | 176 | 163 |
| **Subtotal State Non-Tax Revenues** | 449 | 382 | 427 | 418 | 377 | 398 | 398 |
| **Adjustments and Transfers** | | | | | | | |
| Enacted Transfers/Prior Period Adjustments | 550 | 246 | 146 | 47 | 179 | 116 | 103 |
| Adjustment to Working Capital | - | - | 238 | - | - | - | - |
| Transfers from Budget Stabilization Account | 223 | - | - | - | 38 | - | - |
| Transfers to Budget Stabilization Account[3] | (129) | (130) | (139) | (145) | (212) | (184) | (189) |
| **Subtotal Adjustment and Transfers** | 644 | 116 | 245 | (98) | 5 | (68) | (86) |
| **Total General Fund-State Resources** | 14,731 | 14,898 | 15,647 | 16,453 | 17,662 | 19,248 | 19,776 |
| **General Fund-State Resources** | 14,731 | 14,898 | 15,647 | 16,453 | 17,662 | 19,248 | 19,776 |
| **General Fund-Federal Revenues[3][4]** | 7,975 | 7,114 | 7,037 | 8,556 | 10,059 | 11,013 | 11,988 |
| **General Fund-Private/Local Revenues[4]** | 250 | 273 | 260 | 254 | 214 | 256 | 329 |
| **Total General Fund Resources[4]** | 22,956 | 22,285 | 22,944 | 25,263 | 27,935 | 30,517 | 32,093 |
| **Total Education Legacy Trust and Opportunity Pathways Resources[5]** | 302 | 257 | 236 | 449 | 502 | 356 | 364 |
| **Total General Fund, Education Legacy Trust and Opportunity Pathways Resources** | 23,258 | 22,542 | 23,180 | 25,712 | 28,437 | 30,873 | 32,457 |

(1) Includes liquor, beer and wine, tobacco, boat and timber excise taxes, among others.
(2) Includes estate and inheritance taxes, public utility taxes and insurance premium and other taxes.
(3) Includes ARRA funding in 2011 of $1.9 billion.
(4) Federal revenues and private/local revenues are estimates.
(5) Certain tax revenues are deposited into the Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(6) Based on February 2016 Revenue Forecast and the 2015-17 enacted budget.
Totals may not add due to rounding.

*Source: Compiled by the Office of Financial Management from forecast documents and budget documents.*

## Table 5
## Expenditures and Ending Fund Balance General Fund, Education Legacy Trust Account and Opportunity Pathways Account
Fiscal Years ended June 30 (Modified Accrual Basis) *($ in millions)*

| | 2011 | 2012 | 2013 | 2014 | 2015 | Estimates 2016[6] | Estimates 2017[6] |
|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | |
| **Education** | | | | | | | |
| Public School | 6,334 | 6,789 | 6,735 | 7,220 | 7,668 | 8,700 | 9,275 |
| Higher Education | 1,355 | 1,185 | 1,164 | 1,342 | 1,328 | 1,504 | 1,600 |
| Other Education | 39 | 40 | 42 | 51 | 74 | 113 | 127 |
| **Total Education** | 7,728 | 8,014 | 7,941 | 8,613 | 9,070 | 10,317 | 11,002 |
| **Human Services** | | | | | | | |
| Dept. Social and Health Services[1] | 4,425 | 2,683 | 2,648 | 2,819 | 2,878 | 3,093 | 3,288 |
| Health Care Authority | 106 | 2,029 | 2,071 | 2,132 | 2,162 | 1,943 | 1,940 |
| Dept. Corrections | 792 | 812 | 788 | 839 | 856 | 918 | 940 |
| Other Human Services[1] | 127 | 147 | 143 | 104 | 107 | 106 | 106 |
| **Total Human Services** | 5,450 | 5,671 | 5,650 | 5,894 | 6,003 | 6,060 | 6,274 |
| **Natural Resources Recreation** | 160 | 138 | 161 | 137 | 133 | 154 | 155 |
| **Government Operations** | 212 | 204 | 216 | 266 | 231 | 260 | 250 |
| **Transportation** | 34 | 36 | 41 | 36 | 33 | 41 | 40 |
| **Transfers to Debt Service Funds[2]** | 907 | 941 | 1,203 | 856 | 976 | 1,085 | 1,148 |
| **Other Expenditures[3]** | 332 | 275 | 267 | 278 | 225 | 281 | 267 |
| **Total General Fund-State Expenditures** | 14,823 | 15,279 | 15,479 | 16,080 | 16,671 | 18,198 | 19,136 |
| **Expenditures from Federal Funds** | 7,975 | 7,114 | 7,037 | 8,556 | 10,059 | 11,013 | 11,988 |
| **Expenditures from Private/Local Funds[4]** | 250 | 273 | 260 | 254 | 214 | 256 | 329 |
| **Total General Fund Expenditures** | 23,048 | 22,666 | 22,776 | 24,890 | 26,944 | 29,467 | 31,453 |
| **Education Legacy Trust and Opportunity Pathways Accounts[5]** | | | | | | | |
| Public School | 68 | 25 | 1 | 153 | 246 | 91 | 91 |
| Higher Education | 163 | 175 | 208 | 218 | 197 | 210 | 212 |
| Other Education | 40 | 40 | 38 | 40 | 39 | 54 | 54 |
| **Total Education Legacy Trust and Opportunity Pathways Accounts** | 271 | 240 | 247 | 411 | 482 | 355 | 357 |
| **Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures** | 23,319 | 22,906 | 23,023 | 25,301 | 27,426 | 29,822 | 31,810 |
| **Total General Fund, Education Legacy Trust and Opportunity Pathways Revenues** | 23,258 | 22,542 | 23,180 | 25,712 | 28,437 | 30,873 | 32,457 |
| **Total General Fund, Education Legacy Trust and Opportunity Pathways Expenditures** | (23,319) | (22,906) | (23,023) | (25,301) | (27,426) | (29,822) | (31,810) |
| **Unrestricted General Fund Ending Balance** | (92) | (381) | 168 | 373 | 991 | 1,050 | 640 |
| **Education Legacy Trust and Opportunity Pathways Account Balance** | 31 | 17 | (11) | 38 | 20 | 1 | 7 |
| **Total General Fund, Education Legacy Trust, Opportunity Pathways Balance** | (61) | (364) | 157 | 411 | 1,011 | 1,051 | 647 |
| **Budget Stabilization Balance** | 1 | 130 | 270 | 415 | 513 | 698 | 892 |
| **Total General Fund, Education Legacy Trust, Opportunity Pathways and Budget Stabilization Ending Balance** | (60) | (234) | 427 | 826 | 1,524 | 1,749 | 1,539 |

(1) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(2) Debt service payments net of reimbursements from non-General Fund-State revenues, such as tuition fees, admission taxes, parking taxes and certain King County sales and use taxes. See Table 11. Debt Service is transferred from the General Fund to debt service funds for payment.
(3) Includes legislative and judicial agencies and other special appropriations. Fiscal Years 2016 and 2017 also assume $86 million per year in State General Fund reversions.
(4) Includes spending from grants, contracts and other agreements from private/local sources.
(5) Certain tax revenues are deposited into the Education Legacy Trust Account and the Opportunity Pathways Account and used for K-12 and higher education purposes.
(6) Estimates based on the February 2016 Revenue Forecast and the 2015-17 enacted budget.
Totals may not add due to rounding.

*Source: Compiled by the Office of Financial Management from forecast documents and budget documents.*

### Capital Budget

The capital budget includes appropriations for construction and repair of State office buildings, college and university buildings, prisons and juvenile rehabilitation facilities; parks; public schools; housing for low-income and disabled persons, farm workers and others; and for other capital facilities and programs. Approximately half of the capital budget typically is financed by State-issued bonds, while the rest is funded primarily from dedicated accounts, trust revenue and federal funding sources. The budget includes money re-appropriated from previous biennia when projects are not completed before the end of that biennium.

Table 6 summarizes the capital budgets for the 2009-11, 2011-13, 2013-15 and 2015-17 Biennia.

**Table 6**
**Capital Budgets**
(Modified Accrual Basis)
*($ in millions)*

| | 2009-2011 Enacted Budget | 2011-13 Enacted Budget | 2013-15 Enacted Budget | 2015-17 Enacted Budget |
|---|---|---|---|---|
| **Education** | | | | |
| Public Schools | 1,190 | 1,080 | 950 | 1,245 |
| Higher Education | 1,305 | 897 | 888 | 1,037 |
| Other Education | 30 | 27 | 21 | 23 |
| **Total Education** | 2,525 | 2,004 | 1,859 | 2,305 |
| **Human Services** | | | | |
| Department of Social and Health Services | 44 | 33 | 43 | 84 |
| Other Human Services | 259 | 263 | 220 | 178 |
| **Total Human Services** | 303 | 296 | 263 | 262 |
| **Natural Resources and Recreation** | 1,568 | 2,000 | 2,402 | 2,403 |
| **General Government** | 1,270 | 1,556 | 1,791 | 1,592 |
| **Transportation**[(1)] | 10 | 1 | 2 | 2 |
| **Total Capital Budget Expenditures** | 5,676 | 5,857 | 6,317 | 6,564 |

(1) Transportation reflects the Omnibus Capital budget and not the Transportation Capital budget. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

*Source: Office of Financial Management.*

## TRANSPORTATION-RELATED REVENUES AND EXPENDITURES

The Washington State Department of Transportation ("WSDOT") is the State department responsible for building, maintaining, and operating the State highway system and the State ferry system and working in partnership with others to maintain and improve local roads, railroads, airports, and multi-modal alternatives to driving. WSDOT operates 18,600 State highway lane miles, over 3,600 bridge structures, including the four longest floating bridges in the United States, 48 safety rest areas, 23 ferry vessels and 20 ferry terminals.

### Transportation Revenue

Transportation revenues include taxes and fees, ferry fares and concessions, toll revenue and federal funds. Most transportation revenues are deposited to the Motor Vehicle Fund. Revenues from excise taxes on motor vehicle and special fuels are restricted to highway purposes. Toll revenue from the SR 520 Corridor is deposited into the SR 520 Corridor Account (also known as the Toll Facilities Account). Federal-Aid Highway Program funds (except for debt service reimbursements) are deposited into the Motor Vehicle Fund.

***Excise Taxes on Motor Vehicle and Special Fuels.*** The primary component of transportation revenue is excise taxes on motor vehicle and special fuels. In 1921, the Legislature established a motor vehicle fuel tax at a fixed rate of $0.01 per gallon. The tax rate has been increased several times since then. Table 7 lists the increases in the excise tax on motor vehicle fuel since April 1, 1990. The same rates charged for gasoline are charged per gallon for diesel

and alternative fuels. In July 2015, the Legislature increased the excise tax on motor vehicle fuel to fund a list of transportation improvements referred to as Connecting Washington projects. The fuel tax increase will be phased in over two years with the first increase occurring on August 1, 2015 and the final increase on July 1, 2016.

**Table 7**
**Motor Vehicle Fuel Tax Rate History**
*(Per Gallon)*

| Effective Date of Change | Increase ($) | Per-Gallon Tax ($) |
|---|---|---|
| 4/1/1990 | 0.040 | 0.220 |
| 4/1/1991 | 0.010 | 0.230 |
| 7/1/2003 | 0.050 | 0.280 |
| 7/1/2005 | 0.030 | 0.310 |
| 7/1/2006 | 0.030 | 0.340 |
| 7/1/2007 | 0.020 | 0.360 |
| 7/1/2008 | 0.015 | 0.375 |
| 8/1/2015 | 0.070 | 0.445 |
| 7/1/2016 | 0.049 | 0.494 |

*Source: Washington State Department of Transportation.*

***Federal Funds.*** WSDOT receives substantial federal funds, primarily from the Federal-Aid Highway Program, which encompasses most of the federal programs providing highway funds to the states. The Federal-Aid Highway Program is a reimbursement program that is financed from transportation user-related revenues, primarily excise taxes on motor fuel, deposited in the Highway Trust Fund. Once a project has been approved, the federal government pays a portion of the costs (typically 86.5 percent for the State) of the project as costs are incurred. States also may apply to be reimbursed for debt service on obligations issued to finance an approved project. The SR 520 Project has been approved for debt service reimbursement. See "Transportation Expenditures."

The program and the imposition of the taxes dedicated to the Highway Trust Fund must be periodically reauthorized by Congress. Most recently in December 2015, the Fixing America's Surface Transportation ("FAST") Act extended highway-user taxes through September 30, 2022, with no change to the tax rates. The FAST Act transfers $51.9 billion into the Highway Account and $18.1 billion into the Mass Transit account to fund the full five years of program authorizations.

The sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act (BBEDCA) resulted in a loss of approximately $2.0 million in National Highway Performance Program Funds received by the State. The Build America Bonds (BABs) subsidy received by the State in calendar years 2013, 2014 and 2015 for certain motor vehicle fuel tax bonds was also reduced by approximately $5.3 million.

***Tolls.*** Currently the State is collecting tolls on four facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project, I-405 Express Toll Lanes, and the SR 520 Corridor. The Legislature has extended the SR 167 HOT Lanes Pilot Project through June 2017. In September 2015 the State began express lane tolling on I-405 from Bellevue to Lynnwood. Toll rates on the Tacoma Narrows Bridge are fixed throughout the day, and tolls are collected only in the eastbound direction. Toll rates on the SR 520 Corridor are collected electronically and rates vary depending on the time of day. Express lane tolling for single occupant drivers in the carpool lanes of SR 167 and I-405 uses "dynamic" toll rates which are automatically adjusted based on traffic congestion. The Legislature designated the Alaskan Way Viaduct (the "Viaduct") as an "eligible toll facility," but no tolls are currently being collected. See "Transportation Expenditures-*The Alaskan Way Viaduct*."

***Transportation Revenue Forecast Council.*** The Transportation Revenue Forecast Council (the "Transportation Forecast Council"), comprised of technical staff of the Department of Licensing, WSDOT, OFM and the Economic and Revenue Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation 10-year revenue forecasts are based in part upon the economic and demographic forecasts and assumptions made by the Economic and Revenue Forecast Council. Current fuel tax rates are assumed.

In its most recent forecast, released in February 2016, the Transportation Revenue Forecast Council projects that gross transportation revenues for the 2015-17 Biennium will total $5.737 billion, an increase of 22 percent from the prior biennium's total revenue of $4.69 billion. The next forecast is expected to be released in June 2016.

**Transportation Expenditures**

***Transportation Excise Tax Revenue Distributions.*** The Constitution requires that all proceeds of the excise taxes on motor vehicle and special fuels be placed in the Motor Vehicle Fund, a special fund within the State treasury, and used exclusively for highway purposes, including the capital and operating costs of public highways, county roads, bridges and city streets and the operation of ferries that are part of any public highway, county road or city street and including the payment of State debt obligations for which excise taxes on motor vehicle and special fuels have been legally pledged.

State statutes require that excise taxes on motor vehicle and special fuels be distributed to local governments and to certain State accounts, all to be used for highway purposes. The statutes provide, however, that nothing therein be construed to violate any terms or conditions contained in any highway construction bond issues then or thereafter authorized and to which such taxes are pledged. Excise taxes collected on motor vehicle and special fuels are distributed monthly. See Tables 8 and 9.

***Transportation Operating Budget.*** Highway and ferry operations and maintenance are the two largest components of the State's transportation operating budget. Ferry operations and maintenance are funded in part by ferry fares. Aviation, public transportation and rail operations are funded with other non-fuel tax revenues.

***Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels.*** Each legislative act that authorizes the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels. That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the State that have been and may thereafter be authorized that also pledge, on an equal basis, excise taxes on motor vehicle and special fuels for their payment. By State law, the Legislature also covenants to continue to levy those excise taxes in amounts sufficient to pay, when due, the principal of and interest on all of the bonds issued under those legislative authorizations. All motor vehicle fuel tax general obligation bonds of the State are further secured by a pledge of the full faith, credit and taxing power of the State. See "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–*Motor Vehicle Fuel Tax General Obligation Bonds*." Statutes authorizing the issuance of refunding bonds require that if the bonds to be refunded are secured by motor vehicle fuel taxes, in addition to the pledge of the State's full faith, credit and taxing power, the refunding bonds must also be secured by the same taxes.

Under motor vehicle fuel tax bond statutes enacted before 1993, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any such bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet bond interest or principal payments when due. Each month, as such funds are paid into the Motor Vehicle Fund, the Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund. Money in the Ferry Bond Retirement Fund is to be used for payment when due of the principal of and interest on State ferry bonds. If in any month it appears that the estimated percentage of money to be transferred is insufficient to meet the requirements for interest and bond retirement, the Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times. Motor vehicle fuel tax bond statutes enacted in 1993 and thereafter require that such transfers from the Motor Vehicle Fund to the Highway Bond Retirement Fund be made in accordance with the bond proceedings, which generally provide that the transfers be made on the date a debt service payment is due, although in practice amounts are set aside monthly in the Motor Vehicle Fund for debt service. See Table 9.

***Payment of Bonds Payable from Toll Revenue and Other Funds.*** The State is financing the SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project as part of the SR 520 Corridor Program described below with a combination of (1) general obligation bonds of the State first payable from SR 520 toll revenue and excise taxes on motor vehicle and special fuels ("Triple Pledge Bonds"), (2) toll revenue bonds payable solely from SR 520

toll revenue, and (3) grant anticipation revenue vehicle ("GARVEE") bonds payable solely from Federal-Aid Highway Program funds. The State issued the first series of bonds for the SR 520 Corridor Program in October 2011, as Triple Pledge Bonds. Two series of GARVEE bonds for the SR 520 Corridor Program were issued in June 2012 and September 2013. The State also issued a Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond") in October 2012. The TIFIA Bond is a draw-down loan from the Federal Highway Administration payable solely from SR 520 toll revenues. As of February 16, 2016, $195.199 million will have been drawn on the TIFIA Bond. See "*The SR 520 Corridor Program*."

***Transportation Capital Program.*** The State's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Alaskan Way Viaduct. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. Two 144-auto ferry vessels are being constructed. One will be placed in service mid-2017, the other in the 2017-19 Biennium. Federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") Inter-City High-Speed Passenger Rail Program will finance capital improvements to expand the Amtrak Cascades Service, including projects needed to provide two additional daily round trips between Seattle and Portland, reduce travel time between Seattle and Portland and improve on-time performance. As described under "LITIGATION–Other," in March 2013, a U.S. district court issued a permanent injunction that requires WSDOT to repair or replace approximately 847 fish barrier culverts by 2030, which WSDOT has estimated could cost $2.4 billion over the next 17 years.

***The SR 520 Corridor Program.*** The SR 520 floating bridge provides a major east-west link across Lake Washington. The corridor is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond. Built in the 1960s, the bridge currently is vulnerable to failure in severe windstorms and earthquakes. The SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project (a portion of the SR 520 Corridor Program) is underway and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new floating bridge to replace the Evergreen Point floating bridge that includes the construction of the permanent north half of the west approach bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project and for the Westside Project, which includes improvements at Portage Bay, Montlake Boulevard, and the connection with Interstate 5. The State issued $518.8 million Triple Pledge Bonds in October 2011, $500.4 million GARVEE bonds in June 2012, a $300 million TIFIA Bond in October 2012 and $285.9 million GARVEE bonds in September 2013, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will not exceed $1.9 billion. Tolling on the SR 520 Corridor began in December 2011. WSDOT is using the design-build delivery method for three major components of the project currently under construction. Construction is complete on all of the 77 pontoons needed for the new bridge. All 58 anchors for the Floating Bridge have been put in place on Lake Washington and crews are continuing to assemble the new floating bridge to the north of the existing bridge. The design and construction of the north half of the west approach bridge will use the design-bid-build delivery method. The contract was executed in August 2014. The new floating bridge is expected to open to drivers in April 2016. On September 15, 2014, the SR 520 program opened the new transit/HOV lanes on the Eastside to its final configuration.

Issues with spalling and end-wall cracking found in the first cycle of pontoons resulted in a number of change orders that are the responsibility of WSDOT. 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. In March 2014, WSDOT executed a $77.5 million change order with its floating bridge contractor to address time-related impacts of WSDOT-caused delay from late delivery of pontoons. As of April 2014, executed changes resulting from this error totaled nearly $208 million. Based on this issue, the execution of other project changes, and the need for an ongoing risk reserve, WSDOT determined that approximately $170 million in additional project funding is required. In April 2014, the Legislature authorized the additional funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project using existing State resources and previously authorized bonds.

In 2015, the Legislature funded the Westside Project, which includes the remaining components of the SR 520 Corridor Program as part of the Connecting Washington transportation revenue and bond package. Approximately

$1.64 billion was provided for the remaining SR 520 components, which will ultimately provide a new six-lane corridor from I-5 to the floating bridge, a new Portage Bay bridge, a complete West Approach Bridge, a reversible transit/HOV ramp to I-5, two neighborhood connecting lids, and other corridor improvements. Connecting Washington projects will be paid for with bond proceeds, increased vehicle related fees, and an increase in the State's motor fuel excise tax of 11.9 cents phased in over two years.

Annually, the State updates an investment-grade traffic and revenue study for the SR 520 Corridor Program, which forecasts toll traffic and gross revenue through Fiscal Year 2056. The original study projected that toll traffic would initially be approximately 48 percent lower than pre-toll traffic levels. Since tolling began, toll traffic has performed better than the updated forecasts from the 2012 and 2013 studies. Actual net toll revenues have been on target when compared to 2012 and 2013 forecasts.

***The Alaskan Way Viaduct.*** The Viaduct was built in the 1950s and includes an elevated portion of SR 99 along the edge of Puget Sound in downtown Seattle. The Viaduct is a main north-south route through Seattle and carries 20 to 25 percent of the traffic through downtown. The elevated structure was damaged during the region's 2001 Nisqually earthquake. Studies indicate that the Viaduct may collapse if another major earthquake occurs. The total cost of the Viaduct replacement program is estimated to be $3.145 billion, which is expected to be funded by State, federal, and local investments and toll revenue. The Viaduct replacement program has been approved for $787 million in federal funds. In January 2014, the program opened a new overpass that allows traffic to bypass a busy railroad track that crosses South Atlantic Street near the tunnel's future south portal. The Viaduct's downtown waterfront section will be replaced with a bored tunnel beneath downtown Seattle using a large-diameter tunneling machine. Tunneling started in the summer of 2013. In December 2013, Seattle Tunnel Partners ("STP"), WSDOT's design-build contractor for the project, stopped tunneling approximately 1,000 feet into the tunnel drive after experiencing increased temperatures in the machine. While investigating the cause of the high temperatures, STP discovered damage to the machine's seal system and contamination within the main bearing. In December 2014, STP outlined a plan to repair the seal system and replace the main bearing, with the target to resume tunneling in the spring of 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. Tunneling resumed in December 2015 with the tunnel expected to open by April 2018. It is not known how damage to the tunneling machine will affect the project's budget. The responsibility for additional costs and delays associated with this work will be addressed in accordance with the SR 99 tunnel contract and may be subject to litigation. On October 9, 2015, WSDOT filed a complaint for damages and declaratory relief in King County Superior Court against STP. On January 14, 2016, after a sinkhole developed in the work zone, WSDOT notified STP to suspend tunneling until STP completes a detailed analysis and modifies tunneling operations to ensure appropriate ground control. On February 23, 2016, STP was given conditional permission by WSDOT to resume tunneling operations.

***Columbia River Crossing.*** Columbia River Crossing was a proposed five-mile project on I-5 between SR 500 in Vancouver, Washington, and Columbia Boulevard in Portland, Oregon. The project would have replaced the current I-5 bridges and extended light rail to Vancouver, among other improvements. This project is no longer being pursued by Washington or Oregon.

**Transportation Revenues and Expenditures**

Table 8 summarizes transportation-related revenues and other funding for Fiscal Years 2010 through 2015 and forecasted transportation-related revenues and other funding for Fiscal Years 2016 and 2017. The forecasted revenues displayed in the following table are revenues used by WSDOT and do not include forecasted revenues for other transportation agencies such as the Department of Licensing, the Washington State Patrol or local grant agencies. It includes forecast revenues and projected bond proceeds, based upon the current budget, assumed federal and local funds, and includes projections of the new revenues identified in the Connecting Washington transportation package. The federal funds shown in Table 8 include funds received from all federal transportation agencies that are appropriated by the Legislature. A portion of the funds received in the State's federal program is passed through to local entities and is not appropriated by the Legislature. Table 8 is presented on a State Fiscal Year, which produces different results than when presented on a federal fiscal year basis.

Table 9 summarizes transportation-related expenditures for Fiscal Years 2010 through 2015 and budgeted and projected expenditures for Fiscal Years 2016 and 2017. Expenditures reflected are for WSDOT programs only and do not include expenditures from accounts for agencies such as Department of Licensing and Washington State Patrol.

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**Table 8**
**Transportation Revenues and Resources**
Fiscal Years ended June 30
(Modified Accrual Basis)
*($ in millions)*

| | 2011 | 2012 | 2013 | 2014 | 2015 | Forecast[5] 2016 | Forecast[5] 2017 |
|---|---|---|---|---|---|---|---|
| **Beginning Balance** | 1,476 | 591 | 1,263 | 942 | 1,029 | 730 | 387 |
| Gross Fuel Tax Collections | 1,255 | 1,242 | 1,246 | 1,262 | 1,286 | 1,513 | 1,727 |
| Refunds for Non-Highway Use | (62) | (81) | (66) | (67) | (71) | (92) | (98) |
| **Adjusted Gross Fuel Tax Collections** | 1,193 | 1,161 | 1,180 | 1,195 | 1,216 | 1,420 | 1,630 |
| WSDOT Portion of Licenses, Permits and Fees | 294 | 302 | 336 | 338 | 371 | 379 | 517 |
| Ferry Fares | 147 | 155 | 161 | 167 | 176 | 181 | 185 |
| Tacoma Narrows Bridge Tolls[1] | 45 | 47 | 64 | 64 | 72 | 80 | 89 |
| State Route 167 Hot Lane Tolls[1] | 1 | 1 | 1 | 1 | 2 | 2 | 2 |
| SR 520 Corridor Tolls[1] | - | 33 | 68 | 68 | 77 | 80 | 91 |
| Other Revenues and Adjustments[2] | 123 | 83 | 84 | 131 | 107 | 113 | 106 |
| **Total State Sources[3]** | 1,804 | 1,782 | 1,895 | 1,964 | 2,021 | 2,256 | 2,620 |
| **Other Funding[4]** | | | | | | | |
| Motor Vehicle Fuel Tax Bond Proceeds | 48 | 568 | 633 | 600 | 240 | 381 | 269 |
| Triple Pledge Bonds | - | 566 | - | - | - | - | 112 |
| GARVEE Bond Proceeds | - | 602 | - | 324 | - | - | - |
| TIFIA Bond | - | - | - | - | 195 | 105 | - |
| Federal Aid Highway Funds | - | - | 18 | 31 | 39 | 100 | 100 |
| Federal Stimulus Funds (ARRA) | 129 | 37 | 36 | - | - | - | - |
| Federal High Speed Rail Funds | 2 | 3 | 27 | 103 | 144 | 181 | 181 |
| Federal Highway Funds | 385 | 555 | 625 | 614 | 407 | 476 | 476 |
| Local Funds | 54 | 25 | 40 | 12 | 135 | 93 | 93 |
| **Total Other Funding** | 618 | 2,355 | 1,379 | 1,683 | 1,150 | 1,337 | 1,232 |
| **Total Sources** | 3,898 | 4,727 | 4,537 | 4,590 | 4,200 | 4,323 | 4,239 |

(1) Includes gross toll revenue, transponder sales, civil penalties, and fees.
(2) Includes other non-forecasted sources (e.g., interest income, transfers from other State accounts, and other miscellaneous sources).
(3) Gross fuel taxes are deposited into the Motor Vehicle Account and distributed to local governments and other State agencies by statute. These distributions and transfers are shown in Table 9. The remaining Total State Sources includes WSDOT accounts only and does not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.
(4) Other Funding includes appropriated proceeds of bonds sold in each fiscal year and federal funds appropriated in the 2015 Enacted Transportation Budget.
(5) Based on November 2015 Transportation Revenue Forecast, which includes new revenues associated with gas tax increases and license, permits, and fees in the 2015 Connecting Washington Transportation Package.

Totals may not add due to rounding.

*Source: Washington State Department of Transportation.*

## Table 9
## Transportation Expenditures and Ending Fund Balance[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
*($ in millions)*

| | | | | 2015 Enacted Supplemental Budget [2] | | 2015-17 Enacted Budget | |
|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Distributions and Transfers** | | | | | | | |
| Debt Service Transfers – Motor Fuel Tax[3] | 409 | 416 | 481 | 525 | 548 | 586 | 615 |
| Debt Service Transfers – Toll Revenue[3] | - | 17 | 26 | 26 | 26 | 27 | 49 |
| Debt Service Transfers – GO[3] | 9 | 11 | 11 | 13 | 13 | 13 | 14 |
| Debt Service Transfers – Federal Aid Highway Funds[4] | - | - | 18 | 31 | 39 | 100 | 100 |
| Fuel Tax Distribution to Cities and Counties[5] | 238 | 231 | 235 | 240 | 242 | 257 | 259 |
| Fuel Tax Distributions to Support Local Grant Programs[6] | 130 | 126 | 128 | 130 | 132 | 133 | 134 |
| Expenditures by Other Agencies[7] | 47 | 57 | 57 | 53 | 53 | 84 | 84 |
| **Total Distributions and Transfers** | 833 | 858 | 957 | 1,018 | 1,053 | 1,200 | 1,255 |
| **WSDOT Operations** | | | | | | | |
| Toll Maintenance and Operations | 11 | 21 | 23 | 26 | 28 | 43 | 43 |
| Highway Maintenance and Operations | 214 | 211 | 219 | 223 | 235 | 242 | 242 |
| Ferries Maintenance and Operations | 225 | 231 | 227 | 237 | 236 | 242 | 242 |
| Aviation, Public Transportation and Rail | 82 | 65 | 74 | 64 | 80 | 117 | 117 |
| Local Programs and Economic Partnerships | 6 | 5 | 6 | 6 | 6 | 7 | 7 |
| Operational Activities [8] | 149 | 131 | 143 | 141 | 154 | 156 | 156 |
| Compensation Adjustment | - | - | - | - | - | (22) | (22) |
| Operating Appropriations Placed in Unallotted Status | - | - | - | - | - | - | (10) |
| **Total Operations** | 687 | 664 | 692 | 696 | 738 | 784 | 774 |
| **WSDOT Capital** | | | | | | | |
| Highway Construction | 1,553 | 1,809 | 1,703 | 1,566 | 1,354 | 1,526 | 1,526 |
| Traffic Operations and Facilities | 8 | 9 | 8 | 8 | 19 | 18 | 18 |
| Ferry Capital Construction | 158 | 83 | 151 | 135 | 124 | 152 | 152 |
| Rail Program | 35 | 22 | 55 | 129 | 164 | 198 | 198 |
| Highways and Local Programs | 33 | 18 | 29 | 19 | 18 | 57 | 57 |
| Capital Appropriations (Unallotted/Unexpended)[9] | - | - | - | - | - | - | (283) |
| **Total Capital** | 1,787 | 1,942 | 1,945 | 1,857 | 1,679 | 1,951 | 1,668 |
| **Total WSDOT Transportation Uses** | 3,307 | 3,464 | 3,594 | 3,571 | 3,470 | 3,936 | 3,698 |
| **Ending Fund Balance** | 591 | 1,263 | 942 | 1,019 | 730 | 349 | 474 |

(1) Revenue distributions are based on the November 2015 Transportation Revenue Forecast.
(2) Actual expenditure data provided for Fiscal Years 2011 through 2015.
(3) Funds are transferred to debt retirement accounts on a monthly basis and include debt service for fuel tax bonds, general obligation bonds and toll revenue bonds. These transfers do not match fiscal year debt service. Debt service in this table is net of the Build America Bonds' subsidy (and reflects reductions in Fiscal Years 2013, 2014 and 2015 for federal sequestration). This represents WSDOT debt service only and does not include debt service for the Transportation Improvement Board or other State or local entities.
(4) GARVEE bond debt service is reimbursed by the Federal Highway Administration's Federal-Aid Highway Program.
(5) Includes statutory transfers identified in new revenue legislation for cities and counties.
(6) Grant programs are administered to local users through the County Road Administration Board and the Transportation Improvement Board.
(7) Expenditures by Other Agencies include certain legislative committees and commissions, as well as certain executive branch agencies.
(8) Operational Activities include administrative services, facilities operations and maintenance, transportation planning, information technology, and insurance fees.
(9) Capital appropriations placed in unallotted status or bonds not expected to be issued or expended.

Totals may not add due to rounding.
*Source: Washington State Department of Transportation.*

## INDEBTEDNESS AND OTHER OBLIGATIONS

All State general obligation debt and other evidences of indebtedness must be authorized by the Legislature and issued under the authority granted by the Legislature to the Committee. In addition to long-term bonds, the State may enter into financing contracts, including leases and installment purchase contracts, and notes. The State also may incur contingent obligations such as guarantees and may enter into payment agreements such as interest rate swaps (although to date it has not done so).

### Debt Issuance Policy

The Committee maintains a Debt Issuance Policy that addresses, among other things, the roles and responsibilities of the Committee and the Treasurer, debt structuring guidelines and standards of conduct and appointment of professional service providers. The Debt Issuance Policy addresses debt service structure, mode of interest, refunding savings thresholds and the average life of debt (shorter than or equal to the estimated useful life of the facility financed). The requirements may not apply in all cases.

### Debt Affordability Study

Annually, the Treasurer releases a Debt Affordability Study to the Legislature. The study presents information about the State's debt obligations to help guide policymakers as they make choices about the amounts, types and uses of debt financing undertaken in the State. The study describes issuance trends, borrowing costs and effective constraints on debt issuance and provides an assessment of the State's overall "debt affordability" by using demographic and financial indicators as well as peer analysis to measure the affordability of the State's existing and projected debt.

### General Obligation Debt

***General Obligation Debt Authority.*** The Constitution and enabling statutes authorize different means of incurring State general obligation debt, the payment of which is secured by a pledge of the State's full faith, credit and taxing power.

General obligation bonds may be authorized:

(1) by the affirmative vote of three-fifths of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally (but not always) subject to the constitutional debt limitation described below;

(2) when authorized by law for a distinct work or object and approved by a majority of the voters voting thereon at a general election, or a special election called for that purpose, in which case the amount of the debt so approved is not subject to the constitutional debt limitations described below;

(3) by a body designated by statute (currently the Committee) without limitation as to amount, and without approval of the Legislature or approval of the voters:

   (a) to refund outstanding State obligations; or

   (b) to meet temporary deficiencies of the State treasury, to preserve the best interests of the State in the conduct of the various State institutions and agencies during each Fiscal Year if such debt is discharged (other than by refunding) within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature.

The Constitution also permits the State to incur additional debt to repel invasion, suppress insurrection or to defend the State in war.

***Motor Vehicle Fuel Tax General Obligation Bonds.*** General obligation bonds that are payable from excise taxes on motor vehicle and special fuels may be issued for specified highway purposes and, as described below, such bonds are not subject to the constitutional general obligation debt limitation. Historically, no funds other than excise taxes on motor vehicle and special fuels have been used to pay such bonds. See "TRANSPORTATION-RELATED

REVENUES AND EXPENDITURES– Transportation Expenditures–*Payment of Bonds Payable from Excise Taxes on Motor Vehicle and Special Fuels*."

***Triple Pledge Bonds***. In October 2011, the State issued $518.775 million of Triple Pledge Bonds first payable from toll revenue, then excise taxes on motor vehicle and special fuels, and finally by the full faith and credit of the State. Additional Triple Pledge Bonds are expected to be issued for the SR 520 Corridor in 2016.

***Constitutional General Obligation Debt Limitation.*** With certain exceptions noted below, the amount of State general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt for which payments of principal and interest on the aggregate debt in any Fiscal Year would require the State to expend more than 8.5 percent of the arithmetic mean of "general State revenues" for the six immediately preceding Fiscal Years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the State in future years.

Under the Constitution, "general State revenues" includes all State money received in the State treasury, with certain exceptions, including (1) fees and revenues derived from the operation of any undertaking, facility, or project; (2) money received as gifts, grants, donations, aid, or assistance when the terms require the application of such money otherwise then for general purposes of the State; (3) retirement system money and performance bonds and deposits; (4) trust fund money, including money received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness.

Legislation adopted in 2011 directs that the Committee set a more restrictive working debt limit for budget development purposes. In Fiscal Year 2016, the working limit begins to phase down, reaching 7.75 percent by Fiscal Year 2022. The Committee may adjust that working debt limit due to extraordinary economic conditions.

In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, "general State revenues" will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of "general State revenue" will be expanded to include property taxes received by the State; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034). The amendment was intended to stabilize and smooth the State's ability to borrow; gradually reduce the State's long-term debt burden; and lower the share of the operating budget used to pay principal and interest on debt. In some years, the new constitutional limits are anticipated to be more restrictive than the previously approved statutory working debt limits.

Principal and interest requirements on the following types of obligations are excluded from the calculation of the constitutional debt limitation: (1) obligations payable from excise taxes levied on motor vehicle fuels, license fees, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles; (2) debt that has been refunded or defeased; (3) debt authorized by law for a single work or object and approved by a majority of those voting in a general or special election; (4) certificates of indebtedness issued to meet temporary deficiencies in the State treasury (described above under "General Obligation Debt Authority"); (5) principal requirements of bond anticipation notes; (6) financing contracts, including certificates of participation therein; (7) obligations issued to pay "current expenses of State government"; (8) obligations payable solely from the revenues derived from the ownership or operation of any particular facility or project; (9) obligations payable solely from gifts, grants, donations, aid or assistance that is limited to expenditure on specific purposes; and (10) any State guarantee of voter-approved general obligation debt of school districts in the State.

***Debt Service Within Constitutional Debt Limitation.*** The aggregate debt projected to be contracted by the State as of February 16, 2016, will not exceed that amount for which payments of principal and interest in any Fiscal Year would require the State to expend more than 8.5 percent of the arithmetic mean of its "general State revenues" for the six immediately preceding Fiscal Years. The arithmetic mean of "general State revenues" for Fiscal Years 2010 through 2015 is $15,498,200,050. The debt service limitation, 8.5 percent of this mean, is $1,317,347,004. The State's maximum annual debt service expected as of February 16, 2016, on debt service subject to the constitutional debt limitation was $1,155,419,459, or $161,927,545 less than the debt service limitation.

***Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes).*** Article VIII of the Constitution, Chapter 39.42 RCW and the State's other bond statutes delegate to the Committee the authority to issue, in the name of the State, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes would be general obligations of the State, but principal of those notes would be excluded from the constitutional debt limitation. The State has no bond anticipation notes currently outstanding and currently does not plan to issue bond anticipation notes.

Article VIII of the Constitution and Chapter 39.42 RCW also provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State treasury. Such indebtedness must be retired other than by refunding within 12 months after the date of issue. Principal and interest on certificates of indebtedness are excluded from the constitutional debt limitation. The State has not issued certificates of indebtedness since 1983 and does not anticipate any short-term borrowing during the current biennium. See "GENERAL FUND—Cash Management and Liquidity" and "—Budget Stabilization Account."

***Debt Service Requirements.*** Table 10 includes the total debt service requirements by pledge of revenues for the State general obligation bonds, and Table 11 includes a summary of the State's outstanding general obligation bonds.

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# Table 10
## Total Bond Debt Service Requirements by Pledge of Revenues
*(in dollars)*

| Fiscal Year Ending | Issued as of 2/16/2016[1] | | | | | | | | | | 2016C Bonds[2] | | 2016D Bonds[2] | | Total Debt Service Requirements [2][3][4][5] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | General Obligation | | | | | | | | | | General Obligation | | | | |
| | General State Revenues[3] | | Motor Vehicle Fuel Tax Revenues | | Triple Pledge | | GARVEE Bonds | | TIFIA Bond | | General State Revenues | | Motor Vehicle Fuel Tax Revenues | | |
| June 30 | Principal | Interest | Principal | Interest[4] | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2016[5] | 630,707,077 | 547,661,208 | 266,034,493 | 328,468,633 | - | 26,024,975 | 62,600,000 | 37,544,175 | - | - | - | - | - | - | 1,899,040,561 |
| 2017 | 639,516,191 | 554,465,605 | 282,058,239 | 330,891,069 | 10,835,000 | 26,024,975 | 65,710,000 | 34,360,925 | 2,038,906 | 6,105,378 | 7,310,000 | 15,293,563 | 4,560,000 | 9,538,531 | 1,988,708,382 |
| 2018 | 625,974,950 | 526,691,735 | 286,869,188 | 321,952,067 | 11,375,000 | 25,483,225 | 68,975,000 | 31,026,150 | 2,092,210 | 6,052,074 | 7,005,000 | 15,593,000 | 4,375,000 | 9,725,250 | 1,943,189,848 |
| 2019 | 613,491,629 | 498,441,999 | 296,346,883 | 313,045,202 | 11,945,000 | 24,914,475 | 72,380,000 | 27,519,375 | 2,155,235 | 5,989,049 | 7,365,000 | 15,242,750 | 4,590,000 | 9,506,500 | 1,902,933,097 |
| 2020 | 605,568,868 | 473,379,399 | 303,153,119 | 302,905,022 | 12,540,000 | 24,317,225 | 75,985,000 | 23,819,250 | 2,212,465 | 5,931,819 | 7,725,000 | 14,874,500 | 4,820,000 | 9,277,000 | 1,866,508,665 |
| 2021 | 586,063,505 | 429,897,536 | 303,886,687 | 291,659,981 | 13,165,000 | 23,690,225 | 79,780,000 | 19,937,625 | 2,294,566 | 5,849,718 | 8,115,000 | 14,488,250 | 5,060,000 | 9,036,000 | 1,792,924,093 |
| 2022 | 583,545,000 | 378,751,832 | 312,472,106 | 282,517,270 | 13,825,000 | 23,031,975 | 83,750,000 | 15,869,938 | 2,355,926 | 5,788,358 | 8,510,000 | 14,082,500 | 5,310,000 | 8,783,000 | 1,738,592,905 |
| 2023 | 589,690,000 | 350,195,914 | 312,662,167 | 271,256,090 | 14,515,000 | 22,340,725 | 87,915,000 | 11,593,625 | 2,426,894 | 5,717,390 | 8,940,000 | 13,657,000 | 5,580,000 | 8,517,500 | 1,705,007,306 |
| 2024 | 593,115,000 | 321,207,195 | 320,284,322 | 260,906,781 | 15,240,000 | 21,614,975 | 92,305,000 | 7,092,125 | 2,492,694 | 5,651,590 | 9,385,000 | 13,210,000 | 5,855,000 | 8,238,500 | 1,676,598,182 |
| 2025 | 574,725,000 | 291,765,271 | 330,609,917 | 248,562,399 | 16,005,000 | 20,852,975 | 96,915,000 | 2,392,250 | 2,582,453 | 5,561,831 | 9,855,000 | 12,740,750 | 6,150,000 | 7,945,750 | 1,626,663,596 |
| 2026 | 568,835,000 | 263,203,588 | 341,780,654 | 234,207,923 | 16,805,000 | 20,052,725 | - | - | 2,652,882 | 5,491,402 | 10,355,000 | 12,248,000 | 6,455,000 | 7,638,250 | 1,489,725,424 |
| 2027 | 555,265,000 | 235,655,281 | 340,748,610 | 219,922,457 | 17,685,000 | 19,170,463 | - | - | 2,732,796 | 5,411,488 | 10,870,000 | 11,730,250 | 6,780,000 | 7,315,500 | 1,433,286,845 |
| 2028 | 538,705,000 | 211,118,969 | 329,966,468 | 208,237,745 | 18,615,000 | 18,242,000 | - | - | 2,808,246 | 5,336,038 | 11,415,000 | 11,186,750 | 7,120,000 | 6,976,500 | 1,369,727,716 |
| 2029 | 539,665,000 | 186,426,844 | 330,956,913 | 195,861,247 | 19,545,000 | 17,311,250 | - | - | 2,906,627 | 5,237,657 | 11,990,000 | 10,616,000 | 7,475,000 | 6,620,500 | 1,334,612,038 |
| 2030 | 520,500,000 | 162,269,213 | 327,680,835 | 182,291,630 | 20,525,000 | 16,334,000 | - | - | 2,987,270 | 5,157,014 | 12,575,000 | 10,016,500 | 7,850,000 | 6,246,750 | 1,274,433,212 |
| 2031 | 496,850,000 | 139,292,806 | 297,870,000 | 108,649,375 | 21,550,000 | 15,307,750 | - | - | 3,077,257 | 5,067,027 | 13,220,000 | 9,387,750 | 8,245,000 | 5,854,250 | 1,124,371,215 |
| 2032 | 484,505,000 | 116,381,781 | 279,420,000 | 95,226,173 | 22,625,000 | 14,230,250 | - | - | 3,163,572 | 4,980,712 | 13,880,000 | 8,726,750 | 8,650,000 | 5,442,000 | 1,057,231,238 |
| 2033 | 457,915,000 | 93,669,981 | 253,305,000 | 82,394,858 | 23,760,000 | 13,099,000 | - | - | 3,271,663 | 4,872,621 | 14,575,000 | 8,032,750 | 9,085,000 | 5,009,500 | 968,990,373 |
| 2034 | 391,155,000 | 72,882,206 | 215,335,000 | 71,008,330 | 24,945,000 | 11,911,000 | - | - | 3,363,806 | 4,780,478 | 15,300,000 | 7,304,000 | 9,540,000 | 4,555,250 | 832,080,070 |
| 2035 | 327,075,000 | 55,328,894 | 196,830,000 | 60,861,656 | 26,195,000 | 10,663,750 | - | - | 3,465,136 | 4,679,148 | 16,070,000 | 6,539,000 | 10,020,000 | 4,078,250 | 721,805,833 |
| 2036 | 266,430,000 | 40,078,503 | 176,485,000 | 51,681,856 | 27,505,000 | 9,354,000 | - | - | 3,563,687 | 4,580,597 | 16,865,000 | 5,735,500 | 10,520,000 | 3,577,250 | 616,376,393 |
| 2037 | 214,635,000 | 27,958,275 | 183,780,000 | 42,868,297 | 28,880,000 | 7,978,750 | - | - | 3,682,711 | 4,461,573 | 17,710,000 | 4,892,250 | 11,045,000 | 3,051,250 | 550,943,106 |
| 2038 | 171,105,000 | 18,440,200 | 191,210,000 | 33,838,622 | 30,325,000 | 6,534,750 | - | - | 3,787,805 | 4,356,479 | 18,590,000 | 4,006,750 | 11,595,000 | 2,499,000 | 496,288,606 |
| 2039 | 143,580,000 | 10,517,125 | 199,135,000 | 24,291,013 | 31,840,000 | 5,018,500 | - | - | 3,901,907 | 4,242,377 | 19,525,000 | 3,077,250 | 12,175,000 | 1,919,250 | 459,222,422 |
| 2040 | 78,580,000 | 4,310,156 | 168,695,000 | 14,806,637 | 33,430,000 | 3,426,500 | - | - | 4,014,236 | 4,130,048 | 20,500,000 | 2,101,000 | 12,785,000 | 1,310,500 | 348,089,078 |
| 2041 | 37,250,000 | 908,781 | 130,435,000 | 7,225,112 | 35,100,000 | 1,755,000 | - | - | 4,145,572 | 3,998,712 | 21,520,000 | 1,076,000 | 13,425,000 | 671,250 | 257,510,427 |
| 2042 | - | - | 55,245,000 | 2,957,081 | - | - | - | - | 10,550,938 | 4,064,895 | - | - | - | - | 72,817,914 |
| 2043 | - | - | 30,120,000 | 968,028 | - | - | - | - | 10,868,770 | 3,747,064 | - | - | - | - | 45,703,861 |
| 2044 | - | - | - | - | - | - | - | - | 11,192,323 | 3,423,510 | - | - | - | - | 14,615,833 |
| 2045 | - | - | - | - | - | - | - | - | 11,537,002 | 3,078,831 | - | - | - | - | 14,615,833 |
| 2046 | - | - | - | - | - | - | - | - | 11,880,862 | 2,734,971 | - | - | - | - | 14,615,833 |
| 2047 | - | - | - | - | - | - | - | - | 12,238,755 | 2,377,078 | - | - | - | - | 14,615,833 |
| 2048 | - | - | - | - | - | - | - | - | 12,605,525 | 2,010,309 | - | - | - | - | 14,615,833 |
| 2049 | - | - | - | - | - | - | - | - | 12,988,821 | 1,627,013 | - | - | - | - | 14,615,833 |
| 2050 | - | - | - | - | - | - | - | - | 13,378,420 | 1,237,413 | - | - | - | - | 14,615,833 |
| 2051 | - | - | - | - | - | - | - | - | 13,781,425 | 834,408 | - | - | - | - | 14,615,833 |
| **Total** | 11,834,447,220 | 6,010,900,298 | 7,063,375,603 | 4,589,462,553 | 518,775,000 | 428,685,438 | 786,315,000 | 211,155,438 | 195,199,364 | 154,566,069 | 319,170,000 | 245,858,813 | 199,065,000 | 153,333,281 | 32,710,309,076 |

(1) Does not include the Series 2016C and 2016D Bonds issued on February 16, 2016 and sold on February 9, 2016. Includes the Series R-2016B and R-2016C Bonds issued on February 16, 2016 and sold on January 20, 2016, after defeasance of the refunded bonds. Includes the $195.199 million of a $300 million TIFIA loan, which has been drawn as of February 16, 2016. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES-Transportation Expenditures-Payment of Bonds Payable from Toll Revenue and Other Funds."

(2) Series 2016C and 2016D Bonds issued on February 16, 2016, and sold on February 9, 2016.

(3) The State may be reimbursed for some of these debt service payments from sources that are not General Fund-State revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and uses taxes. See Tables 11 and 12.

(4) Debt service does not take into account the receipts of the federal subsidies applicable to bonds issued as Build America Bonds. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Revenue–*Federal Funds*."

(5) Upon the issuance of the Bonds, estimated debt service requirements on outstanding bonds for Fiscal Year 2016 are: principal $53,478,003; interest $48,019,871; total debt service $101,497,874.

Totals may not add due to rounding.

*Source: Office of the State Treasurer.*

**Table 11**
**History of Outstanding Bonds and Debt Service**
*(in dollars)*

| | 6/30/2011 | 6/30/2012 | 6/30/2013 | 6/30/2014 | 6/30/2015 | 2/16/2016[2] |
|---|---|---|---|---|---|---|
| **Outstanding by Source of Payment** | | | | | | |
| General Obligation Bonds | | | | | | |
| General State Revenues[1] | 10,763,996,170 | 10,980,895,035 | 10,980,397,783 | 11,433,123,784 | 11,357,937,220 | 11,556,520,143 |
| Motor Vehicle Fuel Tax Revenue | 6,004,454,495 | 6,353,055,881 | 6,712,006,137 | 7,010,288,596 | 6,889,515,603 | 7,016,274,114 |
| Triple Pledge | - | 518,775,000 | 518,775,000 | 518,775,000 | 518,775,000 | 518,775,000 |
| | 16,768,450,665 | 17,852,725,916 | 18,211,178,920 | 18,962,187,380 | 18,766,227,823 | 19,091,569,256 |
| GARVEE Bonds | - | 500,400,000 | 500,400,000 | 786,315,000 | 786,315,000 | 723,715,000 |
| TIFIA Bond | - | - | - | - | 195,199,364 | 195,199,364 |
| | - | 500,400,000 | 500,400,000 | 786,315,000 | 981,514,364 | 918,914,364 |
| **Total – Outstanding** | 16,768,450,665 | 18,353,125,916 | 18,711,578,920 | 19,748,502,380 | 19,747,742,187 | 20,010,483,620 |
| **Annual Debt Service Requirements by Fiscal Year** | | | | | | |
| General Obligation Bonds | | | | | | |
| General State Revenues[1] | 992,697,370 | 1,023,303,951 | 1,053,379,180 | 1,087,877,046 | 1,154,461,019 | |
| Motor Vehicle Fuel Tax Revenue | 421,626,119 | 422,943,501 | 465,751,897 | 544,219,739 | 570,937,831 | |
| Triple Pledge | - | 15,253,527 | 26,024,975 | 26,024,975 | 26,024,975 | |
| GARVEE Bonds | - | - | 18,282,056 | 30,817,141 | 39,095,675 | |
| TIFIA Bond | - | - | - | - | - | |
| **Total – Annual Debt Service by Fiscal Year** | 1,414,323,489 | 1,481,500,979 | 1,563,438,108 | 1,688,938,901 | 1,790,519,500 | |

(1) The State may be reimbursed from sources that are not "general State revenues," including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.
(2) Includes the Series 2016C and 2016D Bonds issued on February 16, 2016 and sold on February 9, 2016, and the Series R-2016C and R-2016D Bonds issued on February 16, 2016 and sold on January 20, 2016, after defeasance of the refunded bonds. Includes $195.199 million of a $300 million TIFIA loan which has been drawn as of February 16, 2016.

Totals may not add due to rounding.

*Source: Office of the State Treasurer.*

**Table 12**
**History of Outstanding Bonds Net of Reimbursed Debt**
*(in dollars)*

| | 6/30/2011 | 6/30/2012 | 6/30/2013 | 6/30/2014 | 6/30/2015 | 2/16/2016[2] |
|---|---|---|---|---|---|---|
| **Outstanding by Source of Payment** | | | | | | |
| General Obligation Bonds | | | | | | |
| General State Revenues | 10,763,996,170 | 10,980,895,035 | 10,980,397,783 | 11,433,123,784 | 11,357,937,220 | 11,556,520,143 |
| Reimbursements[1] | (928,324,790) | (856,446,914) | (822,853,819) | (747,384,718) | (671,024,718) | (601,233,820) |
| Subtotal | 9,835,671,380 | 10,124,448,121 | 10,157,543,964 | 10,685,739,066 | 10,686,912,502 | 10,955,286,322 |
| Motor Vehicle Fuel Tax Revenue | 6,004,454,495 | 6,353,055,881 | 6,712,006,137 | 7,010,288,596 | 6,889,515,603 | 7,016,274,114 |
| Reimbursements from Tacoma Narrows Bridge Tolls | (596,614,495) | (567,175,881) | (536,006,137) | (502,478,596) | (471,090,603) | (453,899,114) |
| Subtotal | 5,407,840,000 | 5,785,880,000 | 6,176,000,000 | 6,507,810,000 | 6,418,425,000 | 6,562,375,000 |
| Triple Pledge | - | 518,775,000 | 518,775,000 | 518,775,000 | 518,775,000 | 518,775,000 |
| Paid from Tolls on SR 520 | - | (518,775,000) | (518,775,000) | (518,775,000) | (518,775,000) | (518,775,000) |
| Total GO Bonds – Net of Reimbursed Debt | 15,243,511,380 | 15,910,328,121 | 16,333,543,964 | 17,193,549,066 | 17,105,337,502 | 17,517,661,322 |
| GARVEE Bonds | - | 500,400,000 | 500,400,000 | 786,315,000 | 786,315,000 | 723,715,000 |
| TIFIA Bond | - | - | - | - | 195,199,364 | 195,199,364 |
| **Total – Outstanding Net of Reimbursed Debt** | 15,243,511,380 | 16,410,728,121 | 16,833,943,964 | 17,979,864,066 | 18,086,851,866 | 18,436,575,686 |

(1) The State may be reimbursed from sources that are not "general State revenues," including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.
(2) Includes the Series 2016C and 2016D Bonds issued on February 16, 2016 and sold on February 9, 2016, and the Series R-2016C and R-2016D Bonds issued on February 16, 2016 and sold on January 20, 2016, after defeasance of the refunded bonds. Includes $195.199 million of a $300 million TIFIA loan which has been drawn as of February 16, 2016.
Totals may not add due to rounding.

*Source: Office of the State Treasurer.*

**Certificates of Participation/Financing Contracts for State and Local Agencies**

***Financing Contracts and Leases for State Agencies.*** The Legislature has authorized the State to enter into financing contracts, including leases, installment purchase agreements and other interest-bearing contracts, for the acquisition by State agencies of personal and real property. The State's current program provides for the financing of essential equipment and real estate projects with proceeds received from the sale of certificates of participation in master financing contracts. By their terms, the master financing contracts are payable only from current appropriations and/or from funds that do not constitute "general State revenues," and are not "debt" under the Constitution. Unlike bonds, the State's obligations under the master financing contracts and State agencies' obligations under their financing addenda are subject to appropriation by the Legislature and Executive Order reduction by the Governor.

The Committee is charged with oversight of financing contracts entered into by the State and State agencies, and all financing contracts for State real estate projects require prior approval of the Legislature. At the start of each biennium, the Office of the State Treasurer, as staff to the Committee, reports on prior usage of financing contracts and presents a proposed financing plan for the upcoming biennium. In addition, the Committee is required by law to establish from time to time a maximum aggregate principal amount payable from payments to be made under financing contracts entered into by the State.

The State also has entered into two long-term leases with separate nonprofit corporations that issued "63-20" lease revenue bonds on behalf of the State. The first lease, entered into in 2004 with Tumwater Office Properties (now known as "TOP"), is for an office building being used as offices by WSDOT and DOC (now known as the "Edna Lucille Goodrich Building" and formerly the "Tumwater Office Building"); these bonds were refunded for savings in June 2014. The second lease, entered into in 2009 with FYI Properties, is for a State data center and an office building in Olympia used by the Department of Enterprise Services and Consolidated Technology Services and several smaller agencies (the "Wheeler Building"). The State began making lease payments for the Wheeler Building in July 2011. The State's payments under the leases have been assigned to separate trustees as security for the "63-20" bonds issued by each of the lessors. Under each lease, the State's obligation to make payments of rent is subject to appropriation by the Legislature and subject to Executive Order reduction by the Governor, and neither lease is a "debt" under the Constitution.

As of June 30, 2015, the State had approximately $13.6 million in capital leases outstanding for land, building and equipment, of which $4.4 million were obligations of the governmental funds. See Footnote 7(D) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

***Financing Contracts for Local Agencies.*** The Legislature has authorized the State to enter into financing contracts on behalf of certain local government agencies for the acquisition of essential real and personal property. Pursuant to that authorization, the Treasurer established the State's Local Capital Asset Lending Program under which certain local government agencies with taxing power enter into financing contracts with the State for the acquisition of real and personal property. The obligations of local agencies under financing contracts with the State are general obligations to which the local agencies pledge their full faith and credit to make required payments. Local agency payments received by the State are used to make payments under financing contracts of the State. The State incurs a contingent obligation to make payments on behalf of a local agency in the event a local agency fails to make its required payment. This contingent payment obligation of the State is subject to appropriation by the Legislature and to Executive Order reduction by the Governor. If any local agency fails to make a payment due, the Treasurer is obligated to withhold an amount sufficient to make such payment from the local agency's share, if any, of State revenues or other amounts authorized or required by law to be distributed by the State to such local agency, if otherwise legally permissible.

Table 13 summarizes by Fiscal Year payments to be made relating to outstanding certificates of participation, and Table 14 summarizes the "63-20" lease revenue bond payments by Fiscal Year.

**Table 13**
**Payments of Certificates of Participation for State and Local Agencies [1]**
(Debt Issued through March 31, 2016)
*(in dollars)*

| | State | | | | Local | | | | State and Local Real Estate & Equipment Total Payments[3] |
|---|---|---|---|---|---|---|---|---|---|
| | Real Estate | | Equipment | | Real Estate | | Equipment | | |
| Fiscal Year | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2016[2] | 33,554,795 | 16,312,616 | 36,158,463 | 8,121,495 | 3,605,118 | 1,535,111 | 7,705,078 | 1,710,423 | 108,703,100 |
| 2017 | 27,305,000 | 20,205,854 | 41,904,292 | 12,368,757 | 3,711,682 | 1,423,614 | 8,132,027 | 1,853,477 | 116,904,703 |
| 2018 | 27,395,000 | 18,019,221 | 43,716,559 | 9,693,055 | 3,062,758 | 1,268,916 | 7,472,810 | 1,448,602 | 112,076,921 |
| 2019 | 29,250,000 | 16,860,495 | 42,087,839 | 7,848,804 | 2,905,027 | 1,142,305 | 6,531,315 | 1,138,920 | 107,764,706 |
| 2020 | 29,125,000 | 15,609,124 | 37,305,572 | 6,110,169 | 2,850,013 | 1,016,982 | 5,422,062 | 861,799 | 98,300,722 |
| 2021 | 29,265,000 | 14,336,029 | 31,836,469 | 4,590,051 | 2,645,000 | 895,508 | 3,400,064 | 654,503 | 87,622,625 |
| 2022 | 28,780,000 | 13,057,401 | 20,922,480 | 3,352,284 | 2,430,000 | 780,851 | 2,637,520 | 504,766 | 72,465,302 |
| 2023 | 29,035,000 | 11,764,940 | 17,906,674 | 2,360,056 | 2,525,000 | 667,025 | 2,278,326 | 378,419 | 66,915,440 |
| 2024 | 28,275,000 | 10,465,430 | 17,702,270 | 1,484,263 | 2,135,000 | 560,994 | 2,147,730 | 270,275 | 63,040,961 |
| 2025 | 26,380,000 | 9,233,489 | 7,094,851 | 885,126 | 2,120,000 | 465,149 | 1,660,149 | 189,512 | 48,028,276 |
| 2026 | 26,245,000 | 8,012,572 | 5,303,231 | 596,118 | 2,215,000 | 364,953 | 1,456,769 | 114,439 | 44,308,081 |
| 2027 | 26,435,000 | 6,768,054 | 4,065,000 | 342,950 | 2,165,000 | 264,088 | 865,000 | 51,944 | 40,957,035 |
| 2028 | 23,595,000 | 5,607,411 | 3,940,000 | 180,900 | 2,225,000 | 165,191 | 895,000 | 23,244 | 36,631,746 |
| 2029 | 23,225,000 | 4,562,443 | 4,060,000 | 60,900 | 1,135,000 | 65,069 | 95,000 | 1,900 | 33,205,311 |
| 2030 | 23,920,000 | 3,509,995 | - | - | 385,000 | 25,818 | - | - | 27,840,813 |
| 2031 | 17,075,000 | 2,618,963 | - | - | 205,000 | 14,300 | - | - | 19,913,263 |
| 2032 | 12,430,000 | 1,977,159 | - | - | 145,000 | 7,600 | - | - | 14,559,759 |
| 2033 | 12,105,000 | 1,519,316 | - | - | 90,000 | 1,800 | - | - | 13,716,116 |
| 2034 | 7,400,000 | 1,146,247 | - | - | - | - | - | - | 8,546,247 |
| 2035 | 7,350,000 | 893,313 | - | - | - | - | - | - | 8,243,313 |
| 2036 | 6,535,000 | 650,038 | - | - | - | - | - | - | 7,185,038 |
| 2037 | 4,820,000 | 393,400 | - | - | - | - | - | - | 5,213,400 |
| 2038 | 5,015,000 | 200,600 | - | - | - | - | - | - | 5,215,600 |
| Total | 484,514,795 | 183,724,109 | 314,003,700 | 57,994,928 | 36,554,599 | 10,665,272 | 50,698,851 | 9,202,222 | 1,147,358,475 |

(1) Excludes payments on State leases supporting "63-20" lease revenue bonds. See Table 14. Does not include the Certificates of Participation, Series 2016A, expected to be sold on March 31, 2016.
(2) As of March 31, 2016, remaining debt service payments on Certificates of Participation for Fiscal Year 2016 total $7,117,687.
(3) Debt service is collected from State and local agencies one month prior to the date the State pays debt service. Table shows debt service as it is paid to Certificate of Participation holders, not when collected from State and local agencies.

Totals may not add due to rounding.

*Source: Office of the State Treasurer.*

**Table 14**
**Payments Under Lease Revenue Bonds**
(Debt Service by Fiscal Year)
*(in dollars)*

| Fiscal Year | E.L. Goodrich Building | | Wheeler Building | | Total Lease Revenue Bonds[1] |
|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | |
| 2016 | 1,565,000 | 1,904,275 | 6,310,000 | 15,321,625 | 25,100,900 |
| 2017 | 1,795,000 | 1,820,275 | 6,630,000 | 15,006,125 | 25,251,400 |
| 2018 | 2,010,000 | 1,725,150 | 6,965,000 | 14,674,625 | 25,374,775 |
| 2019 | 2,235,000 | 1,652,550 | 7,310,000 | 14,326,375 | 25,523,925 |
| 2020 | 2,415,000 | 1,606,050 | 7,675,000 | 13,960,875 | 25,656,925 |
| 2021 | 2,600,000 | 1,516,900 | 8,060,000 | 13,577,125 | 25,754,025 |
| 2022 | 2,875,000 | 1,380,025 | 8,460,000 | 13,174,125 | 25,889,150 |
| 2023 | 3,155,000 | 1,229,275 | 8,885,000 | 12,751,125 | 26,020,400 |
| 2024 | 3,460,000 | 1,063,900 | 9,350,000 | 12,284,663 | 26,158,563 |
| 2025 | 3,790,000 | 882,650 | 9,845,000 | 11,793,788 | 26,311,438 |
| 2026 | 4,140,000 | 684,400 | 10,360,000 | 11,276,925 | 26,461,325 |
| 2027 | 4,510,000 | 468,150 | 10,905,000 | 10,733,025 | 26,616,175 |
| 2028 | 4,930,000 | 256,800 | 11,450,000 | 10,187,775 | 26,824,575 |
| 2029 | 3,955,000 | 79,100 | 12,035,000 | 9,600,963 | 25,670,063 |
| 2030 | - | - | 12,665,000 | 8,969,125 | 21,634,125 |
| 2031 | - | - | 13,360,000 | 8,272,550 | 21,632,550 |
| 2032 | - | - | 14,095,000 | 7,537,750 | 21,632,750 |
| 2033 | - | - | 14,870,000 | 6,762,525 | 21,632,525 |
| 2034 | - | - | 15,690,000 | 5,944,675 | 21,634,675 |
| 2035 | - | - | 16,555,000 | 5,081,725 | 21,636,725 |
| 2036 | - | - | 17,465,000 | 4,171,200 | 21,636,200 |
| 2037 | - | - | 18,425,000 | 3,210,625 | 21,635,625 |
| 2038 | - | - | 19,440,000 | 2,197,250 | 21,637,250 |
| 2039 | - | - | 20,510,000 | 1,128,050 | 21,638,050 |
| **Total** | 43,435,000 | 16,269,500 | 287,315,000 | 231,944,613 | 578,964,113 |

(1) As of February 16, 2016, remaining debt service payments for Fiscal Year 2016 total $13,970,813.
Totals may not add due to rounding.
*Source: Office of the State Treasurer.*

### Other Debt

See Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS–Note 7A" for a description of revenue bonds issued by certain colleges and universities; tobacco securitization debt; and certain other conduit debt issued by State agencies, none of which is debt of the State.

### School Bond Guarantee Program

The School Bond Guarantee Program is a credit enhancement program that provides savings to State taxpayers by pledging the full faith, credit and taxing power of the State to the payment of voter-approved school district general obligation bonds.

Each school district is responsible for paying in full the principal of and interest on its bonds guaranteed by the State under the guarantee program. If sufficient money to make any scheduled debt service payment on guaranteed bonds of a school district has not been transferred to the paying agent in a timely manner, the Treasurer is required to transfer sufficient money to the paying agent for such payment. The Treasurer is entitled to recover from the school district any funds paid by the State on behalf of a school district under the guarantee program in a manner consistent with Chapter 39.98 RCW. The State has not been called upon to pay debt service on any guaranteed school debt.

As of February 1, 2016, the aggregate total principal amount outstanding on 479 voter-approved bond issues guaranteed under the program was $9.97 billion. The bonds were issued by 177 school districts.

**Washington Guaranteed Education Tuition Program**

The Washington Guaranteed Education Tuition Program ("GET program") is a 529 prepaid college tuition plan that allows Washington residents or individuals opening accounts for Washington residents to prepay for future college tuition. Individual accounts are guaranteed by the State to keep pace with rising college tuition, based on the highest tuition at Washington's public universities. The after-tax contributions to a GET account grow tax-free and can be withdrawn tax-free when used for eligible higher education expenses. GET funds are held in the State treasury and invested by the Washington State Investment Board.

According to the June 30, 2012, actuarial valuation prepared by the Office of the Washington State Actuary ("OSA"), the market value of program assets, totaled $2.31 billion, or 78.5 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.94 billion. The June 30, 2013, actuarial report prepared by OSA showed program assets of $2.57 billion, or 94.1 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.71 billion. The June 30, 2014, actuarial report prepared by OSA showed program assets of $2.928 billion, or 105.8 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.767 billion. The June 30, 2015 actuarial report prepared by OSA showed program assets of $2.862 billion, or 140.1 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.042 billion. OSA has stated that the GET program's funded status is highly sensitive to short-term changes in tuition growth.

As described under "THE GENERAL FUND—Operating Budget—2015-17 Biennium Budget," the budget enacted by the Legislature for the 2015-17 Biennium reduced tuition for State colleges and universities. The budget continues the payout value in effect prior to the tuition reduction for GET units redeemed during the 2015-16 and 2016-17 academic years. For academic years after 2016-17, the GET Committee is authorized to make program adjustments it deems necessary to ensure that the total payout value of each account is not decreased or diluted as a result of the tuition changes. By December 1, 2016, the GET Committee must report to the Legislature regarding: (1) the impact of decreasing tuition rates on the funded status of the GET program; (2) the future price of GET tuition units; and (3) possibly establishing a college savings program that is not linked to tuition rates. The GET Committee recently authorized the refund of an amortization fee paid by certain GET participants that was charged to ensure the program's funded status recovered after the impacts of the recession, and voted to allow account owners to request a refund of their contributions or the payout value, whichever is greater, without penalty through December 15, 2016. As of December 1, 2015, refunds of approximately $62.9 million had been received. The GET Committee also suspended new program enrollments and the purchase of any new GET unit sales outside of custom monthly plans for a period not to exceed two years. The GET Committee is exploring establishing a direct-fund 529 college savings plan.

## INVESTMENTS

The Treasurer manages and invests two distinct sets of funds: State funds and Local Government Investment Pool ("LGIP") funds. State funds include funds in the State treasury that are subject to legislative appropriation and funds in the Treasurer's Trust, which are accounts placed in the custody of the Treasurer and not typically subject to legislative appropriation. Separately, the Treasurer manages the LGIP funds, a voluntary investment option for State and local governments.

State funds are managed by the Office of the State Treasurer pursuant to State laws that govern the permissible investments and to investment policies that provide further restrictions. In keeping with State law, funds within the Treasury and Treasurer's Trust Funds are commingled for investment and cash management purposes. Historically, the Treasury and Treasurer's Trust Funds have had sufficient liquidity to meet all cash flow demands.

Separately, the Washington State Investment Board manages and invests State retirement plan funds, State injured-worker insurance funds and various permanent funds. Its 15-member board consists of 10 voting members and five non-voting members. The 10 voting members include the Director of the Department of Labor and Industries and the Director of Retirement Systems, the Treasurer, five representatives of the public employee retirement systems and two legislators (one from each chamber).

For a description of permitted investments for various funds including pension funds and the Treasury and Treasurer's Trust Fund and how investments are valued and investments as of June 30, 2015, for the LGIP,

Treasurer's Trust Funds, State pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

**Treasury and Treasurer's Trust Funds**

The Treasury and Treasurer's Trust Funds are managed within the Office of the State Treasurer in three sub-portfolios: a Liquidity Portfolio, Intermediate Portfolio and a Core Portfolio. The Liquidity Portfolio is a short-term investment fund managed to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include State operating and capital accounts). Balances in the Liquidity Portfolio fluctuate within a wide range (from near zero to more than $2.0 billion), increasing sharply with the receipt of seasonal tax payments and bond proceeds and declining with the pace of operating and capital expenditures. The Intermediate Portfolio has a target duration of 0.75 years and a maximum maturity of two years. Funds not anticipated to be needed in the near-term are invested in the Core Portfolio, which has a target duration of approximately 2.1 years and a maximum maturity of 10 years. The performance benchmark of the Core Portfolio is a weighted total return of the Merrill Lynch 0-1 Year Treasury Index (20 percent); the Merrill Lynch 1-3 Year Treasury/Agency Index (50 percent); and the Merrill Lynch 3-5 Year Treasury/Agency Index (30 percent).

Earnings on all sub-portfolios are calculated and distributed to individual funds on an accrued basis.

**Table 15**
**Treasury and Treasurer's Trust Funds**
**Average Daily Balances by Security Class**
*($ in thousands)*

| | January 2016 | | February 2015-January 2016[1] | |
|---|---|---|---|---|
| | $ | % | $ | % |
| U.S. Agency | 2,133,024 | 44.1 | 2,114,414 | 46.9 |
| U.S. Treasury | 1,348,804 | 27.9 | 1,204,057 | 26.7 |
| Repurchase Agreements | - | - | - | - |
| Bank Deposits | 729 | 0.0 | 38,683 | 0.9 |
| LGIP Deposit[2] | 1,200,314 | 24.8 | 1,002,255 | 22.2 |
| Certificates of Deposit | 148,932 | 3.1 | 149,016 | 3..3 |
| | 4,831,803 | 100.0 | 4,508,425 | 100.0 |
| Weighted Average Maturity: | 532 days | | | |

(1) Average balance.
(2) See "Local Government Investment Pool Funds."
*Source: Office of the State Treasurer.*

The monthly ending balances in the Treasury and Treasurer's Trust Funds vary widely and have generally ranged from $3 billion to $6 billion from Fiscal Year 2006 to Fiscal Year 2015, with some monthly balances between $1.9 billion and $3 billion during the economic downturn in Fiscal Years 2009 through 2012.

**Local Government Investment Pool Funds**

The LGIP, authorized by the Legislature in 1986 and managed by the Office of the State Treasurer, is a voluntary pool that offers its participants safety of principal, 100 percent liquidity on a daily basis and the economies of scale inherent in pooling. More than 540 local governments participate in the LGIP. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity ("WAM") of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance.

**Table 16**
**Local Government Investment Pool Funds**
**Average Daily Balances by Security Class**
*($ in thousands)*

| | January 2016 | | February 2015-January 2016[1] | |
|---|---|---|---|---|
| | $ | % | $ | % |
| U.S. Agency | 3,969,226 | 41.5 | 5,004,853 | 50.8 |
| U.S. Treasury | 1,051,162 | 11.0 | 1,033,533 | 10.5 |
| Repurchase Agreements | 3,494,111 | 36.5 | 2,854,573 | 29.0 |
| Interest Bearing Bank Accounts | 981,805 | 10.3 | 900,151 | 9.1 |
| Certificates of Deposit | 76,438 | 0.8 | 66,790 | 0.7 |
| | 9,572,742 | 100.0 | 9,859,900 | 100.0 |
| Weighted Average Maturity: | 30 days | | | |

(1) Average balance.

*Source: Office of the State Treasurer.*

## RISK MANAGEMENT

### Insurance

The State operates a self-insurance liability program (the "SILP") for third-party claims against the State for injuries and property damage up to $10 million for each occurrence. An excess insurance policy is also purchased for these risks, which covers amounts above a self-insured retention (the "SIR") up to an annual limit of $75 million. The current SIR is $10 million for all agencies except DSHS ($16.5 million), DOC ($15.5 million) and WSDOT ($12.5 million). Insurance is procured annually, and the SIR may change. The SILP is administered by the Department of Enterprise Services ("DES") with money available in a statutorily-based Liability Account within the Risk Management Fund. The Liability Account is funded by annual premiums assessed to State agencies based on each agency's loss history (paid claims over the most recent six years and open reserves for pending claims). State statutes do not permit the Liability Account to exceed 50 percent of the State's outstanding liabilities as determined bi-annually by an independent actuary. General and auto claims are investigated and settled through the coordinated efforts of DES, the Office of the Attorney General and WSDOT with consultation and agreement of the affected agency. Approved claims (including judgments, settlements and related defense costs) are paid by DES from the Liability Account. As of June 30, 2015, the Liability Account held $50.69 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2015, outstanding and actuarially determined claims against the State and its agencies (except for the University of Washington and the Department of Transportation Ferries Division), including projected defense costs, that were payable from the Liability Account were estimated at $564.29 million.

The SILP covers the State, its agencies, governing bodies, boards and commissions, including all State employees, elected and appointed officials, members of boards or commissions, volunteers and reserve officers, all while acting within the scope of their employment or assigned volunteer activities. Students in State four-year universities and in the community and technical colleges are not covered by the SILP unless they otherwise qualify as State employees or volunteers. The University of Washington does not participate in SILP but operates its own self-insurance program and purchases a variety of commercial insurance, including excess and property policies. See Notes 7(E) and 10 in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

The Ferries Division of WSDOT does not participate in the self-insurance liability program, so the State purchases a marine policy that covers the vessels, terminals and operations of the Washington State Ferry System and the WSDOT ferry on the Keller ferry route (SR 21 crossing of Columbia River/Lake Roosevelt). The policy combines general liability, pollution liability, vessel hull and machinery and property in a master policy. It provides coverage up to $250 million per occurrence for liability, $250 million for pollution, 50 percent of the estimated replacement cost for damage to vessels ($1.16 billion), and up to 100% of the estimated replacement cost for damage to terminals, docks and shore-side facilities ($524 million). Except as provided below, for all losses there is a $1.0 million deductible per occurrence. The policy also includes coverage for war/terrorism risk for all vessels and

dockside structures and equipment. Such coverage includes losses up to $250 million per occurrence with no deductible. The coverage includes losses as a result of foreign or domestic terrorism.

The State also purchases other commercial insurance such as aviation insurance covering aircraft and airport liability coverage for agencies and colleges with aviation exposures, a master property policy covering all risks for selected buildings, contents and electronic data processing equipment (replacement value insurance including earthquakes and floods), a fidelity policy covering fraudulent or dishonest acts of all State officers and employees, and special policies covering specific buildings such as certain buildings at Washington State University, and business interruption and property coverage for toll facilities, including the Tacoma Narrows Bridge and the SR 520 Corridor.

**Workers' Compensation Program**

The Workers' Compensation Program insures payment of benefits for approximately 70 percent of the work force in the State, excluding self-insured employers and their employees. The Workers' Compensation Program provides time-loss, medical, vocational, disability and pension benefits to qualifying individuals who sustain work-related injuries or illness.

The main benefits plans of the Workers' Compensation Program are funded based on rates that are designed to keep these plans solvent in accordance with recognized actuarial principles and to limit fluctuations in premium rates. The accrual of future payments for workers that were injured as of June 30, 2015, was estimated to be approximately $25.07 billion, including $11.83 billion for supplemental pension COLA described in the next paragraph. As of June 30, 2015, there were $14.6 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits. See Note 3(c) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

The supplemental pension plan supports cost-of-living adjustments ("COLA") granted for time-loss and disability payments for all injured workers, including those of self-insured employers. The supplemental pension component covers both State funded and self-insured employees. The accrual of these future payments for workers that were injured as of June 30, 2015, was estimated to be approximately $11.83 billion. By statute, the State is permitted to collect only enough revenue to fund the current COLA payments. No assets are allowed to accumulate for the future funding of claims' COLA benefits payable. The programs' actuaries estimate these rates so that yearly premium payments will be sufficient to make these current payments.

In 2011, the Legislature adopted two bills designed to improve return-to-work outcomes and reduce the cost of the Workers' Compensation Program. One bill directs the Department of Labor and Industries to create a single, State-wide provider network for injured workers and expands access to the State's Centers of Occupation Health Education, which are community-based organizations that use occupational health best practices. The second bill, among other provisions, (1) eliminates the Fiscal Year 2012 cost-of-living adjustment with no future catch-up and delays the first adjustment for future claims by one year, (2) allows certain workers to resolve all but the medical portion of their claims with a claim resolution structured settlement agreement that provides a periodic payment schedule, (3) provides that if a pension is awarded after a permanent partial disability award, all permanent partial disability compensation must be either deducted from the worker's monthly pension benefits or deducted from the pension reserve, and (4) for a limited period, authorizes employers to receive a wage subsidy and certain reimbursements for employing an injured worker at light duty or transitional work.

See Note 3(C) for investments in the Workers Compensation Fund and Note 7(E) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

**Washington State Unemployment Insurance Trust Fund**

The Washington State Employment Security Department administers the State's unemployment insurance system. It provides weekly unemployment insurance payments for workers who lose their jobs through no fault of their own. The unemployment insurance program is a partnership among federal and state governments. Most employers pay unemployment insurance payroll taxes to both the state and the federal government. Workers in Washington State do not pay unemployment taxes.

The Federal Unemployment Tax Act ("FUTA") directly finances the administrative costs of running the states' unemployment insurance programs, such as State employment security staff salaries, equipment, software, and supplies used in direct support of the Unemployment Insurance, Employment Services, and Labor Market Information programs. FUTA also provides reserve funds for possible extended benefits programs or loan funds to states that deplete their benefit accounts.

The State Unemployment Tax Act ("SUTA") directly sends revenues to the Washington State Unemployment Insurance Trust Fund. The funds can only be used to pay unemployment benefits. The U.S. Treasury holds the State's trust fund in the national unemployment insurance trust fund.

According to State statute, tax rates are intended to maintain fund balances sufficient to cover at least 12 months of unemployment benefits during a severe recession. By statute, the State may add an additional solvency tax of 0.2 percent to an employer's rate if the balance in the trust fund drops below a level needed to pay seven months of benefits. The State has not borrowed from the federal government to pay unemployment benefits since the mid-1980s.

The State unemployment tax has two components: (1) experience-rated tax based on a rolling four-year average of the employer's layoff history and (2) social-cost tax based on benefit costs from the previous year that are not attributed to a specific employer.

The average combined unemployment tax rates as a percentage of taxable wages and unemployment compensation balances for Fiscal Years 2011 to 2015 are shown in the following table.

**Table 17**
**Average Combined Unemployment Tax Rates and Unemployment Compensation Fund Balances**
(Fiscal Year ended June 30)

| Year | Average Tax Rate (in percents)[1] | Balance ($ in millions)[2] |
|---|---|---|
| 2011 | 2.25 | 2,545 |
| 2012 | 2.23 | 2,626 |
| 2013 | 1.76 | 2,824 |
| 2014 | 1.84 | 3,171 |
| 2015 | 1.69 | 3,633 |

(1) Average Tax Rate on taxable wages as of the second quarter of the year.
(2) The State trust fund is held in an account for the State in the national unemployment trust fund of the U.S. Treasury.
*Source: U.S. Department of Labor-Unemployment Insurance Data Summary and TreasuryDirect®.*

The trust fund balance as of November 30, 2015, was $3.9 billion, which is estimated to be enough coverage to provide 16.5 months of benefits.

In November 2015, approximately 68,000 unemployed workers received unemployment insurance benefits. Beginning July 5, 2015, new claimants entering the program may receive up to 26 weeks of regular unemployment insurance benefits from the State, with a maximum State liability of $17,264 (which is the maximum weekly benefit amount times 26). The maximum weekly benefit amount is calculated based on 63 percent of Washington's average weekly wage per unemployed worker.

A state can qualify for extended federal benefits if the state's current year unemployment rate is higher than prior periods. The State currently does not qualify for any federal extended benefits programs.

**Seismic Activity and Other Natural Disasters**

The State is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the State could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake and to ongoing shaking that could follow a major earthquake. The State contains identified geologic

faults. In addition to various faults beneath the State, the State is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a giant earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the State, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the State also could experience the effects of a tsunami following a major earthquake on the West Coast or in areas outside the United States. WSDOT has determined that, among other infrastructure, the seawall between downtown Seattle and Puget Sound, which is being replaced; the Alaskan Way Viaduct, an elevated highway adjacent to the seawall; and the SR 520 Evergreen Point Bridge, one of only two bridges that cross Lake Washington, are likely to be damaged if another major earthquake occurs. Other natural disasters, including volcanic eruptions, tsunamis, mudslides, floods, wind storms, drought, and avalanches are possible. Much of the State experienced drought conditions in 2015. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the State and its economy and financial condition. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–*The SR 520 Corridor Program*" and "–*The Alaskan Way Viaduct*."

## RETIREMENT SYSTEMS

### Retirement Plans

The State administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2014, the plans covered an estimated 530,000 eligible State and local government employees. These plans are administered through the Department of Retirement Systems and the Board for Volunteer Fire Fighters.

A summary of each of the State retirement plans is provided in the following table.

[Remainder of page intentionally blank]

**Table 18**
**Overview of Retirement Plans[1]**

| Retirement System/Plan | Administered by | Benefit Type | Active and Terminated Vested Members[2] | Members Receiving Benefits[2] | Closed in |
|---|---|---|---|---|---|
| **Public Employees' Retirement System ("PERS")** was established in 1947 and is a cost-sharing multiple-employer retirement system. | | | | | |
| PERS 1 | Dept. of Retirement Systems | Defined Benefit | 5,960 | 51,070 | 1977 |
| PERS 2/3 | | Defined Benefit/Hybrid[3] | 178,217 | 37,776 | Open |
| **Teachers' Retirement System ("TRS")** was established in 1938 and is a cost-sharing multiple-employer retirement system comprised principally of non-State employees. | | | | | |
| TRS 1 | Dept. of Retirement Systems | Defined Benefit | 2,147 | 35,639 | 1977 |
| TRS 2/3 | | Defined Benefit/Hybrid[3] | 75,481 | 9,988 | Open |
| **School Employees' Retirement System ("SERS")** was established in 1998 and is a cost-sharing multiple-employer retirement system comprised principally of non-State employees. | | | | | |
| SERS 2/3 | Dept. of Retirement Systems | Defined Benefit/Hybrid[3] | 66,102 | 10,621 | Open |
| **Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF")** was established in 1970 and is a cost-sharing multiple-employer retirement system comprised primarily of non-State employees, with the Department of Fish and Wildlife enforcement officers as the major exception. | | | | | |
| LEOFF 1 | Dept. of Retirement Systems | Defined Benefit | 122 | 7,605 | 1977 |
| LEOFF 2 | | Defined Benefit | 17,522 | 3,235 | Open |
| **Washington State Patrol Retirement System ("WSPRS")** was established in 1947 and is a single employer retirement system. | | | | | |
| WSPRS 1 | Dept. of Retirement Systems | Defined Benefit | 733 | 996 | 2002 |
| WSPRS 2 | | Defined Benefit | 450 | 0 | Open |
| **Public Safety Employees' Retirement System ("PSERS")** was established in 2004 and is a cost-sharing multiple-employer retirement system. | | | | | |
| PSERS 2 | Dept. of Retirement Systems | Defined Benefit | 5,033 | 62 | Open |
| **Judicial Retirement System ("JRS")** was established in 1971 and is an agent multiple-employer retirement system. The plan is funded by legislative appropriation. | | | | | |
| JRS | Dept. of Retirement Systems | Defined Benefit | 0 | 108 | 1988 |
| **Judges' Retirement Fund ("Judges")** was established in 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, and Superior Courts. It is a cost-sharing multiple-employer retirement system. Judges are now covered under PERS. The plan is funded by legislative appropriation. | | | | | |
| Judges | Dept. of Retirement Systems | Defined Benefit | 0 | 12 | 1971 |
| **Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Act ("VFFRPF")** was established in 1945 and is a cost-sharing multiple-employer retirement system. The plan is funded by legislative appropriation. | | | | | |
| VFFRPF | Board for Volunteer Fire Fighters | Defined Benefit | 16,185 | 4,208 | Open |

(1) In addition, the State makes contributions to the Higher Education Retirement Plans that are sponsored by two-year colleges and individual universities. Eligible higher education State employees may participate in the Higher Education Retirement Plans or the State-administered plans. See Note 11(A) and (J) in Appendix D—"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."
(2) Member data as of June 30, 2014.
(3) Hybrid = defined benefit/defined contribution.
*Source: Department of Retirement Systems and Office of the State Actuary.*

**Funding Policies**

The State's retirement plans are funded by a combination of funding sources: (1) contributions from the State; (2) contributions from employers (including the State as employer and other governmental employers); (3) contributions from employees; and (4) investment returns.

State law requires systematic actuarial funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. OSA is statutorily required, pursuant to Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. The most recent actuarial report was released in September 2015 for the year ended June 30, 2014.

The Legislature has adopted the following goals for the State retirement systems: (1) to provide a dependable and systematic process for funding the benefits provided to members and retirees; (2) to fully fund the various Plans 2 and 3 as provided by law; (3) to fully amortize the total cost of LEOFF Plan 1 not later than June 30, 2024; (4) to fully amortize the unfunded actuarial accrued liability in PERS Plan 1 and TRS Plan 1 within a rolling 10-year period, using methods and assumptions that balance needs for increased benefit security, decreased contribution rate volatility, and affordability of contribution rates; (5) to establish long-term employer contribution rates which will remain a relatively predictable proportion of future state budgets; and (6) to fund, to the extent feasible, all benefits for Plans 2 and 3 members over the working lives of those members.

***Actuarial Methodology for Funding Calculations.*** To calculate employer and employee contribution rates necessary to pre-fund the plans' benefits, OSA uses actuarial cost and asset valuation methods selected by the Legislature as well as economic and demographic assumptions. As noted above, actuarial valuations are provided annually, but only valuations for odd-numbered years are used to determine contribution rates. The June 30, 2013 valuation was used to determine the contribution rates for the 2015-17 Biennium.

The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2015 (1) rate of investment return: 7.8 percent per annum (7.5 percent for LEOFF Plan 2 in each biennium); (2) general salary increases: 3.75 percent per annum; (3) rate of Consumer Price Index increase: 3.0 percent; and (4) growth in membership: 0.95 percent (0.80 percent for TRS, 1.25 percent for LEOFF). The assumed long-term investment return used as the discount rate for determining the liabilities for each plan decreased from 7.9 percent to 7.8 percent for 2015-17 contribution rates and will decline further to 7.7 percent for the calculation of contribution rates for the 2017-19 Biennium.

As required by State law, OSA periodically prepares an experience study which compares demographic assumptions with actual experience to determine if any adjustments are required to ensure that OSA's assumptions remain reasonable. The most recent Experience Study Report was prepared in November 2014 using data from the 2007-2012 period. Updated demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates and other assumptions were included in the determination of contribution rates for the 2015-17 Biennium and the actuarial report for the year ended June 30, 2013, that was released in September 2014. The most significant assumption change from this study was adopting the Society of Actuaries' Scale BB to project future mortality improvements. In August 2015, OSA prepared a Report on Financial Condition and Economic Experience Study, which discusses the health of the pension system and compares actual economic experience with the assumptions made. These studies are available on OSA's website (osa.leg.wa.gov).

Actuarial cost methods allocate costs (or benefits) of a plan to different time periods. Costs are allocated using two components: (1) Normal Cost, or the cost of benefits that have not yet been earned and will be spread over the future working lives of current members, and (2) the Unfunded Actuarial Accrued Liability ("UAAL") which represents past benefit costs (already earned or allocated under the actuarial cost method) that are not covered by plan assets. The shortfall or UAAL must be amortized over a set period of time.

For PERS Plan 1 and TRS Plan 1, OSA uses a variation of the Entry Age Normal Cost Method to determine the actuarial accrued liability. In this method, the UAAL is equal to the unfunded actuarial present value of projected benefits less the actuarial present value of future normal costs for all active members at each valuation date. The present value of future normal costs assumes employers pay the Aggregate Normal Cost rate for Plans 2 and 3 and

active members contribute a fixed 6.0 percent. The resulting UAAL is amortized over a rolling 10-year period, as a level percentage of projected system payroll. The projected payroll includes pay from Plans 2 and 3 as well as projected payroll from future new entrants. As a result of this hybrid method, employers are charged the same contribution rate, regardless of the plan in which employees hold membership.

For all Plans 2 and 3 and WSPRS, OSA uses the Aggregate Cost Method to determine the Normal Cost and the actuarial accrued liability. Under this method, the actuarial accrued liability equals the actuarial value of assets and all remaining costs are amortized over the future payroll of the active group. As a result of this method, the entire contribution is considered Normal Cost and no UAAL is identified outside the Normal Cost.

The allocation of the Normal Cost between employers and employees varies by plan. Plan 2 members pay 50 percent of the Normal Cost with certain exceptions. Maximum employee contribution rates are set for TRS Plan 2 and WSPRS in accordance with statute.

Plans 3 have a defined benefit and a defined contribution component. Plan 3 members do not contribute to the defined benefit plan and can select from a variety of contribution rates for the defined contribution component.

Currently, LEOFF Plan 1 has assets that exceed its accrued liability and no contributions have been required since 2001.

***Rate Setting Process.*** Contribution rates for the upcoming biennium are adopted during even-numbered years according to a statutory rate-setting process. OSA prepares actuarial valuations based on the funding policies in statute. The resulting contribution rates are presented to the Select Committee on Pension Policy ("SCPP"), a 20-member committee of legislators, State agency representatives, and stakeholders, and the SCPP may make recommendations to the Pension Funding Council ("PFC"). The Pension Funding Council is a six-member group consisting of the Director of the Department of Retirement Systems, the Director of OFM, the chair and ranking minority member of the House of Representatives Ways and Means Committee, and the chair and ranking minority member of the Senate Ways and Means Committee. The PFC reviews recommendations from the OSA, the SCPP, and the outside actuarial auditors. The Law Enforcement Officers' and Fire Fighters' Retirement System 2 ("LEOFF 2") is the single exception to this process; OSA presents its valuation and the resulting contribution rates directly to the LEOFF 2 Board. The PFC and LEOFF 2 Board are required to adopt contribution rates no later than the end of July in even-numbered years. The rates adopted by each are subject to revision by the Legislature. All employers and employees are required to contribute at the level established by the Legislature.

**Contribution Rates**

The following table lists the contribution rates for the State and employees for the retirement plans effective July 1, 2015. The rates are expressed as a percentage of current year covered payroll (members' reportable salary, which generally is gross pay).

[Remainder of page intentionally blank]

**Table 19**
**Contribution Rates**
*(in percentage)*

| | Contribution Rates Starting July 1, 2015[1][2] | |
|---|---|---|
| | **Employer Rate[3]** | **Employee Rate [4]** |
| PERS Plan 1 | 11.18 | 6.00 |
| PERS Plan 1 elected State officials[4][5] | 16.68 | 7.50 |
| PERS Plan 2/3[6] | 11.18 | 6.12 |
| TRS Plan 1[7] | 13.13 | 6.00 |
| TRS Plan 1 elected State officials[5][7] | 13.13 | 7.50 |
| TRS Plan 2/3[7] | 13.13 | 5.95 |
| SERS Plan 2/3[7] | 11.58 | 5.63 |
| PSERS Plan 2 | 11.54 | 6.59 |
| LEOFF Plan 1 | 0.18 | 0.00 |
| LEOFF Plan 2 | 8.59 | 8.41 |
| WSPRS Plan 1[8] | 8.34 | 6.84 |
| WSPRS Plan 2[8] | 8.34 | 6.84 |

(1) TRS and SERS rates are effective September 1 through August 31 for each year; all other plans are effective July 1. Member rates for PERS Plan 1 and TRS Plan 1 are set by statute.
(2) Contribution rates are subject to change by the Legislature.
(3) Includes 0.18 percent (as of September 1, 2013) Department of Retirement Systems administrative expense rate.
(4) Employee contribution rates for Plans 1 and 2 only. Plan 3 members do not contribute to the defined benefit portion of Plan 3.
(5) Rates are calculated based on a statutory formula and are not adopted by the PFC.
(6) Includes elected State officials.
(7) As of September 1, 2015.
(8) Changed as of October 1, 2015 to include supplemental contribution rates from recent legislation.

*Source: Department of Retirement Systems.*

In July 2014, the PFC adopted contribution rate increases to be phased-in over three biennia, beginning with the 2015-17 Biennium. The rate increase is largely due to projected improvements in future rates of mortality. See "Funding Policies" for information on the demographic and economic experience studies. Effective July 1, 2015, employer contribution rates increased by 21 percent for all PERS plans and by 26 percent for all TRS Plans. The LEOFF 2 Board did not adopt a rate increase for the 2015-2017 Biennium since currently adopted contribution rates already exceed the contribution rates reflecting the updated assumption for projected mortality improvements. During its 2015 legislative session, the Legislature did not revise the rates adopted by the PFC and LEOFF 2 Board.

**State Contributions**

***State Contributions.*** The State's total contributions to the retirement plans for State employees paid from the General Fund and Non-General Fund are summarized in the following table. LEOFF Plan 1 had no UAAL and, therefore, other than administrative fees, no contributions were required in the 2013-2015 Biennium.

**Table 20**
**State's Contributions to Retirement Plans for State Employees[1]**
*($ in millions)*

| | State Contributions | | | | |
|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** |
| PERS Plan 1 | 72.3 | 124.0 | 125.6 | 208.1 | 192.1 |
| PERS Plan 2/3 | 158.0 | 182.8 | 182.9 | 203.7 | 219.1 |
| TRS Plan 1 | 4.4 | 3.1 | 3.7 | 6.3 | 1.9 |
| TRS Plan 2/3 | 0.7 | 1.1 | 1.2 | 1.1 | 1.9 |
| PSERS Plan 2 | 8.0 | 7.4 | 7.5 | 8.2 | 9.0 |
| LEOFF Plan 2[2] | 52.9 | 52.8 | 54.2 | 55.6 | 59.9 |
| VFFRPF | 5.7 | 5.6 | 6.0 | 6.4 | 5.9 |
| WSPRS Plan 1/2 | 5.3 | 6.5 | 6.5 | 6.6 | 6.7 |
| JRS | 10.9 | 8.1 | 10.1 | 10.6 | 10.6 |
| Total | 318.2 | 391.4 | 397.7 | 506.6 | 507.1 |

(1) Does not include State contributions for K-12 employees. Fiscal Year 2011-2014 figures and Fiscal Year 2015 VFFRPF represent actual contributions. The other Fiscal Year 2015 figures represent the State's proportionate share of plan contributions. The State concluded that the difference between actual and proportionate share of plan contributions is negligible.
(2) The State contributes to LEOFF Plan 2 for local government employees.
Totals may not add due to rounding.
*Source: Washington State Comprehensive Annual Financial Reports ("CAFR").*

In the adopted 2015-17 Biennium Budget, total State pension contributions for State employees, for the LEOFF Plan and towards higher education administered plans is estimated to be $1.45 billion, an estimated $162 million higher than in the 2013-15 Biennium. In addition, the State has budgeted approximately $1.22 billion in the 2015-17 Biennium for K-12 employees, an increase of approximately $345 million from the 2013-15 Biennium. Approximately half of the State's contributions for pensions are paid out of the General Fund.

***State and Local Government Contributions.*** In addition to the State's contributions shown above, the Legislature allocates money to each K-12 school district for employee salaries and certain associated benefits for basic education programs. This allocation is driven by formula, based on enrollment, State established salary levels, adopted contribution rates and other factors.

Local government employers also must meet their required contributions. Participating governmental employers include, but are not limited to, school districts, counties, municipalities, and political subdivisions.

Table 21 shows estimates of the allocation of State and local government employer contributions. These estimates include both payments made by the State as well as the allocations made by the State to school districts for pensions.

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**Table 21**
**Estimated State and Local Government**
**Employer Contribution Ratios by Funding Source[1]**
*(in percents)*

| System | General Fund-State | Non-General Fund-State | Local Government[3] |
|---|---|---|---|
| PERS | 18.7 | 28.1 | 53.2 |
| TRS[2] | 71.0 | 0.0 | 29.0 |
| SERS[2] | 44.6 | 0.0 | 55.4 |
| PSERS | 42.2 | 5.8 | 52.0 |
| LEOFF 2 | 40.0 | 0.0 | 60.0 |
| WSPRS | 7.0 | 93.0 | 0.0 |

(1) These splits are used by OSA to model approximate cost allocations for employers by fund or type of employer in actuarial fiscal analysis. The reader should exercise caution when using numbers provided in this table for any other purpose. Estimates are based upon the June 30, 2014, actuarial valuation.
(2) The State has only a few employees in TRS and no employees in SERS.
(3) Includes school districts.

*Source: Office of the State Actuary.*

**Investments**

Most of the retirement funds are invested by the Washington State Investment Board, which has 15 members, including members of the various retirement systems, the Treasurer, a member of the House of Representatives and Senate, and Directors of the Department of Retirement Systems and Labor and Industries. State law requires the Board to prepare quarterly reports summarizing the investment activities. The Treasurer or his/her delegate is the custodian of all funds in the retirement accounts. State law requires that the Board adopt investment policies and in its investments use reasonable care, skill, prudence and diligence, diversify, and consider the risk and return objectives reasonably suited to the fund. State law does not include a list of permitted investments for retirement funds.

As of September 30, 2015, there was $77.9 billion invested in the various retirement plans, including the defined benefit plans, defined contribution plans and certain deferred compensation funds, of which 23.04 percent was in fixed income securities, 35.95 percent in public equity, 22.78 percent in private equity, 15.15 percent in real estate, 2.51 percent in tangible assets and 0.57 percent in other investments.

The following table shows the investment returns on the retirement funds for the past 10 years. The 10-year annualized return as of September 30, 2015, was 6.73 percent.

**Table 22**
**Historical Investment Returns on Retirement Funds**
*(in percents)*

| Fiscal Year | 1 Year Annualized Return |
|---|---|
| 2006 | 16.69 |
| 2007 | 21.33 |
| 2008 | -1.24 |
| 2009 | -22.84 |
| 2010 | 13.22 |
| 2011 | 21.14 |
| 2012 | 1.40 |
| 2013 | 12.36 |
| 2014 | 17.06 |
| 2015 | 4.93 |

*Source: Washington State Investment Board.*

Notes 3 and 11 of Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" describe the Board's policy regarding permitted investments, how investments are valued, and a breakdown of investments as of June 30, 2015, and describe the commingled trust fund that is the investment vehicle for 11 separate retirement plans, the securities lending programs the pension trust funds are permitted, and the derivative investments as of June 30, 2015.

**Funded Status**

***Actuarial Methods Used in Reporting the Funded Status.*** Historically, the State has represented the funded status by comparing liabilities estimated using the Projected Unit Credit ("PUC") cost method to assets valued according to the Actuarial Value of Assets ("AVA"). The PUC cost method projects future benefits under the plan, using salary growth and other assumptions, and applies the service that has been earned as of the valuation date to determine accrued liabilities. The liability estimate has also relied on the statutorily set discount rate, currently at 7.8 percent. The AVA smoothes the effect of annual changes in the Market Value of Assets ("MVA") over a period of up to eight years. Additionally, the AVA is capped at 130 percent of the MVA and a floor is set at 70 percent of the MVA. This helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA.

Table 23 provides a ten-year history of the actuarial value of assets, market value of assets and the percent of actuarial value to market value for the defined benefit plans.

**Table 23**
**Actuarial Value and Market Value of**
**Defined Benefit Plans**
*(dollars in millions)*

| As of June 30 | Actuarial Value of Assets | Market Value of Assets | % of Actuarial Value to Market Value |
|---|---|---|---|
| 2005 | 45,412 | 46,673 | 97 |
| 2006 | 47,771 | 52,438 | 91 |
| 2007 | 50,787 | 60,095 | 85 |
| 2008 | 54,345 | 58,040 | 94 |
| 2009 | 56,991 | 44,205 | 129 |
| 2010 | 58,442 | 48,700 | 120 |
| 2011 | 60,654 | 57,350 | 106 |
| 2012 | 63,122 | 56,753 | 111 |
| 2013 | 65,458 | 62,213 | 105 |
| 2014 | 68,777 | 72,553 | 95 |

*Source: Office of the State Actuary.*

Table 24 displays the funded status for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans by comparing the PUC liabilities calculated using the statutory discount rate to the AVA on the valuation date. As of June 30, 2014, two closed plans – PERS Plan 1 and TRS Plan 1 – were underfunded by approximately $7.9 billion. In the remainder of the plans, valuation assets exceeded liabilities. Assets from one plan may not be used to fund benefits for another plan. The funded status of all of the State administered plans combined declined to 93 percent from 94 percent as of June 30, 2013. The drop in funded status from 101 percent as of June 30, 2012 to 94 percent as of June 30, 2013 was primarily due to revised demographic assumptions, including projected improvements in mortality rates, and the statutory requirement to reduce the assumed rate of return from 7.9 percent to 7.8 percent (except LEOFF Plan 2 which remains at 7.5 percent). See "Funding Policies" for more information on the demographic and economic experience studies.

**Table 24**
**Funded Status on an Actuarial Value Basis[1]**

| | PERS | | TRS | | SERS | PSERS | LEOFF | | WSPRS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Plan 1** | **Plan 2/3** | **Plan 1** | **Plan 2/3** | **Plan 2/3** | **Plan 2** | **Plan 1** | **Plan 2** | **Plan 1/2** | **Total[2]** |
| **PUC Liability[3]** | 12,727 | 26,172 | 9,266 | 8,843 | 3,598 | 225 | 4,323 | 7,629 | 1,011 | 73,793 |
| **Valuation Assets[3]** | 7,761 | 26,386 | 6,353 | 9,193 | 3,624 | 278 | 5,499 | 8,638 | 1,044 | 68,777 |
| **Unfunded Liability[3]** | 4,965 | (214) | 2,913 | (350) | (26) | (54) | (1,176) | (1,009) | (33) | 5,016 |
| **Funded Ratio (%)** | | | | | | | | | | |
| 2005[4] | 74 | 127 | 80 | 134 | 122 | n/a | 114 | 114 | 113 | 99 |
| 2006[4] | 74 | 121 | 80 | 133 | 125 | 99 | 117 | 116 | 114 | 100 |
| 2007[4] | 71 | 120 | 76 | 130 | 126 | 120 | 123 | 129 | 118 | 99 |
| 2008[4] | 71 | 119 | 77 | 125 | 121 | 127 | 128 | 133 | 121 | 100 |
| 2009 | 70 | 116 | 75 | 118 | 116 | 128 | 125 | 128 | 119 | 99 |
| 2010[5] | 74 | 113 | 84 | 116 | 113 | 129 | 127 | 119 | 118 | 102 |
| 2011[4] | 71 | 112 | 81 | 113 | 110 | 132 | 135 | 119 | 115 | 101 |
| 2012 | 69 | 111 | 79 | 114 | 110 | 134 | 135 | 119 | 114 | 101 |
| 2013[4] | 63 | 102 | 71 | 105 | 102 | 124 | 125 | 115 | 105 | 94 |
| 2014 | 61 | 101 | 69 | 104 | 101 | 124 | 127 | 113 | 103 | 93 |

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 7.8 percent (7.5 percent for LEOFF Plan 2) while assets have been valued using the actuarial value of assets.
(2) Assets from one plan may not be used to fund benefits for another plan.
(3) Dollars in millions. Based on actuarial valuation as of June 30, 2014.
(4) Actuarial assumptions changed.
(5) LEOFF Plan 2 values for 2010 were updated after the 2010 Actuarial Valuation Report was published.
Totals may not add due to rounding.

*Source: Office of the State Actuary.*

***Revised Methodology for Reporting the Funded Status.*** In September 2015, OSA revised the methodology used to estimate pension liabilities for the purposes of reporting funded status and released figures as of June 30 2014 using this methodology. The revised methodology reports the funded status of the pension plans by comparing liabilities estimated using the Entry Age Normal ("EAN") cost method to assets valued according to the Actuarial Value of Assets ("AVA"). The EAN method represents each plan member's benefits as a constant share of payroll throughout the member's career. The liability estimate also incorporates the statutorily set discount rate, currently at 7.8 percent. Using the revised methodology, the funded status of all of the State-administered plans combined is 87 percent, with PERS Plan 1 at 61 percent, PERS Plans 2 and 3 at 90 percent, TRS Plan 1 at 69 percent, TRS Plans 2 and 3 at 94 percent, SERS Plans 2 and 3 at 91 percent, PSERS Plan 2 at 96 percent, LEOFF Plan 1 at 127 percent, LEOFF Plan 2 at 107 percent and WSPRS at 100 percent.

Beginning in July 2016, OSA will discontinue funded status reports based on liabilities estimated using the PUC method and instead estimate pension liabilities using the EAN method.

***Risk and Sensitivity Analysis.*** OSA has prepared an interactive report that permits recalculations of funded status based on different asset valuation methods and discount rates. The interactive report is available at http://fiscal.wa.gov/actuarydata.aspx.

OSA uses a dynamic risk assessment model with a stochastic (or probabilistic) component to quantify the likelihood and magnitude of possible future outcomes for pensions taking into account the variability of investment returns and revenue growth. It also differentiates between model outcomes in which (1) all actuarially recommended contributions are made and there are no future improvements in benefits, and (2) drawing on past practice, contributions are made at less than actuarially recommended rates and future benefits are improved. This differs from the traditional reporting methodology, which provides funded status information at a single point in time based on what is expected to occur. In addition, OSA has prepared various other sensitivity analysis of funded status and contributions rates.

***Actuarially Determined Contributions.*** The following table shows the actuarially determined contributions, contributions in relation to the actuarially determined contributions, and the contribution deficiency or excess for each plan for the Fiscal Years ending June 30, 2014 and 2015. For information on prior years, see the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015, prepared by the State Department of Retirement Systems ("DRS") and available on DRS's website (www.drs.wa.gov).

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**Table 25**
**Schedule of Contributions for all Employers**
(For the Fiscal Years ending June 30, 2014 and 2015)
*(dollars in thousands)*

| | 2014 | 2015 |
|---|---|---|
| **PERS PLAN 1** | | |
| Actuarially Determined Contributions | 439,067 | 454,010 |
| Contributions in Relation to the Actuarially Determined Contributions | 448,895 | 462,100 |
| Contribution Deficiency (Excess) | (9,828) | (8,090) |
| **PERS PLANS 2/3** | | |
| Actuarially Determined Contributions | 441,677 | 462,098 |
| Contributions in Relation to the Actuarially Determined Contributions | 430,345 | 446,127 |
| Contribution Deficiency (Excess) | 11,332 | 15,971 |
| **TRS PLAN 1** | | |
| Actuarially Determined Contributions | 208,119 | 218,542 |
| Contributions in Relation to the Actuarially Determined Contributions | 200,674 | 223,886 |
| Contribution Deficiency (Excess) | 7,445 | (5,344) |
| **TRS PLANS 2/3** | | |
| Actuarially Determined Contributions | 255,277 | 269,160 |
| Contributions in Relation to the Actuarially Determined Contributions | 249,341 | 267,038 |
| Contribution Deficiency (Excess) | 5,936 | 2,122 |
| **SERS PLANS 2/3** | | |
| Actuarially Determined Contributions | 90,064 | 94,736 |
| Contributions in Relation to the Actuarially Determined Contributions | 88,783 | 97,386 |
| Contribution Deficiency (Excess) | 1,281 | (2,650) |
| **LEOFF Plan 1[(1)]** | | |
| Actuarially Determined Contributions | - | - |
| Contributions in Relation to the Actuarially Determined Contributions | 98 | 60 |
| Contribution Deficiency (Excess) | (98) | (60) |
| **LEOFF Plan 2[(2)]** | | |
| Actuarially Determined Contributions | 141,696 | 147,438 |
| Contributions in Relation to the Actuarially Determined Contributions | 141,082 | 147,461 |
| Contribution Deficiency (Excess) | 614 | (23) |
| **WSPRS** | | |
| Actuarially Determined Contributions | 6,677 | 6,810 |
| Contributions in Relation to the Actuarially Determined Contributions | 6,587 | 6,679 |
| Contribution Deficiency (Excess) | 90 | 131 |
| **PSERS PLAN 2** | | |
| Actuarially Determined Contributions | 17,053 | 18,545 |
| Contributions in Relation to the Actuarially Determined Contributions | 17,124 | 18,704 |
| Contribution Deficiency (Excess) | (71) | (159) |
| **JRS** | | |
| Actuarially Determined Contributions | 9,205 | 9,132 |
| Contributions in Relation to the Actuarially Determined Contributions | 10,600 | 10,600 |
| Contribution Deficiency (Excess) | (1,395) | (1,468) |
| **Judges[(1)]** | | |
| Actuarially Determined Contributions | 425 | 539 |
| Contributions in Relation to the Actuarially Determined Contributions | - | - |
| Contribution Deficiency (Excess) | 425 | 539 |
| **VFFRPF[(2)]** | | |
| Actuarially Determined Contributions | 6,421 | 6,653 |
| Contributions in Relation to the Actuarially Determined Contributions | 7,336 | 6,816 |
| Contribution Deficiency (Excess) | (915) | (163) |

(1) No contributions were made for Judges' Pension Plan and almost no payments for the LEOFF Plan 1.
(2) For VFFRPF and LEOFF Plan 2, the State is not an employer but makes payments directly to the retirement plans.

*Source: Department of Retirement Systems Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015 and the Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015.*

***GASB Information.*** GASB has adopted new pension accounting standards effective for the June 30, 2014 plan level financial reporting, which differ from methodologies used by the State for funding purposes and those used to represent funded status. Among the changes in the new GASB standards are the inclusion of unfunded pension liabilities on a government's balance sheet; a market value of assets is relied on to determine unfunded pension liabilities; lower actuarial discount rates are required to be used for underfunded plans in certain cases; and differences between expected and actual demographic and investment experience each year will be recognized incrementally over a closed period when reporting annual employer pension expense. The new accounting standards will affect financial reporting but do not require changes in funding policies.

Under the new standards, an asset sufficiency test is required to determine if plan assets are projected to be sufficient to pay all future benefits for current members. The plan's market value of assets is projected to earn the assumed long-term rate of investment return (for GASB purposes, this is 7.50 percent for all PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans), increased each year by expected contributions to be collected for current member benefits, and reduced by expected benefit payments and expenses; the assumed salary inflation is 3.75 percent; and the assumed economic inflation is 3.0 percent. If the plan assets reach zero before the last benefit payment is expected to be made, then the plan liabilities must be valued at a lower, blended discount rate which takes into account a municipal bond rate for the years in which the plan is projected to have insufficient assets to make benefit payments. Based on the asset sufficiency test as of June 30, 2014 and 2015, all PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans are projected to have sufficient assets to pay current plan member benefits, so no lower, blended discount rate is required to value plan liabilities. This test will be performed each year.

The following table shows the State's proportionate share of the collective net pension liability for the various retirement plans based on the State's contributions to a plan relative to the contributions of all participating employers and the State's share of pension expenses for each plan. These shares are based on the new GASB reporting requirements. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. The annual pension expense is the amount by which the reported net pension liability increased or decreased during the year. This expense does not require the use of current financial resources and, therefore, was not recognized on the operating statement for the General Fund, but it is in the State-wide operating statement in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

**Table 26**
**State's Share of Net Pension Liabilities/Assets and Expenses**
(For the Fiscal Year Ended June 30, 2015)
*(in millions)*

| | State's Share (%) | State's Share of Net Liability/(Asset)($) | State's Share of Pension Expense($) |
|---|---|---|---|
| PERS Plan 1 | 42.37 | 2,134.2 | 127.2 |
| PERS Plans 2/3 | 49.27 | 995.9 | 165.7 |
| TRS Plan 1 | 0.78 | 22.9 | 1.9 |
| TRS Plans 2/3 | 0.59 | 1.9 | 1.6 |
| PSERS Plans 2 | 48.26 | (7.0) | 9.2 |
| LEOFF Plan 1 | 87.12 | (1,056.6) | (134.6) |
| LEOFF Plan 2 | 40.36 | (535.6) | (26.5) |
| WSPRS Plans 1/2 | 100.00 | (26.0) | (5.4) |
| **TOTAL** | | 1,529.70 | 139.1 |

*Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015. In the financial statements, the accounting results are measured as of June 30, 2014.*

The new GASB reporting requirements are reflected in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS," which includes sensitivity of the net pension liability to changes in the discount

rate. See also the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015, prepared by DRS and available on DRS's website (www.drs.wa.gov).

***Additional Information.*** Additional information on the State's defined benefit plans, including the benefits to retirees, information on the State's smoothing method used in the rate setting process, and the UAAL as a percentage of covered payroll of each plan, is presented in Note 11 and in the Required Supplemental Information–Pension Plan Information in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS." Note 3 in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" describes eligible investments for the State's pension plans.

Notes J and K of Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS," include actuarial valuations and contributions to the Higher Education Retirement Supplemental defined benefit plan.

**Benefits; Legislation; Litigation**

Benefits under the retirement plans are established by the Legislature. See Notes 11.B in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" for a description of retirement benefits and eligibility. The State Constitution does not directly mention pensions, but the Supreme Court has held that an employee "who accepts a job to which a pension plan is applicable contracts for a substantial pension and is entitled to receive the same when he has fulfilled the prescribed conditions. His rights may be modified prior to retirement, but only for the purpose of keeping the pension system flexible and maintaining its integrity."

Legislation adopted in 2007 repealed a benefit that the Legislature had granted certain members in 1998 known as "gain sharing," which was a pension enhancement provided in years of extraordinary investment return.

Legislation adopted in 2011 ended the 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.

In 2012, the Legislature passed legislation that modifies early retirement factors for new employees in PERS, TRS and SERS first hired after May 1, 2013; those employees eligible for subsidized early retirement will have their benefits reduced by 5.0 percent per year (instead of 3.0 percent) for each year the employee retires before age 65.

Litigation was filed challenging the legislation described in the second and third paragraphs of this subsection. 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.

**Bankruptcy of Participating Local Government**

State law permits any "taxing district" to petition for relief under the U.S. Bankruptcy Code. If a local government that participates in the State pension system filed for bankruptcy, State law would require the State to continue to provide benefits to retirees of the local government. State law does not address the priority of payments for contributions to the pension system in the event a local government does not have sufficient funds to meet all of its obligations. If a local government filed for bankruptcy, the bankruptcy court would have some discretion with respect to past and future pension obligations under a plan for adjustment of debt under Chapter 9 of the Bankruptcy Code.

**Federal Benefits**

State law extends to State employees the basic protection accorded to others by the old age and survivors insurance system embodied in the Social Security Act. Members in the WSPRS have opted out of the federal social security program. Other State employees have opted into the federal program. The State pays the U.S. Treasury the amount prescribed under the Social Security Act for contributions with respect to wages. The State withholds the employee contribution from State employee's wages.

**Other Post-Employment Benefits**

***PEBB Plan Overview.*** The State offers other post-employment benefits ("OPEB") including medical (which includes medical, prescription drug, and vision), dental, life, disability and long-term care insurance to retired employees. See "GENERAL FUND–General Fund Expenditures–*Employees and Employee Benefits*" for a description of benefits for current State employees.

The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), offers retirees access to all of these OPEB benefits ("PEBB Plan"). Employers participating in the PEBB plan include the State (general government agencies and higher education institutions) and K-12 school districts, numerous political subdivisions of the State and tribal governments. Employers subsidize a portion of the cost of some PEBB Plan benefits.

The relationship between the PEBB Plan and its member employers and their employees and retirees is not formalized in a contract or plan document; rather, the benefits are provided in accordance with a substantive plan, which the Governmental Accounting Standards Board (GASB) defines as the plan as understood by employers or employees. For additional information on the State's PEBB Plan, see Note 12 in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS."

***PEBB Membership.*** The PEBB Plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. PEBB Plan members are covered in the following retirement systems: PERS, TRS, SERS, PSERS, LEOFF Plan 2, WSPRS, and Higher Education retirement systems. See "RETIREMENT SYSTEMS–Retirement Plans." The following table shows PEBB Plan membership.

**Table 27**
**Membership in PEBB Plan**
(As of June 30, 2015)

| | Active Employees | Retirees[1] | Total |
|---|---|---|---|
| State | 108,899 | 30,640 | 139,539 |
| K-12 Schools and ESDs[2] | 2,561 | 32,993 | 35,554 |
| Political Subdivision | 12,571 | 1,687 | 14,258 |
| **Total** | 124,031 | 65,320 | 189,351 |

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In Fiscal Year 2015, there were 106,879 full-time equivalent active employees in the 245 K-12 schools and educational service districts (ESDs) that elected to limit participation in PEBB only to their retirees.

*Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2015.*

***OPEB Subsidies.*** PEBB Plan employers provide monetary assistance or subsidies to retirees only for medical and life insurance. Retirees pay the full cost of other benefits.

Participating employers provide two different types of medical insurance subsidies to retirees:

(1) Explicit Subsidy. Retirees enrolled in Medicare Parts A and B receive an explicit subsidy which lowers the monthly premium. The amount of the subsidy is determined annually by PEBB, up to a maximum set by the Legislature. For 2015 this amount was $150 monthly for each participant.

(2) Implicit Subsidy. Non-Medicare eligible retired members pay a premium based in part on a pool that includes claims experience for active employees that, on average, are younger and healthier. There is an implicit subsidy as the premiums are lower than they would be if the retirees were insured separately. The value of the implicit subsidy reflects the difference between the age-based claims cost and the premium paid by retirees. For 2014, the implicit subsidy was estimated at $291 per person. For calendar year 2015, the implicit subsidy was estimated to be $308 per person.

***Funding of OPEB Subsidies–PEBB Plan.*** The explicit subsidy (retiree benefit) is set each biennium by the Legislature as part of the budget process. The implicit subsidy (retiree benefit) is indirectly set annually by HCA when it determines the premium of each of the non-Medicare health plans. These subsidies (contributions) are funded on a pay-go basis.

***GASB 45.*** GASB 45 requires each employer to calculate OPEB's actuarial accrued liability ("AAL") on the medical and life insurance explicit and implicit subsidies. It also requires a calculation of the annual required contribution ("ARC"), representing the annual contribution that will fund the current active and retired members' subsidies by the end of their working lifetimes. The net OPEB obligation ("NOO") is the cumulative difference between the annual OPEB cost and the actual contributions. The annual OPEB cost is the ARC, plus the interest on the NOO and the amortization of the NOO.

The most recent valuation for the PEBB Plan prepared by the Office of the State Actuary and published in July 2015, determined the plan's liabilities as of January 1, 2015 ("2015 OPEB Report"). Small changes in the assumptions or methods or changes in the plan provisions could result in relatively large changes in OPEB liabilities and the State's ARC, NOO and annual OPEB cost.

***Valuation Assumptions and Methods.*** Valuations in the 2015 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2015 OPEB Report and summarized below. The actuarial method chosen to allocate costs and the AAL for the 2015 OPEB Report is the Projected Unit Credit ("PUC"), one of six methods permitted by GASB. The PUC cost method is a standard actuarial funding method. The annual cost of benefits under the PUC is comprised of two components: normal cost (the estimated present value of projected benefits current plan members will earn in the year following the valuation date, which represents today's value of one year of earned benefits) and amortization of the unfunded actuarial liability.

The assumed return on investment earnings and the discount rate used in calculating the AAL (4.0 percent) were long-term assumptions selected in consultation with the Office of the State Treasurer to represent an average of short-term investment rates, and annual inflation is assumed to be 3.0 percent. Annual growth in membership is assumed to be at a rate of 0.95 percent (0.80 percent for K-12 Teachers), and annual salary increases were assumed to be at a rate of 3.75 percent. Assumptions underlying the medical inflation trend rates (ranging from 4.5–8.4 percent in 2015 to 4.9–5.1 percent through 2100) were provided by health care actuaries at Milliman, Incorporated. The unfunded AAL is amortized over a closed 30-year period as a level percent of payroll. Participation level is assumed to be 65 percent (50 percent for K-12 School and Education Service Districts) of eligible employees and 45 percent of spouses of eligible employees. It is assumed that all employees will get Medicare coverage after becoming eligible.

Table 28 shows annual OPEB costs and net OPEB obligations for the Fiscal Years ended June 30, 2011 through June 30, 2015. OSA performs a full valuation every two years. In 2012 and 2014, and other years when a full valuation was not prepared, consistent with GASB requirements and at the direction of OFM, OSA prepared estimated results using a roll-forward method. As of January 1, 2015, the AAL and UAAL of the PEBB Plan that is attributed to the State was $5.274 billion. UAAL was 84.8 percent of covered State payroll. Because the plan is pay-as-you-go, it has no assets. The 2015 valuation reflected updated assumptions, most notably an updated assumption for projected improvements in future rates of mortality, similar to the defined benefit plans. The mortality assumption change increased the liability by approximately 20 percent.

**Table 28**
**State's Annual OPEB Cost and Net OPEB Obligation**
*($ in thousands)*

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| a. Beginning Net OPEB Obligation (NOO)[1] | 777,872 | 1,027,767 | 1,279,381 | 1,613,775 | 1,894,567 |
| b. Annual Required Contribution (ARC)[2] | 320,991 | 320,991 | 342,283 | 353,842 | 498,399 |
| c. Interest on the NOO | 35,004 | 46,250 | 53,434 | 64,551 | 75,783 |
| d. Amortization of the NOO | (27,427) | (36,954) | (48,684) | (59,951) | (71,806) |
| e. Annual OPEB Cost (b+c+d) | 328,568 | 330,286 | 347,033 | 358,442 | 502,376 |
| f. 2012 Adjustment | - | - | 56,476 | - | - |
| g. Contributions for Fiscal Year[3] | (78,673) | (78,673) | (69,114) | (77,650) | (74,055) |
| h. Ending NOO [1] (a+e+f+g) | 1,027,767 | 1,279,381 | 1,613,775 | 1,894,567 | 2,322,888 |

(1) NOO is the GASB disclosure requirement on the balance sheet.
(2) ARC is the annual contribution that will fund the current active and inactive members' subsidies by the end of their working lifetimes.
(3) Contributions for Fiscal Year include the estimated explicit subsidies and implicit subsidies.

*Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Years Ended June 30, 2011 through June 30, 2015.*

## LITIGATION

The State and its agencies are parties to numerous routine legal proceedings that occur as a consequence of regular government operations. At any given point, there are numerous lawsuits involving State agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact revenue or expenditures of the State. There are risk management funds reserved by the State for certain claims, and self-insurance and excess insurance is available for claims involving injury and damages. See "RISK MANAGEMENT–Insurance." There has been a trend in recent years of higher jury verdicts for certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on State revenues or expenditures.

In addition to the regular damages claims, there are currently a number of lawsuits challenging the management and administration of State programs, some arising as a result of recent State budget cuts. Claims include funding inadequacies and inequity in basic education; inadequate funding for care of the disabled and elderly; and denial of health care benefits to certain State workers and reimbursement rates to certain health care providers. The potential impact of this type of litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of State budgeting and expenditures. Most of these cases involve programs administered by the Department of Social and Health Services ("DSHS"). Only a few of these cases are called out specifically because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know what State or federal legislative responses could be taken to mitigate such impacts.

The State is a defendant in a number of lawsuits related to habitat restoration and environment remediation arising out of highway/roadway construction and maintenance.

See Note 14 in Appendix D–"THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS" for a description of certain litigation and estimates of the potential magnitude of certain litigation.

Those cases, which may raise potentially significant, but specifically incalculable, fiscal impacts, are described below.

In *McCleary v. State of Washington*, in February 2010, the King County Superior Court found that the State was not meeting its constitutional mandate to make ample provision for the education of all K-12 public school children. The

court ordered the Legislature to conduct a study of what State funding was needed to "amply provide" all Washington public school students with the "education" required by Article IX of the Constitution. The court also ordered the Legislature to indicate how the State will fund that cost with "stable and dependable" state funding sources. Prior to the trial, in the 2009 legislative session, the Legislature enacted a sweeping reform of the substance of and funding for K-12 education. The State appealed the superior court decision to the Supreme Court and the Supreme Court issued its opinion on January 5, 2012, affirming the trial judgment that the State is not making ample provisions for the basic education of Washington's K-12 public school students. The Supreme Court agreed, however, with the State that the Legislature has already identified areas that need more funding and embarked on a reform program to be implemented no later than 2018. The Supreme Court reversed the trial court remedy ordering a cost study, but retained jurisdiction to facilitate the full implementation of the reforms and funding. This result preserves the Legislature's constitutional prerogative to reform, define and provide full funding for K-12 education.

In July 2012, the Supreme Court issued an order in the case, essentially adopting the State's position regarding the process for the court's monitoring of the implementation of the 2009 reform legislation. This ruling calls for annual reports by the Legislature to the Supreme Court with the opportunity for plaintiffs to submit their position in response to the report. This process will continue through the expected full implementation of reforms in 2018. The Legislature submitted its first report in August 2012. After receiving comments from the plaintiffs, the Supreme Court issued an order in December 2012 requiring the report at the conclusion of the 2013 legislative session to include a phase-in plan for achieving the State's basic education mandate. The 2013 legislative session concluded on June 30, 2013, with enhanced education funding enacted that adds approximately $1 billion dollars in State funding to K-12 schools during the 2013-15 Biennium. The Legislature filed its 2013 post-budget report in August 2013. After considering comments from the plaintiffs, the Supreme Court issued its next order on January 9, 2014, crediting the State with making additional investments but expressing concern that the pace of implementation was too slow. The Court again directed the Legislature to submit a phase-in plan. The Legislature submitted its 2014 post-budget report on April 30, 2014. The plaintiffs' post-budget comments were submitted in May 2014. Following its consideration of the Legislature's report and the plaintiffs' response, and finding that the Legislature's report did not comply with the Supreme 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 was held on September 3, 2014. On September 11, 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. On August 13, 2015, the Supreme Court issued an order finding the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018. See "GENERAL FUND–General Fund Expenditures–*K-12 Education*" and "General Fund–State Operating Budget–*2013-15 Biennium Budgets*" and "*-Special Session and Supplemental 2013-15 Budgets*."

*Perez, Secretary of Labor, USDOL v. Washington Department of Social and Health Services* is a U.S. Department of Labor ("USDOL") lawsuit filed in U.S. District Court seeking back overtime wages and liquidated damages on behalf of approximately 2,000 social workers with the Children's Administration of DSHS. The initial district court's order granting summary judgment in favor of the State was reversed by the U.S. Ninth Circuit's Court of Appeals, which court also denied the State's petition for rehearing, and remanded the case to the district court for trial. The Ninth Circuit issued its opinion on April 8, 2014, granting the USDOL's petition, effectively overruling the district court's prior discovery ruling compelling USDOL to answer interrogatories that the USDOL argues violate the government informant's privilege. The State filed a petition for panel rehearing and a petition for en banc rehearing. USDOL filed a response brief on June 25, 2014. If plaintiff prevails on all issues, the estimated potential liability for the State is $60 million, with liquidated damages doubling that amount. The State's Petition for Rehearing was denied. The case was then remanded back to the Western District Court for further proceedings. A trial date has been set for October 4, 2016.

**Programs and Services**

In the matter of *Rekhter v. DSHS* and two other consolidated cases (*Pfaff* and *SEIU 775NW*), plaintiffs argue that pursuant to DSHS's methodology ("shared living rule") for computing the number of hours of paid care available to the recipient class, those with live-in providers received approximately 15 percent less than those recipients who use

live-out providers. This rule was invalidated by the Supreme Court ruling (*Jenkins v. DSHS*) issued on May 3, 2007, and was subsequently repealed by DSHS. Plaintiffs seek reimbursement by way of "money damages" for the recipient and provider classes for the approximately 15 percent fewer authorized hours, and injunctive relief barring application of the rule in the future. The trial court ruled the recipient class is entitled to "retroactive compensatory relief" back to April 2003. The jury found that DSHS had not breached the express terms of the contracts, but did find violation of the "duty of good faith and fair dealing" when entering into the contracts. The jury awarded the provider class plaintiffs $57 million. Subsequently, the trial court granted plaintiffs' motion for pre- and post-judgment interest. On December 2, 2011, the trial court entered the final judgment for the Client Class claims and two final judgments, one for the Client Class and one for the Provider Class. The court did not award the Client Class any monetary or other remedies. For the Provider Class, the court entered a judgment in the amount of $96 million, which includes the jury verdict of $57 million and prejudgment interest of $39 million. The court also awarded post-judgment interest at $18,780.43 per day beginning on December 3, 2011. The judgment reserved ruling on the claims administration and residual funds process pending the outcome of any appeal. Both parties filed cross-appeals with the Supreme Court, which accepted direct review of the case. Oral argument occurred on May 14, 2013. The Supreme Court affirmed the trial court's $57 million jury verdict, but reversed the $39 million prejudgment interest award. The State's motion for reconsideration was denied in June 2014. The Thurston County Superior Court reached a decision as to how the award is to be distributed and determined that post judgment interest should be calculated from the date of the original jury verdict. The State has satisfied the entire judgment, having deposited approximately $86 million into an escrow account. The first distribution of $60.6 million has been paid to over 19,000 providers. The second and final distribution is scheduled to occur in 2017.

**Taxes**

The Department of Revenue ("DOR") routinely has claims for refunds in various stages of administrative and legal review. In addition, the State is defending cases challenging the constitutionality of certain taxes that fund discrete State programs.

In the matter of *Wall v. State of Washington*, plaintiffs alleged the Legislature transferred funds from the Education Legacy Trust Account in 2008 and 2010 into the General Fund in violation of Article VII, Section 5 of the Constitution. Plaintiff contended that the amounts transferred exceed $100 million and asked that the money be restored to the Education Legacy Trust Account and the defendants be enjoined from any further unconstitutional diversions. On October 2, 2013, the trial court ruled that the transfer of funds from the Education Legacy Trust Account to the General Fund did not violate the Constitution and granted summary judgment to the State defendants. In August 2015, the State Court of Appeals held that the Legislature's transfer of the funds did not violate the Constitution. Plaintiffs have filed a petition for discretionary review with the Washington Supreme Court. The Department or Revenue filed an answer to the petition, and the parties are awaiting the court's placement of the petition on its docket for consideration as to whether to accept the case for further review.

In *Tulalip Tribes and the Consolidated Borough of Quil Ceda Village* the plaintiffs challenge the State's authority to collect sales tax and other taxes on the sale of goods and services at Quil Ceda Village, a premium outlets mall located on the Tulalip reservation near I-5 in Snohomish County. The tribe argues federal preemption and violations of the Indian Commerce Clause and the Supremacy Clause. The lawsuit was filed in Federal District Court for Western Washington on June 12, 2015, naming the State Department of Revenue and Snohomish County officials as defendants. The Department of Justice filed an intervention on August 4, 2015.

**Employment**

The matter of *Moore v. Washington Health Care Authority* involves two related class action lawsuits alleging that the State has wrongfully denied medical benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the applicable statutes and regulations. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact.

The trial court ruled against the State on most liability issues and in December 2011 certified a damages class on a breach of statute claim. Following those rulings, the State appealed the trial court's rejection of the State's proposed measure of damages, which was that the class members' damages must be measured by actual damages. Plaintiffs moved for direct review by the Supreme Court and that motion was granted. In August 2014, the Supreme Court

issued a decision affirming the trial court. The parties mediated the cases in November 2015. Following those negotiations, the parties agreed to settle all aspects of the cases. However, the parties' agreement must still receive approval by the trial court and the Legislature. A hearing on the settlement was held on January 7, 2016, at which the trial court preliminarily approved the settlement.

**Other**

In *US v. WA* (culverts/phase II), plaintiff Tribes and the United States allege that State-owned culverts that block fish passage violate Tribes' treaty rights. On March 29, 2013, the U.S. District Court issued a permanent injunction requiring three State agencies to remediate fish passage meeting the standards of the injunction at specified barrier culverts by October 31, 2016, and requiring WSDOT to provide remediation within 17 years of the date of the injunction. The State appealed the decision to the U.S. Court of Appeals for the Ninth Circuit. The Tribes filed a cross-appeal, which they subsequently voluntarily dismissed. A three-judge panel of the Ninth Circuit heard oral argument on October 16, 2015. The State's notice of appeal was filed May 28, 2013, and a decision is likely to be issued in 2016. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES—Transportation Expenditures—*Transportation Capital Program*."

## DEMOGRAPHIC AND ECONOMIC INFORMATION

**Business in Washington**

A number of corporations have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Boeing Commercial Airplanes, Costco, Expedia, Expeditors International of Washington, Microsoft, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Key sectors in the State's economy include:

**Table 29**
**Gross Business Income by Industry Sector (NAICS[1])**
(Calendar Year 2014)
*(in dollars)*

| | Gross Business Income | Percent of Total |
|---|---|---|
| Wholesale Trade | 155,000,318,932 | 21.1 |
| Business, Personal and Other Services | 135,916,192,373 | 18.5 |
| Retail Trade | 126,332,704,490 | 17.2 |
| Manufacturing–General | 113,134,505,679 | 15.4 |
| Manufacturing–Aerospace | 68,811,902,170 | 9.4 |
| Construction | 45,060,518,654 | 6.1 |
| Finance, Insurance, Real Estate | 38,833,605,416 | 5.3 |
| Information | 20,855,974,620 | 2.8 |
| Utilities | 13,750,767,622 | 1.9 |
| Transportation | 12,628,873,337 | 1.7 |
| Agriculture, Forestry, Fishing | 3,898,857,331 | 0.5 |
| Warehousing & Storage | 869,142,022 | 0.1 |
| Mining | 550,650,857 | 0.1 |

(1) North American Industry Classification System.

*Source: Washington State Department of Revenue, "Quarterly Business Review Calendar Year 2014" Table 1.*

**Table 30**
**Twenty-Five Largest Employers in Washington**
(as of July 2015)

| | | Full Time Washington Employees | | | Full Time Washington Employees |
|---|---|---|---|---|---|
| 1 | The Boeing Co. | 80,066 | 14 | Swedish Medical Center | 11,640 |
| 2 | Joint Base Lewis-McChord | 60,000 | 15 | MultiCare Health System | 10,863 |
| 3 | Microsoft Corp. | 41,728 | 16 | Nordstrom Inc. | 10,565 |
| 4 | Navy Region Northwest | 37,682 | 17 | United States Postal Service | 10,255 |
| 5 | University of Washington | 34,700 | 18 | City of Seattle | 9,994 |
| 6 | Amazon.com Inc. | 24,000 | 19 | PeaceHealth | 9,579 |
| 7 | Wal-Mart Stores Inc. | 18,147(1) | 20 | Fairchild Air Force Base | 9,110 |
| 8 | Providence Health & Services | 17,553 | 21 | Group Health Cooperative | 8,392 |
| 9 | Fred Meyer Stores | 15,915 | 22 | Alaska Air Group Inc. | 7,403 |
| 10 | Costco Wholesale Corp. | 14,921 | 23 | Seattle Public Schools | 6,436 |
| 11 | Starbucks Corp. | 12,385(1) | 24 | Washington State University | 5,700 |
| 12 | King County Government | 12,095 | 25 | Target | 5,512(1) |
| 13 | CHI Franciscan Health | 11,847 | | | |

(1) Reflects full and part-time team members.

*Source: Puget Sound Business Journal, July 31, 2015.*

**Trade**

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. Canada, China and Japan were the State's largest export trading partners in 2014. In 2014, Washington had $93.9 billion in exports, and based on U.S. Department of Commerce Census Bureau statistics through July 2014, Washington was the 3rd largest exporter in the United States.

***Ports.*** Washington has seven deep-draft ports on the Puget Sound, one on the Pacific Coast and three on the Columbia River. The ports of Seattle and Tacoma, on Puget Sound, are the state's largest ports and are closer to Asian ports than is any other continental United States port. According to the U.S. Department of Commerce Bureau of Census, the port of Tacoma nationally ranked 10th and the port of Seattle nationally ranked 13th in 2013 when measured by total dollar value of foreign imports and exports. In 2015, the ports of Seattle and Tacoma created the Northwest Seaport Alliance, unifying the management of the two ports' marine cargo terminals and related functions.

***Airport.*** Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 13th busiest airport in the country based on 2014 information according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 18th busiest cargo airport in the United States based on all-cargo landed weight.

**Aerospace**

There are approximately 1,350 aerospace-related companies in the State employing over 132,500, with Boeing being the largest aerospace employer in the State with 80,191 employees as of June 25, 2015. Washington aerospace companies produce more than 1,400 aircraft annually. In 2014, aerospace and related industry employment was 3.0 percent of state non-farm employment and wages were 6.6 percent of State non-farm wages. Boeing is currently manufacturing five models of jets in the State. Boeing has opened a second 787 production line in South Carolina and recently announced it will assemble the 787-10 solely in South Carolina. Boeing will assemble the 737 MAX, the 777X jetliner and build its new carbon fiber wing in the State.

**Forest Products**

Natural forests cover nearly 50 percent of the State's land area. Forest products, including lumber, paper products and other wood and pulp products, are a traditional manufacturing sector in the State, although overall production has declined in recent years. Weyerhaeuser is the State's largest forest products employer.

**Agriculture and Food Processing**

The State's food and agriculture industry supports an estimated 160,000 jobs. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2014 the State's top 10 agricultural commodities (in commodities value) were apples, milk, cattle, potatoes, wheat, hay, cherries, grapes, pears and hops. In 2012, Washington ranked first in United States production of 11 commodities, including apples and hops. The agricultural and food processing sector is export-oriented.

**Information and Communications Technology**

The State has approximately 14,000 software companies involved in software publishing, ecommerce, gaming and microcomputers. Microsoft and Amazon are headquartered in the state. Google, Facebook, Twitter, Cray, Attachmate and Nintendo, among others, have established engineering and operations bases in the State.

**Global Health and Biotechnology**

The State is a global center for the advancement of medicine and life sciences. More than 34,000 workers are directly employed in the over 500 life sciences and global health organizations in the State. The life sciences sector in Washington includes the development and manufacture of medical devices, cancer research, therapeutics and the prevention and treatment of infectious diseases. Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed, the Fred Hutchinson Cancer Research Center and the Allen Institute. The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.2 billion in federal grants and contracts each year.

**Services/Tourism**

Tourism is important to Washington's economy. Tourists are drawn to the State's mountains, water, proximity to Canada and Alaska, and metropolitan areas. As the business, legal and financial center of the State, Seattle has the largest selection of hospitality and entertainment venues in the State. The Washington State Convention Center has the capacity for events involving as many as 11,000 people. There are more than 10,000 hotel rooms in downtown Seattle and nearby venues, and entertainment options include professional football, soccer and baseball teams, theatres and music halls, the historic Pike Place Market, the Space Needle and the Seattle Center landmark from the 1962 World's Fair, and the architecturally unique Seattle Public Library, among others. Seattle is an embarkation port for several cruise ship lines, primarily sailing to Canada and Alaska.

**Military**

Washington has a number of major military bases and installations, including the Fort Lewis Army Base, Madigan Army Medical Center and McChord Air Force Base in Pierce County (known as Joint Base Lewis-McChord); Puget Sound Naval Shipyard, Naval Station Bremerton and Bangor Naval Submarine Base in Kitsap County; Fairchild Air Force Base in Spokane County; Everett Naval Station in Snohomish County; and Whidbey Island Naval Air Station in Island County.

**Construction**

Table 31 provides information on housing permits for the State and the United States.

**Table 31**
**Housing Units Authorized by Building Permits**
**in Washington and United States**

| | Washington | | | |
|---|---|---|---|---|
| **Year** | **Single Family** | **Multi-Family** | **Total** | **United States** |
| 2005 | 41,407 | 11,581 | 52,988 | 2,155,316 |
| 2006 | 35,611 | 14,422 | 50,033 | 1,838,903 |
| 2007 | 30,390 | 17,007 | 47,397 | 1,398,415 |
| 2008 | 17,440 | 11,479 | 28,919 | 905,359 |
| 2009 | 12,991 | 4,020 | 17,011 | 582,963 |
| 2010 | 14,702 | 5,989 | 20,691 | 604,610 |
| 2011 | 13,159 | 7,705 | 20,864 | 624,061 |
| 2012 | 16,508 | 11,610 | 28,188 | 829,658 |
| 2013 | 18,396 | 14,566 | 32,962 | 990,822 |
| 2014 | 17,905 | 15,993 | 33,898 | 1,046,363 |

*Source: U.S. Bureau of the Census.*

**Other Employment Information**

**Table 32**
**Resident Civilian Labor Force and Employment in Washington State**
(Employment Numbers in Thousands)[1]

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Resident Civilian Labor Force** | 3,459.2 | 3,417.2 | 3,460.0 | 3,488.2 | 3,536.4 |
| **Unemployment** | 319.2 | 281.1 | 243.1 | 217.8 | 195.6 |
| **WA Unemployment Rate (Percent)[2]** | 9.1 | 8.0 | 6.9 | 6.3 | 5.5 |
| **U.S. Unemployment Rate (Percent)[2]** | 8.9 | 8.1 | 7.4 | 6.2 | 5.3 |
| **Nonagricultural Wage and Salary Workers Employed in Washington** | | | | | |
| Nonfarm Employment | 2,875.6 | 2,924.0 | 2,992.8 | 3,073.7 | 3,158.7 |
| Durable Manufacturing | 193.4 | 204.6 | 209.6 | 209.5 | 209.7 |
| Aerospace | 86.6 | 94.2 | 96.1 | 93.9 | 92.8 |
| Computer and Electronic Products | 19.7 | 20.2 | 20.2 | 20.0 | 19.9 |
| Nondurable Manufacturing | 75.3 | 75.7 | 77.1 | 78.6 | 79.6 |
| Mining and Logging | 6.0 | 5.9 | 6.1 | 6.2 | 6.4 |
| Construction | 136.4 | 139.1 | 149.0 | 159.3 | 172.4 |
| Trade, Transportation and Utilities | 525.1 | 536.1 | 551.1 | 569.5 | 588.2 |
| Information | 104.2 | 104.7 | 106.3 | 109.6 | 112.0 |
| Software Publishers | 51.7 | 52.4 | 53.9 | 55.6 | 55.4 |
| Financial | 141.5 | 144.9 | 150.6 | 153.0 | 154.5 |
| Professional and Business Services | 339.5 | 350.0 | 361.1 | 372.9 | 389.6 |
| Education and Health Services | 431.4 | 433.8 | 440.1 | 453.3 | 459.1 |
| Leisure and Hospitality | 270.8 | 277.2 | 287.3 | 297.0 | 308.0 |
| Other Services | 108.5 | 110.9 | 111.3 | 114.0 | 116.9 |
| Government | 543.5 | 541.2 | 543.3 | 550.9 | 562.2 |

(1) Averages of monthly data (not seasonally adjusted).
(2) Seasonally adjusted. As reported by Washington Department of Employment Security in February 2016, the December 2015 unemployment rate (seasonally adjusted) was 5.5 percent in Washington and 5.0 percent in the U.S. as a whole.

*Source: Department of Employment Security and U.S. Bureau of Labor Statistics as of February 19, 2016.*

**Table 33**
**Composition of Employment by Industry Sector[1]**
*(percentages)*

| | State of Washington | | United States | |
|---|---|---|---|---|
| | **2004** | **2014** | **2004** | **2014** |
| **Manufacturing** | | | | |
| Nondurable Manufacturing | | | | |
| Food Manufacturing | 1.2 | 1.2 | 1.1 | 1.1 |
| Pulp and Paper | 0.5 | 0.3 | 0.4 | 0.3 |
| Other | 1.3 | 1.1 | 2.6 | 1.9 |
| **Subtotal** | 2.9 | 2.6 | 4.1 | 3.2 |
| Durable Manufacturing | | | | |
| Lumber and Wood | 0.7 | 0.4 | 0.4 | 0.3 |
| Primary and Fabricated Metals | 0.8 | 0.8 | 1.5 | 1.3 |
| Machinery | 0.6 | 0.7 | 1.2 | 1.1 |
| Computers | 0.9 | 0.7 | 1.1 | 0.8 |
| Transportation Equipment | 2.7 | 3.4 | 1.3 | 1.1 |
| Other | 1.0 | 0.9 | 1.3 | 1.0 |
| **Subtotal** | 6.7 | 6.8 | 6.9 | 5.5 |
| **Total Manufacturing** | 9.6 | 9.4 | 11.0 | 8.8 |
| **Nonmanufacturing** | | | | |
| Natural Resources and Mining | 0.3 | 0.2 | 0.4 | 0.6 |
| Construction | 5.9 | 5.1 | 5.3 | 4.4 |
| Trade, Transportation and Utilities | 19.1 | 18.5 | 19.3 | 19.0 |
| Information | 3.6 | 3.6 | 2.5 | 2.0 |
| Financial | 5.8 | 5.0 | 6.1 | 5.7 |
| Professional and Business Services | 11.4 | 12.1 | 12.8 | 13.7 |
| Education and Health Services | 11.8 | 14.7 | 12.8 | 15.4 |
| Leisure and Hospitality | 9.1 | 9.7 | 9.3 | 10.6 |
| Other Services | 3.7 | 3.7 | 4.0 | 4.0 |
| Government | 19.6 | 18.0 | 16.4 | 15.7 |
| **Total Nonmanufacturing** | 90.4 | 90.6 | 89.0 | 91.2 |
| **Total[2]** | 100.0 | 100.0 | 100.0 | 100.0 |

(1) Figures are calculated as a percentage of total wage-and-salary employment.
(2) Numbers may not add due to rounding.

*Source: Washington State Office of the Economic and Revenue Forecast Council.*

The State's population has increased approximately 10.0 percent since 2006. Based upon the 2010 Census, the State is the thirteenth most populous in the nation. The following table summarizes the State's population for 2006-2015.

**Table 34**
**State of Washington Population**

| April 1 | Population |
|---|---|
| 2006 | 6,420,300 |
| 2007 | 6,525,100 |
| 2008 | 6,608,300 |
| 2009 | 6,672,200 |
| 2010 | 6,724,500 |
| 2011 | 6,767,900 |
| 2012 | 6,817,770 |
| 2013 | 6,882,400 |
| 2014 | 6,968,170 |
| 2015 | 7,061,410 |

*Source: Office of Financial Management; 2010 from U.S. Census.*

**Income Characteristics**

The State's per capita income consistently has exceeded the national level and has increased approximately 31.7 percent since 2005. Table 35, derived from U.S. Bureau of Economic Analysis ("BEA") statistics, provides a comparison of personal income and per capita income for the State and the nation. BEA also calculates that per capita disposable personal income (personal income less personal taxes) in Washington ($44,504 in 2014) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($40,670 in 2014).

**Table 35**
**Personal Income Comparisons**
**Washington and United States**

| | Total Income ($ in billions) | | | | Per Capita Income (in dollars) | |
|---|---|---|---|---|---|---|
| | Washington | | United States | | | |
| Year | Amount | Percent Change | Amount | Percent Change | Washington | United States |
| 2005 | 235.5 | -- | 10,605.6 | -- | 37,638 | 35,888 |
| 2006 | 255.6 | 8.5 | 11,376.4 | 7.3 | 40,127 | 38,127 |
| 2007 | 276.7 | 8.3 | 11,990.1 | 5.4 | 42,829 | 39,804 |
| 2008 | 289.7 | 4.7 | 12,429.2 | 3.7 | 44,143 | 40,873 |
| 2009 | 280.9 | -3.0 | 12,080.2 | -2.8 | 42,137 | 39,379 |
| 2010 | 286.9 | 2.1 | 12,417.7 | 2.8 | 42,547 | 40,144 |
| 2011 | 304.0 | 6.0 | 13,189.9 | 6.2 | 44,565 | 42,332 |
| 2012 | 324.5 | 6.7 | 13,873.2 | 5.2 | 47,055 | 44,200 |
| 2013 | 332.7 | 2.5 | 14,151.4 | 2.0 | 47,717 | 44,765 |
| 2014 | 350.1 | 5.3 | 14,708.6 | 3.9 | 49,583 | 46,129 |

*Source: U.S. Department of Commerce, Bureau of Economic Analysis.*

# APPENDIX B

## DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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## DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Financing Agreements, Trust Agreement, Site Leases, Master Assignments, and Financing Agreements, including certain defined terms used within this Official Statement. Reference is directed to each of such documents for the complete text thereof. Copies of such documents are available from the Office of the Treasurer.

### CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Appendix B and elsewhere in the Official Statement.

***Acquisition Costs*** means all costs incurred by or on behalf of the Corporation, or by the State or any Agency, as agent of the Corporation, on, prior to or after the effective date of the Master Financing Contract in connection with the acquisition of the Property thereunder, and shall include, but not be limited to, (a) the cost of such Property (including, but not limited to, charges for installation, delivery, preparation, testing and similar charges); (b) the expenses of the Corporation, the Treasurer and any Agency in connection with the acquisition of the Property, including but not limited to the Costs of Issuance; (c) any taxes, assessments and other charges, if any, payable in connection with the acquisition of the Property; and (d) any amounts required to reimburse the Corporation, the Treasurer or any Agency for advances or payments made prior to the effective date of the Master Financing Contract for any of the above costs.

***Acquisition Fund*** means the "State of Washington Certificates of Participation, Series 2016A Acquisition Fund" established by the Treasurer pursuant to the Trust Agreement and the Master Financing Contract.

***Act*** means Chapter 365 of the Laws of Washington, 1989, codified as Chapter 39.94 RCW, as supplemented and amended.

***Additional Costs*** means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the Treasurer or the Agency pursuant to the terms of the Master Financing Contract or the Agency Financing Contract, as the case may be.

***Additional Financing Lease Agreements*** means, collectively, any Additional Local Agency Financing Lease, Additional State Agency Financing Lease Addendum, Additional Site Lease, Additional Master Financing Lease and Additional Master Assignment.

***Additional Local Agency Financing Lease*** means any future Local Agency Financing Lease entered into by a Local Agency for the purpose of financing additions, betterments and improvements to the Property pursuant to Section 2.2(c) of the Local Agency Financing Lease.

***Additional Master Assignment*** means any future Master Assignment relating to an Additional Master Financing Lease.

***Additional Master Financing Lease*** means any future Master Financing Lease entered into for the purpose of financing additions, betterments and improvements to the Property.

***Additional Rent*** means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the Treasurer or the Agency pursuant to the terms of the Master Financing Lease or each Financing Lease, as the case may be.

***Additional Site Lease*** means any future lease of a Site by an Agency in connection with an Additional Local Agency Financing Lease or an Additional State Agency Financing Lease Addendum.

***Additional State Agency Financing Lease Addendum*** means any future State Agency Financing Lease Addendum entered into by a State Agency for the purpose of financing additions, betterments and improvements to the Property pursuant to Section 2.2(c) of the State Agency Financing Lease Addendum.

***Administrative Fees and Expenses*** means all application, commitment, financing or similar fees charged, or administrative or other expenses incurred, with respect to the administration and maintenance of the Certificates and the Series 2016A Agreements.

***Agency*** means a State Agency or Local Agency.

***Agency Event of Default*** has the meaning given such term in the related Agency Financing Agreement.

***Agency Financing Agreement*** means each Financing Lease and Agency Financing Contract.

***Agency Financing Contract*** means the Local Agency Financing Contract or the State Agency Financing Addendum.

***Agency Installment Payment Dates*** means each December 1 and June 1, as specified in the Agency Financing Contracts, on which an Agency Installment Payment is due.

***Agency Installment Payment Fund*** means the fund of that name maintained by the Treasurer pursuant to the Master Financing Contract.

***Agency Installment Payments*** means the installment payments to be made by each Agency as set forth in the related Agency Financing Contract.

***Agency Interest Component*** means that portion of each Agency Payment denominated as and comprising interest as set forth in each Agency Financing Agreement.

***Agency Payment*** means each Agency Rent Payment and Agency Installment Payment.

***Agency Principal Component*** means that portion of each Agency Payment denominated as and comprising principal as set forth in each Agency Financing Agreement.

***Agency Rent Payment Dates*** means each December 1 and June 1, as specified in each Financing Lease, on which an Agency Rent Payment is due.

***Agency Rent Payment Fund*** means the fund of that name maintained by the Treasurer pursuant to the Master Financing Lease.

***Agency Rent Payments*** means the rent payments to be made by each Agency as set forth in the related Financing Lease.

***Authorized Agency Representative*** means the natural person (a) designated on the certificate of the Agency in the form set forth in the related Agency Financing Agreement and shall include any other officer appointed by the chief elected official or administrative official of the Agency and (b) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

***Authorized Corporation Representative*** means the President from time to time of the Corporation, unless such President shall have designated another officer of the Corporation, in which case "Authorized Corporation Representative" shall mean such other officer.

***Authorized Denomination*** means $5,000 and any integral multiple thereof.

***Base Rent Payment*** means a rent payment to be made by the Treasurer as set forth in the Master Financing Lease.

***Base Rent Payment Date*** means each January 1 and July 1, as specified in the Master Financing Lease, on which a Base Rent Payment evidenced and represented by the Certificates is due.

***Beneficial Owner*** means any Person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including Persons holding Certificates through nominees, depositories or other intermediaries).

***Biennium*** means the fiscal period of the State.

***Business Day*** means any day other than (1) a Saturday, (2) a Sunday, (3) a day on which banking institutions located in the state of Washington are authorized or required by law to remain closed, or (4) a day on which the Principal Office of the Fiscal Agent or the New York Stock Exchange is closed.

***Certificate Counsel*** means a firm of attorneys appointed by the Treasurer of recognized national standing in the field of law relating to the issuance of certificates of participation, bonds and other obligations by states and their political subdivisions, and the exclusion of interest thereon from gross income for federal income tax purposes.

***Certificate Fund*** means the "State of Washington Certificates of Participation, Series 2016A Certificate Fund" established pursuant to the Trust Agreement.

***Certificate of the State Treasurer, Written Request of the State Treasurer*** and ***Written Order of the State Treasurer*** each mean an instrument in writing signed by a Treasurer Representative.

***Certificate Payment Date*** means each Principal Payment Date and each corresponding Interest Payment Date on which a Principal Component and the corresponding Interest Component are due as set forth in the Master Financing Agreements.

***Certificate Register*** means the records for the registration of the Certificates maintained by the Fiscal Agent.

***Certificates*** means the certificates of participation in the State Payments executed and delivered by the Fiscal Agent pursuant to the Trust Agreement in the Initial Principal Amount and designated as the "State of Washington Certificates of Participation, Series 2016A (State and Local Agency Real and Personal Property)."

***Certification*** means the certification with respect to the Refunding Plan prepared by Public Financial Management, Inc., dated the Closing Date, as described in the definition of Refunding Plan.

***Closing Date*** means the date on which the Certificates are delivered to the Underwriter in exchange for payment therefor.

***Code*** means the Internal Revenue Code of 1986, as amended, together with all regulations promulgated by the United States Department of the Treasury thereunder.

***Corporation*** means the Washington Finance Officers Association or any other Washington nonprofit corporation selected by the Treasurer's Office from time to time, and any successors and permitted assigns thereof, including without limitation the Fiscal Agent as assignee pursuant to the Master Assignment.

***Costs of Issuance*** means administrative expenses, legal, accounting, financial and printing expenses, and all other expenses incurred in connection with the preparation, execution and delivery of the Series 2016A Agreements and the Certificates.

***Dated Date*** means March 31, 2016, the date of initial delivery of the Certificates.

***Disclosure Agreement*** means an agreement for ongoing disclosure in compliance with the Rule, dated as of the Dated Date, executed and delivered by the Treasurer Representative and/or by the Authorized Agency Representative with respect to the Certificates.

***DTC*** means The Depository Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Certificates, or any successor or substitute depository for the Certificates.

***Event of Default*** means an Event of Default as set forth in Section 7.1 of the Master Financing Agreements.

***Executive Order***, for purposes of the Master Financing Agreements, means an order issued by the Governor of the State pursuant to sections 43.88.050 and 43.88.110 RCW, as amended or re-enacted.

***Financing Lease*** means each Local Agency Financing Lease or State Agency Financing Lease Addendum.

***Fiscal Agent*** means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States, and its successors and assigns, or any other bank or trust company which may at any time be substituted in its place pursuant to the Trust Agreement.

***Fitch*** means Fitch Ratings, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's and S&P) designated by the Treasurer Representative.

***Government Obligations*** means obligations described in paragraph (1) of the definition of Qualified Investments below.

***Impositions*** means all federal, state and local real and personal property taxes and assessments (including assessments for public improvements), license and permit fees, charges for public utilities, leasehold excise taxes, other excise taxes, levies, use and occupancy taxes, privilege taxes, business and occupation taxes and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen, which are imposed, levied upon or assessed against or which arise with respect to the applicable Property (or any portion thereof), any State Payments, Agency Payments, Prepaid Site Lease Rent, Additional Rent, Additional Costs or other sums payable under the Master Financing Agreements, the Agency Financing Agreements or the Site Leases, the leasehold estates created by the Site Leases, the Master Financing Lease or the applicable Financing Leases, or the operation, use or possession of the applicable Property, and all income, gross receipts or similar taxes imposed, levied upon, assessed against or measured by any Agency Payments, State Payments, Prepaid Site Lease Rent, Additional Rent, Additional Costs or other sums payable under the applicable Site Leases, the Master Financing Agreements or the applicable Agency Financing Agreements, and all sales, value added, *ad valorem*, use and similar taxes levied, assessed or payable on account of the leasing, use, possession, control or operation of the Property, and all charges, fees and assessments for utilities, communications and similar services provided to the Property.

***Initial Principal Amount*** means the aggregate initial Principal Components evidenced and represented by the Certificates as set forth in the Trust Agreement.

***Installment Payment Date*** means each January 1 and July 1, as specified in the Master Financing Contract, on which an Installment Payment evidenced and represented by the Certificates is due.

***Installment Payments*** means the installment payments to be made by the State as set forth in Exhibit A to the Master Financing Contract.

***Interest Account*** means the account by that name established pursuant to the Trust Agreement.

***Interest Component*** means that portion of each State Payment denominated as and comprising interest as set forth in the Master Financing Agreements.

***Interest Payment Date*** means each January 1 and July 1 on which an Interest Component is due as set forth in the Master Financing Agreements.

***Letter of Representation*** means the blanket issuer letter of representations from the Treasurer to DTC.

***LGIP*** means the Local Government Investment Pool administered by the Office of the Treasurer.

***Local Agency*** means any "other agency" as that term is now or hereafter defined in the Act.

***Local Agency Financing Contract*** means each Local Agency Financing Contract, dated as of the Dated Date, by and between the State, acting by and through the Treasurer, and the Local Agency which is a Party thereto.

***Local Agency Financing Lease*** means each Local Agency Financing Lease, dated as of the Dated Date, by and between the State, acting by and through the Treasurer, and the Local Agency which is a Party thereto.

***Master Assignment*** means each Master Assignment dated as of the Dated Date, executed and delivered in connection with the Certificates.

***Master Financing Agreements*** means the Master Financing Contract and the Master Financing Lease.

***Master Financing Contract*** means the Master Financing Contract, dated as of the Dated Date, by and between the Corporation and the State, acting by and through the Treasurer, as supplemented and amended.

***Master Financing Lease*** means the Master Financing Lease, dated as of the Dated Date, by and between the Corporation and the State, acting by and through the Treasurer, as supplemented and amended.

***Moody's*** means Moody's Investors Service, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and S&P) designated by the Treasurer Representative.

***MSRB*** means the Municipal Securities Rulemaking Board or any successor to its functions.

***Notice of Intent*** means the Notice of Intent in the form attached to each Agency Financing Agreement.

***OFM*** means the State Office of Financial Management established in the Office of the Governor of the State pursuant to Chapter 43.41 RCW, or any successor to the functions of the OFM, charged with responsibility of submitting budgets to the State Legislature.

***Opinion of Counsel*** means a written opinion of Certificate Counsel satisfactory to the Treasurer and the Fiscal Agent.

***Outstanding*** means all Certificates executed and delivered pursuant to the Trust Agreement, except:

(1) Certificates theretofore canceled by the Fiscal Agent, or delivered to the Fiscal Agent for cancellation;

(2) Certificates for which the payment or prepayment of the State Payments evidenced and represented thereby has been made or duly provided for pursuant to Section 4.1(b) of the Master Financing Agreements and Article X of the Trust Agreement; and

(3) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered pursuant to Article II of the Trust Agreement.

***Owner*** means the registered owner of a Certificate as set forth on the Certificate Register.

***Parties*** means, as the context requires, the State, the Corporation, each Agency, and/or the Fiscal Agent.

***Paying Agent*** means any paying agent for the Certificates appointed pursuant to the Trust Agreement.

***Permitted Encumbrances*** means, as of any particular time:

(1) Liens for general *ad valorem* taxes and assessments, if any, that are not then delinquent;

(2) The Site Leases;

(3) The Master Financing Lease;

(4) The Master Assignment (Real Property);

(5) The Financing Leases;

(6) Any Additional Financing Lease Agreements;

(7) Any right or claim of any mechanic, laborer, materialmen, supplier or vendor filed or perfected in the manner provided by law;

(8) Easements, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions which (a) exist of record as of the Dated Date and which the respective Agency certifies in writing will not materially impair the use of the Property by such Agency, and (b) arise thereafter and to which the Treasurer and the Corporation consent in writing; and

(9) Exceptions shown on the respective title insurance policies issued with respect to the Property as of the date of execution and delivery of the Certificates.

***Permitted Termination Date*** means with respect to a Permitted Termination Event occurring as a result of an election by the State Legislature not to appropriate, the end of the last Biennium for which funding has been provided; or, with respect to a Permitted Termination Event occurring as a result of an Executive Order reduction in funding, the end of the last month for which funding is available to pay Agency Payments due from State Agencies.

***Permitted Termination Event*** means, with respect to a State Agency: (1)(a) sufficient funds have not been appropriated within any biennial budget for the purpose of paying Agency Payments in the next occurring Biennium or (b) the Governor of the State has issued an Executive Order mandating an emergency reduction in State funding; and (2) the Treasurer Representative has delivered written notice to the Fiscal Agent, within five Business Days following the enactment of such budget or within 30 days following such an emergency reduction in State funding, as the case may be, describing the election not to appropriate the necessary funds or the insufficiency of funds as a result of an emergency reduction in funding and stating the Permitted Termination Date.

***Person*** or ***persons*** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

***Personal Property Certificate*** means the Personal Property Certificate (in the form attached to the Local Agency Financing Contract and State Agency Financing Addendum) delivered by the Agency to the Treasurer with respect to items of Property.

***Prepaid Site Lease Rent*** has the meaning given such term in Section 4 of each Site Lease.

***Prepayment Account*** means the account by that name established pursuant to the Trust Agreement.

***Prepayment Date*** means each date, other than a Principal Payment Date, on which a Principal Component evidenced and represented by the Certificates is to be prepaid.

***Prepayment Price*** means the price payable pursuant to each Master Financing Agreement upon any optional or mandatory prepayment of Principal Components evidenced and represented by the Certificates.

***Principal Account*** means the account by that name established pursuant to the Trust Agreement.

***Principal Component*** means that portion of each Base Rent Payment or Installment Payment denominated as and comprising principal as set forth in the Master Financing Agreements.

***Principal Office*** means, with respect to the Treasurer, the office in Olympia, Washington, designated in writing by the Treasurer to the Fiscal Agent, and, with respect to the Fiscal Agent, the corporate trust office of the Fiscal Agent, designated in writing by the Fiscal Agent to the Treasurer, or solely for purposes of the presentation of Certificates for payment, transfer or exchange, the designated corporate trust agency office of the Fiscal Agent.

***Principal Payment Date*** means each July 1 on which a Principal Component is due as set forth in the Master Financing Agreements.

***Project*** means the improvements refinanced, acquired or constructed on each Site, if any, pursuant to each respective Financing Lease.

***Project Costs*** means all costs incurred by or on behalf of the Corporation, or the State or the Agency, as agent of the Corporation, on, prior to or after the effective date of the Master Financing Lease in connection with the acquisition or construction of the Property or the Project thereunder, as applicable, and shall include, but not be limited to, (1) the cost of such Property or the Project (including, but not limited to, charges for design, testing and similar charges); (2) the expenses of the Treasurer and the Agency in connection with the acquisition or construction of the Property or the Project, including but not limited to the Costs of Issuance; (3) any taxes, assessments and other charges, if any, payable in connection with the acquisition or construction of the Property or the Project; and (4) any amounts required to reimburse the Treasurer or the Agency for advances or payments made prior to the effective date of the Master Financing Lease for any of the above costs.

***Project Fund*** means the "State of Washington Certificates of Participation, Series 2016A Project Fund" established by the Treasurer pursuant to the Trust Agreement and the Master Financing Lease.

***Property*** means, (1) with respect to each Financing Lease, the Site and the Project leased by the Treasurer to the Agency, and, with respect to the Master Financing Lease, means collectively all of such Property, and (2) collectively, all personal property the Acquisition Costs of which are being financed or refinanced pursuant to the Master Financing Contract, as set forth in Exhibit B to the Master Financing Contract, together with all replacements parts, repairs, additions, attachments and accessories thereof, therefor and thereto, licenses, permits and capitalized maintenance agreements with respect thereto, and any replacements of or substitutes therefor as permitted by the Agency Financing Contracts.

***Purchase Price*** means the aggregate amount of the Principal Components of the Installment Payments with respect to the Property, as set forth in the Master Financing Contract.

***Qualified Investments*** shall include the following:

(1) Any securities (including obligations held or issued in book-entry form on the books of the Department of the Treasury of the United States of America) which constitute direct obligations of, or the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America;

(2) Federal Home Loan Bank Bonds and Discount Notes; Federal National Mortgage Association Bonds and Discount Notes; Federal Farm Credit Banks Consolidated System-Wide Bonds and Discount Notes; Federal Home Loan Mortgage Corporation Bonds and Discount Notes; Government National Mortgage Association Bonds; Student Loan Marketing Association Bonds and Discount Notes; Small Business Administration Bonds; Export-Import Bank Bonds; Maritime Administration Bonds; and Obligations of any other Government Sponsored Corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System;

(3) Bankers acceptances, which are eligible for purchase by the Federal Reserve System, drawn on and accepted by a commercial bank (which may include the Fiscal Agent) having a combined capital and surplus of not less than $100,000,000, which bank has at the time of investment one of the two highest ratings of a Rating Agency;

(4) Commercial paper having original maturities of not more than 365 days which has at the time of investment one of the two highest ratings of a Rating Agency, which is issued by a corporation organized and operating in the United States with total assets in excess of $100,000,000;

(5) Bonds of the State and any local government in the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(6) General obligation bonds of a state other than the State and general obligation bonds of a local government of a state other than the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(7) Any investments authorized by law for the Treasurer or any local government of the State;

(8) Shares of money market funds with portfolios consisting of only U.S. Treasury and agency securities or repurchase agreements, which have at the time of investment one of the three highest ratings of a Rating Agency;

(9) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Fiscal Agent) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (1) or (2) above;

(10) The LGIP; and

(11) Any other legal investment for funds held by the Treasurer.

***RCW*** means the Revised Code of Washington, as supplemented and amended.

***Rating Agency*** means Fitch, Moody's or S&P.

***Rating Category*** means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

***Rebate Fund*** means the "State of Washington Certificates of Participation, Series 2016A Rebate Fund" which may be established pursuant to the Master Financing Agreements.

***Rebate Requirement*** has the meaning given to such term in the Tax Certificate.

***Record Date*** means the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date.

***Refunded Certificates*** means:

(i) all of the outstanding State of Washington Certificates of Participation, Series 2006G (State Board for Community and Technical Colleges for and on Behalf of Shoreline Community College) (the "2006G Refunded Certificates");

(ii) that portion of all of the outstanding State of Washington Certificates of Participation, Series 2007A (State and Local Real Property) relating to Edmonds Community College, Skagit Valley College, Walla Walla Community College, Western Washington University and the Department

of General Administration (now known as the Department of Enterprise Services) (the "2007A Refunded Certificates");

(iii) all of the outstanding State of Washington Certificates of Participation, Series 2007C (State Real Property) (the "2007C Refunded Certificates"); and

(iv) all of the outstanding State of Washington Certificates of Participation, Series 2007F (State and Local Agency Real Property) (the "2007F Refunded Certificates").

***Refunding Escrow Account*** means the "State of Washington Certificates of Participation, Refunding Series 2016A Refunding Escrow Account" established by the State Treasurer pursuant to the Trust Agreement and the Master Financing Lease.

***Refunding Plan*** means:

(i) The delivery by the State to the Fiscal Agent of certain proceeds of the Certificates to be deposited in the Refunding Escrow Account as set forth in the Trust Agreement, together with transfers from the certificate funds for the Refunded Certificates and prepaid agency rent payments related to the Refunded Certificates;

(ii) The delivery to the State and the Fiscal Agent of the Certification, certifying the cash and/or Government Obligations, if any, deposited in the Refunding Escrow Account will provide sufficient money to:

(a) Pay the interest on the 2006G Refunded Certificates when due on July 1, 2016, and call and prepay on July 1, 2016, the then-outstanding principal of the 2006G Refunded Certificates;

(b) Pay the interest on the 2007A Refunded Certificates when due up to and including January 1, 2017, and call and prepay on January 1, 2017, the then-outstanding principal of the 2007A Refunded Certificates; and

(c) Pay the interest on the 2007C Refunded Certificates and the 2007F Refunded Certificates when due up to and including July 1, 2017, and call and prepay on July 1, 2017, the then-outstanding principal of the 2007C Refunded Certificates and the 2007F Refunded Certificates; and

(iii) The delivery to the State and the Fiscal Agent of the Certification certifying the mathematical accuracy of the computations (which computations shall be attached to that Certification), showing that the yield on the Government Obligations deposited in the Refunding Escrow Account is lower than the yield on the Certificates.

***Resolution*** means Resolution No. 987 adopted by the State Finance Committee on October 7, 2003.

***Rule*** means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

***S&P*** means Standard & Poor's Ratings Group, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and Moody's) designated by the Treasurer Representative.

***SEC*** means the Securities and Exchange Commission.

***Securities Depositories*** means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other securities depositories as the Treasurer may designate in a Certificate of the Treasurer delivered to the Fiscal Agent.

***Series 2016A Agreement*** means, as the context requires, the Trust Agreement, the Site Leases, the Master Financing Agreements, the Agency Financing Agreements, the Master Assignments or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

***Site*** means the real property legally described in Exhibit A to the Site Lease, including the improvements thereon as of the Dated Date.

***Site Lease*** means each Site Lease, dated as of the Dated Date, by and between the Agency and the Corporation for the lease of a parcel or parcels of the Property by the Agency to the Corporation.

***State*** means the state of Washington.

***State Agency*** means any state agency permitted to enter into financing contracts under the Act.

***State Agency Financing Addendum*** means each State Agency Financing Addendum to the Master Financing Contract, dated as of the Dated Date, executed by the Treasurer Representative and the State Agency.

***State Agency Financing Lease Addendum*** means each State Agency Financing Lease Addendum to the Master Financing Lease, dated as of the Dated Date, executed by the Treasurer Representative and the State Agency.

***State Finance Committee*** means the state finance committee as constituted from time to time pursuant to Chapter 43.33 RCW.

***State Legislature*** means the Legislature of the state of Washington.

***State Payment*** means each Installment Payment and each Base Rent Payment.

***State Reimbursement Rate*** means the average rate of return on the LGIP over the period the reimbursement payment by the Local Agency to the Treasurer is delinquent, as determined by the Treasurer, which determination shall be binding and conclusive against the Local Agency absent manifest error.

***State Sublease Termination Date*** has the meaning given such term in the Master Financing Lease.

***Supplemental Agreement*** means any agreement duly authorized and entered into following the Closing Date between or among the Treasurer, the Corporation, and the Fiscal Agent (in the case of the Trust Agreement, the Master Financing Agreements, or the Master Assignments), or the Agency (in the case of the Agency Financing Agreements or the Site Leases) supplementing, modifying or amending the Trust Agreement, a Site Lease, a Master Financing Agreement, a Master Assignment or an Agency Financing Agreement.

***Tax Certificate*** means the Tax Certificate executed and delivered by the Treasurer Representative and/or Authorized Agency Representatives regarding compliance with applicable provisions of the Code in connection with the Site Leases, the Master Financing Agreements, the Agency Financing Agreements and the Certificates.

***Term Certificates*** means the Certificates identified as such in the Trust Agreement.

***Toxic or Hazardous Substances*** shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, State or local laws as: (1) a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601(14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or hereafter amended; (2) a "hazardous waste" pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act,

42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or hereafter amended; (3) a toxic pollutant under Section 307(1)(a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1)(a); (4) a "hazardous air pollutant" under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or hereafter amended; (5) a "hazardous material" under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or hereafter amended; (6) toxic or hazardous pursuant to regulations promulgated now or hereafter under the aforementioned laws; or (7) presenting a risk to human health or the environment under other applicable federal, State or local laws, ordinances, or regulations, as now or as may be posed or promulgated in the future. "Toxic or Hazardous Substances" shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. "Toxic or Hazardous Substances" specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum-based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

***Treasurer*** means the State Treasurer of the state of Washington.

***Treasurer Representative*** means the Treasurer, the Assistant Treasurer or the Deputy Treasurer of the State, and shall include any other natural person who at the time and from time to time may be designated by a Certificate of the Treasurer delivered to the Party relying thereon. Such Certificate shall contain the specimen signature of such person, and shall be signed on behalf of the State by the Treasurer, the Assistant Treasurer or the Deputy Treasurer.

***Trust Agreement*** means the Trust Agreement, dated as of the Dated Date, by and among the Treasurer, the Corporation and the Fiscal Agent, as supplemented and amended in accordance therewith.

***Underwriter*** means the original purchaser of the Certificates.

## MASTER FINANCING LEASE

### Sublease of Property

The Corporation subleases to the State, and the State hires from the Corporation, upon the terms and conditions set forth in the Master Financing Lease, the real property and all improvements thereon, including but not limited to the Projects, described in the Master Financing Lease, subject to all easements, covenants, conditions and restrictions existing as of the Dated Date. The State agrees to pay in consideration thereof the Base Rent Payments and Additional Rent therefor in accordance with the Master Financing Lease, and all other amounts required to be paid by the State thereunder. The Corporation reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof, or otherwise in connection with the Corporation's rights and obligations thereunder. The State and its authorized assignees and sublessees at all times during the term of the Master Financing Lease may peaceably and quietly have, hold and enjoy all of the Property without suit, trouble or hindrance from the Corporation.

### Appointment of Agents; Acquisition and Construction of Projects; Changes to Projects; Additions to Property; Substitution and Release of Property

***Appointment of Agents.*** The Corporation appoints, and ratifies, approves and confirms its appointment of, the Treasurer and the respective Agencies pursuant to the Notice of Intent as its agents in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Projects, respectively, and the Treasurer accepts and agrees to such designation and appointment.

***Acquisition and Construction of Projects.*** The Treasurer agrees that it has caused or will cause each Project to be designed, acquired and/or constructed and financed or refinanced with all reasonable dispatch by the respective Agency, as agent for the Corporation, in accordance with the plans, specifications, bidding documents, and construction and other contracts approved by such Agency, and in accordance with applicable laws and regulations. The State further agrees that it will pay or cause to be paid the Project Costs solely from funds available to it pursuant to the Master Financing Lease, the Trust Agreement and the Financing Leases. The appointment of the

Treasurer and the respective Agencies to act as agents of the Corporation in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Projects, respectively, and all authority conferred is made and conferred irrevocably by the Corporation, and will not be terminated by any act of the State, any Agency, the Corporation or otherwise.

***Changes to Projects; Additions to Property*.** The Treasurer may revise or consent to the revision of any Project to be acquired, constructed, financed or refinanced with proceeds of the Certificates, or the description thereof; *provided*, that: (1) such Project as so revised must satisfy the requirements under the Master Financing Lease with respect to the substitution of Property previously acquired, constructed, financed or refinanced; (2) the Project Costs must not be materially reduced thereby; and (3) any such revision will not relieve the State or any Agency of its obligation to design, acquire, construct, finance or refinance the Project in accordance therewith and with the Financing Lease with respect thereto.

The Treasurer has the right during the term of the Master Financing Lease, at the cost and expense of the State or the Agency, to make or permit additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; *provided*, that such additions, betterments and improvements and fixtures, structures and signs (1) must be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (2) must not diminish the value, capacity or usefulness of the Property.

The Treasurer also has the right during the term of the Master Financing Lease, without the consent of any Owners, to enter into Additional Master Financing Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Master Financing Lease, including without limitation its obligation to make Base Rent Payments, and will not, in an Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the Treasurer enters into any Additional Master Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in such Additional Master Financing Lease. The occurrence of an Event of Default or Permitted Termination Event with respect to the Master Financing Lease will constitute a like event under any Additional Master Financing Lease, and the occurrence of any such like event under any Additional Master Financing Lease will constitute an Event of Default or Permitted Termination Event, as the case may be, under the Master Financing Lease. The owners of certificates of participation in any additional Master Financing Lease will be secured *pari passu* with the Owners with respect to any amounts received by the Fiscal Agent with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

***Substitution of Property*.** After the acquisition, construction, financing or refinancing of any Project, the Treasurer may substitute and consent to the substitution, for a Property, another parcel or parcels of real property by first filing with the Fiscal Agent, as assignee of the Corporation:

(1) an Opinion of Counsel to the effect that such substitution (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(2) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Treasurer to the effect that such substitute Property has an estimated fair rental value for the remaining term of the respective Financing Lease equal to or greater than the Agency Rent Payments due thereunder from time to time;

(3) a certificate of the Agency to the effect that such substitute Property (a) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (b) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(4) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

The Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency will execute, deliver and record such amendments and modifications to the Site Leases, the Master Financing Lease, the Master Assignment, the Financing Leases, and such other documents, agreements and instruments, as the Treasurer deems necessary or desirable in connection with such substitution.

***Release of Property.*** After the acquisition, construction, financing or refinancing of any Project, the Treasurer may release and consent to the release of a portion of the Property leased under the related Site Lease, and subleased under and pursuant to the Master Financing Lease and the related Financing Leases, by first filing with the Fiscal Agent, as assignee of the Corporation:

(1) an Opinion of Counsel to the effect that such release (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(2) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Treasurer to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the related Financing Lease equal to or greater than the Agency Rent Payments due from time to time thereunder;

(3) provision by such Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release; and

(4) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

The Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency will execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Lease, the Master Assignment or the applicable Financing Lease, and such other documents, agreements and instruments, as the Treasurer deems necessary or desirable in connection with such release.

**Title to the Property**

Fee title to the Property, subject to Permitted Encumbrances, and all additions, modifications, repairs and improvements thereto, remains and vests in the respective Agencies, subject to the respective leasehold estates under the Site Leases, the Master Financing Lease and the Financing Leases, without any further action by the State, the respective Agencies or the Corporation.

**Assignment; Attornment**

The State assigns and transfers to the Corporation the State's interest in the Financing Leases and all rentals, income and profits therefrom, including without limitation the Agency Rent Payments; *provided*, that until an Event of Default occurs and is continuing thereunder, the State may receive, collect, enjoy and apply the rents accruing under the Financing Leases as otherwise provided therein and in the Master Financing Lease. Upon the occurrence and continuance of an Event of Default under the Master Financing Lease, the Corporation may, at its option, either (1) terminate the respective Financing Lease; (2) elect to receive and collect, directly from the Agencies, the Agency Rent Payments and other amounts due and to become due under the Financing Leases, or (3) elect to succeed to the State's interest in the Financing Leases and cause the Agencies to attorn to the Corporation, as sublessor. The Corporation covenants to credit the State with any Agency Rent Payments received as a result of such assignment;

*provided*, that the acceptance by the Corporation of any such payment should not be deemed to be (a) an attornment by the Corporation to the Agency, or by the Agency to the Corporation, or (b) a waiver by the Corporation of any provision of the Master Financing Lease or (c) a release of the State from any obligation or liability thereunder.

**Disclaimer of Warranties**

The State acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the State in its present condition. The State subleases the Property in its present condition, "as is." THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE MASTER FINANCING LEASE OR THE CONSTRUCTION OR USE BY ANY AGENCY OF ANY ITEM OF PROPERTY.

**Rent Payments**

The State promises to pay to the Corporation, as rental for the use and occupancy of the Property, the following amounts at the following times:

***Base Rent Payments*.** On each Base Rent Payment Date, the Base Rent Payment, consisting of a Principal Component and/or an Interest Component; and

***Additional Rent*.** All Additional Rent incurred by the Corporation in connection with the lease of the Sites from the Agencies, the sublease of the Property to the State, the execution and delivery of the Certificates, and the observance and performance of the Series 2016A Agreements, within 30 days following receipt of an invoice from the Corporation with respect thereto which includes (1) a brief description of each item of such Additional Rent, (2) the party to whom payment is due, (3) the amount thereof, and (4) such additional information as the Treasurer may reasonably request.

Such payments of Base Rent Payments and Additional Rent for each rental payment period during the term of the Master Financing Lease should constitute the total rental due for such period, and should be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties to the Master Financing Lease have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Master Financing Lease. Anything in the Master Financing Lease to the contrary notwithstanding, the State waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the State of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Each Base Rent Payment consists of a Principal Component and/or an Interest Component as set forth in the Master Financing Lease. Interest accrues and is calculated as provided in the Trust Agreement. Each Base Rent Payment consists of the aggregate of the Agency Rent Payments payable by each Agency pursuant to its Financing Lease. Each Base Rent Payment payable thereunder is required to be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent should be made to or upon the order of the Corporation. Each Base Rent Payment should be applied first to the Interest Component due thereunder, and then to the Principal Component due thereunder.

The Corporation directs the Treasurer, and the Treasurer agrees, to make all Base Rent Payments directly to the Fiscal Agent, as assignee of the Corporation.

**Sources of Payment of Base Rent Payments**

***State Agency Financing Lease Addenda.*** The State is subleasing certain Property for and on behalf of the State Agencies set forth in the Master Financing Lease. Concurrently with the execution of the Master Financing Lease, each State Agency shall execute and deliver a State Agency Financing Lease Addendum pursuant to which such Agency shall agree to sublease its Property and to make Agency Rent Payments therefor. Such Agency Rent Payments shall be sufficient in the aggregate to pay, on each Base Rent Payment Date, the Base Rent Payment for the Property subleased under the Master Financing Lease by the State from the Corporation for and on behalf of such State Agencies.

The Base Rent Payments shall be payable by the State solely from the Agency Rent Payments to be made by the State Agencies. The obligation of each State Agency to make its Agency Rent Payments shall be subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State shall not be obligated to pay the Base Rent Payments other than from appropriated funds of the State Agencies.

***Local Agency Financing Leases.*** The State is subleasing certain Property for and on behalf of the respective Local Agencies set forth in the Master Financing Lease. Concurrently with the execution of the Master Financing Lease, each such Local Agency covenants to execute and deliver a Local Agency Financing Lease pursuant to which such Local Agency agrees to sublease its respective Property and to make Agency Rent Payments therefor, at such times and in such amounts as provided therein. Such Agency Rent Payments must be sufficient in the aggregate to pay, on each Base Rent Payment Date, the Base Rent Payment for the Property subleased thereunder by the State from the Corporation for and on behalf of such Local Agencies.

The Base Rent Payments allocable to Agency Rent Payments of each Local Agency is payable by the State solely from the Agency Rent Payments to be made by such Local Agency, except as otherwise provided in the Master Financing Lease. The obligation of each Local Agency to make its Agency Rent Payments is a direct and general obligation of such Local Agency to which the full faith and credit of such Local Agency is pledged. The State is not obligated to pay the Base Rent Payments other than from Agency Rent Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Lease.

***Intercept of Local Agency Share of State Revenues.*** In the event that any Local Agency fails to make any payment due under its Local Agency Financing Lease, the Treasurer is required to withhold an amount sufficient to make such payment from such Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding should continue until all such payments due thereunder have been made. Amounts withheld by the Treasurer should be applied to make any such payment due under the Local Agency Financing Lease on behalf of such Local Agency, or to reimburse the Treasurer for any such payment made pursuant to the Master Financing Lease.

***Conditional Payment of Local Agency Rent Payments.*** Upon the failure of any Local Agency to make any Agency Rent Payment at such time and in such amount as required pursuant to its Local Agency Financing Lease, the Treasurer covenants, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Rent Payment Fund on behalf of such Local Agency within 10 Business Days after such Agency Rent Payment was due. The Treasurer is entitled to reimbursement for any such payments made on behalf of such Local Agency as provided in the Local Agency Financing Lease.

**Agency Rent Payments; Deposit and Investment**

Agency Rent Payments are payable on each Agency Rent Payment Date and are to be deposited in a special fund or funds maintained by the Treasurer (the "Agency Rent Payment Fund"). Payments of Agency Rent Payments from State Agencies will be accounted for separately from payments from Local Agencies. The Agency Rent Payments

due on each Agency Rent Payment Date are at least sufficient, in the aggregate, to make the Base Rent Payment next coming due thereunder. Amounts in the Agency Rent Payment Fund, including investment earnings thereon, are to be used and applied, first, to make the Base Rent Payment next coming due, and thereafter, but prior to the next Agency Rent Payment Date, to the extent that amounts remain in such Fund after such Base Rent Payment is made, to pay Additional Rent or for any other lawful purpose of the Treasurer. Amounts in the Agency Rent Payment Fund must be invested in Qualified Investments, and must be separately accounted for, but may be commingled with other moneys on deposit with the Treasurer solely for investment purposes.

**Net Lease**

The Master Financing Lease should be deemed and construed to be a "triple net lease," and the State is required to pay absolutely net during the term of the Master Financing Lease the Base Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided*, that nothing in this provision should be construed to release or excuse the Corporation from the observance or performance of its obligations thereunder. If the Corporation fails to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

**Limited Obligation**

THE MASTER FINANCING LEASE CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. THE MASTER FINANCING LEASE DOES NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE TO MAKE AGENCY RENT PAYMENTS ON BEHALF OF THE AGENCIES IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE MASTER FINANCING LEASE. NOTHING IN THE MASTER FINANCING LEASE SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE TO MAKE THE BASE RENT PAYMENTS DUE THEREUNDER.

**Assignment**

Concurrently with the execution and delivery of the Master Financing Lease, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment (Real Property), without recourse, (1) all of its rights to the Sites pursuant to the Site Leases, (2) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Lease; (3) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Lease; (4) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, the Financing Leases, and in and to the Property (including any security interest therein) and any rents or profits generated therefrom; and (5) its right of access more particularly described in the Master Financing Lease, all in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The Treasurer and the Corporation acknowledge and agree that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation ceases to have any rights, duties or obligations under the Site Leases, the Master Financing Lease, the Financing Leases, or with respect to the Property, and the Fiscal Agent should thereafter have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto, and every reference therein and in the Master Financing Lease to the Corporation is deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

Anything in the Master Financing Lease to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance does not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment (Real Property).

**Optional Prepayment**

The State may at its option, and shall upon the optional prepayment of Agency Rent Payments by any Agency pursuant to its Financing Lease, prepay all or any portion of the Principal Components then unpaid, in whole or in part on any date on or after July 1, 2026, in Authorized Denominations from any source of available funds, at the times and at the Prepayment Price of 100 percent of the Principal Components prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

The State may at its option, and shall upon the optional prepayment of Agency Rent Payments by any Agency pursuant to its Financing Lease, provide for the payment of all or any portion of the Base Rent Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of the Corporation, (1) moneys and/or Government Obligations in accordance with the Trust Agreement; and (2) an Opinion of Counsel to the effect such actions are permitted under the Master Financing Lease and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

**Mandatory Prepayment; Special Prepayment**

***Eminent Domain; Loss of Title*.** The State covenants to, upon the special mandatory prepayment of Agency Rent Payments by any Agency pursuant to its Financing Lease, prepay or cause to be prepaid from eminent domain awards or sale proceeds received pursuant to the Master Financing Lease, and from the net proceeds of title insurance, if any, pursuant to the Master Financing Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, so that the aggregate annual Base Rent Payments for the related Property from and after such Prepayment Date are in approximately equal amounts, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

***Insurance Proceeds*.** The State covenants to, upon the special optional prepayment of Agency Rent Payments by any Agency pursuant to its Financing Lease, prepay or cause to be prepaid from net insurance proceeds received pursuant to the Master Financing Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, so that the aggregate annual Base Rent Payments for the related Property from and after such Prepayment Date are in approximately equal amounts, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

***Provision for Payment in Accordance with Trust Agreement.*** To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal Components of Base Rent Payments in Authorized Denominations, such amounts must be applied by the Treasurer to provide for the payment thereof pursuant to the Master Financing Lease.

**Notice to Fiscal Agent**

The Treasurer is required to provide the Fiscal Agent, as assignee of the Corporation, with not less than 45 days' prior written notice of its intention (1) to prepay any Principal Components, which notice is required to specify the reason for such prepayment, the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid, and (2) to provide for the payment of any Base Rent Payments pursuant to the Master Financing Lease.

**Revision of Base Rent Payments upon Prepayment**

The Principal Components and Interest Components due on each Base Rent Payment Date on and after a Prepayment Date pursuant to the Master Financing Lease may be reduced by the Fiscal Agent, as assignee of the Corporation, to reflect such prepayment, in Authorized Denominations, in such amounts and on such Base Rent Payment Dates as the Treasurer elects in a written notice to the Fiscal Agent, as assignee of the Corporation; *provided*, that the aggregate reduction in such Principal Components is equal to the aggregate Principal Components prepaid by the Treasurer; and *provided further*, that the reduction in Principal Components and Interest Components due on each Base Rent Payment Date is equal to the corresponding reduction in the Agency Rent Payments due on each Agency Rent Payment Date.

**Discharge of Master Financing Lease**

All right, title and interest of the Corporation in the Master Financing Lease and all obligations of the State thereunder cease, terminate, become void and are completely discharged and satisfied (except for the right of the Fiscal Agent, as assignee of the Corporation, and the obligation of the State to have the moneys and Government Obligations so set aside applied to make the remaining Base Rent Payments) when either:

(1) all Base Rent Payments and all Additional Rent and other amounts due thereunder have been paid in accordance therewith; or

(2) (a) the Treasurer has delivered a written notice to the Corporation and the Fiscal Agent of its intention to prepay all of the Base Rent Payments remaining unpaid; (b) the Treasurer causes to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect that such actions are permitted thereunder and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and (c) for so long as any Base Rent Payments remain unpaid, provision has been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Rent, including but not limited to the fees and expenses of the Fiscal Agent.

**Eminent Domain**

If all of the Property subleased to the State pursuant to the Master Financing Lease and to any Agency pursuant to a Financing Lease, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Agency at the time of such taking, should be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Master Financing Lease and the Financing Lease ceases as of the day that the State and the Agency is required to vacate such Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the Agency at the time of such taking, as reasonably determined by the Treasurer, then the sublease thereof pursuant to the Master Financing Lease and the Financing Lease continues in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there should be no abatement of the rental due under the Master Financing Lease or Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property should be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Financing Lease and the Master Financing Lease. Any award or proceeds in excess of the amount necessary to prepay such Agency Rent Payments due under such Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments under the Master financing Lease, should be paid to the Corporation, the State and the Agency as their respective interests may appear.

**Loss of Title**

If there is a loss of title to the Property subleased to the State pursuant to the Master Financing Lease and to any Agency pursuant to a Financing Lease which is insured under a policy or policies of title insurance, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the State and the Agency

at the time of such loss, the sublease of such Property pursuant to the Master Financing Lease and the Financing Lease ceases as of the day that the State and the Agency is required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the Agency at the time of such loss, as reasonably determined by the Treasurer, then the sublease thereof pursuant to the Master Financing Lease and the Financing Lease continues in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there will be no abatement of the rental due thereunder or thereunder. So long as any Agency Rent Payments under the related Financing Lease remain unpaid, any payments under such title insurance policy or policies with respect to such Property are to be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Financing Lease and the Master Financing Lease. Any payment in excess of the amount necessary to prepay such Agency Rent Payments due under such Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments due under the Master Financing Lease, is to be paid to the Corporation, the State and the Agency as their respective interests may appear.

**Damage or Destruction**

If all or any portion of the Property subleased to the State pursuant to the Master Financing Lease and to any Agency pursuant to its Financing Lease is damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Master Financing Lease and the Financing Lease will not terminate, nor will there be any abatement of the rent payable under the Master Financing Lease or the Financing Lease. So long as any Agency Rent Payments under the related Financing Lease remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Financing Lease and the Master Financing Lease, or may be paid to the Treasurer and applied as provided in the Trust Agreement.

**Permitted Termination Event**

Upon the occurrence of a Permitted Termination Event with respect to any State Agency Financing Lease Addendum, the Treasurer shall immediately deliver written notice thereof to the Corporation, which notice shall state the election not to appropriate the necessary funds or the Executive Order reduction in State funding as set forth in such State Agency Financing Lease Addendum as the reason for cancellation thereof. The Treasurer shall, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the Treasurer shall determine whether or not the Property and the obligations of the Agency under the State Agency Financing Lease Addendum may be transferred to the office of the Treasurer or to another agency or department of the State authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding shall be effective unless or until the Treasurer has determined that neither the Treasurer nor any other agency or department of the State authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the Agency under the State Agency Financing Lease Addendum. The Treasurer shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, transfer said Property to the Corporation for the remaining term of the related Site Lease for the account of the State and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Rent Payments with respect to such Property. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation shall be entitled to retain for the benefit of the Owners of the Certificates all sums theretofore transmitted to the Fiscal Agent, as assignee of the Corporation, by the Treasurer, and thereafter take possession of and relet the Property for the remaining term of the related Site Lease or assign its leasehold interest in the Property under the related Site Lease for the account of the State Agency and the benefit of the Owners of the Certificates. The occurrence of a Permitted Termination Event with respect to one State Agency Financing Lease Addendum shall not affect any rights, duties or obligations with respect to any other State Agency Financing Lease Addendum with respect to which no Permitted Termination Event has occurred.

**Covenants and Agreements of the State**

***Budget.*** The Treasurer covenants to: (1) include in its biennial budget all scheduled Agency Rent Payments under Local Agency Financing Leases due during such Biennium; (2) submit such budget to OFM at such times and in such manner as required by law; (3) use its best efforts to obtain appropriations by the State Legislature in amounts

sufficient to make any such payments; (4) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

***Financing Lease.*** Concurrently with the execution and delivery of the Master Financing Lease, the Treasurer covenants to enter into a Local Agency Financing Lease with each Local Agency with respect to the sublease of the respective Property and the refinancing or acquisition and/or construction of the related Project. Concurrently with the execution and delivery of the Master Financing Lease, the Treasurer is required to enter into a State Agency Financing Lease Addendum with each State Agency with respect to the sublease of the respective Property and the refinancing or acquisition and/or construction of the related Project. Each State Agency Financing Lease Addendum constitutes a part of the Master Financing Lease.

***Tax-Exemption.*** The State shall not make any use of the proceeds of the Master Financing Lease or the Certificates or of any other amounts, regardless of the source, or of any Property, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The State shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments under Section 103 of the Code. The State shall not make any use of the proceeds of the Master Financing Lease or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Base Rent Payments remain unpaid, the State, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The State will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Base Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State shall comply with the provisions of the Tax Certificate.

The Treasurer may establish and maintain a separate account designated as the "State of Washington Certificates of Participation, Series 2016A Rebate Fund" (the "Rebate Fund"). The State shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of this covenant regarding tax exemption of the Certificates, moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the State, the Agencies, the Corporation, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the State agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive the discharge of the Master Financing Lease and the payment in full or defeasance of the Certificates. The State specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined to comply with the Rebate Requirement as provided by the Tax Certificate.

Notwithstanding any provision of the covenant regarding tax exemption, if the State shall provide to the Fiscal Agent an Opinion of Counsel to the effect that any specified action required under the covenant regarding tax exemption is no longer required or that some further or different action is required to maintain the tax-exempt status of interest evidenced and represented by the Certificates, the Fiscal Agent may conclusively rely on such opinion, and the covenants of the State thereunder shall be deemed to be modified to that extent.

***Duties Imposed by Law.*** To the extent permitted by law, the covenants, agreements and other obligations on the part of the State contained in the Master Financing Lease shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State and each and every public official to take such actions in the performance of the official duties of such officials to enable the State to observe and perform the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Lease and in the other Series 2016A Agreements to which the State is a party to be observed and performed by the State.

***Liens.*** The State shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The State shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time.

***Assignments and Subleases.*** The State shall not (and shall not permit any Agency to) grant, sell, assign, pledge, transfer, convey, mortgage, pledge, sublet or otherwise dispose any of its right, title or interest in, to or under the Master Financing Lease or the Property other than to the respective Agencies pursuant to the Financing Leases or as otherwise provided in the Master Financing Lease or therein, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void. The Corporation consents to the sublease of the Property pursuant to the Financing Leases. Such subleases shall be subject and subordinate to the Master Financing Lease. Such subleases shall not release or alter the obligations or liability of the State under the Master Financing Lease. Upon the occurrence and continuance of an Agency Event of Default with respect to any Property, the Treasurer shall have the right, pursuant to the Financing Lease, to sublease all or any portion of such Property.

***Performance.*** The State shall punctually pay the Base Rent Payments and Additional Rent in strict conformity with the terms and provisions of the Master Financing Lease, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Lease required to be observed and performed by the State. Except for Permitted Termination Events, the State will not suffer or permit any default to occur thereunder, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from doing anything, would or might be ground for cancellation or termination of the Master Financing Lease.

***Corporation Not Liable.*** The Corporation and its directors, officers and employees shall not be liable to the State or to any other Person whomsoever for any death, injury or damage that may result to any Person or property by or from any cause whatsoever in, on, about or relating to the Property.

***Accounting Records and Report.*** The Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Agency Rent Payments, and such accounting records shall be available for inspection by the Fiscal Agent, as assignee of the Corporation, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

***Further Assurances.*** The State will preserve and protect the rights of the Corporation and the Fiscal Agent, as assignee of the Corporation, thereunder, and will warrant and defend such rights against all claims and demands of all Persons. The Treasurer will promptly execute, make, deliver, file and record any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance of the Master Financing Lease and for the better assuring and confirming to the Corporation the rights and benefits provided to it thereunder.

***Disclosure Agreement.*** Concurrently with the execution and delivery of the Master Financing Lease, the Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The Treasurer shall comply with the requirements of the Disclosure Agreement; *provided*, that failure to so comply shall not constitute a default under the Master Financing Lease.

**Events of Default**

Each of the following shall constitute an "Event of Default" under the Master Financing Lease:

(1) Failure by the State (other than as a result of a Permitted Termination Event) to pay or cause to be paid any Base Rent Payment required to be paid thereunder at the time set forth in the Master Financing Lease; and

(2) Failure by the State (other than as a result of a Permitted Termination Event) to observe or perform any covenant, agreement, term or condition on its part to be observed or performed thereunder, other than as set forth in paragraph (1), above, for a period of 30 days after written notice from the Corporation, or from the

Owners of not less than 25 percent in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the Treasurer specifying such failure and requesting that it be remedied; *provided, however*, that such period shall be extended for not more than 60 days if such failure cannot be corrected within such period, and corrective action is commenced by the State within such period and diligently pursued until the failure is corrected; and

(3) If the State's interest under the Master Financing Lease or any part of the Master Financing Lease shall be assigned, sublet or transferred other than as provided in the Master Financing Lease, either voluntarily or by operation of law; and

(4) The occurrence of an Agency Event of Default.

Notwithstanding the provisions summarized above, if by reason of *force majeure* the State is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Master Financing Lease, the State shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the State.

The Corporation may, at its election, waive any default or Event of Default and its consequences under the Master Financing Lease and annul any notice thereof by written notice to the Treasurer to such effect, and thereupon the respective rights of the Parties thereunder shall be as they would have been if such default or Event of Default had not occurred.

ANYTHING IN THE MASTER FINANCING LEASE TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE MASTER FINANCING LEASE.

**Remedies**

Whenever an Event of Default under the Master Financing Lease shall have occurred and be continuing, the Corporation shall have the following rights and remedies:

(1) ***Continuation; Reentry and Reletting.*** The Corporation may continue the Master Financing Lease in full force and effect, and (a) collect rent and other amounts as they become due thereunder, (b) enforce every other term and provision of the Master Financing Lease to be observed or performed by the State, and (c) exercise any and all rights of entry and reentry upon the Property. In the event that the Corporation does not elect to terminate the Master Financing Lease in the manner summarized in paragraph (2) below, the State agrees to observe and perform all terms and provisions in the Master Financing Lease to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due thereunder for the term of the Master Financing Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided in the Master Financing Lease, and notwithstanding any reentry or reletting by the Corporation, or suit in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the Corporation elect to re-enter or obtain possession of all or any part of the Property, the State irrevocably appoints the Corporation as the State's agent and attorney-in-fact (a) to relet the Property, or any part thereof, from time to time, either in the name of the Corporation or otherwise, upon such terms and conditions and for such use and period as the Corporation may determine in its discretion, (b) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (c) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. The State shall be liable for, and agrees to pay the Corporation, the Corporation's costs and expenses in connection with reentry of the Property, removal and

storage of any personal property, and reletting of the Property. The State agrees that the terms of the Master Financing Lease constitute full and sufficient notice of the right of the Corporation to reenter and relet the Property or any part thereof without effecting a surrender or termination of the Master Financing Lease. Termination of the Master Financing Lease upon an Event of Default shall be effected solely as summarized in paragraph (2) below. The State further waives any right to, and releases, any rental obtained by the Corporation upon reletting in excess of the rental and other amounts otherwise due under the Master Financing Lease.

(2) ***Termination.*** The Corporation may terminate the Master Financing Lease, but solely upon written notice by the Corporation to the Treasurer of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by the Corporation, nor any proceeding in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such reentry or obtaining possession, nor any other act shall operate to terminate the Master Financing Lease, and no termination of the Master Financing Lease on account of an Event of Default shall be or become effective by operation of law or acts of the Parties to the Master Financing Lease or otherwise, unless and until such notice of termination shall have been given by the Corporation. The State agrees that no surrender of the Property or any part thereof, nor any termination of the Master Financing Lease by the State shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the Corporation. Upon such termination, the Corporation may (1) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (2) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. Upon such termination, the State's right to possession of the Property shall terminate, and the State shall surrender possession thereof to the Corporation. In the event of such termination, the State shall remain liable to the Corporation for damages in an amount equal to the rent and other amounts that would have been due thereunder for the balance of the term of the Master Financing Lease, less the net proceeds, if any, of any reletting of the Property or any part thereof by the Corporation subsequent to such termination, after deducting the expenses incurred by the Corporation in connection with any such reentry, removal and storage of personal property, and reletting. The Corporation shall be entitled to collect damages from the State on the respective Base Rent Payment Dates, or alternatively, the Corporation may accelerate the State's obligations under the Master Financing Lease and recover from the State (a) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (b) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the State proves could have been reasonably avoided, (c) the worth at the time of award by which the unpaid rental for the balance of the term of the Master Financing Lease after the time of award exceeds the amount of rental loss that the State proves could reasonably have been avoided, and (d) any other amount necessary to compensate the Corporation for all the detriment proximately caused by the State's failure to perform its obligations thereunder, or which in the ordinary course would be likely to result therefrom, including but not limited to the Corporation's expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to the composite Interest Component evidenced and represented by the Certificates.

(3) ***Other Remedies.*** In addition to the other remedies summarized under this subheading, upon the occurrence and continuance of an Event of Default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in them by the Master Financing Lease or by law. The terms and provisions of the Master Financing Lease and the duties and obligations of the State thereunder, and the officers and employees thereof, shall be enforceable by the Corporation by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(a) Accounting. By action or suit in equity to require the State or any Agency and its officers and employees to account as the trustee of an express trust;

(b) Injunction. By action or suit in equity to enjoin the violation of the rights of the Corporation; and

(c) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the Corporation's rights against the State or any Agency and its officers and employees, and to compel the State to perform and carry out its duties and obligations under the law and its covenants and agreements with the Corporation as provided in the Master Financing Lease.

In the event that the Corporation shall prevail in any action, suit or proceeding brought to enforce any of the terms or provisions of the Master Financing Lease, the State shall be liable for the reasonable attorneys' fees of the Corporation in connection therewith.

The State waives any and all claims for damages caused or which may be caused by the Corporation in reentering and taking possession of the Property or any part thereof as provided in the Master Financing Lease, and all claims for damages that may result from the destruction of or injury to the Property or any part thereof, and all claims for damages to or loss of any personal property that may be in or upon the Property.

ANYTHING IN THE MASTER FINANCING LEASE TO THE CONTRARY NOTWITHSTANDING, IF THE EVENT OF DEFAULT CONSISTS OF AN AGENCY EVENT OF DEFAULT, THE REMEDIES OF THE CORPORATION SHALL BE LIMITED TO THOSE SET FORTH IN THE RELATED FINANCING LEASE AND THE MASTER FINANCING LEASE.

**No Remedy Exclusive; Non-Waiver**

No remedy conferred upon or reserved to the Corporation under the Master Financing Lease or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Financing Lease or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default thereunder shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the Corporation thereunder, it shall not be necessary to give any notice, other than such notice as may be required thereunder. A waiver by the Corporation of any default or Event of Default thereunder shall not constitute a waiver of any subsequent default or Event of Default thereunder, and shall not affect or impair the rights or remedies of the Corporation in connection with any such subsequent default or Event of Default.

No acceptance of less than the full amount of a rental payment due thereunder shall constitute an accord and satisfaction or compromise of any such payment unless the Corporation specifically agrees to such accord and satisfaction or compromise in writing.

**Default by the Corporation**

Anything in the Master Financing Lease to the contrary notwithstanding, the Corporation shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it thereunder unless and until the Corporation shall have failed to observe or perform such covenant, agreement, term or condition for a period of 60 days after written notice by the Treasurer to the Corporation specifying such failure and requesting that it be remedied; *provided, however*, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the Corporation within such period and diligently pursued until the failure is corrected.

**Term**

The term of the Master Financing Lease shall commence on the Dated Date, and shall end on the final Principal Payment Date thereunder, unless such term is extended or sooner terminated as provided in the Master Financing Lease. If on such date, all amounts due thereunder shall not have been paid or the payment thereof duly provided for pursuant to the Master Financing Lease, then the term of the Master Financing Lease shall be extended until 10 days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of

the Master Financing Lease shall in no event be extended beyond the date five years after such final Principal Payment Date. If prior to the final Principal Payment Date thereunder, all amounts due thereunder shall have been paid or the payment thereof so provided for, the term of the Master Financing Lease shall end 10 days thereafter or 10 days after written notice by the Treasurer to the Corporation, whichever is earlier.

Anything in the Master Financing Lease to the contrary notwithstanding, the lease of any parcel of Property pursuant to the Master Financing Lease shall terminate when all Agency Rent Payments and other amounts due under the respective Financing Lease have been paid or the payment thereof duly provided for pursuant thereto.

**Termination**

The State agrees, upon the termination or expiration of the Master Financing Lease as to any parcel of Property, to quit and surrender such Property in the same good order, condition and repair as the same was in at the time of commencement of the term thereunder, except for acts of God, reasonable wear and tear, and any actions by any Agency in accordance therewith and with any Financing Lease that affect the condition of such Property. The State agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Master Financing Lease shall remain thereon. The State shall thereafter execute, acknowledge and deliver to the Corporation such instruments of further assurance as are necessary or desirable to confirm the Corporation's leasehold right, title and interest in and to such Property.

## MASTER FINANCING CONTRACT

**Sale and Purchase of Property**

The Corporation agrees to sell, assign and convey, and does sell, assign and convey, to the State, and the State agrees to purchase, acquire and assume, and does purchase, acquire and assume, from the Corporation, upon the terms and conditions set forth in the Master Financing Contract, all of the Corporation's right, title and interest in and to the Property sold thereunder and all proceeds and profits thereof and therefrom, subject to the security interest created pursuant to the Master Financing Contract, and the State agrees to pay in consideration thereof the Purchase Price therefor and interest thereon and the Additional Costs in accordance with the Master Financing Contract, and all other amounts required to be paid by the State under the Master Financing Contract.

**Appointment of Agents; Acquisition of Property; Revision and Substitution**

***Appointment of Agents*.** The Corporation appoints, and ratifies, approves and confirms its appointment of, the Treasurer and the respective Agencies pursuant to the Notices of Intent as its agents in connection with the disbursement of the proceeds of the Certificates and the acquisition of the respective items of Property, respectively, and the Treasurer accepts and agrees to such designation and appointment.

***Acquisition of Property*.** The Treasurer agrees that (1) it has caused or will cause the Property to be acquired by the respective Agencies, as agents for the Corporation, with all reasonable dispatch; and (2) it will pay or cause to be paid the Costs of Acquisition of the Property solely from funds available to it pursuant to the Master Financing Contract, the Trust Agreement and the Agency Financing Contracts. The appointment of the Treasurer and the respective Agencies to act as agents of the Corporation in connection with the disbursement of the proceeds of the Certificates and the acquisition of the Property, respectively, and all authority conferred is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Treasurer, any Agency or the Corporation or otherwise.

***Revision and Substitution of Property*.** The Treasurer may revise or consent to the revision of any item of Property to be acquired with proceeds of the Certificates, or the description thereof; provided, that (1) such item of Property as so revised shall satisfy the requirements under the Master Financing Contract with respect to the substitution of Property previously acquired; (2) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and (3) any such revision shall not relieve the State or any Agency of its obligation to acquire the Property in accordance therewith and with the Agency Financing Contract with respect thereto.

After acquisition of an item of Property, the Treasurer may substitute or consent to the substitution for an item of Property acquired for and on behalf of an Agency other personal property by filing with the Fiscal Agent, as assignee of the Corporation:

(1) a certificate of such Agency stating that such substitute Property:

(a) has a remaining useful life equal to or greater than the Property for which it is being substituted;

(b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted;

(c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract;

(d) is of equal usefulness and value as the Property for which it is being substituted;

(e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(f) is expected to be used by such Agency immediately and for the term of its Agency Financing Contract; and

(2) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

**Title to the Property**

All right, title and interest in and to the Property shall transfer to and vest in the State from the Corporation without any further action by the State or the Corporation immediately upon the acquisition thereof or reimbursement to the State or the Agency for the Acquisition Costs thereof; *provided*, that the Treasurer and the Corporation shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the Treasurer or the Corporation to evidence and confirm such transfer of title pursuant to the Master Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to any Property shall be vested in the State, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Master Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

**Security Interest**

In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State pledges, grants, assigns and conveys to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or acquired, in and to the Property and the Agency Financing Contracts, including without limitation the Agency Installment Payments and all proceeds thereof. Accordingly, the Master Financing Contract constitutes a security agreement. The State acknowledges and agrees that each provision of the Master Financing Contract is also a provision of the security agreement and that an Agency Event of Default under the Master Financing Contract is also a default under the security agreement.

The State further agrees that the Corporation may: (1) commingle Property which comes into its possession; (2) re-pledge such Property upon terms which impair the State's right to redeem such Property; and (3) require the State to assemble the Property and make it available to the Corporation in a manner which is reasonably convenient to both Parties. To the extent the Corporation is required for any reason to provide commercially reasonable notice to the State, the State agrees that notice mailed by first class mail five days before the event of which notice is given

is commercially reasonable notice. The standard by which the Corporation's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the Corporation or the Fiscal Agent, as assignee of the Corporation, at any time during the term of the Master Financing Contract, the State will execute and deliver to the Corporation or the Fiscal Agent, as the case may be, in form satisfactory to the Corporation or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

**Disclaimer of Warranties**

The State acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the respective Agencies pursuant to their own specifications, and not by the Corporation, and that the Corporation is not a manufacturer, supplier or a vendor of such personal property. THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PERSONAL PROPERTY.

**Installment Payments**

The State promises to pay to the Corporation, as rental for the use and occupancy of the Property, the following amounts at the following times:

(1) On each Installment Payment Date, the Installment Payment, consisting of a Principal Component and/or an Interest Component; and

(2) All Additional Costs incurred by the Corporation in connection with the sale of the Property to the State, the execution and delivery of the Certificates, and the observance and performance of the Series 2016A Agreements, within 30 days following receipt of an invoice from the Corporation with respect thereto which includes (a) a brief description of each such Additional Cost, (b) the party to whom payment is due, (c) the amount thereof, and (d) such additional information as the Treasurer may reasonably request.

Each Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in the Master Financing Contract. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Installment Payment shall consist of the aggregate of the Agency Installment Payments payable by each Agency pursuant to its Agency Financing Contract. Each Installment Payment payable under the Master Financing Contract shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the Corporation. Each Installment Payment shall be applied first to the Interest Component due under the Master Financing Contract, and then to the Principal Component due under the Master Financing Contract.

The Corporation directs the Treasurer, and the Treasurer agrees, to make all Installment Payments directly to the Fiscal Agent, as assignee of the Corporation, from the sources set forth in the Master Financing Contract and subject to the terms and conditions of the Master Financing Contract.

**Sources of Payment of Installment Payments**

***State Agency Financing Addenda.*** The State is acquiring the State Agency Property for and on behalf of the respective State Agencies set forth in Exhibit B to the Master Financing Contract. Concurrently with the execution of the Master Financing Contract, each such State Agency shall execute and deliver a State Agency Financing Addendum pursuant to which such State Agency shall agree to acquire its respective Property and to make Agency Installment Payments therefor, at such times and in such amounts as provided in the Master Financing Contract, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and

on behalf of such State Agency and interest thereon. Each State Agency Financing Addendum is incorporated in the Master Financing Contract and made a part of the Master Financing Contract by reference therein.

That portion of the Installment Payments that is allocable to the Purchase Price of State Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective State Agencies. The obligation of each State Agency to make its Agency Installment Payments shall be subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of State Agency Property and interest thereon other than from appropriated funds of the respective State Agencies.

***Local Agency Financing Contracts.*** The State is acquiring the Local Agency Property for and on behalf of the respective Local Agencies set forth in Exhibit B to the Master Financing Contract. Concurrently with the execution of the Master Financing Contract, each such Local Agency shall execute and deliver a Local Agency Financing Contract pursuant to which such Local Agency shall agree to acquire its respective Property and to make Agency Installment Payments, at such times and in such amounts as provided in the Master Financing Contract. Such Agency Installment Payments shall be sufficient in the aggregate to pay, on each Installment Payment Date, the Purchase Price of the Property to be acquired by the State for and on behalf of such Local Agency, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, except as otherwise provided in the two succeeding paragraphs immediately below. The obligation of each Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

***Intercept of Local Agency Share of State Revenues.*** In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such payments due under the Master Financing Contract have been made. Amounts withheld by the Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the Treasurer for any such payment made pursuant to the Master Financing Contract.

***Conditional Payment of Local Agency Installment Payments.*** Upon the failure of any Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to its Local Agency Financing Contract, the Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund on behalf of such Local Agency within 10 Business Days after such Agency Installment Payment was due. The Treasurer shall be entitled to reimbursement for any such payments made on behalf of the Local Agency as provided in the Local Agency Financing Contract.

**Agency Installment Payments; Deposit and Investment**

Agency Installment Payments shall be payable on each Agency Installment Payment Date and shall be deposited in a special fund or funds maintained by the Treasurer (the "Agency Installment Payment Fund"). Payments of Agency Installment Payments from State Agencies shall be accounted for separately from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, first, to make the Installment Payment next coming due, and thereafter, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for

any other lawful purpose of the Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in the Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the Treasurer solely for investment purposes.

**No Set Off**

The obligation of the State to make Installment Payments from the sources set forth in the Master Financing Contract and to perform its other obligations under the Master Financing Contract shall be absolute and unconditional, subject, however, to the right of any Agency to cease making Agency Installment Payments upon the occurrence of a Permitted Termination Event. The State shall make Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or diminution, among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; provided, that nothing in the Master Financing Contract shall be construed to release or excuse the Corporation from the observance or performance of its obligations under the Master Financing Contract. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

**Limited Obligation**

THE MASTER FINANCING CONTRACT SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. THE MASTER FINANCING CONTRACT SHALL NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE OR OF ANY STATE AGENCY, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE OR BY ANY STATE AGENCY, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF ANY STATE AGENCY, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE TO MAKE AGENCY INSTALLMENT PAYMENTS, BOTH FOR STATE AGENCY PROPERTY AND ON BEHALF OF LOCAL AGENCIES FOR LOCAL AGENCY PROPERTY, IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE MASTER FINANCING CONTRACT. NOTHING IN THE MASTER FINANCING CONTRACT SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE OR ANY AGENCY TO MAKE THE INSTALLMENT PAYMENTS DUE THEREUNDER.

**Assignment**

Concurrently with the execution and delivery of the Master Financing Contract, the Corporation will grant, sell, assign, transfer and convey (1) all of its rights to receive the Installment Payments, and (2) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property to the Fiscal Agent pursuant to the Master Assignment (Equipment) in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates. The Treasurer, the State Agencies and the Corporation acknowledge and agree that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Master Financing Contract as if the Fiscal Agent had been the original party thereto, and every reference in the Master Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the Master Financing Contract to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and in the Master Assignment (Equipment).

**Optional Prepayment**

The State may at its option, and shall upon the optional prepayment of Agency Installment Payments by any Agency pursuant to its Financing Contract, prepay all or any portion of the Principal Components then unpaid, in whole or in part on any date on or after July 1, 2026, in Authorized Denominations from any source of available funds, at the times and at the Prepayment Price of 100 percent of the Principal Components prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

The State may at its option, and shall upon the optional prepayment of Agency Installment Payments by any Agency pursuant to its Financing Contract, provide for the payment of all or any portion of the Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect such actions are permitted under the Master Financing Contract and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

**Notice to Fiscal Agent**

The Treasurer is required to provide the Fiscal Agent, as assignee of the Corporation, with not less than 45 days' prior written notice of its intention (i) to prepay any Principal Components, which notice is required to specify the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid, and (ii) to provide for the payment of any Installment Payments pursuant to the Master Financing Contract

**Revision of Installment Payments upon Prepayment**

The Principal Components and Interest Components of the Installment Payments due on each Installment Payment Date on and after any Prepayment Date pursuant to the Master Financing Contract may be reduced by the Fiscal Agent, as assignee of the Corporation, to reflect such prepayment, in Authorized Denominations, in such amounts and on such Installment Payment Dates as the Treasurer elects in a written notice to the Fiscal Agent, as assignee of the Corporation; provided, that the aggregate reduction in such Principal Components is equal to the aggregate Principal Components prepaid by the Treasurer; and provided further, that the reduction in Principal Components and Interest Components due on each Installment Payment Date is equal to the corresponding reduction in the Agency Installment Payments due on each Agency Installment Payment Date.

**Discharge of Master Financing Contract**

All right, title and interest of the Corporation in the Master Financing Contract and all obligations of the State under the Master Financing Contract shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the Fiscal Agent, as assignee of the Corporation, and the obligation of the State to have the moneys and Government Obligations so set aside applied to make the remaining Installment Payments) when either:

(1) all Installment Payments and all Additional Costs and other amounts due under the Master Financing Contract have been paid in accordance therewith; or

(2) (a) the Treasurer shall have delivered a written notice to the Fiscal Agent, as assignee of the Corporation, of its intention to prepay all of the Installment Payments remaining unpaid; (b) the Treasurer shall cause to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect that such actions are permitted under the Master Financing Contract and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and (c) for so long as any Installment Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Costs, including but not limited to the fees and expenses of the Fiscal Agent.

**Permitted Termination Event**

Upon the occurrence of a Permitted Termination Event with respect to any State Agency Financing Addendum, the Treasurer shall immediately deliver written notice thereof to the Corporation, which notice shall state the election not to appropriate the necessary funds or the Executive Order reduction in State funding as set forth in said State Agency Financing Addendum as the reason for cancellation thereof. The Treasurer shall, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the Treasurer shall determine whether or not the Property and the obligations of the State Agency under the State Agency Financing Addendum may be transferred to the office of the Treasurer or to another agency or department of the State authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding shall be effective unless or until the Treasurer has determined that neither the Treasurer nor any other agency or department of the State authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the State Agency under the Master Financing Contract. The Treasurer shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, return said Property to the Corporation for the account of the State and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Installment Payments with respect to such Property; provided, that the State delivers such Property in good repair, working order and condition (ordinary wear and tear excepted) and its unencumbered title to the Corporation at a location in the United States designated by the Corporation as of the end of the last month for which funding has been provided or the end of the last month for which funding is available in the event of an Executive Order reduction in funding. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation shall be entitled to retain for the benefit of the Owners of the Certificates all sums theretofore transmitted to the Fiscal Agent, as assignee of the Corporation, by the Treasurer. The occurrence of a Permitted Termination Event with respect to one State Agency Financing Addendum shall not affect any rights, duties or obligations with respect to any other State Agency Financing Addendum with respect to which no Permitted Termination Event has occurred.

**Covenants and Agreements of the State**

***Budget.*** The Treasurer shall (i) include in its biennial budget all scheduled Local Agency Installment Payments due during such Biennium; (ii) submit such budget to OFM at such times and in such manner as required by law; (iii) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (iv) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (v) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

***Agency Financing Contracts.*** Concurrently with the execution and delivery of the Master Financing Contract, the Treasurer shall enter into a Local Agency Financing Contract with each Local Agency set forth in Exhibit B to the Master Financing Contract with respect to the acquisition of the item or items of Property set forth in the Master Financing Contract substantially in the form set forth in Exhibit C to the Master Financing Contract. Concurrently with the execution and delivery of the Master Financing Contract, the Treasurer shall also enter into a State Agency Financing Addendum with each State Agency set forth in Exhibit B to the Master Financing Contract with respect to the acquisition of the item or items of Property set forth in the Master Financing Contract substantially in the form set forth in Exhibit D to the Master Financing Contract. Each State Agency Financing Addendum shall constitute a part of the Master Financing Contract.

***Tax-Exemption.*** The State shall not make any use of the proceeds of the Master Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any Property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The State shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The State shall not make any use of the proceeds of this Master Agency Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the

meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Installment Payments remain unpaid, the State, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Master Financing Contract. The State will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State shall comply with the provisions of the Tax Certificate and Agreement.

The Treasurer shall establish and maintain a separate account designated as the "State of Washington Certificates of Participation, Series 2016A Rebate Fund" (the "Rebate Fund"). The State shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of the covenant regarding tax exemption of the Certificates summarized above, moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the State, the Agencies, the Corporation, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the State agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive the discharge of the Master Financing Contract and the payment in full or defeasance of the Certificates. The State specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined as required to comply with the Rebate Requirement as provided by the Tax Certificate.

Notwithstanding any provision of the covenant regarding tax exemption, if the State shall provide to the Fiscal Agent an Opinion of Counsel to the effect that any specified action required under the covenant regarding tax exemption is no longer required or that some further or different action is required to maintain the tax-exempt status of interest evidenced and represented by the Certificates, the Fiscal Agent may conclusively rely on such opinion, and the covenants of the State under the Master Financing Contract shall be deemed to be modified to that extent.

***Duties Imposed by Law.*** To the extent permitted by law, the covenants, agreements and other obligations on the part of the State contained in the Master Financing Contract shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State and each and every public official to take such actions and to do such things as are required by law in the performance of the official duties of such officials to enable the State to observe and perform the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract and in the other Series 2016A Agreements to which the State is a party to be observed and performed by the State.

***Liens.*** The State shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation and the respective Agencies as provided in the Master Financing Contract and in the Agency Financing Contracts. The State shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The State shall not (and shall not permit any Agency) to grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property other than to the respective Agencies pursuant to the Agency Financing Contracts or as otherwise provided in the Master Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

***Performance.*** The State shall punctually pay the Installment Payments in strict conformity with the terms and provisions of the Master Financing Contract, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract required to be observed and performed by the State. Except for Permitted Termination Events, the State will not suffer or permit any default to occur under the Master Financing Contract, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted, or any such omission or refraining from doing anything, would or might be grounds for acceleration or termination of the Master Financing Contract. Except for Permitted Termination Events, the State will not terminate the Master Financing Contract for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of the State, or any failure by the Corporation to observe or perform any

covenant, agreement, term, condition or other obligation contained in the Master Financing Contract required to be observed and performed by it, whether express or implied, or the bankruptcy, insolvency, liquidation or reorganization of the Corporation. The State assumes the entire risk of loss, from any and every cause whatsoever, to the Property.

***Accounting Records and Report.*** The Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Agency Installment Payments, and such accounting records shall be available for inspection by the Fiscal Agent, as assignee of the Corporation, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

***Further Assurances.*** The State will preserve and protect the rights of the Corporation and the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract, and will warrant and defend such rights against all claims and demands of all Persons. The State will promptly execute, make and deliver any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance of the Master Financing Contract and for the better assuring and confirming to the Corporation the rights and benefits provided to it under the Master Financing Contract.

***Disclosure Agreement.*** Concurrently with the execution and delivery of the Master Financing Contract, the Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The Treasurer shall comply with the requirements of the Disclosure Agreement; provided, that failure to so comply shall not constitute a default under the Master Financing Contract.

**Events of Default**

Each of the following shall constitute an "Event of Default" under the Master Financing Contract:

(1) Failure by the State (other than as a result of a Permitted Termination Event) to pay or cause to be paid any Installment Payment required to be paid under the Master Financing Contract at the time set forth in the Master Financing Contract;

(2) Failure by the State (other than as a result of a Permitted Termination Event) to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Master Financing Contract, other than as set forth in paragraph (1), above, for a period of 30 days after written notice from the Corporation, or from the Owners of not less than 25 percent in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than 60 days if such failure cannot be corrected within such period, and corrective action is commenced by the State within such period and diligently pursued until the failure is corrected; and

(3) The occurrence of an Agency Event of Default.

Notwithstanding the provisions summarized above, if by reason of *force majeure* the State is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Master Financing Contract, the State shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the State.

The Corporation may, at its election, waive any default or Event of Default and its consequences under the Master Financing Contract and annul any notice thereof by written notice to the Treasurer to such effect, and thereupon the

respective rights of the Parties under the Master Financing Contract shall be as they would have been if such default or Event of Default had not occurred.

ANYTHING IN THE MASTER FINANCING CONTRACT TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE MASTER FINANCING CONTRACT.

**Remedies**

Whenever an Event of Default under the Master Financing Contract shall have occurred and be continuing, the Corporation has the right, without any further demand or notice, to:

(1) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the State under the Master Financing Contract;

(2) by written notice to the State, request the State to (and the State agrees that it shall), at the State's expense, promptly return the item or items of Property with respect to which such default occurred in good condition (ordinary wear and tear excepted) to any location in the United States specified by the Corporation;

(3) exercise all rights of a secured party under the State Uniform Commercial Code with respect to the item or items of Property with respect to which such default occurred; and

(4) exercise any other rights or remedies it may have under the Master Financing Contract or under applicable law.

ANYTHING IN THE MASTER FINANCING CONTRACT TO THE CONTRARY NOTWITHSTANDING, IF THE EVENT OF DEFAULT CONSISTS OF AN AGENCY EVENT OF DEFAULT, THE REMEDIES OF THE CORPORATION SHALL BE LIMITED TO THOSE SET FORTH IN THE MASTER FINANCING CONTRACT AND THE RELATED AGENCY FINANCING CONTRACT, RESPECTIVELY.

**No Remedy Exclusive; Non-Waiver**

No remedy conferred upon or reserved to the Corporation under the Master Financing Contract or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Financing Contract or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default under the Master Financing Contract shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the Corporation under the Master Financing Contract, it shall not be necessary to give any notice, other than such notice as may be required under the Master Financing Contract. A waiver by the Corporation of any default or Event of Default under the Master Financing Contract shall not constitute a waiver of any subsequent default or Event of Default under the Master Financing Contract, and shall not affect or impair the rights or remedies of the Corporation in connection with any such subsequent default or Event of Default.

**Term**

The Master Financing Contract shall terminate on the date on which all amounts due under the Master Financing Contract shall have been paid or the payment thereof duly provided for pursuant to the Master Financing Contract.

## TRUST AGREEMENT

### Project Fund

The Treasurer shall establish and maintain the Project Fund as agent for the Corporation. The moneys in the Project Fund shall be held by the Treasurer in trust for the benefit of the Owners and applied to the payment of the Project Costs (including reimbursement to the Corporation, or to the Treasurer or any Agency, in its capacity as agent of the Corporation, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance. Moneys in the Project Fund shall be invested by the Treasurer in Qualified Investments. Disbursements by the Treasurer from the Project Fund to pay or reimburse the Project Costs of the related Property or the Projects to be acquired, constructed, financed or refinanced by each Agency shall not exceed the amount in the Project Fund for such Agency, as determined by the Treasurer. When the Projects and the related Property have been acquired, constructed, financed, or refinanced and all of the Project Costs and Costs of Issuance have been paid, the Treasurer shall transfer any remaining balance in the Project Fund to the Agency Rent Payment Fund.

### Acquisition Fund

The Treasurer shall establish and maintain the Acquisition Fund as agent for the Corporation. The moneys in the Acquisition Fund shall be held by the Treasurer in trust for the benefit of the Owners and applied to the payment of the Acquisition Costs of the Property described in the Master Financing Contract (including reimbursement to the Corporation, or to the Treasurer or any Agency, in its capacity as agent of the Corporation, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance. Moneys in the Acquisition Fund shall be invested by the Treasurer in Qualified Investments. Disbursements by the Treasurer from the Acquisition Fund to pay or reimburse the Acquisition Costs of Property to be acquired by each Agency shall not exceed the amount in the Acquisition Fund allocable to such Agency, as determined by the Treasurer. When the Property has been acquired or refinanced and all of the Acquisition Costs and Costs of Issuance have been paid, the Treasurer shall transfer any remaining balance in the Acquisition Fund to the Agency Installment Payment Fund.

### Refunding Escrow Account

Solely for the benefit of the owners of the Refunded Certificates, the Fiscal Agent will establish separate and apart from all other funds and accounts held by it the Refunding Escrow Account, and shall carry out the Refunding Plan in accordance with the Trust Agreement. On the Closing Date, the Fiscal Agent will deposit in the Refunding Escrow Account proceeds of the Certificates received from the State Treasurer pursuant to the Trust Agreement and certain prepaid agency rent payments allocable to the Refunded Certificates received from the State Treasurer and use such proceeds and prepayments to purchase the Government Obligations described in Exhibit B to the Trust Agreement. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) will be the property of the Refunding Escrow Account, (b) will be applied only in strict conformity with the terms and conditions of the Trust Agreement, and (c) are irrevocably pledged to the payment of the Refunded Certificates on the applicable payment and prepayment dates as set forth in the Refunding Plan. When the Refunded Certificates have been paid in accordance with the Refunding Plan, any balance then remaining in the Refunding Escrow Account will be transferred to the State Treasurer and the Fiscal Agent shall thereupon be discharged from any further duties with respect to the Refunding Escrow Account. Upon receipt thereof, the Fiscal Agent will deliver to the State copies of the documents evidencing its purchase of and payment for the Government Obligations. Investments in mutual funds and unit investment trusts are prohibited.

### State Payments; Funds and Accounts; Investments

***State Payments Held in Trust.*** The State Payments are irrevocably pledged and shall be applied to pay the Principal Component and Interest Component evidenced and represented by the Certificates when due, and shall not be used or applied for any other purpose while any of the Certificates remain Outstanding. The pledge shall constitute a first and exclusive lien on and security interest in the State Payments for the benefit of the Owners of the Certificates.

All State Payments shall be paid directly by the Treasurer to the Fiscal Agent, as assignee of the Corporation, and if received by the Corporation at any time shall be deposited by the Corporation with the Fiscal Agent within one

Business Day after the receipt thereof. All State Payments shall be immediately deposited by the Fiscal Agent in the appropriate funds provided in the Trust Agreement, whereupon they shall be applied immediately to the payment or prepayment, as appropriate, of Certificates except as otherwise expressly provided in the Trust Agreement, but if for any reason not so applied, held in trust by the Fiscal Agent in such fund for the benefit of the Owners from time to time.

***Deposit of State Payments.*** The Fiscal Agent agrees to establish, maintain and hold in trust the Certificate Fund for so long as any Certificates remain Outstanding. The Fiscal Agent shall deposit all State Payments, including prepayments, in the following Accounts within the Certificate Fund, each of which the Fiscal Agent agrees to establish and maintain, at the times, in the manner and in the order of priority as set forth below, and the moneys in each of such Accounts shall be disbursed only for the purposes and uses authorized.

(1) Interest Account. On each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account that amount of moneys evidencing the Interest Components due on such Interest Payment Date. Moneys in the Interest Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the interest evidenced and represented by the Certificates due and payable on such Interest Payment Date.

(2) Principal Account. On each Principal Payment Date and Prepayment Date, the Fiscal Agent shall deposit in the Principal Account that amount of moneys evidencing the Principal Components due on such Principal Payment Date or Prepayment Date. Moneys in the Principal Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the principal evidenced and represented by the Certificates due and payable on such Principal Payment Date or Prepayment Date.

(3) Prepayment Account. On each date on which the Treasurer makes a prepayment of Principal Components at the Prepayment Price therefor (and related payments of Interest Components, if any) pursuant to the Master Financing Agreements, the Fiscal Agent shall deposit in the Prepayment Account the amount of such prepayment and related payments. Moneys in the Prepayment Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the Prepayment Price evidenced and represented by Certificates prepaid on such date pursuant to the Trust Agreement and the accrued interest, if any, evidenced and represented by the Certificates so prepaid.

***Application of Insurance Proceeds and Eminent Domain Awards.*** The proceeds of any casualty insurance with respect to any of the Property, if received by the State or any Agency, shall immediately be paid to the Fiscal Agent. Within 90 days of payment of such proceeds to the Fiscal Agent, the respective Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent, at the written direction of the respective Agency, to pay the costs of such repair or replacement. In the event that the Agency elects not to repair or replace the property damaged, destroyed or taken, or the Agency does not notify the Fiscal Agent in writing within 90 days of receipt by the State or the Agency of proceeds of any casualty insurance with respect to any of the Property as to whether the Agency elects to repair or replace such Property, the Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. Any eminent domain award, the proceeds of any sale under threat of condemnation, and the net proceeds of any title insurance in connection with a loss of title with respect to any Property, if received by the State or an Agency, shall immediately be paid to the Fiscal Agent. The Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be applied to provide for the payment thereof pursuant to the Trust Agreement.

***Investment of Moneys.*** All moneys in any of the funds or accounts established and maintained by the Fiscal Agent pursuant to the Trust Agreement shall be invested by the Fiscal Agent, at the written direction of the Treasurer, solely in Qualified Investments. The written investment instruction to the Fiscal Agent shall contain a statement that such investments are Qualified Investments as required by the Trust Agreement. The Fiscal Agent may rely on the investment instructions of the Treasurer as to the suitability and legality of the instructed investments, and the Fiscal

Agent shall not be responsible for losses incurred in making investments in accordance with the Treasurer's investment instructions.

Qualified Investments may be purchased at such prices as the Fiscal Agent may in its discretion determine or as may be directed by the Treasurer. All investment instructions to the Fiscal Agent shall be subject to the limitations set forth in the Trust Agreement and such additional limitations or requirements consistent with the foregoing as may be established by the Treasurer.

The Treasurer and the Corporation will acknowledge that to the extent that regulations of the Comptroller of the Currency, or any other regulatory entity, grant the Treasurer and the Corporation the right to receiver brokerage confirmations of the security transactions as they occur, the Treasurer and the Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Treasurer with periodic cash transaction statements that include the detail for all investment transactions made by the Fiscal Agent under the Trust Agreement.

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding any provisions in the Trust Agreement to the contrary, any moneys held for the payment of Certificates pursuant to the Trust Agreement shall be invested only at the written direction of the Treasurer and only in Government Obligations (or in shares of a taxable government money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than 30 days).

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be deposited in the fund or account which gave rise to the investment earnings. For the purpose of determining the amount in any fund or account, all Qualified Investments credited to such fund or account shall be valued at the lesser of cost or par value.

Subject to any written instruction from the Treasurer pursuant to the Trust Agreement, moneys in any and all funds and accounts may be commingled for investment purposes; provided, that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Trust Agreement. The Fiscal Agent and its affiliates may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Qualified Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Qualified Investment is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment or disposition. The Fiscal Agent and its affiliates may act as sponsor, advisor or depository with regard to any Qualified Investments.

***Non-Presentment of Certificates.*** In the event that any Certificates shall not be presented for payment when the principal or Prepayment Price evidenced and represented thereby becomes due, either at a Principal Payment Date, Prepayment Date or otherwise, if moneys sufficient to pay such principal or Prepayment Price shall have been deposited in the Principal Account or the Prepayment Account, as applicable, all liability of the Fiscal Agent and the State to the Owner thereof for payment with respect to such Certificate shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Fiscal Agent to hold such moneys (subject to the Trust Agreement), without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on or with respect to such Certificate.

***Repayment to Treasurer.*** When there are no longer any Certificates Outstanding, and all fees, charges and expenses of the Fiscal Agent and any Paying Agents have been paid or provided for, and all expenses of the Corporation and the Treasurer relating to the Master Financing Agreements and the Trust Agreement have been paid or provided for, and all other amounts payable under the Trust Agreement and under the Master Financing Agreements have been paid, and the Trust Agreement has been discharged and satisfied, the Fiscal Agent shall pay to the Treasurer any amounts remaining in any fund or account established and held under the Trust Agreement.

**Covenants of the Corporation, the State and the Fiscal Agent**

***Compliance with Trust Agreement.*** The Fiscal Agent will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement. The Corporation, the State and the Fiscal Agent will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by each of them.

***Compliance with and Amendment of the Master Financing Agreements.*** The Corporation, the State and the Fiscal Agent, as assignee of the Corporation, will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Master Financing Agreements required to be complied with, kept, observed and performed by each of them, and the Fiscal Agent will, to the extent required under the Trust Agreement, enforce such agreement against the State in accordance with its terms.

The State will not alter, amend or modify the Master Financing Agreements without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (1) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (2) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; provided, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any State Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

***Other Liens.*** So long as any Certificates are Outstanding, the Corporation, the State and the Fiscal Agent will not create or suffer to be created any pledge of, lien on or security interest in the State Payments other than the pledge and lien of the Trust Agreement and security interest under the Trust Agreement.

***Prosecution and Defense of Suits.*** The State will defend against every action, suit or other proceeding at any time brought against the Corporation, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the State Payments or involving the rights or obligations of the Corporation, the Fiscal Agent or any Owner under the Trust Agreement; *provided, however*, that the Corporation or any Owner, at its election and at its sole cost and expense, and the Fiscal Agent (at the reasonable cost and expense of the Corporation or the State, but only if (1) the employment of such counsel has been authorized by the Corporation or the State, or (2) the Corporation and the State shall have failed promptly after receiving notice of such action from the Fiscal Agent to assume the defense of such action and employ counsel reasonably satisfactory to the Fiscal Agent, or (3) the State, the Corporation and the Fiscal Agent shall have agreed, or a court of competent jurisdiction shall have determined, that there is a conflict of interest between the Fiscal Agent and the Corporation or the State on any legal issue pertaining to such action, or (4) the Fiscal Agent has received the written legal opinion of outside counsel to the Fiscal Agent that there is a conflict of interest between the Fiscal Agent and the Corporation or the State on any legal issue pertaining to such action, and such action does not involve an action, suit or proceeding between the Fiscal Agent and the Corporation or the State), may appear in and defend any such action, suit or other proceeding.

***Accounting Records and Statements.*** The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the State Payments, and such accounting records shall be available for inspection by the Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2016, and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, investment, deposits, application and disbursements of the State Payments for the twelve-month period ending on the preceding July 1.

Such records shall specify the fund or account to which each investment (or portion thereof) held pursuant to the Trust Agreement is to be allocated and shall set forth, in the case of each Qualified Investment, (1) its purchase price, (2) identifying information, including par amount, coupon rate, and payment dates, (3) the amount received at maturity or its sale price, as the case may be, (4) the amounts and dates of any payments made with respect thereto, and (5) such other documentation as is required by the Treasurer in writing.

***Recording and Filing.*** The Fiscal Agent, upon receipt of a Written Request of the State Treasurer, shall execute, and the State or the Corporation shall file, record, register, renew, refile and rerecord all such documents, including but not limited to the Site Leases, the Master Financing Agreements, the Agency Financing Agreements, and the Master Assignments, as may be required by law in order to maintain a security interest in the State Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Fiscal Agent; *provided, however*, that the Fiscal Agent will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refiling or rerecording in any jurisdiction in which it is not now so subject, nor will the Fiscal Agent be responsible for determining sufficiency of such filing, recording, registration, refiling or rerecording.

***Further Assurances.*** Whenever and so often as requested to do so by the Fiscal Agent or any Owner, the Corporation and the Treasurer will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or desirable in order to further and more fully vest in the Fiscal Agent and the Owners all advantages, benefits, interests, powers, privileges and rights conferred upon them and by the Master Financing Agreements.

**Events of Default; Remedies**

***Events of Default; Remedies; Waiver.*** If an Event of Default shall occur and be continuing, then such Event of Default shall constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it shall, exercise the remedies provided to the Corporation and the Fiscal Agent, as assignee of the Corporation, under the Trust Agreement and under the Master Financing Agreements.

The Fiscal Agent may, in its discretion, waive any default or Event of Default and its consequences under the Trust Agreement and annul any notice thereof by written notice to the Treasurer to such effect, and thereupon the respective rights of the Parties under the Trust Agreement shall be as they would have been if such default or Event of Default had not occurred.

***Other Remedies of the Fiscal Agent.*** The Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it, shall:

(1) by mandamus or other action or proceeding or suit, action or proceeding at law or in equity enforce its rights against the State or any Agency or any officer or employee thereof, and to compel the State or any Agency or any such officer or employee to perform or carry out its duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement and in the Master Financing Agreements;

(2) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Fiscal Agent; or

(3) by suit in equity upon the happening of any default under the Trust Agreement to require the State or any Agency and its officers and employees to account as the trustee of an express trust.

Nothing in the Trust Agreement shall be deemed to authorize the Fiscal Agent to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Owner thereof, or to authorize the Fiscal Agent to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

***Application of Moneys.*** If an Event of Default shall have occurred and be continuing, all moneys received by the Fiscal Agent shall be applied, first, to the payment of the reasonable fees, costs and expenses incurred by the Fiscal Agent and the Owners in connection with such default (including but not limited to the reasonable fees and expenses

of their counsel and agents); second, to the payment of the Interest Components evidenced and represented by the Certificates accrued to the date of application thereof *pro rata* among the Owners entitled thereto; third, to the payment of the Principal Components evidenced and represented by the Certificates and the Prepayment Price, if any, then due under the Trust Agreement *pro rata* among the Owners entitled thereto; and fourth, when no Certificates remain Outstanding, to pay or reimburse the State for its costs and expenses, including reasonable attorneys' fees, incurred in connection with the Certificates, the Master Financing Agreements, the Agency Financing Agreements, and the Trust Agreement.

***Non-Waiver.*** A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by such article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Fiscal Agent, the Fiscal Agent, the Corporation and the Treasurer shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

***Remedies Not Exclusive.*** No remedy in the Trust Agreement conferred upon or reserved to the Fiscal Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

***Fiscal Agent May Enforce Claims Without Possession of Certificates.*** All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Fiscal Agent without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Fiscal Agent shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

***Limitation on Actions by Owners.*** The Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding shall have the right to direct the method and place of conducting any proceeding or remedy available to the Fiscal Agent, or exercising any trust or power conferred on the Fiscal Agent, under the Trust Agreement or under the Master Financing Agreements in connection with the enforcement of the covenants, agreement, terms, and conditions of the Trust Agreement and thereof; *provided*, that any such direction shall not be contrary to law, the Trust Agreement or the Master Financing Agreements, and is not unduly prejudicial to the interest of the Owners not joining in such direction; and *provided further*, that the Fiscal Agent may take any other action which it deems necessary or appropriate and not inconsistent with such direction.

No Owner shall have the right to institute any action, suit or proceeding for the enforcement of the Trust Agreement or of the Master Financing Agreements, or to pursue any remedy available under the Trust Agreement or under such Master Financing Agreements, unless:

(1) the Fiscal Agent shall have been given written notice of an Event of Default by such Owner;

(2) the Owners of at least a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding respecting which there has been an Event of Default shall have requested the Trustee, in writing, to exercise the powers granted by the Trust Agreement or the Master Financing Agreements, or to institute such action, suit or proceeding, or to pursue such remedy in it or their name or names;

(3) the Fiscal Agent shall have been offered indemnity satisfactory to it against its costs, expenses and liabilities in connection therewith; and

(4) the Fiscal Agent shall have failed to comply with such request within 60 days, or such shorter period as shall be reasonable under the circumstances.

***No Liability by the Corporation to the Owners.*** Except for the observance and performance of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the payment when due of the State Payments by the State, or with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by the State contained in the Master Financing Agreements or in the Trust Agreement, or with respect to preparation, execution, delivery, or transfer of the Certificates or the disbursement of the State Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be performed or observed by it contained in the Trust Agreement.

***No Liability by the State to the Owners.*** Except for the payment when due of the State Payments and the observance and performance of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Agreements and in the Trust Agreement, the State shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the State Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be observed or performed by it contained in the Trust Agreement.

***No Liability by the Fiscal Agent to the Owners.*** Except as expressly provided in the Trust Agreement, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the State Payments by the State, with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Agreements or in the Trust Agreement or with respect to the observance or performance by the Corporation of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement.

**Amendment or Supplement of Trust Agreement**

***Amendment or Supplement; Consents.*** The Trust Agreement and the rights and obligations of the State, the Owners, the Fiscal Agent or any Paying Agent under the Trust Agreement may be amended or supplemented at any time as provided in the Appendix of the Trust Agreement. No such amendment or supplement shall:

(1) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or

(2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement thereto; or

(3) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

***Disqualified Certificates.*** Certificates owned or held by or for the account of the State (but excluding Certificates held in any pension or retirement fund of the State) or any Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, except that in determining whether the Fiscal Agent shall be protected in relying upon any consent or other actions of an Owner, or in calculating Outstanding Certificates under the Trust Agreement, only Certificates which the Fiscal Agent actually knows to be owned or held by or for the account of the State or any Agency shall be disregarded unless all

Certificates are so owned or held by or for the account of the State or any Agency, in which case such Certificates shall be considered Outstanding for the purpose of such determination. The Fiscal Agent may adopt appropriate regulations to require each Owner, before consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

***Endorsement or Replacement of Certificates After Amendment or Supplement.*** After the effective date of any action taken as provided above, the Fiscal Agent may determine that the Certificates may bear a notation by endorsement in a form approved by the Fiscal Agent as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the Principal Office of the Fiscal Agent a suitable notation as to such action shall be made on such Certificate. If the Fiscal Agent shall so determine, new Certificates so modified as in the opinion of the Fiscal Agent shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Fiscal Agent without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

***Amendment by Mutual Consent.*** The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment to the particular Certificates held by it; provided, that due notation thereof is made on such Certificates.

**Defeasance of Certificates; Discharge of Trust Agreement**

***Discharge of Trust Agreement.*** When the obligations of the State under the Master Financing Agreements shall cease (except for the right of the Fiscal Agent and the obligation of the State to have the money and Qualified Investments referenced therein applied to the payment of State Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate, become void and be completely discharged except for the right of the Owners and the obligation of the Fiscal Agent to apply such moneys and Qualified Investments to the payment of the Certificates as in the Trust Agreement set forth and the right of the Fiscal Agent to collect any fees or expenses due or indemnities provided by Owners under the Trust Agreement. The Fiscal Agent shall turn over to the Treasurer, as an overpayment of State Payments, any surplus in the Certificate Fund and all balances remaining in any other funds or accounts other than moneys and Qualified Investments held for the payment of the Certificates on the Principal Payment Dates or Prepayment Dates thereof, which moneys and Qualified Investments shall continue to be held by the Fiscal Agent in trust for the benefit of the Owners and shall be applied by the Fiscal Agent to the payment, when due, of the principal, Prepayment Price and interest evidenced and represented by the Certificates, and after such payment, the Trust Agreement shall become void. The Fiscal Agent shall thereafter execute and deliver to the State such other documents and instruments as may be necessary or desirable, as requested by or on behalf of the State, to evidence such discharge and satisfaction of the Trust Agreement.

***Defeasance of Certificates.*** Any Outstanding Certificates shall be deemed to have been paid with the meaning and effect expressed in the immediately preceding paragraph if there shall be irrevocably deposited and held in trust by the Fiscal Agent moneys or Qualified Investments in the amount necessary to pay or prepay the principal or Prepayment Price and interest evidenced and represented thereby as provided in the Trust Agreement.

***Notice of Defeasance.*** If moneys or Qualified Investments are deposited with and held by the Fiscal Agent as described above, the Fiscal Agent shall within 30 days after such moneys or Qualified Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners of the Certificates that have been defeased at the addresses listed on the registration books kept by the Fiscal Agent pursuant to the Trust Agreement, setting forth (1) the date or dates fixed for payment or prepayment of the Certificates, (2) a description of the moneys or Qualified Investments so held by it, and (3) that such Certificates have been defeased and are no longer deemed to be Outstanding under the Trust Agreement, and/or that the Trust Agreement has been released and discharged in accordance with the provisions of the Trust Agreement.

***Deposit of Money or Securities with Fiscal Agent.*** Whenever in the Trust Agreement or the Master Financing Agreements it is provided or permitted that there be deposited with or held in trust by the Fiscal Agent money and/or securities (such money and/or securities certified to be sufficient by a report of an independent certified public accountant or firm of accountants, or an independent financial advisor or consultant or firm of such advisors or

consultants) in the necessary amount to pay or prepay the principal and interest evidenced and represented by all or a portion of the Certificates, the money or securities to be so deposited or held may include money or securities held by the Fiscal Agent in the funds and accounts established pursuant to the Trust Agreement and shall be:

(1) lawful money of the United States of America in an amount equal to the principal amount evidenced and represented by such Certificates and all unpaid interest evidenced and represented thereby to the respective Principal Payment Dates thereof, except that, in the case of Certificates which are to be prepaid prior to their respective Principal Payment Dates and in respect of which notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Prepayment Price plus accrued interest to such date of prepayment, if any, evidenced and represented by such Certificates; or

(2) Government Obligations, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay the principal or Prepayment Price, and accrued interest to the Principal Payment Date or to the Prepayment Date, as the case may be, evidenced and represented by the Certificates to be paid or prepaid, as such amounts become due; *provided that*, in the case of Certificates which are to be prepaid prior to the Principal Payment Date thereof, notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice;

*further provided*, in each case, that the Fiscal Agent shall have been irrevocably instructed (by the terms of the Trust Agreement and the Master Financing Agreements or by Written Request of the Treasurer) to apply such money to the payment of such principal, Prepayment Price and interest, if any, evidenced and represented by such Certificates.

***Unclaimed Moneys*.** Anything contained in the Trust Agreement notwithstanding, any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal, Prepayment Price or interest evidenced and represented by any of the Certificates which remain unclaimed for two years after the date when the principal, Prepayment Price or interest evidenced and represented by such Certificates have become payable, shall at the written request of the State Treasurer be repaid by the Fiscal Agent (without liability for interest) to the Treasurer as its property free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Treasurer for the payment of the principal, Prepayment Price or interest evidenced and represented by such Certificates.

**Miscellaneous**

***Funds and Accounts*.** Any fund required to be established and maintained in the Trust Agreement by the Fiscal Agent or the Treasurer may be established and maintained in the accounting records of the Fiscal Agent or the Treasurer, respectively, either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof, and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with prudent accounting practice and with due regard for the protection of the security of the Certificates and the right of the Owners.

***Notices to Rating Agencies*.** The Fiscal Agent shall provide to each Rating Agency then rating the Certificates prompt written notice of (1) the appointment of any successor Fiscal Agent or Paying Agent; (2) any amendment to the Trust Agreement or the Master Financing Agreements; (3) any prepayment of the Certificates; and (4) any defeasance or discharge of the Certificates or the Trust Agreement.

## MASTER ASSIGNMENT (REAL PROPERTY)

**Assignment**

The Corporation unconditionally grants, sells, assigns, transfers and conveys to the Fiscal Agent without recourse (1) all of its rights to the Sites pursuant to the Site Leases; (2) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Lease; (3) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Lease; (4) all of its

remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, and the Financing Leases, and in and to the Property and any rents or profits generated therefrom; and (5) its right of access more particularly described in the Master Financing Lease.

**Acceptance**

The Fiscal Agent accepts the grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rent Payments and Additional Rent shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Site Leases and the Master Financing Lease from and after the Dated Date.

**Acknowledgement**

The Fiscal Agent and the Corporation acknowledge and agree that: (1) such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest in, to and under the Site Leases, the Master Financing Lease and in and to the Property; (2) the Corporation shall cease to have any rights, duties or obligations under the Site Leases, the Master Financing Lease or with respect to the Property; (3) the Fiscal Agent shall have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto; and (4) except where the context otherwise requires, every reference in the Site Leases and the Master Financing Lease to the Corporation shall be deemed and construed to refer to the Fiscal Agent.

## MASTER ASSIGNMENT (EQUIPMENT)

**Assignment**

The Corporation unconditionally grants, sells, assigns, transfers and conveys to the Fiscal Agent without recourse (1) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract, and (2) all of its remaining right, title and interest in, to and under the Master Financing Contract, the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract.

**Acceptance**

The Fiscal Agent accepts the grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Installment Payments shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Master Financing Contract from and after the Dated Date.

**Acknowledgement**

The Fiscal Agent and the Corporation acknowledge and agree that: (1) such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest in, to and under the Master Financing Contract and in and to the Property; (2) the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property; (3) the Fiscal Agent shall have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto; and (4) every reference in the Master Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

## SITE LEASES

### Lease of the Site; Ownership

Under each Site Lease, the Agency leases to the Corporation and the Corporation hires from the Agency the real property and all improvements thereon described in the Site Lease, subject to all easements, covenants, conditions and restrictions existing as of the Dated Date. Under each Site Lease, the Agency represents and warrants that it is the owner in fee of the Site, subject only to Permitted Encumbrances.

### Term

The term of each Site Lease commences on the Dated Date, and ends on the termination date of the related Financing Lease, unless such term is extended or sooner terminated. If on such date, the Financing Lease shall not be discharged by its terms, then the term of the Site Lease shall be extended until 10 days after all amounts due under the Financing Lease shall have been paid and the Financing Lease shall have been discharged by its terms, except that the term of the Site Lease shall in no event be extended beyond five years after the term date indicated by the Agency. If, prior to scheduled termination date of the Site Lease, all amounts due under the Financing Lease shall have been paid and the Financing Lease shall have been discharged by its terms, the term of the Site Lease shall end 10 days thereafter or 10 days after written notice by such Agency to the Corporation, whichever is earlier.

### Assignments and Subleases

Under each Site Lease, the Corporation is not permitted to grant, sell, assign, mortgage, pledge, sublet or transfer any of its right, title or interest in, to or under the Site Lease or the Site except as expressly provided in the Master Assignment, the Master Financing Lease and the related Financing Lease, without the prior written consent of the Agency. Each Local Agency consents to the sublease of the applicable Property pursuant to the Master Financing Lease, and the assignment of the Corporation's right, title and interest under the Site Lease to the Fiscal Agent pursuant to the Master Assignment for the benefit of the Owners of the Certificates. Each State Agency consents to the sublease of the applicable Property pursuant to its related State Agency Finance Lease Addendum, and the assignment of the Corporation's right, title and interest under the Site Lease to the Fiscal Agent pursuant to the Master Assignment for the benefit of the Owners of the Certificates.

Upon the occurrence and continuance of an Event of Default or Permitted Termination Event with respect to the applicable Property, the Corporation has the right, pursuant to the Master Assignment, the Trust Agreement, the Master Financing Lease and each State Agency Financing Lease Addendum, to sublease all or any portion of such Property; provided, that the subtenant and the terms and provisions of the sublease shall be subject to the prior written approval of the Agency, which approval shall not be unreasonably withheld or delayed.

### Eminent Domain; Loss of Title

In the event the whole or any part of the applicable Property is taken permanently or temporarily under the power of eminent domain (or sold under threat of condemnation), or there is a loss of title to the whole or any part of such Property, the interest of the Corporation in such Property shall be recognized and is determined to be an amount not less than the then unpaid indebtedness incurred by each Agency under its Financing Lease. The term "unpaid indebtedness" includes all unpaid Agency Principal Components, Agency Interest Components and all other payments required to be made by an Agency pursuant to its Financing Lease. The amount of any such award, judgment or payment shall be paid by the Corporation, and the balance, if any, in excess of the unpaid indebtedness shall be paid to the respective Agency.

## FINANCING LEASES

### Appointment of Agents; Changes to the Project; Additions to Property; Substitution and Release of Property

***Appointment of Agents*.** The Agency ratifies, approves and confirms, and accepts and agrees to, its designation and appointment as agent of the Corporation in connection with the refinancing of the Property.

***Changes to the Project; Additions to the Property.*** The Agency, with the prior written consent of the Treasurer, may revise the Project to be acquired, constructed, financed or refinanced pursuant to the Financing Lease; provided, that: (1) such Project as so revised shall satisfy the requirements under the Financing Lease with respect to the substitution of Property; (2) the Project Costs shall not be materially reduced thereby; and (3) any such revision shall not relieve the Agency of any obligation to design, acquire, construct, finance or refinance the Project or the Property in accordance therewith. The appointment of a Local Agency as agent of the Corporation in connection with the design, acquisition and/or construction of a Project is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Local Agency, the Treasurer or otherwise.

Each Agency shall have the right during the term of its Financing Lease, at its cost and expense, to make additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; *provided*, that such additions, betterments and improvements and fixtures, structures and signs (1) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (2) shall not diminish the value, capacity or usefulness of the Property.

The Agency also shall have the right during the term of the Financing Lease, without the consent of any Owners, to enter into Additional State Agency Financing Lease Addenda or Additional Local Agency Financing Leases, as applicable (each an "Additional Financing Lease"), and Additional Site Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Master Financing Lease, including without limitation its obligation to make Base Rent Payments, and will not, in an Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the Agency enters into any Additional Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in the Additional Master Financing Lease to which such Additional Financing Lease is related. The occurrence of an Event of Default or Permitted Termination Event with respect to the Financing Lease shall constitute a like event under any Additional Financing Lease, and the occurrence of any such like event under any Additional Financing Lease shall constitute an Event of Default or Permitted Termination Event, as the case may be, under the Financing Lease. The owners of certificates of participation in any Additional Master Financing Lease shall be secured *pari passu* with the Owners with respect to any amounts received by the Fiscal Agent with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

***Substitution of Property.*** After design, acquisition, construction, financing or refinancing of the Project or the Property, the Agency, with the prior written consent of the Treasurer and only upon the satisfaction of the requirements set forth in the Master Financing Lease, may substitute for the Property, another parcel or parcels of real property. As a condition to any such substitution, the Agency shall deliver to the Treasurer:

(1) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Treasurer and the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the Financing Lease equal to or greater than the Agency Rent Payments due under the Financing Lease from time to time thereafter; and

(2) a certificate of the Agency to the effect that such substitute Property (a) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (b) is essential to the Agency's ability to carry out its governmental functions and responsibilities.

The Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Lease, the Master Assignment, and the Financing Lease, and such other documents, agreements and instruments, as the Treasurer or the Fiscal Agent deems necessary or desirable in connection with such substitution.

***Release of Property.*** After design, acquisition, construction, financing or refinancing of the Project, the Agency, with the prior written consent of the Treasurer and only upon the satisfaction of the requirements set forth in the Master Financing Lease, may release a portion of the Property leased under the Site Lease, and subleased under and

pursuant to the Master Financing Lease and the Financing Lease. As a condition to any such release, the Agency shall:

(1) deliver to the Treasurer an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the Financing Lease equal to or greater than the Agency Rent Payments due from time to time under the Financing Lease; and

(2) provide any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release.

The Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Lease, the Master Assignment and the Financing Lease, and such other documents, agreements and instruments, as the Treasurer or the Fiscal Agent deems necessary or desirable in connection with such release.

**Title to the Property**

Fee title to the Property, and all additions, modifications, repairs and improvements thereto, shall remain and vest in the Agency, subject to the respective leasehold estates under the Site Lease, the Master Financing Lease and the Financing Lease, without any further action by the State, the Agency or the Corporation.

**Assignment**

In order to secure the payment and performance of the State of its obligations under the Master Financing Lease, the State has assigned and transferred to the Corporation the State's interest in each Agency Financing Lease and the rentals, income and profits therefrom, including without limitation the Agency Rent Payments. Each Agency acknowledges and agrees to such assignment and transfer. The Treasurer irrevocably authorizes and directs an Agency, upon receipt of written notice from the Fiscal Agent, as assignee of the Corporation, that an Event of Default has occurred and is continuing, to pay to the Fiscal Agent the Agency Rent Payments and other amounts due and to become due under its Financing Lease. The Treasurer shall not have any right or claim against such Agency for any Agency Rent Payments or other amounts so paid by the Agency to the Fiscal Agent.

**Disclaimer of Warranties**

Each Agency acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the Agency in its present condition. Such Agency subleases the Property in its present condition, "as is." THE CORPORATION AND THE STATE MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY.

**Agency Rent Payments**

Each Agency Rent Payment shall consist of an Agency Principal Component and/or an Agency Interest Component as set forth in an exhibit to the Financing Lease. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Agency Rent Payment payable under the Financing Lease shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent shall be made to or upon the

order of the Corporation. Each Agency Rent Payment shall be applied first to the Agency Interest Component due under the Financing Lease, and then to the Agency Principal Component due under the Financing Lease.

The Corporation directs the Treasurer, and the Treasurer agrees to transfer all Agency Rent Payments directly to the Fiscal Agent, as assignee of the Corporation; provided, however, that the Treasurer is not thereby agreeing to obligate its funds to make Agency Rent Payments.

Such payments of Agency Rent Payments and Additional Rent for each rental payment period during the term of the Financing Lease shall constitute the total rental due for such period, and shall be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties to the Financing Lease have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Financing Lease. Anything in the Financing Lease to the contrary notwithstanding, the Agency waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the Agency of the Property or any portion thereof as a result of material damage, destruction or condemnation.

**Sources of Payment of Agency Rent Payments**

***State Agency Financing Lease Addendum.*** Each State Agency acknowledges and agrees that the State is subleasing the respective Property from the Corporation for and on behalf of the State Agency. Concurrently with the execution of the State Agency Financing Lease Addendum, the State shall execute and deliver (1) the Master Financing Lease with the Corporation, pursuant to which the State shall agree to make Base Rent Payments for the sublease of the Property for and on behalf of the State Agency, at such times and in such amounts as provided therein; and (2) the State Agency Financing Lease Addendum, pursuant to which the State Agency shall agree to sublease its Property and to make Agency Rent Payments therefor, at such times and in such amounts as provided therein. Such Agency Rent Payments shall be an amount sufficient in the aggregate to pay the Agency Rent Payment of the Property to be subleased by the State from the Corporation for and on behalf of the State Agency under the Master Financing Lease.

***Obligation of State Agency Subject to Appropriation.*** That portion of the Base Rent Payments that is allocable to the Agency Rent Payments of the State Agency shall be payable by the State solely from Agency Rent Payments to be made by the State Agency. The obligation of the State Agency to make its Agency Rent Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State shall not be obligated to pay that portion of the Base Rent Payments that is allocable to the Agency Rent Payments of the State Agency and interest thereon other than from appropriated funds of the State Agency.

***Local Agency Financing Lease.*** Each Local Agency acknowledges and agrees that the State is subleasing the respective Property from the Corporation for and on behalf of such Local Agency. Concurrently with the execution of each Local Agency Financing Lease, the State shall execute and deliver (1) the Master Financing Lease with the Corporation, pursuant to which the State shall agree to make Base Rent Payments for the sublease of the Property for and on behalf of the corresponding Local Agency, at such times and in such amounts as provided therein; and (2) the Local Agency Financing Lease with each Local Agency, pursuant to which such Local Agency shall agree to sublease its Property and to make Agency Rent Payments therefor, at such times and in such amounts as provided therein. Such Agency Rent Payments shall be an amount sufficient in the aggregate to pay the Agency Rent Payment of the Property to be subleased by the State from the Corporation for and on behalf of each Local Agency under the Master Financing Lease.

The portion of the Base Rent Payments allocable to each Local Agency is payable by the State solely from Agency Rent Payments to be made by such Local Agency, except as otherwise provided in the Master Financing Lease. The obligation of each Local Agency to make its Agency Rent Payments is a direct and general obligation of such Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay the Base Rent Payments allocable to each Local Agency other than from Agency Rent Payments paid by such Local Agency, except as otherwise provided in the Master Financing Lease.

***Intercept of Local Agency Share of State Revenues.*** In the event that a Local Agency fails to make any payment due under its Local Agency Financing Lease, the Treasurer shall withhold an amount sufficient to make such payment from such Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to such Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such delinquent payments have been made. Amounts withheld by the Treasurer shall be applied to make any such payment due under the corresponding Local Agency Financing Lease on behalf of such Local Agency, or to reimburse the Treasurer for any such payment made pursuant to such Local Agency Financing Lease. Each Local Agency authorizes, approves and consents to any such withholding.

***Conditional Payment of Agency Rent Payments.*** Upon the failure of any Local Agency to make any Agency Rent Payment at such time and in such amount as required pursuant to the corresponding Local Agency Financing Lease, the Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Rent Payment Fund, defined below, on behalf of such Local Agency within 10 Business Days after such Agency Rent Payment Date. Such Local Agency shall reimburse the State for such payments made on its behalf immediately thereafter and in any case not later than 10 Business Days after such Agency Rent Payment Date, together with interest thereon at a rate equal to the State Reimbursement Rate. Anything in the Local Agency Financing Lease to the contrary notwithstanding, failure of such Local Agency to reimburse the Treasurer for any such payment shall not constitute an Agency Event of Default under such Local Agency Financing Lease, but the State may institute such legal action and pursue such other remedies against such Local Agency as the State deems necessary or desirable including but not limited to actions for specific performance, injunction and/or the recovery of damages.

***Payments by Local Agency Treasurer.*** The treasurer of each Local Agency is authorized and directed to establish and/or maintain a special fund in the "bonds payable" category of accounts of such Local Agency for the purposes of paying such Local Agency's Agency Rent Payments and Additional Rent. The treasurer of such Local Agency is further authorized and directed to remit each payment of Agency Rent Payments to the Treasurer or its assignee on each Agency Rent Payment Date and any Additional Rent when due under the corresponding Local Agency Financing Lease. Such payment shall be made from any legally available funds of such Local Agency.

**Deposit and Investment of Agency Rent Payments**

Each Local Agency acknowledges and agrees that the Agency Rent Payments shall be deposited in a special fund or funds maintained by the Treasurer (the "Agency Rent Payment Fund"). The Agency Rent Payments due on each Agency Rent Payment Date shall be at least sufficient, in the aggregate, to make the Base Rent Payment next coming due under the Master Financing Lease. Amounts in the Agency Rent Payment Fund, including investment earnings thereon, shall be used and applied, first, to make the Base Rent Payment next coming due, and thereafter, but prior to the next Agency Rent Payment Date, to the extent that amounts remain in such Fund after such Base Rent Payment is made, to pay Additional Rent or for any other lawful purpose of the Treasurer. Amounts in the Agency Rent Payment Fund shall be invested in the Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the Treasurer solely for investment purposes. The Agencies shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Rent Payment Fund.

**Net Lease**

The obligation of each Local Agency to make Agency Rent Payments from the sources set forth in the corresponding Local Agency Financing Lease and to perform its other obligations under such Local Agency Financing Lease shall be absolute and unconditional. Each Local Agency Financing Lease shall be deemed and construed to be a "triple net lease," and the corresponding Local Agency shall pay absolutely net during the term of such Local Agency Financing Lease the Agency Rent Payments, Additional Rent and all other amounts due under such Local Agency Financing Lease, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against among such Local Agency, the State, the Corporation, the Fiscal Agent, and/or any other Person, or for any other reason; provided, that nothing in the Local

Agency Financing Lease shall be construed to release or excuse the State from the observance or performance of its obligations under such Local Agency Financing Lease. If the State shall fail to observe or perform any such obligation, such Local Agency may institute such legal action and pursue such other remedies against the State as such Local Agency deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Each State Agency Financing Lease Addendum shall be deemed and construed to be a "triple net lease," and the State shall pay absolutely net during its term the Agency Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, the State Agency, and/or any other Person, or for any other reason; provided, that nothing in such provision shall be construed to release or excuse the Corporation from the observance or performance of its obligations thereunder. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

**Assignments by the Corporation**

Each Local Agency acknowledges and agrees that, concurrently with the execution and delivery of the corresponding Local Agency Financing Lease, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment, without recourse:

(1) all of its rights to the Site pursuant to the Site Lease,

(2) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Lease;

(3) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Lease and the Master Financing Lease;

(4) all of its remaining right, title and interest in, to and under the Site Lease, the Master Financing Lease, and its Local Agency Financing Lease, and in and to the Property (including any security interest in each Local Agency Financing Lease) and any rents or profits generated therefrom; and

(5) its right of access more particularly described in the Master Financing Lease, all in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The Treasurer and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Site Leases, the Master Financing Lease and the Financing Leases, or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under each Local Agency Financing Lease as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference in each Local Agency Financing Lease to the Corporation shall be deemed and construed to refer to the Fiscal Agent. Anything in each Local Agency Financing Lease to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

Concurrently with the execution and delivery of each State Agency Financing Lease Addenda, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment, without recourse:

(1) all of its rights to the Site pursuant to the Site Lease,

(2) all of its rights to receive the Agency Rent Payments and any Additional Rent under and pursuant to the State Agency Financing Lease Addenda;

(3) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Lease and the State Agency Financing Lease Addenda;

(4) all of its remaining right, title and interest in, to and under the Site Lease and the State Agency Financing Lease Addenda, and in and to the Property (including any security interest therein) and any rents or profits generated therefrom; and

(5) its right of access more particularly described in the State Agency Financing Lease Addenda, all in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The Treasurer, the State Agency and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Site Leases or the State Agency Financing Lease Addenda, or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the State Agency Financing Lease Addenda as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference in the State Agency Financing Lease Addenda to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the State Agency Financing Lease Addenda to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement.

**Optional Prepayment**

The Agency may, at its option, prepay all or any portion of its Agency Rent Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Treasurer money and/or Government Obligations in an amount sufficient for the Treasurer to prepay or defease the portion of its Base Rent Payments corresponding thereto in accordance with the Master Financing Lease and to pay any Additional Rent in connection therewith.

The Agency shall provide the Treasurer with not less than 60 days' prior written notice of its intention to prepay any of its Agency Rent Payments which notice shall specify the date of prepayment, and the amount and the Agency Rent Payment Dates of the Agency Rent Payments to be prepaid. The Treasurer shall notify the Agency within 15 Business Days after receipt of such notice from the Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Base Rent Payments, including any Additional Rent in connection therewith. The determination by the Treasurer of the amount to be paid by the Agency shall be binding and conclusive against the Agency, absent manifest error.

**Mandatory Prepayment; Special Prepayment**

***Eminent Domain; Loss of Title*.** The Agency shall prepay or cause to be prepaid from eminent domain awards or sale proceeds received pursuant to the Financing Lease, and from the net proceeds of title insurance received pursuant to the Financing Lease, the Agency Rent Payments then unpaid, in whole or in part on any date, so that the aggregate annual Agency Rent Payments for the related Property from and after such prepayment date shall be in approximately equal amounts, at a Prepayment Price equal to the sum of the Agency Rent Payments so prepaid, without premium, plus accrued interest evidenced and represented thereby to the date of prepayment.

***Insurance Proceeds*.** The Agency may, at its option, prepay or cause to be prepaid from net insurance proceeds received pursuant to the Financing Lease, the Agency Rent Payments then unpaid, in whole or in part on any date, so that the aggregate annual Agency Rent Payments for the related Property from and after such prepayment date

shall be in approximately equal amounts, at a Prepayment Price equal to the sum of the Agency Rent Payments prepaid, without premium, plus accrued interest evidenced and represented thereby to the date of prepayment.

**Revision of Agency Rent Payments Upon Prepayment**

The Agency Principal Components and Agency Interest Components of the Agency Rent Payments due on each Agency Rent Payment Date on and after the date of any prepayment pursuant to the Financing Lease shall be reduced by the Treasurer to reflect such prepayment, in Authorized Denominations, in such amounts and on such Agency Rent Payment Dates as the Agency shall elect in its written notice to the Treasurer pursuant to the Financing Lease.

**Discharge of Financing Lease**

All right, title and interest of the Corporation in the State Agency Financing Lease Addenda and of the State in the Local Agency Financing Lease and all obligations of any Agency under its Financing Lease shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the Treasurer and the Fiscal Agent, as assignee of the Corporation, and the obligation of the Agency to have the moneys and Government Obligations so set aside applied to make the remaining Agency Rent Payments) when either:

(1) all Agency Rent Payments and all Additional Rent and other amounts due under the Financing Lease have been paid in accordance therewith; or

(2) (a) the Agency shall have delivered a written notice to the Treasurer of its intention to prepay all of the Agency Rent Payments remaining unpaid;

(b) the Agency shall have caused to be deposited with the Treasurer (i) moneys and/or Government Obligations in accordance with the Financing Lease; and (ii) an Opinion of Counsel to the effect that such actions are permitted under the Financing Lease, under the Master Financing Lease and under the Trust Agreement, and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Agency Rent Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Rent.

**Eminent Domain**

If the Property subleased to the Agency pursuant to the Financing Lease, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Agency at the time of such taking, shall be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Financing Lease shall cease as of the day that the Agency is required to vacate such Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the Agency at the time of such taking, as reasonably determined by the Treasurer, then the sublease thereof pursuant to the Financing Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due under the Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property shall be applied to the prepayment of Agency Rent Payments as provided in the Financing Lease. Any award or proceeds in excess of the amount necessary to prepay such Agency Rent Payments due under the Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments under the Master Financing Lease, shall be paid to the Corporation, the State and the Agency as their respective interests may appear.

**Loss of Title**

If there is a loss of title to the Property subleased to the Agency pursuant to the Financing Lease which is insured under a policy or policies of title insurance, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Agency at the time of such loss, the sublease of such Property pursuant to the Financing Lease shall cease as of the day that the Agency is required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the Agency at the time of such loss, as reasonably determined by the Treasurer, then the sublease thereof pursuant to the Financing Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due under the Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any payments under such title insurance policy or policies with respect to such Property shall be applied to the prepayment of Agency Rent Payments as provided in the Financing Lease. Any payment in excess of the amount necessary to prepay such Agency Rent Payments due under the Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments due under the Master Financing Lease, shall be paid to the Corporation, the State and the Agency as their respective interests may appear.

**Damage or Destruction**

If all or any portion of the Property subleased to the Agency pursuant to the Financing Lease shall be damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Financing Lease shall not terminate, nor shall there be any abatement of the rent payable under the Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Agency Rent Payments as provided in the Financing Lease, or may be paid to the Treasurer and applied as provided in the Trust Agreement.

**Permitted Termination Events for State Agency Financing Lease Addendum**

The following shall constitute a "Permitted Termination Event" under each State Agency Financing Lease Addendum:

(1) The State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agency Rent Payments due under the State Agency Financing Lease Addendum during the next occurring biennium; or

(2) The Governor of the State issues an Executive Order mandating an emergency reduction in State funding;

*provided*, that the State Agency delivers written notice thereof to the Treasurer as provided in the following paragraph.

***Written Notice to Treasurer describing a Permitted Termination Event.*** If, as of five Business Days following (1) the enactment of each biennial budget by the State Legislature or (2) an Executive Order reduction in funding, the State Agency determines as a result of such legislation or Executive Order that sufficient funds will not be available to make its scheduled Agency Rent Payments for the Property in the next occurring Biennium or upon a reduction in funding in the manner as set forth above, the State Agency shall deliver written notice to the Treasurer not less than 45 days prior to the Permitted Termination Date, which notice shall describe the Permitted Termination Event, state the Permitted Termination Date and state that the State Agency has determined that such Permitted Termination Event will result in the cancellation of the applicable Financing Lease.

***Treasurer's Duties upon a Permitted Termination Event.*** Upon the occurrence of a Permitted Termination Event, the Treasurer shall immediately deliver written notice thereof to the Corporation and the Fiscal Agent, which notice shall identify the election not to appropriate the necessary funds or the Executive Order reduction as the reason for cancellation thereof. The Treasurer shall, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the State Agency. In the event of an Executive Order reduction, the Treasurer shall determine whether or not the Property and the obligations of the State Agency under its Financing Lease may

be transferred to the office of the Treasurer or to another agency or department of the State authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding shall be effective unless or until the Treasurer has determined that neither the Treasurer nor any other agency or department of the State authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the State Agency under its Financing Lease, as evidenced by a Certificate of the Treasurer.

***Remedies of the Corporation Upon a Permitted Termination Event.*** Upon the occurrence and effectiveness of a Permitted Termination Event, the State Agency shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, vacate said Property and deliver possession and control thereof to the Corporation for the remaining term of its Site Lease and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Rent Payments with respect to the Property; provided, that the State Agency delivers the Property in good repair, working order and condition, ordinary wear and tear excepted, as of the end of the last month for which funding has been provided, or the end of the last month for which funding is available in the event of an Executive Order reduction in funding, and written notice is provided by the State Agency directly to the Treasurer as set forth in its Financing Lease. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation (or the Fiscal Agent, as assignee of the Corporation) shall be entitled to retain all sums theretofore transmitted to the Corporation (or to the Fiscal Agent as assignee of the Corporation) by or on behalf of the State Agency for the benefit of the Owners of the Certificates (including, without limitation, for use in administering the Property for the benefit of the Owners of the Certificates, including expenses of retaining accountants, consultants, attorneys, appraisers or other experts), and thereafter take possession of and relet the Property for the remaining term of the related Site Lease or assign its leasehold interest in the Property under the related Site Lease for the account of the State Agency and the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event shall not constitute an Event of Default, and the remedies relating to the return of the Property are the sole remedies available to the Corporation upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the expiration of the specified notice period and the Treasurer or the Corporation has not yet relet or otherwise disposed of the Property, the State Agency may, by written notice to the Corporation, revoke the notice of termination and continue its obligations under the Financing Lease.

**Covenants and Agreements of the Agency**

The Agency covenants and agrees as follows:

***Budget.*** Each Local Agency shall take such action as may be necessary to include all the Agency Rent Payments and Additional Rent due under the corresponding Local Agency Financing Lease in its annual budget and to make the necessary annual appropriations for all such Agency Rent Payments and Additional Rent.

Each State Agency shall (1) include in its biennial budget any scheduled Agency Rent Payments that may be required to be made by the Agency during such Biennium; (2) submit such budget to OFM at such times and in such manner as required by law; (3) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (4) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

***Application of Appropriations*.** To the extent permitted by law, each State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided by the Property, the State Agency will allocate a sufficient portion of such amounts to the payment of the Agency Rent Payments and Additional Rent due under its Financing Lease.

***Tax-Exemption*.** The Agency shall not make any use of the proceeds of the Financing Lease or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Agency shall not use or permit the use of the Property or any part thereof by any

Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Agency Rent Payments under Section 103 of the Code. The Agency shall not make any use of the proceeds of the Financing Lease or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Agency Rent Payments remain unpaid, the Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Financing Lease. The Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Agency Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Agency shall comply with the applicable provisions of the Tax Certificate.

***Liens; Assignments and Subleases.*** The Agency shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, transfer, assign, pledge, convey, mortgage, pledge, sublet or otherwise dispose of any of the Property or any interest in the Financing Lease during the term of the Financing Lease, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

***Pledge of Funds and Credit of Local Agency.*** The obligations of each Local Agency under its Local Agency Financing Lease constitute a debt and a general obligation of such Local Agency, and a contracting of an indebtedness by such Local Agency, to which the full faith and credit of such Local Agency are pledged. If and to the extent authorized by law, each Local Agency covenants and agrees that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to such Local Agency without a vote of its electors, to provide funds, together with other legally available moneys, sufficient to make the Agency Rent Payments and the other payments required under the corresponding Local Agency Financing Lease.

***Use of Property.*** During the term of each Financing Lease, the corresponding Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities.

***Maintenance; Repairs.*** For so long as the Agency is in possession of the Property, such Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Agency will (1) keep and maintain the Property in good repair and condition, protect the same from deterioration other than normal wear and tear, and pay or cause to be paid all charges for utility services to the Property; (2) comply with the requirements of applicable laws, ordinances and regulations and the requirements of any insurance or self-insurance program required under the Financing Lease in connection with the use, occupation and maintenance of the Property; (3) obtain all permits and licenses, if any, required by law for the use, occupation and maintenance of the Property; and (4) pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property.

***Hazardous Substances.***

(1) Use. The Property does not currently violate, and neither the Agency nor its officers, agents, employees, contractors, or invitees, shall not use the Property in a manner that violates, any applicable federal, state or local law, regulation or ordinance, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage and disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. The Agency shall not cause or permit the release or disposal of any Toxic or Hazardous Substances on or from the Property.

(2) Indemnity. The Agency, to the extent permitted by law, agrees to protect, indemnify, defend (with counsel satisfactory to the Agency) and hold the State (with respect to a Local Agency), the Corporation and the

Fiscal Agent, and their respective directors, officers, employees and agents harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising out of or in any way relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property; provided, however, that the Agency shall not be obligated to provide such indemnification, in its capacity as Lessee under the Site Lease (with respect to the State Agency) or in its capacity as Lessor under the Financing Lease (with respect to a Local Agency), from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property occurring when the Agency is or was not in possession of the Property. Such indemnity shall include, without limitation, costs incurred in connection with: (a) Toxic or Hazardous Substances present or suspected to be present in the soil, groundwater or soil vapor on or under the Property; or (b) Toxic or Hazardous Substances that migrate, flow, percolate, diffuse, or in any way move onto or under the Property; or (c) Toxic or Hazardous Substances present on or under the Property as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Property by any person, corporation, partnership, or entity other than the Agency, its officials, officers, employees or agents.

The indemnification summarized above covers, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence of Toxic or Hazardous Substances in the soil, groundwater, or soil vapor on or under the Property. Such costs may include, but not be limited to, damages for the loss or restriction on use of renewable or usable space or of any amenity of the Property, sums paid in settlements of claims, attorneys fees, consultants fees, and expert fees.

(3) Notification Requirements. The Agency shall promptly notify the other Parties in writing of all spills or releases of any Toxic or Hazardous Substances, all failures to comply with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Upon request by any Party, the Agency shall provide such Party with a written report (a) listing the Toxic or Hazardous Substances that were used or stored on the Property; (b) discussing all releases of Toxic or Hazardous Substances that occurred or were discovered on the Property and all compliance activities related to Toxic or Hazardous Substances, including all contacts with and all requests from third parties for cleanup or compliance; (c) providing copies of all permits, manifests, business plans, consent agreements or other contracts relating to Toxic or Hazardous Substances executed or requested during that time period; and (d) including such other information requested by such Party.

(4) Inspection Rights. The Parties, and their officers, employees and agents, shall have the right, but not the duty, to inspect the Property and the Agency's relevant environmental and land use documents at any time and to perform such tests on the Property as are reasonably necessary to determine whether the Agency is complying with the terms of the Financing Lease. The Agency shall be responsible for paying for any testing that is conducted if the Agency is not in compliance with the Financing Lease and such Party has reason to believe such noncompliance is due to the Agency's operations or use of the Property. If the Agency is not in compliance with the Financing Lease, such Party, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Property to remedy any contamination caused by the Agency's failure to comply notwithstanding any other provision of the Financing Lease. The Party shall use reasonable efforts to minimize interference with the Agency's business but shall not be liable for any interference caused thereby.

(5) Corrective Action. In the event any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work ("Remedial Work") of any kind is necessary under any applicable federal, state or local laws, regulations or ordinances, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Toxic or Hazardous Substances on or under the Property, each Agency shall assume responsibility for all such Remedial Work

and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work. The Agency shall pay for all costs and expenses of such Remedial Work, including, without limitation, the Party's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event the Agency shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, such Party may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become immediately due and payable as Additional Rent due to the Corporation from the State Agency and the State from the Local Agency.

***Insurance.***

(1) The Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Agency from time to time but in any event not less than $1,000,000 per occurrence. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Agency and its officials, officers, employees and volunteers. Such insurance shall include (a) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (b) comprehensive property damage insurance.

(2) The Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the Agency may reasonably determine from time to time, but in any event not less than the aggregate of the principal components of Agency Rent Payments due under the Financing Lease which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Agency. Such property insurance shall be "all risk" insurance, and shall cover physical loss or damage as a result of fire, lightning, theft, vandalism, malicious mischief, flood, earthquake, and boiler and machinery; provided, that the Treasurer may waive the requirement for earthquake or flood insurance if it determines, based on consultation with risk management or insurance advisors of the State, that the same is not available from reputable insurers and commercially reasonable rates. Such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as the Agency may reasonably determine from time to time. Such policies of insurance shall provide that all proceeds under the Financing Lease shall be payable to the Fiscal Agent, as assignee of the Corporation, pursuant to a lender's loss payable endorsement. The net proceeds of such insurance shall be applied as provided in the Trust Agreement. Such insurance may at any time include a deductible of not to exceed $500,000 for losses in any year with respect to a State Agency and not to exceed $5,000 for losses in any year with respect to a Local Agency, or such greater amount as the Treasurer may approve in writing.

(3) The insurance required by the Financing Lease as summarized above (a) shall be provided by a financially responsible insurance company authorized to do business in the State; (b) shall name the Fiscal Agent, as assignee of the Corporation, as additional insured under the Financing Lease; (c) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms of conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the Treasurer and, for a State Agency, to the Fiscal Agent, as assignee of the Corporation; and (d) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

(4) A certificate of insurance with respect to the required coverages shall be provided by the Agency to the Treasurer and, for a State Agency, to the Fiscal Agent, as assignee of the Corporation, annually on or prior to the December 1 with respect to any required insurance maintained pursuant to the Financing Lease.

(5) Unless otherwise provided by the State, the Local Agency shall obtain a policy or policies of title insurance on the Property, subject only to Permitted Encumbrances, in an amount equal to the aggregate amount of Agency Rent Payments to become due under the Financing Lease, payable to the State and the Fiscal Agent, in a form and from a provider approved in writing by the Treasurer, which approval shall not be unreasonably withheld or delayed. The proceeds received under any such policy shall be applied as provided in the Financing Lease.

(6) The Agency will pay or cause to be paid when due the premiums for all insurance policies required under the Financing Lease.

**Agency Event of Default**

Each of the following shall constitute an "Agency Event of Default" under the Financing Lease:

(1) Failure by the Agency to pay or cause to be paid any Agency Rent Payment required to be paid under the Financing Lease at the time set forth in the Financing Lease;

(2) Failure by the Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Financing Lease, other than as set forth in paragraph (1) above, for a period of 30 days after written notice from the Corporation, or from the Owners of not less than 25 percent in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to the Treasurer (or in the case of a Local Agency from the Treasurer or the Fiscal Agent to the Local Agency) specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than 60 days if such failure cannot be corrected within such period, and the corrective action is commenced by the Agency within such period and diligently pursued until the failure is corrected;

(3) If the statement, representation, or warranty made by the Agency in the Financing Lease or in any writing delivered by the Local Agency pursuant to its Financing Lease is false, misleading, or erroneous in any material respect;

(4) If the Agency's interest under the Financing Lease or any part thereof shall be assigned, sublet or transferred other than as provided in the Financing Lease, either voluntarily or by operation of law;

(5) If the Agency shall abandon or vacate the Property; and

(6) Inability of the Agency to generally pay its debts as such debts become due, or admission by the Agency, in writing, of its inability to pay its debts generally, or the making by the Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Agency to authorize any of the actions summarized above in this paragraph;

(7) If an event of default shall occur under any Additional Financing Lease Agreement.

Notwithstanding the foregoing provisions of the Financing Lease, if by reason of *force majeure* the Agency is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Financing Lease, the Agency shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the Agency.

The Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences under the Financing Lease and annul any notice thereof by written notice to the Agency to such effect, and thereupon the respective rights of the Parties under the Financing Lease shall be as they would have been if such default or Agency Event of Default had not occurred.

ANYTHING IN A STATE AGENCY FINANCING LEASE ADDENDUM TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER A STATE AGENCY FINANCING LEASE ADDENDUM.

**Rights of Treasurer Following Agency Event of Default**

***Continuation; Reentry and Reletting.*** The State may continue the Financing Lease in full force and effect, and (1) collect rent and other amounts as they become due under the Financing Lease, (2) enforce every other term and provision of the Financing Lease to be observed or performed by the Agency, and (3) exercise any and all rights of entry and reentry upon the Property. In the event that the State does not elect to terminate the Financing Lease in the manner summarized in the following paragraph, the Agency agrees to observe and perform all terms and provisions in the Financing Lease to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due under the Financing Lease for the term of the Financing Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided in the Financing Lease, and notwithstanding any reentry or reletting by the State, or suit in unlawful detainer or otherwise brought by the State for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the State elect to re-enter or obtain possession of all or any part of the Property, the Agency irrevocably appoints the State as the Agency's agent and attorney-in-fact (a) to relet the Property, or any part thereof, from time to time, either in the name of the State or otherwise, upon such terms and conditions and for such use and period as the State may determine in its discretion, (b) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (c) to place such personal property in storage in any warehouse or other suitable place for the Agency in the county in which such personal property is located, for the account of and at the expense of the Agency. The Agency shall be liable for, and agrees to pay the State, the State's costs and expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The Agency agrees that the terms of the Financing Lease constitute full and sufficient notice of the right of the Treasurer to reenter and relet the Property or any part thereof without effecting a surrender or termination of the Financing Lease. Termination of the Financing Lease upon an Agency Event of Default shall be effected solely as summarized in the following paragraph. The Agency further waives any right to, and releases, any rental obtained by the State upon reletting in excess of the rental and other amounts otherwise due under the Financing Lease.

***Termination.*** The State may terminate the Financing Lease, but solely upon written notice by the Treasurer to the Agency of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by the Treasurer, nor any proceeding in unlawful detainer or otherwise brought by the Treasurer for the purpose of effecting such reentry or obtaining possession, nor any other act shall operate to terminate the Financing Lease, and no termination of the Financing Lease on an account of a Master Financing Lease Event of Default shall be or become effective by operation of law or acts of the Parties hereto or otherwise, unless and until such notice of termination shall have been given by the Treasurer. The Agency agrees that no surrender of the Property or any part thereof, nor any termination of the Financing Lease by the Agency shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the Treasurer. Upon such termination, the State may (1) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (2) place such personal property in storage in any warehouse or other suitable place for the Agency in the county in which such personal property is located, for the account of and at the expense of the Agency. Upon such termination, the Agency's right to possession of the Property shall terminate, and the Agency shall surrender possession thereof to the State. In the event of such termination, the Agency shall remain liable to the State for damages in an amount equal to the rent and other amounts that would have been due under the Financing Lease for the balance of the term of the Financing Lease, less the net proceeds, if any, of any reletting of the Property or any part thereof by the State subsequent to such termination, after deducting the expenses incurred by the State in connection with any such reentry, removal and storage of personal property, and reletting. The State shall be entitled to collect damages from the Agency on the respective Agency Rent Payment Dates, or alternatively, the Treasurer may accelerate the Agency's obligations under the Financing Lease and recover from the Agency (a) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (b) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the Agency proves could have been reasonably avoided, (c) the worth at the time of award by which the unpaid rental for the balance of the term of the Financing

Lease after the time of award exceeds the amount of rental loss that the Agency proves could reasonably have been avoided, and (d) any other amount necessary to compensate the State for all the detriment proximately caused by the Agency's failure to perform its obligations under the Financing Lease, or which in the ordinary course would be likely to result therefrom, including but not limited to the State's expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to (in the case of a State Agency) the composite Interest Component evidenced and represented by the Certificates or (in the case of a Local Agency) the composite Agency Interest Component of the unpaid Agency Rent Payments.

***Other Remedies.*** In addition to the other remedies set forth in the Financing Lease, upon the occurrence and continuance of an Agency Event of Default, the State shall be entitled to proceed to protect and enforce the rights vested in them by the Financing Lease or by law. The terms and provisions of the Financing Lease and the duties and obligations of the Agency under the Financing Lease, and the officers and employees thereof, shall be enforceable by the Treasurer by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the State shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the Agency and its officers and employees to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin the violation of the rights of the Treasurer.

(3) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the Treasurer's rights against the Agency and its officers and employees, and to compel the Agency to perform and carry out its duties and obligations under the law and its covenants and agreements with the Treasurer as provided in the Financing Lease.

In the event that the State shall prevail in any action, suit or proceeding brought to enforce any of the terms of provisions of the Financing Lease, the Agency shall be liable for the reasonable attorneys' fees of the Treasurer in connection therewith.

The Agency waives any and all claims for damages caused or which may be caused by the Treasurer in reentering and taking possession of the Property or any part thereof as provided in its Financing Lease, and all claims for damages that may result from the destruction of or injury to the Property or any part thereof, and all claims for damages to or loss of any personal property may be in or upon the Property.

**No Remedy Exclusive; Non-Waiver**

No remedy conferred upon or reserved to the State under the Financing Lease or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Financing Lease or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default under the Financing Lease shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the Treasurer under the Financing Lease, it shall not be necessary to give any notice, other than such notice as may be required under the Financing Lease. A waiver by the Treasurer of any default or Event of Default under the Financing Lease shall not constitute a waiver of any subsequent default or Event of Default under the Financing Lease, and shall not affect or impair the rights or remedies of the Treasurer in connection with any such subsequent default or Event of Default.

No acceptance of less than the full amount of a rental payment due under the Financing Lease shall constitute an accord and satisfaction or compromise of any such payment unless the Treasurer specifically agrees to such accord and satisfaction or compromise in writing.

**Default by State**

Anything in the Financing Lease to the contrary notwithstanding, the State shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it under the Financing Lease unless and until the State shall have failed to observe or perform such covenant, agreement, term or condition for a period of 60 days after written notice by the Agency to the Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the State within such period and diligently pursued until the failure is corrected.

**Indemnification of State and the Corporation**

To the extent permitted by law, each Local Agency releases the State and the Corporation from, agrees that the State and the Corporation shall not be liable for, and agrees to indemnify and hold the State and the Corporation and their respective directors, officers, officials, employees, and agents harmless from, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever arising out of the ownership or operation of the Property or the design, acquisition, construction, financing or refinancing thereof. To the extent permitted by law, each Local Agency agrees to indemnify and hold the State and the Corporation and their respective directors, officers, officials, employees, and agents harmless from any losses, costs, charges, expenses (including reasonable attorneys' fees), judgments and liabilities incurred by it or them, as the case may be, in connection with any action, suit or proceeding instituted or threatened in connection with the transactions contemplated by the corresponding Local Agency Financing Lease or the exercise of rights or the performance of duties of the State or the Corporation under such Local Agency Financing Lease, the Master Financing Lease or the other Series 2016A Agreements, except to the extent caused by the gross negligence or willful misconduct of such indemnified party. The indemnification provided in each Local Agency Financing Lease shall survive the final payment of the Agency Rent Payments and the termination of such Local Agency Financing Lease for any reason.

**Term**

If on the scheduled termination date for the Financing Lease as set forth in the Financing Lease, all amounts due under the Financing Lease shall not have been paid or the payment thereof duly provided for pursuant to the Financing Lease, then the term of the Financing Lease shall be extended until 10 days after all amounts due under the Financing Lease shall have been paid or the payment thereof so provided for, except that the term of the Financing Lease shall in no event be extended more than five years beyond such scheduled termination date. If prior to the scheduled termination date, all amounts due under the Financing Lease shall have been paid or the payment thereof so provided for, the term of the Financing Lease shall end 10 days thereafter or 10 days after written notice by the Agency to the Treasurer, whichever is earlier. Notwithstanding the foregoing, the payment of all amounts due under the Financing Lease shall not result in the termination of the Financing Lease prior to the scheduled termination of the related Site Lease.

**Termination**

The Agency agrees, upon the termination or expiration of the Financing Lease, to quit and surrender the Property (1) in the same good order, condition and repair as the same was in at the time of commencement of the term under the Financing Lease, except for acts of God, reasonable wear and tear and any actions by the Agency in accordance with the Financing Lease that affect the condition of the Property; and (2) free and clear of all leases, occupancies, liens and encumbrances, other than those existing as of the Dated Date. The Agency agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Financing Lease shall remain thereon. The Agency shall thereafter execute, acknowledge and deliver to the Treasurer (with respect to a Local Agency) and to the Corporation (with respect to a State Agency) such instruments of further assurance as in the reasonable opinion of the Treasurer are necessary or desirable to confirm the Treasurer's leasehold right, title and interest in and to the Property.

## AGENCY FINANCING CONTRACTS

### Appointment of Agents; Acquisition of Property, Substitution of Property

***Appointment of Agents*.** Under each Agency Financing Contract, the Agency ratifies, approves and confirms, and accepts and agrees to, its designation and appointment as agent of the Corporation in connection with the acquisition of the Property.

***Acquisition of Property*.** The Agency agrees that:

(1) it has caused or will cause the Property to be acquired, as agent for the Corporation, with all reasonable dispatch;

(2) it will make, execute, acknowledge and deliver any contracts, agreements, orders, receipts, documents, writings or instructions with or to any Person and do all other things that may be necessary or desirable to acquire the Property; and

(3) it will pay or cause to be paid the Costs of Acquisition of the Property from funds available to it pursuant to the Agency Financing Contract and the Master Financing Contract.

The appointment of the Agency to act as agent of the Corporation in connection with the acquisition of the Property is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Agency, the Treasurer or otherwise.

The Agency shall negotiate or call for bids for the purchase of the Property in accordance with the requirements and limitations, if any, imposed by State or local law with respect to the purchase of such Property by such Agency. Neither the Corporation nor the State shall have any responsibility, liability or obligation with respect to the selection or procurement of any of the Property.

***Substitution of Property*.** The Agency, with the prior written consent of the Treasurer, may revise any item of Property to be financed or refinanced and acquired pursuant to the Agency Financing Contract, or the description thereof; *provided*, that:

(1) such item of Property as so revised shall satisfy the requirements under the Agency Financing Contract and the Master Financing Contract with respect to the substitution of Property previously acquired;

(2) the Costs of Acquisition of such item of Property shall not be materially reduced thereby; and

(3) any such revision shall not relieve the Agency of its obligation to acquire the Property in accordance therewith and with the Master Financing Contract.

After acquisition of an item of Property, the Agency, with the prior written consent of the Treasurer, may substitute for an item of Property acquired pursuant to the Agency Financing Contract other personal property by filing with the Treasurer:

(1) a certificate of the Agency stating that such substitute Property: (a) has a remaining useful life equal to or greater than the Property for which it is being substituted; (b) has a fair market value equal to or greater than the fair market value of the item of Property for which it is being substituted; (c) is free and clear of all liens and encumbrances except a first priority security interest in favor of the Fiscal Agent, as assignee of the Corporation, under the Master Financing Contract; (d) is of equal usefulness and value as the Property for which it is being substituted; (e) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and (f) is expected to be used by such Agency immediately and for the term of the Agency Financing Contract; and

(2) an Opinion of Counsel to the effect that such substitution will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

**Title to the Property**

All right, title and interest in and to the Property shall transfer to and be vested in the Agency from the Corporation or the State, as applicable, without any further action by the Agency, the Corporation or the State immediately upon the acquisition thereof or reimbursement to the Agency for the Acquisition Costs thereof; *provided*, that the Treasurer and the Agency shall take such action and execute such documents (including without limitation bills of sale and other title documents) as may be deemed necessary or desirable by the Treasurer or the Agency to evidence and confirm such transfer of title pursuant to the Agency Financing Contract.

Title to any and all additions, modifications, improvements, repairs or replacements to the Property shall be vested in the Agency, subject to the security interest of the Corporation until payment of all amounts due and owing with respect to such Property under the Agency Financing Contract.

Any Property constituting a motor vehicle subject to registration with the State Department of Licensing shall be registered with the Agency as the registered and legal owner thereof.

**Security Interest**

***State Security Interest.*** In order to secure the payment and performance by the State of its obligations under the Master Financing Contract, the State has pledged, granted, assigned and conveyed to the Corporation a lien on and security interest in all right, title and interest of the State, whether now owned or acquired, in and to the Property and the Agency Financing Contract, including without limitation the Agency Installment Payments and all proceeds thereof. The Agency acknowledges and agrees to such pledge, grant, assignment and conveyance, and acknowledges that its right, title and interest in and to the Property is subject to such first priority lien and security interest.

***Agency Security Interest.*** In order to secure the payment and performance by the Agency of its obligations under the Agency Financing Contract, the Agency pledges, grants, assigns and conveys to the Corporation a lien on and security interest in all right, title and interest of the Agency, whether now owned or acquired, in and to the Property. Accordingly, the Agency Financing Contract constitutes a security agreement. The Agency acknowledges and agrees that each provision of the Agency Financing Contract is also a provision of the security agreement.

The Agency further agrees that the Corporation may: (1) commingle Property which comes into its possession; (2) re-pledge such Property upon terms which impair the Agency's right to redeem such Property; and (3) require the Agency to assemble the Property and make it available to the Corporation in a manner which is reasonably convenient to both Parties. To the extent the Corporation is required for any reason to provide commercially reasonable notice to the Agency, the State agrees that notice mailed by first class mail five days before the event of which notice is given is commercially reasonable notice. The standard by which the Corporation's rights and duties with respect to such security agreement shall be measured is gross negligence or willful misconduct.

If required by the Corporation or the Fiscal Agent, as assignee of the Corporation, at any time during the term of the Agency Financing Contract, the Agency will execute and deliver to the Corporation or the Fiscal Agent, as the case may be, in form satisfactory to the Corporation or the Fiscal Agent, such security agreements, financing statements and/or other instruments covering the Property and all accessions thereto.

**Disclaimer of Warranties**

The Local Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the Local Agency pursuant to its own specifications, and not by the State or the Corporation, and that neither the State nor the Corporation is a manufacturer, supplier or a vendor of such Property. THE STATE AND THE CORPORATION MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE

OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE STATE OR THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE LOCAL AGENCY FINANCING CONTRACT OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE LOCAL AGENCY OF THE PROPERTY.

The State Agency acknowledges and agrees that the Property is of a nature, size, design and capacity selected by the State Agency pursuant to its own specifications, and not by the Treasurer or the Corporation, and that neither the Treasurer nor the Corporation is a manufacturer, supplier or a vendor of such Property. THE TREASURER AND THE CORPORATION MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUME NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROPERTY, OR AS TO THE TITLE THERETO, OR FOR THE ENFORCEMENT OF THE MANUFACTURERS', SUPPLIERS' OR VENDORS' REPRESENTATIONS, WARRANTIES OR GUARANTIES, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE TREASURER OR THE CORPORATION BE LIABLE OR RESPONSIBLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE STATE AGENCY FINANCING ADDENDUM OR THE EXISTENCE, FURNISHING, FUNCTIONING OR USE BY THE STATE AGENCY OF THE PROPERTY.

**Agency Installment Payments**

Each Agency Installment Payment shall consist of a Principal Component and/or an Interest Component as set forth in an exhibit to the Agency Financing Contract. Interest shall accrue and be calculated as determined by the Treasurer, which determination shall be binding and conclusive against the Agency absent manifest error. Each Agency Installment Payment payable under the Agency Financing Contract shall be paid to or upon the order of the Treasurer at such place as the Treasurer shall direct in writing not less than 10 Business Days prior to the Agency Installment Payment Date by electronic funds transfer in lawful money of the United States of America. Payments of Additional Costs shall be made to or upon the order of the Treasurer. Each Agency Installment Payment shall be applied first to the Interest Component due under the Agency Financing Contract, and then to the Principal Component due under the Agency Financing Contract.

**Sources of Payment of Agency Installment Payments**

***Local Agency Financing Contract.*** The Local Agency acknowledges and agrees that the State is acquiring the Property from the Corporation for and on behalf of the Local Agency. Concurrently with the execution of the Local Agency Financing Contract, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided in the Local Agency Financing Contract, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the Local Agency, together with all other personal property to be acquired for and on behalf of the other Local Agencies and the State Agencies, and interest thereon.

That portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon shall be payable by the State solely from Agency Installment Payments to be made by the respective Local Agencies, including the Local Agency, except as otherwise provided in the Master Financing Contract. The obligation of the Local Agency to make its Agency Installment Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the Local Agency Property and interest thereon other than from Agency Installment Payments paid by the respective Local Agencies, except as otherwise provided in the Master Financing Contract.

***Intercept of Local Agency Share of State Revenues.*** In the event that the Local Agency fails to make any payment due under the Local Agency Financing Contract, the Treasurer shall withhold an amount sufficient to make such

payment from the Local Agency's share of State revenues or other amounts authorized or required by law to be distributed by the State to the Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes and property taxes; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by State law. Such withholding shall continue until all such delinquent payments have been made. Amounts withheld by the Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the Treasurer for any such payment made pursuant to the Local Agency Financing Contract. The Local Agency authorizes, approves and consents to any such withholding.

***Conditional Payment of Local Agency Installment Payments.*** Upon the failure of the Local Agency to make any Agency Installment Payment at such time and in such amount as required pursuant to the Local Agency Financing Contract, the Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Installment Payment Fund, described below, on behalf of such Local Agency within 10 Business Days after such Agency Installment Payment Date. The Local Agency shall reimburse the State for such payments made on its behalf immediately thereafter and in any case not later than 10 Business Days after such Agency Installment Payment Date, together with interest thereon at a rate equal to the State Reimbursement Rate. Anything in the Local Agency Financing Contract to the contrary notwithstanding, failure of the Local Agency to reimburse the State for any such payment shall not constitute an Agency Event of Default under the Local Agency Financing Contract, but the State may institute such legal action and pursue such other remedies against the Local Agency as the State deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

***Payments by Local Agency Treasurer.*** The treasurer of the Local Agency is authorized and directed to establish and/or maintain a special fund in the "bonds payable" category of accounts of the Local Agency for the purposes of paying the Local Agency's Agency Installment Payments and Additional Costs. The treasurer of the Local Agency is further authorized and directed to remit each payment of Agency Installment Payments to the Treasurer or its assignee on each Agency Installment Payment Date and any Additional Costs when due under the Local Agency Financing Contract. Such payment shall be made from any legally available funds of the Local Agency.

***State Agency Financing Contract.*** The State Agency acknowledges and agrees that the State is acquiring the Property from the Corporation for and on behalf of the State Agency. Concurrently with the execution of the Agency Financing Contract, the State shall execute and deliver the Master Financing Contract pursuant to which the State shall agree to make Installment Payments for the acquisition of the Property for and on behalf of the respective Agencies, at such times and in such amounts as provided therein, which will be sufficient in the aggregate to pay the Purchase Price of the Property to be acquired by the State for and on behalf of the State Agency together with all other personal property to be acquired for and on behalf of the other State Agencies, and interest thereon.

***Obligation of State Agency Subject to Appropriation.*** That portion of the Installment Payments that is allocable to the Purchase Price of the State Agency Property shall be payable by the State solely from Agency Installment Payments to be made by the respective State Agencies, including the State Agency. The obligation of the State Agency to make its Agency Installment Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State shall not be obligated to pay that portion of the Installment Payments that is allocable to the Purchase Price of the State Agency Property and interest thereon other than from appropriated funds of the respective State Agencies.

**Deposit and Investment of Agency Installment Payments**

The Agency acknowledges and agrees that the Agency Installment Payments shall be deposited in a special fund or funds maintained by the Treasurer (the "Agency Installment Payment Fund"). Payments of Agency Installment Payments from State Agencies shall be separately accounted for from payments from Local Agencies. The Agency Installment Payments due on each Agency Installment Payment Date shall be at least sufficient, in the aggregate, to make the Installment Payment next coming due under the Master Financing Contract. Amounts in the Agency Installment Payment Fund, including investment earnings thereon, shall be used and applied, *first*, to make the Installment Payment next coming due, *and thereafter*, but prior to the next Agency Installment Payment Date, to the extent that amounts remain in such Fund after such Installment Payment is made, to pay Additional Costs or for any other lawful purpose of the Treasurer. Amounts in the Agency Installment Payment Fund shall be invested in

Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the Treasurer solely for investment purposes. The Agency shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Installment Payment Fund.

**No Set Off**

The obligation of the Local Agency to make Agency Installment Payments from the sources set forth in the Local Agency Financing Contract and to perform its other obligations under the Local Agency Financing Contract shall be absolute and unconditional. The Local Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; provided, that nothing in the Local Agency Financing Contract shall be construed to release or excuse the State from the observance or performance of its obligations under the Local Agency Financing Contract. If the State shall fail to observe or perform any such obligation, the Local Agency may institute such legal action and pursue such other remedies against the State as the Local Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

The obligation of the State Agency to make Agency Installment Payments from the sources set forth in the State Agency Financing Addendum and to perform its other obligations under the State Agency Financing Addendum shall be absolute and unconditional. The State Agency shall make Agency Installment Payments as and when the same shall become due without diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, any Agency, and/or any other Person, or for any other reason; *provided*, that nothing in the State Agency Financing Addendum shall be construed to release or excuse the Treasurer or the Corporation from the observance or performance of its obligations under the State Agency Financing Addendum or under the Master Financing Contract. If the Treasurer or the Corporation shall fail to observe or perform any such obligation, the State Agency may institute such legal action and pursue such other remedies against the Treasurer or the Corporation as the State Agency deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

**Assignments by the Corporation**

The Local Agency acknowledges and agrees that, concurrently with the execution and delivery of the Local Agency Financing Contract, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse:

(1) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract; and

(2) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Local Agency Financing Contract, and in and to the Property (including any security interest in the Local Agency Financing Contract), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Local Agency Financing Contract as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference in the Local Agency Financing Contract to the Corporation shall be deemed and construed to refer to the Fiscal Agent. Anything in the Agency Financing Contract to the contrary notwithstanding, such grant, sale, assignment,

transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

The State Agency acknowledges and agrees that, concurrently with the execution and delivery hereof, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent without recourse:

(1) all of its rights to receive the Installment Payments under and pursuant to the Master Financing Contract; and

(2) all of its remaining right, title and interest in, to and under the Master Financing Contract and the Agency Financing Contracts, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Contract, pursuant to the Master Assignment in consideration for the payment by the Fiscal Agent to the Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Master Financing Contract or the State Agency Financing Addendum or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation thereunder and under the State Agency Financing Addendum as if the Fiscal Agent had been the original party thereto and hereto, and every reference therein and in the State Agency Financing Addendum to the Corporation shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the State Agency Financing Addendum or therein to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

**Optional Prepayment**

The Agency may, at its option, prepay all or any portion of its Agency Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Treasurer money and/or Government Obligations in an amount sufficient for the Treasurer to prepay or defease the portion of its Installment Payments corresponding thereto in accordance with the Master Financing Contract, and to pay any Additional Costs in connection therewith.

The Agency shall provide the Treasurer with not less than 60 days' prior written notice of its intention to prepay any of its Agency Installment Payments, which notice shall specify the date of such prepayment, and the amount and the Agency Installment Payment Dates of the Agency Installment Payments to be prepaid. The Treasurer shall notify the Agency within 15 Business Days after receipt of such notice from the Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Installment Payments, including any Additional Costs in connection therewith. The determination by the Treasurer of the amount to be paid by the Agency shall be binding and conclusive against such Agency, absent manifest error.

**Revision of Agency Installment Payments upon Optional Prepayment**

The Principal Components and Interest Components of the Agency Installment Payments due on each Agency Installment Payment Date on and after the date of any prepayment pursuant to the Agency Financing Contract, as set forth in Exhibit D to the Agency Financing Contract, shall be reduced by the Treasurer to reflect such prepayment, in such amounts and on such Agency Installment Payment Dates as the Agency shall elect in its written notice to the Treasurer, pursuant to the Agency Financing Contract.

**Discharge of Agency Financing Contract**

All right, title and interest of the State in the Agency Financing Contract and all obligations of the Agency under the Agency Financing Contract shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the Treasurer and the Fiscal Agent, as assignee of the Corporation, and the obligation of the Agency

to have the moneys and Government Obligations so set aside applied to make the remaining Agency Installment Payments) when either:

(1) all Agency Installment Payments and all Additional Costs and other amounts due under the Agency Financing Contract have been paid in accordance therewith; or

(2) (a) the Agency shall have delivered a written notice to the Treasurer of its intention to prepay all of the Agency Installment Payments remaining unpaid;

(b) the Agency shall have caused to be deposited with the Treasurer (i) moneys and/or Government Obligations in accordance with the Agency Financing Contract; and (ii) an Opinion of Counsel to the effect that such actions are permitted under the Agency Financing Contract, under the Master Financing Contract and under the Trust Agreement and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Agency Installment Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Costs.

**Permitted Termination Events for State Agency Financing Addendum**

The following shall constitute a "Permitted Termination Event" under the State Agency Financing Addendum:

(1) The State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agent Installment Payments due under the State Agency Financing Addendum during the next occurring biennium; or

(2) The Governor of the State issues an Executive Order mandating an emergency reduction in State funding;

*provided*, that the State Agency delivers written notice thereof to the Treasurer as provided in the following paragraph.

***Written Notice Describing a Permitted Termination Event.*** If, as of five Business Days following (1) the enactment of each biennial budget by the State Legislature or (2) an Executive Order reduction in funding, the State Agency determines as a result of such legislation or Executive Order that sufficient funds will not be available to make its scheduled Agency Installment Payments for the Property in the next occurring Biennium or upon a reduction in funding in the manner as set forth above, the State Agency shall deliver written notice to the Treasurer not less than 45 days prior to the Permitted Termination Date, which notice shall describe the Permitted Termination Event, and state that the State Agency has determined that such Permitted Termination Event will result in the cancellation of the applicable Financing Contract and the related obligation of the Treasurer under the Master Financing Contract.

***Remedies of the Corporation Upon a Permitted Termination Event.*** Upon the occurrence of a Permitted Termination Event and upon the Written Request of the Treasurer, the director or other chief administrator of the State Agency shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, return the Property to the Corporation and thereupon be released of its obligations to make all further Agency Installment Payments under its Agency Financing Contract and under the Master Financing Contract with respect to the Property; *provided*, that the State Agency delivers the Property in good repair, working order and condition, ordinary wear and tear excepted, and its unencumbered title to the Corporation at a location in the United States designated by the Corporation as of the end of the last month for which funding has been provided, or the end of the last month for which funding is available in the event of an Executive Order reduction in funding, and written notice is provided by the State Agency directly to the Treasurer as set forth in its Financing Contract. If the State Agency returns the Property pursuant to the terms of this paragraph, the Treasurer and the Corporation shall be entitled to retain all sums theretofore transmitted to the Treasurer or the Corporation (or to the Fiscal Agent as assignee of the Corporation) by or on behalf of the State Agency for the benefit of the Owners of the Certificates.

The occurrence of a Permitted Termination Event shall not constitute an Agency Event of Default, a Master Contract Event of Default or an Event of Default, and the remedies relating to the return of the Property are the sole remedies available to the Treasurer and the Corporation upon such occurrence. If the State Legislature provides a supplemental appropriation or the Executive Order is withdrawn prior to the expiration of the specified notice period and the Treasurer or the Corporation has not yet sold, relet or otherwise disposed of the Property, the State Agency may, by written notice to the Treasurer and the Corporation, revoke the notice of termination and continue its obligations under the Financing Contract.

**Covenants and Agreements of the Agency**

The Agency covenants and agrees as follows:

***Budget.*** The Local Agency shall take such action as may be necessary to include all the Agency Installment Payments and Additional Costs due under the Local Agency Financing Contract in its annual budget and to make the necessary annual appropriations for all such Agency Installment Payments and Additional Costs.

The State Agency shall (1) include in its biennial budget all payments required to be made by the State Agency under the State Agency Financing Addendum; (2) submit such budget to OFM at such times and in such manner as required by law; (3) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (4) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (5) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

***Application of Appropriations*.** To the extent permitted by law, each State Agency agrees that, to the extent that any amounts are included in its budget for purposes or facilities served, or functions or operations supported or provided, by the Property, the State Agency will allocate a sufficient portion of such amounts to the payment of the Agency Installment payments and Additional Costs due under its State Agency Financing Addendum.

***Tax-Exemption*.** The Agency shall not make any use of the proceeds of the Agency Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Agency shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Installment Payments under Section 103 of the Code. The Agency shall not make any use of the proceeds of the Agency Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Agency Installment Payments remain unpaid, the Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Agency Financing Contract. The Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Installment Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Agency shall comply with the applicable provisions of the Tax Certificate and Agreement.

***Liens; Sale or Disposal*.** The Agency shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, except the rights of the Corporation as provided in the Agency Financing Contract and in the Master Financing Contract. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, transfer, assign, pledge, convey or otherwise dispose of any of the Property or any interest in the Agency Financing Contract during the term of the Agency Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

***Pledge of Funds and Credit of Local Agency.*** The obligations of the Local Agency under the Local Agency Financing Contract constitute a debt and a general obligation of the Local Agency, and a contracting of an indebtedness by the Local Agency, to which the full faith and credit of the Local Agency are pledged. If and to the extent authorized by law, the Local Agency covenants and agrees that it will levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy, if any, permitted to the Local Agency without a vote of its electors, to provide funds, together with other legally available moneys, sufficient to make the Agency Installment Payments and the other payments required under the Local Agency Financing Contract.

***Use of Property.*** During the term of the Agency Financing Contract, the Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities. The Agency will not permit the Property to be used or operated other than by authorized employees, agents and contractors of the Agency.

***Use; Repairs.*** For so long as the Agency is in possession of the Property, the Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Agency will: (1) keep and maintain the Property in good repair, working order and condition, and protect the same from deterioration other than normal wear and tear; (2) cause the Property to be used within its normal capacity, in the manner contemplated by the manufacturer's specification, and in compliance with the requirements of applicable laws, ordinances and regulations, the requirements of any warranties applicable thereto, and the requirements of any insurance or self-insurance program required under the Agency Financing Contract; (3) cause the Property to be used and operated by or under the direction of competent persons only, and obtain all registrations, permits and licenses, if any, required by law for the operation of the Property; and (4) will pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property. The Agency, at its expense, will furnish all parts, mechanisms and devices required to operate and maintain the Property.

***Insurance.*** The Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Agency from time to time but in any event not less than $1,000,000 per occurrence, or such greater amount as the Treasurer may reasonably require from time to time. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Agency and its officials, officers, employees and volunteers. Such insurance shall include (1) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (2) comprehensive property damage insurance.

The Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance covering the Property in such amounts and covering such risks as the Agency may reasonably determine from time to time but in any event not less than the aggregate amount of Agency Installment Payments due under the Agency Financing Contract which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Agency. In the alternative, the Agency may assume financial responsibility for any physical damage to and/or loss of the Property; *provided, however*, that if the Agency elects this option, the Agency covenants and agrees that it will promptly repair or replace the Property promptly upon any loss or damage thereto.

The insurance required under the Agency Financing Contracts summarized above:

(1) shall be provided by a financially responsible insurance company authorized to do business in the State;

(2) shall name the State, the Corporation and the Fiscal Agent, as assignee of the Corporation, as additional insureds under the Agency Financing Contract;

(3) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms of conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the Treasurer, the Corporation and the Fiscal Agent as assignee of the Corporation; and

(4) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

A certificate of insurance with respect to the required coverages shall be provided by the Agency to the Treasurer on or prior to the date of delivery of the Personal Property Certificate to the Treasurer.

The Agency will pay or cause to be paid when due the premiums for all insurance policies required by the Agency Financing Contract.

**Agency Event of Default**

Each of the following shall constitute an "Agency Event of Default" under the Agency Financing Contract:

(1) Failure by the Agency to pay or cause to be paid any Agency Installment Payment required to be paid under the Agency Financing Contract within 10 Business Days of the respective Agency Installment Payment Date, other than (in the case of a State Agency) as a result of a Permitted Termination Event;

(2) Failure by the Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Agency Financing Contract, other than as set forth in paragraph (1) above, for a period of 30 days after written notice from the Treasurer or the Fiscal Agent to the Agency specifying such failure and requesting that it be remedied, other than (in the case of a State Agency) as a result of a Permitted Termination Event; *provided, however*, that such period shall be extended for not more than 60 days if such failure cannot be corrected within such period, and the corrective action is commenced by the Agency within such period and diligently pursued until the failure is corrected;

(3) If any statement, representation, or warranty made by the Agency in the Agency Financing Contract or in any writing delivered by the Agency pursuant hereto or in connection therewith is false, misleading, or erroneous in any material respect; and

(4) Inability of the Agency to generally pay its debts as such debts become due, or admission by the Agency in writing of its inability to pay its debts generally or the making by the Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Agency to authorize any of the actions set forth above in the Agency Financing Contract.

Notwithstanding the foregoing provisions, if by reason of *force majeure* the Agency is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Agency Financing Contract, the Agency shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the Agency.

The Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences under the Agency Financing Contract and annul any notice thereof by written notice to the Agency to such effect, and thereupon the respective rights of the Parties under the Agency Financing Contract shall be as they would have been if such default or Agency Event of Default had not occurred.

**Rights of Treasurer Following Agency Event of Default**

Whenever an Agency Event of Default shall have occurred and be continuing, the Treasurer shall have the following rights and remedies:

(1) By written notice to the Agency, require that the Agency promptly return possession and use of the Property to the Treasurer at any location specified in the United States (at the cost and expense of the Agency) in good repair, working order and condition, ordinary wear and tear excepted;

(2) By written notice to the Agency and the Fiscal Agent, declare an amount equal to all Agency Installment Payments to become due and payable under the Agency Financing Contract, including but not limited to the Agency Interest Components thereof accrued and unpaid, to be immediately due and payable, without further demand;

(3) Take whatever action at law or in equity may appear necessary or desirable to collect the Agency Installment Payments then due and thereafter becoming due, or to enforce the observance or performance of any covenant, agreement or obligation of the Agency under the Agency Financing Contract; and

(4) Exercise any other rights or remedies it may have under the Agency Financing Contract or under applicable law.

**No Remedy Exclusive; Non-Waiver**

No remedy conferred upon or reserved to the Treasurer under the Agency Financing Contract or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Agency Financing Contract or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Agency Event of Default under the Agency Financing Contract shall impair any such right or remedy or shall be construed to be a waiver of such default or Agency Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the Treasurer under the Agency Financing Contract, it shall not be necessary to give any notice, other than such notice as may be required under the Agency Financing Contract. A waiver by the Treasurer of any default or Agency Event of Default under the Agency Financing Contract shall not constitute a waiver of any subsequent default or Agency Event of Default under the Agency Financing Contract, and shall not affect or impair the rights or remedies of the Treasurer in connection with any such subsequent default or Agency Event of Default.

**APPENDIX C**

**PROPOSED FORM OF CERTIFICATE COUNSEL OPINION**

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[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

Re: State of Washington Certificates of Participation, Series 2016A
(State and Local Agency Real and Personal Property)

We have acted as special counsel to the State of Washington (the "State") in connection with the execution and delivery by U.S. Bank National Association in the capacity of fiscal agent of the State (the "Fiscal Agent") of Certificates of Participation, Series 2016A (State and Local Agency Real and Personal Property), in the Initial Principal Amount of $_____ (the "Certificates") pursuant to a Trust Agreement, Series 2016A (the "Trust Agreement"), dated as of _____, 2016 (the "Dated Date"), by and among the State, acting by and through the State Treasurer of the State (the "State Treasurer"), the Fiscal Agent and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. Capitalized terms used in this opinion that are not otherwise defined have the meanings given such terms in Appendix I to the Trust Agreement.

The Certificates evidence and represent undivided proportionate ownership interests in the Principal Components and Interest Components of Installment Payments and Base Rent Payments to be made by the State ("State Payments") pursuant to a Master Financing Contract, Series 2016A (the "Master Financing Contract"), and a Master Financing Lease, Series 2016A (the "Master Financing Lease" and together with the Master Financing Contract, the "Master Financing Agreements"), each dated as of the Dated Date, entered into by and between the Corporation and the State, acting by and through the State Treasurer, to finance or refinance the acquisition and/or improvement of certain personal property and real property (the "Property") for State Agencies and Local Agencies (the "Agencies").

The Master Financing Contract constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Installment Payments required to be paid by the State Agencies pursuant to State Agency Financing Addenda, Series 2016A (the "State Agency Financing Addenda"), to the Master Financing Contract and by Local Agencies pursuant to Local Agency Financing Contracts, Series 2016A (the "Local Agency Financing Contracts," and together with the State Agency Financing Addenda, the "Agency Financing Contracts"). The Master Financing Lease also constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Rent Payments required to be paid by the State Agencies pursuant to State Agency Financing Lease Addenda, Series 2016A (the "State Agency Financing Lease Addenda"), to the Master Financing Lease, and by Local Agencies pursuant to Local Agency Financing Leases, Series 2016A (the "Local Agency Financing Leases," and, together with the State Agency Financing Lease Addenda, the "Financing Leases"). The Agency Financing Contracts and Financing Leases together are the "Agency Financing Agreements." Pursuant to the Master Financing Agreements, the State Treasurer is conditionally obligated, to the extent of legally available appropriated funds, to pay Agency Installment Payments and Agency Rent Payments when due under Local Agency Financing Contracts and Local Agency Financing Leases upon the default of any Local Agency.

Pursuant to a Master Assignment, Series 2016A (Equipment), and a Master Assignment, Series 2016A (Real Property) (together, the "Master Assignments"), each dated as of the Dated Date, the Corporation has unconditionally granted, sold, assigned, transferred and conveyed to the Fiscal Agent without recourse (i) all of its rights to receive the State Payments under and pursuant to the Master Financing Agreements, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Agreements and the Agency Financing

Agreements, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Agreements.

As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State and the Agencies are required to comply with certain requirements after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the Property financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the arbitrage rebate requirement to the extent applicable to gross proceeds of the Certificates. The State and the Agencies have covenanted to comply with those requirements, but if the State or the Agencies fail to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. We have not undertaken and do not undertake to monitor compliance with such requirements.

Under the statutes, regulations, published rulings and court decisions existing on the date of this opinion and based on our review of such other documents, proceedings and certifications as we have deemed necessary, it is our opinion that:

1. The Master Financing Agreements have been duly authorized, executed and delivered by the State, acting by and through the State Treasurer and the respective State Agencies, and, assuming the due authorization, execution and delivery thereof by the Corporation, constitute valid, binding and enforceable obligations of the State payable solely from the sources set forth therein. The Master Financing Agreements do not constitute general obligations of the State, and neither the full faith and credit nor the taxing power of the State is pledged to the payment thereof.

2. The obligation of each State Agency to pay Agency Installment Payments or Agency Rent Payments during the term of its State Agency Financing Addenda or State Agency Financing Lease Addenda, constitutes a valid and binding obligation of such State Agency, subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. The conditional obligation of the State Treasurer pursuant to the Master Financing Agreements to pay Agency Installment Payments and Agency Rent Payments under each Local Agency Financing Contract and Local Agency Financing Lease upon the default of any Local Agency is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such conditional obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

4. Assuming (a) the due authorization, execution and delivery of the Master Assignments by the Corporation and the Fiscal Agent, (b) the due authorization, execution and delivery of the Trust Agreement by the Corporation and the Fiscal Agent, and (c) the due authorization, execution and delivery of the Certificates by the Fiscal Agent, the Certificates are entitled to the benefits of the Master Assignments and the Trust Agreement.

5. Assuming compliance by the State and the Agencies after the date of execution and delivery of the Certificates with applicable requirements of the Code, the Interest Component of each State Payment ("Interest") under the Master Financing Agreements and received by the Owners of Certificates is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax applicable to individuals; however, while Interest also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, Interest received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, Interest received by certain S

corporations may be subject to tax, and Interest received by foreign corporations with United States branches may be subject to a foreign branch profits tax.

We express no opinion regarding any other federal tax consequences arising with respect to the ownership of the Certificates. Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences.

Our opinions with respect to the enforceability of various documents are subject to limitations imposed by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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# APPENDIX D

# THE STATE'S 2015 AUDITED FINANCIAL STATEMENTS

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# Washington State Auditor's Office

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 30, 2015

The Honorable Jay Inslee
Governor, State of Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems, Local Government Investment Pool, University of Washington, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net position, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

| Opinion Unit | Percent of Total Assets | Percent of Net Position | Percent of Total Revenues/ Additions |
|---|---|---|---|
| Governmental Activities | 13.6% | 26.1% | 8.3% |
| Business-Type Activities | 75.0% | 100.0% | 28.8% |
| Higher Education Special Revenue Fund | 55.5% | 57.7% | 51.5% |
| Higher Education Endowment Fund | 96.7% | 96.7% | 100.0% |
| Higher Education Student Services Fund | 77.0% | 92.3% | 84.6% |
| Workers' Compensation Fund | 94.7% | 100.0% | 8.2% |
| Guaranteed Education Tuition Program Fund | 88.8% | 100.0% | 28.3% |
| Aggregate Discretely Presented Component Units and Remaining Fund Information | 92.6% | 94.4% | 64.3% |

Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities and funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Department of Retirement Systems, Local Government Investment Pool, University of Washington, and the funds managed by the State Investment Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Matters of Emphasis

As explained in Note 1.D.1, the financial statements include pension trust fund investments valued at $32.06 billion, which comprise 28.2 percent of total assets and 30.6 percent of net position of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners. Our opinion was not modified with respect to this matter.

As described in Note 2, during the year ended June 30, 2015, the State has implemented the Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules and information, pension plan information, other postemployment benefits information and infrastructure assets reported using the modified approach be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying information listed as combining financial statements and individual fund schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated October 30, 2015, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the State's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

# MD&A
# Management's Discussion and Analysis

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# MD&A
# Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities and deferred inflows by $20.60 billion (reported as net position). Of this amount, $(12.89) billion was reported as "unrestricted net position." A negative balance indicates that no funds were available for discretionary purposes.

- The state of Washington's governmental funds reported a combined ending fund balance of $14.70 billion, an increase of 2.4 percent compared with the prior year as restated.

- The state implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Pensions* for fiscal year 2015 financial reporting which resulted in a decrease in the beginning balance of net position of $3.04 billion in Governmental Activities and a decrease of $474.2 million for Business-Type Activities.

- The state's capital assets increased by $1.39 billion, total bond debt increased by $670.1 million, and the state's net investment in capital assets is $20.93 billion.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

**Statement of Net Position.** The *Statement of Net Position* presents information on all of the state of Washington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

**Statement of Activities.** The *Statement of Activities* presents information showing how the state's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, the Guaranteed Education Tuition Program (GET), and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 36-39 of this report.

## FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 42-45 of this report.

**Proprietary Funds.** The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, the Higher Education Student Services Fund, and the Guaranteed Education Tuition Program Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 46-55 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report. The fiduciary fund financial statements can be found on pages 56-57 of this report.

**Component Units.** Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports four major component units, the Valley Medical Center, Northwest Hospital, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 67-68 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 58-63 of this report.

## NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 65-164 of this report.

## OTHER INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment benefits information, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 167-190 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining financial statements and individual fund schedules can be found on pages 193-257 of this report.

STATE OF WASHINGTON
**Statement of Net Position**
*(in millions of dollars)*

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **ASSETS** | | | | | | |
| Current and other assets | $ 23,812 | $ 21,468 | $ 24,557 | $ 24,394 | $ 48,369 | $ 45,862 |
| Capital assets | 37,783 | 36,375 | 2,925 | 2,850 | 40,708 | 39,225 |
| Total assets | 61,595 | 57,843 | 27,482 | 27,244 | 89,077 | 85,087 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 481 | - | 83 | 15 | 564 | 15 |
| **LIABILITIES** | | | | | | |
| Current and other liabilities | 5,339 | 5,043 | 1,035 | 1,190 | 6,374 | 6,233 |
| Long-term liabilities outstanding | 30,459 | 25,994 | 30,104 | 29,947 | 60,563 | 55,941 |
| Total liabilities | 35,798 | 31,037 | 31,139 | 31,137 | 66,937 | 62,174 |
| **DEFERRED INFLOWS OF RESOURCES** | 1,944 | 2 | 158 | - | 2,102 | 2 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 19,958 | 19,816 | 973 | 625 | 20,931 | 20,441 |
| Restricted | 8,320 | 6,589 | 4,240 | 3,815 | 12,560 | 10,404 |
| Unrestricted | (3,944) | 399 | (8,945) | (8,318) | (12,889) | (7,919) |
| Total net position | $ 24,334 | $ 26,804 | $ (3,732) | $ (3,878) | $ 20,602 | $ 22,926 |

# Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $20.60 billion at June 30, 2015, as compared to $22.93 billion as reported at June 30, 2014.

The largest portion of the state's net position (101.6 percent for fiscal year 2015 as compared to 89.2 percent for fiscal year 2014) reflects its net investment in capital assets (e.g., land, buildings, equipment, and intangible assets), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be

provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington's net position (61.0 percent for fiscal year 2015 as compared to 45.4 percent for fiscal year 2014) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(12.89) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is largely due to deficits in business-type activities.

In governmental activities, net position decreased from $26.80 billion in fiscal year 2014 to $24.33 billion in fiscal year 2015. Beginning balance adjustments accounted for $2.14 billion of the decrease in net position. These include the implementation of GASB Statement No. 68 and offsetting adjustments to correct prior accounting practices. The remaining decrease of $327.9 million reflects increases in expenses that outpaced the increases in revenues.

In business-type activities, the deficit is caused by the workers' compensation program that provides time-loss, medical, disability, and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

STATE OF WASHINGTON

**Changes in Net Position**

*(in millions of dollars)*

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **REVENUES** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 5,985 | $ 5,850 | $ 6,631 | $ 6,416 | $ 12,616 | $ 12,266 |
| Operating grants and contributions | 15,158 | 13,240 | 77 | 326 | 15,235 | 13,566 |
| Capital grants and contributions | 867 | 1,066 | - | - | 867 | 1,066 |
| General revenues: | | | | | | |
| Taxes | 18,132 | 17,849 | 20 | 22 | 18,152 | 17,871 |
| Interest and investment earnings (loss) | 307 | 621 | 377 | 1,618 | 684 | 2,239 |
| Total revenues | 40,449 | 38,626 | 7,105 | 8,382 | 47,554 | 47,008 |
| **EXPENSES** | | | | | | |
| General government | (1,987) | (1,607) | - | - | (1,987) | (1,607) |
| Education - K-12 | (9,426) | (8,914) | - | - | (9,426) | (8,914) |
| Education - Higher education | (7,095) | (6,910) | - | - | (7,095) | (6,910) |
| Human services | (16,890) | (15,052) | - | - | (16,890) | (15,052) |
| Adult corrections | (956) | (911) | - | - | (956) | (911) |
| Natural resources and recreation | (1,335) | (1,137) | - | - | (1,335) | (1,137) |
| Transportation | (2,309) | (2,400) | - | - | (2,309) | (2,400) |
| Interest on long-term debt | (981) | (938) | - | - | (981) | (938) |
| Workers' compensation | - | - | (3,018) | (3,142) | (3,018) | (3,142) |
| Unemployment compensation | - | - | (968) | (1,380) | (968) | (1,380) |
| Higher education student services | - | - | (2,314) | (2,080) | (2,314) | (2,080) |
| Washington's lottery | - | - | (466) | (463) | (466) | (463) |
| Guaranteed education tuition program | - | - | 585 | (185) | 585 | (185) |
| Other business-type activities | - | - | (158) | (133) | (158) | (133) |
| Total expenses | (40,979) | (37,869) | (6,339) | (7,383) | (47,318) | (45,252) |
| Excess (deficiency) of revenues over expenses before contributions to endowments and transfers | (530) | 757 | 766 | 999 | 236 | 1,756 |
| Contributions to endowments | 66 | 66 | - | - | 66 | 66 |
| Transfers | 136 | 94 | (136) | (94) | - | - |
| Increase (decrease) in net position | (328) | 917 | 630 | 905 | 302 | 1,822 |
| Net position - July 1, as restated | 24,662 | 25,887 | (4,362) | (4,783) | 20,300 | 21,104 |
| Net position - June 30 | $ 24,334 | $ 26,804 | $ (3,732) | $ (3,878) | $ 20,602 | $ 22,926 |

**Governmental Activities.** Governmental activities resulted in a decrease in the state of Washington's net position of $327.9 million. A number of factors were in play including increases in both spending on K-12 education and tax revenues.

- Expenses grew by $511.9 million for K-12 education in 2015 as compared to fiscal year 2014. The state is working to meet the requirements of the state Supreme Court's 2012 McCleary ruling to meet its constitutional duty to fund basic education.

- Tax revenues increased by $282.7 million in fiscal year 2015 as compared to fiscal year 2014 reflecting positive growth in the economy. Sales and use taxes reported an increase of $636.1 million. Sales and use taxes are the main tax revenue for governmental activities. Real estate excise tax revenue increased by $209.9 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the rebounding economy, recovering housing markets, and improving employment picture in Washington.

- Sales of recreational marijuana generated $64.9 million in new excise tax in 2015.

- Tuition and fee revenues at higher education institutions held steady in fiscal year 2015 compared with fiscal year 2014.

- Operating grants and contributions grew by $1.92 billion in fiscal year 2015 compared with 2014 and was matched with an increase in human services expenses. The increases in both grant revenue and human services expenditures are largely due to the state expansion of its Medicaid program under the Affordable Care Act providing coverage to 534,000 newly eligible adults.

**Business-Type Activities.** Business-type activities increased the state of Washington's net position by $629.6 million. Workers' compensation, unemployment compensation, and guaranteed education tuition activities contributed to the increase. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity decrease in net position in fiscal year 2015 was $400.9 million compared to an increase of $240.4 million in fiscal year 2014. Premium revenue increased by $137.1 million as a result of an increase in the number of hours reported by employers, a mid-year premium rate increase, and an increase in the number of hours reported by businesses in higher rate classes. Claim costs decreased by $144.2 million in fiscal year 2015 compared with fiscal year 2014 reflecting a reduction in the number of time-loss claims. Nonoperating investment income decreased by $902.6 million due predominately to a net decrease in realized and unrealized gains on debt securities. The workers' compensation portfolio is 86.1 percent debt securities.

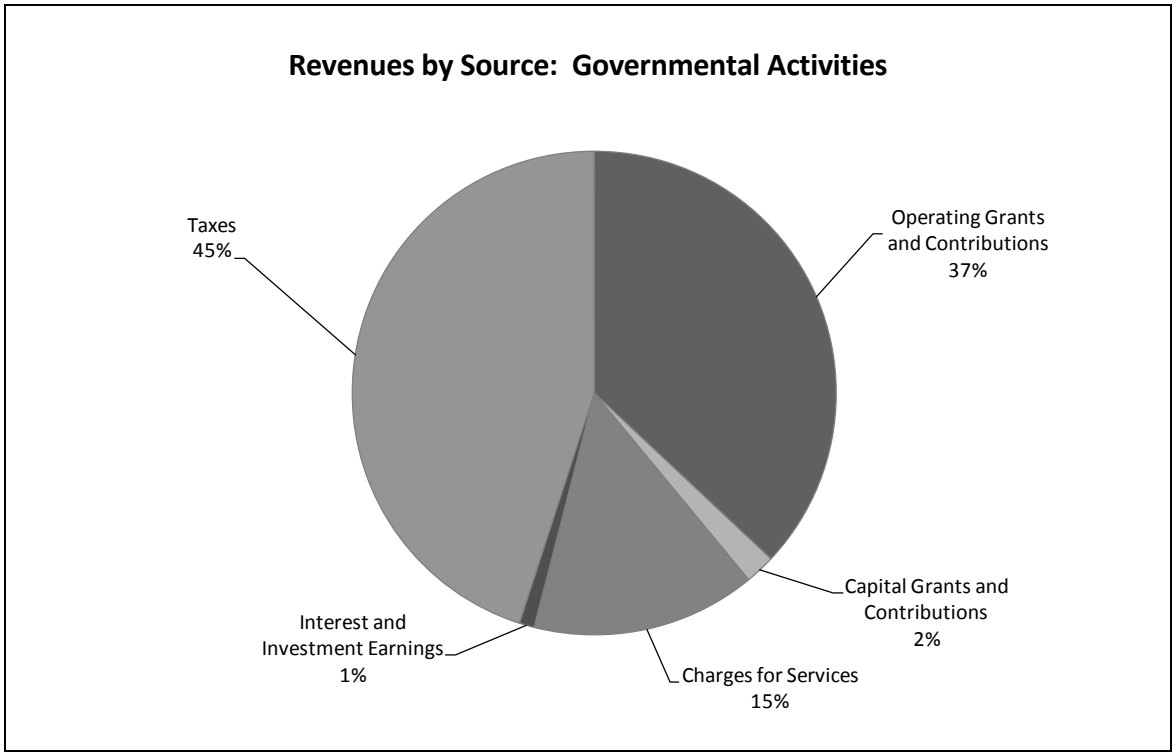
- The unemployment compensation activity reported an operating income in fiscal year 2015 of $344.9 million, compared to $272.6 million in fiscal year 2014. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff experience over the past four years. The economic recovery in the state has stabilized employment and resulted in a decline in unemployment insurance benefits of $411.7 million in fiscal year 2015 over fiscal year 2014. The decrease in benefit costs was the result of a decline in both the number of claims and the duration of the claims. The unemployment rate for the state for June 2015 was 5.3 percent, down from 5.4 percent in June 2014, and the insured rate declined to 1.5 percent in fiscal year 2015 from 1.8 percent in fiscal year 2014. The state's unemployment insurance premiums are experience based and the unemployment rate is declining, which resulted in premium revenue decreasing by 6.8 percent. The $247.0 million decline in federal aid also reflects the decrease in the unemployment rate.

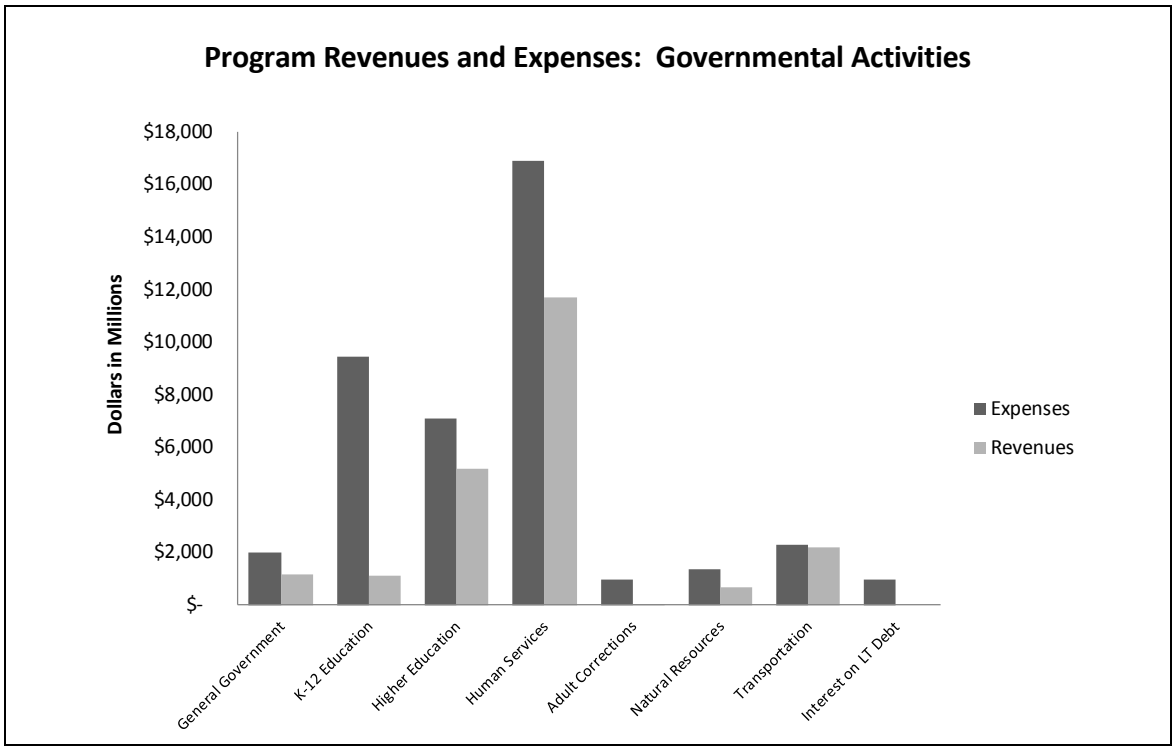
- The Guaranteed Education Tuition (GET) Program reported an increase in net position of $658.7 million increasing its funded status to 140.1 percent, up from 105.8 percent the previous year, in spite of the fact that the number of tuition units sold dropped for the fourth straight year and investment returns were down.

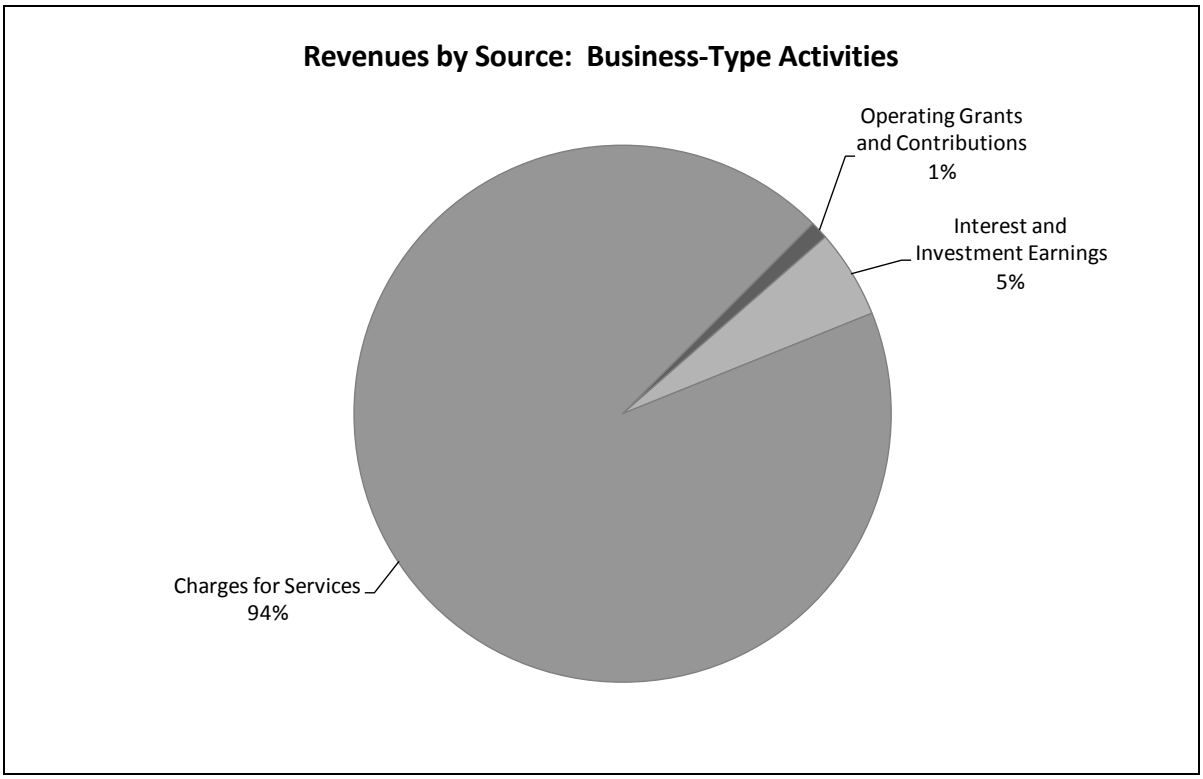
  Investment returns declined to 0.8 percent in fiscal year 2015 compared to 16.4 percent in fiscal year 2014. The GET investment portfolio was rebalanced during fiscal year 2015 to diversify the portfolio across various investment types as well as broadly within asset classes in order to reduce the aggregate volatility of the total portfolio.

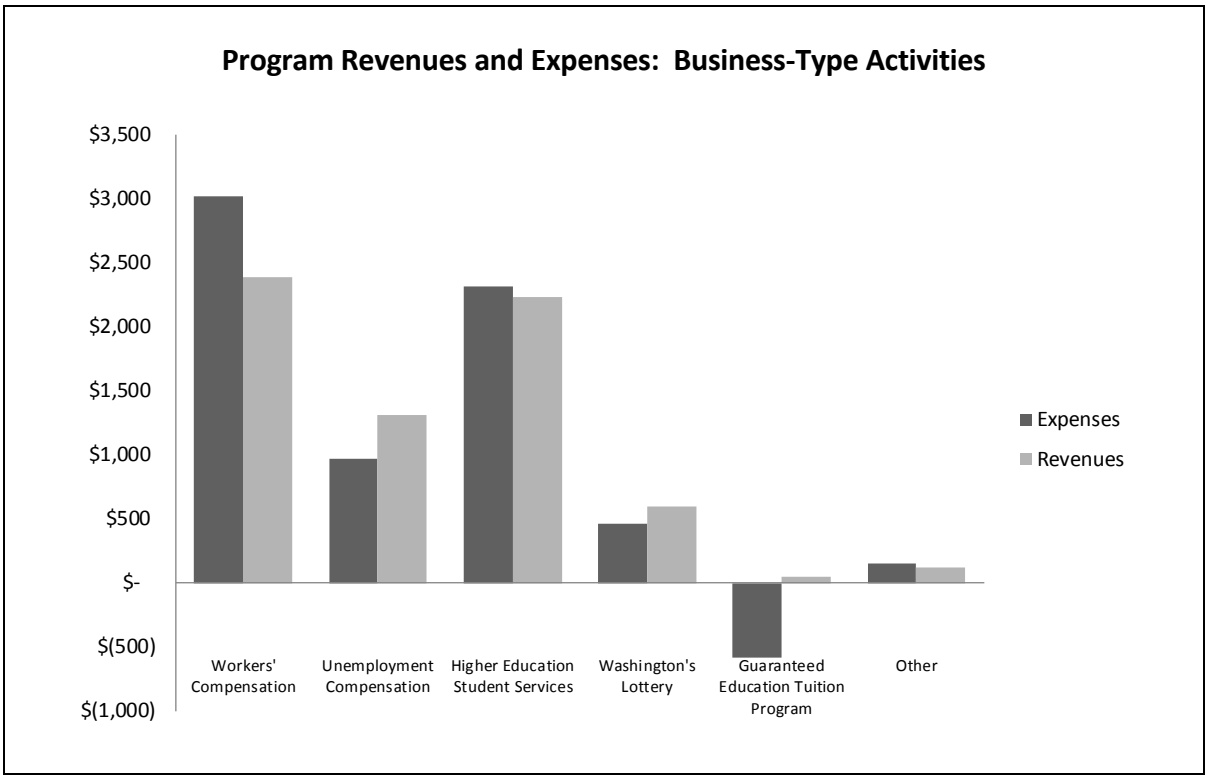
  While current year investment returns were down, the actuarial valuation of the obligation for future tuition benefits assumed a higher rate of investment return based on a recent experience study. The valuation also assumed a lower rate of tuition growth in response to recently enacted legislation. Overall the tuition benefit obligation decreased by 29.8 percent.

- The remaining business-type activities reported relatively proportional increases in both operating revenues and expenses when compared to the prior year.


Revenues by Source: Governmental Activities
Taxes 45%
Operating Grants and Contributions 37%
Capital Grants and Contributions 2%
Charges for Services 15%
Interest and Investment Earnings 1%


Program Revenues and Expenses: Governmental Activities
Dollars in Millions
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$-
General Government
K-12 Education
Higher Education
Human Services
Adult Corrections
Natural Resources
Transportation
Interest on LT Debt
Expenses
Revenues


Revenues by Source: Business-Type Activities
Operating Grants and Contributions 1%
Interest and Investment Earnings 5%
Charges for Services 94%


Program Revenues and Expenses: Business-Type Activities
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
$(500)
$(1,000)
Workers' Compensation
Unemployment Compensation
Higher Education Student Services
Washington's Lottery
Guaranteed Education Tuition Program
Other
Expenses
Revenues

## Financial Analysis of the State's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and fund balances. Such information is useful in assessing the state of Washington's financing requirements.

**Adjustments to Beginning Fund Balances.** As described in Note 2 to the financial statements on pages 79 and 80, beginning fund balances of governmental funds were adjusted to correct prior period activity.

**Fund Balances.** At June 30, 2015, the state's governmental funds reported combined ending fund balances of $14.70 billion. Of this amount, $2.53 billion or 17.3 percent is nonspendable, either due to its form or legal constraints, and $4.37 billion or 29.7 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $5.97 billion or 40.6 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $1.03 billion or 7.0 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. As noted in the table below, fund balance improved as a result of operations by $854.3 million in fiscal year 2015, as compared to a $443.5 million gain in fiscal year 2014. Increased revenues from taxes and federal grants-in-aid and targeted spending increases in K-12 education and social and health services combined with a concerted effort to hold the line on other spending were the key contributing factors. Assigned fund balance of $1.01 billion is reported for fiscal year 2015 and relates to certain accrued and non-cash revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON
**General Fund**
*(in millions of dollars)*

| | Fiscal Year 2015 | Fiscal Year 2014 | Difference Increase (Decrease) |
|---|---|---|---|
| **REVENUES** | | | |
| Taxes | $ 17,025 | $ 16,008 | $ 1,017 |
| Federal grants | 12,053 | 10,226 | 1,827 |
| Investment revenue (loss) | 8 | 7 | 1 |
| Other | 698 | 614 | 84 |
| Total | 29,784 | 26,855 | 2,929 |
| **EXPENDITURES** | | | |
| Human services | 16,794 | 14,920 | 1,874 |
| Education | 10,177 | 9,754 | 423 |
| Other | 1,505 | 1,460 | 45 |
| Total | 28,476 | 26,134 | 2,342 |
| Net transfers in (out) | (653) | (447) | (206) |
| Other financing sources | 199 | 170 | 29 |
| Net increase (decrease) in fund balance | $ 854 | $ 444 | $ 410 |

General Fund expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education.

In addition to the General Fund, the state reports the Higher Education Special Revenue and the Higher Education Endowment Funds as major governmental funds. Significant changes are as follows:

- The change in net position of the Higher Education Special Revenue Fund in fiscal year 2015 was $126.1 million compared to $140.6 million in fiscal year 2014. The decline in fiscal year 2015 was largely due to a 6.8 percent increase in expenditures outpacing revenue growth. Revenues showed only a slight gain of 2.7 percent reflecting the state's decision to hold tuition steady.

- The fund balance for the Higher Education Endowment Fund increased by $80.8 million in fiscal year 2015. Fiscal year 2015 reported a decrease of $283.6 million in investment earnings due to a downturn in the market.

**Proprietary Funds.** The state of Washington's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Significant changes are as follows:

- The Workers' Compensation Fund reported a decrease in net position of $400.9 million in fiscal year 2015. Operating revenues increased by $138.1 million and operating expenses decreased by $123.5 million as compared to fiscal year 2014. As previously reported, operating revenues increased due to an increase in reported hours in higher rate classes and claims expense decreased due to a reduction in the number of time-loss claims. Investment income decreased $902.6 million over fiscal year 2014 due to a decrease in net realized and unrealized capital gains.

- Washington's Unemployment Compensation Fund reported an increase in net position of $425.4 million. As reported previously, premium revenue increased reflecting a growing workforce and higher taxable wage base. Unemployment benefit claims expense decreased by $411.7 million in fiscal year 2015 as compared to 2014 and federal aid decreased by $247.0 million over the same period. The decreases in both benefit claims and federal aid are consistent with the decline in the state's unemployment rate.

- The Guaranteed Education Tuition (GET) Program Fund reported an increase in net position of $658.7 million in fiscal year 2015. As previously reported, the increase is due primarily to a reduction in the assumed rate of tuition growth and a higher assumed rate of investment return.

- The Higher Education Student Services Fund and the nonmajor enterprise funds reported activity fairly consistent with the prior year.

## General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect increases in mandatory costs driven by rising caseloads and school enrollment as well as other high priority needs. Changes to estimates are summarized as follows:

- Estimated biennial resources increased by $2.63 billion over the course of the biennium. The major increase in estimated resources is reported in federal grants-in-aid reflecting the state expansion of its Medicaid program under the Affordable Care Act.

- Appropriated expenditure authority increased by $1.97 billion over the biennium to address increases in mandatory and high priority programs. The major increases in appropriation authority were in human services. The availability of additional federal funding allowed the state to provide coverage to more than 534,000 newly eligible adults under the Affordable Care Act.

The state did not overspend its legal spending authority for the 2013-15 biennium. Actual General Fund revenues and expenditures were 97.8 and 97.0 percent of final budgeted resources and appropriations, respectively, for the 2013-15 biennium.

## Capital Assets, Infrastructure, and Bond Debt Administration

**Capital Assets.** The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totaled $40.71 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangible assets, as well as construction in progress.

Washington's fiscal year 2015 investment in capital assets, net of current year depreciation, increased $1.39 billion over fiscal year 2014, including increases to the state's transportation infrastructure of $818.2 million. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total $2.42 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 110 of this report.

**Infrastructure.** The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,732 lane miles of pavement, 3,288 bridges, and 48 highway safety rest areas. Infrastructure asset categories are assessed on a two year cycle, either on a calendar year or fiscal year basis.

STATE OF WASHINGTON

**Capital Assets - Net of Depreciation**

*(in millions of dollars)*

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014* | 2015 | 2014 | 2015 | 2014 |
| Land | $ 2,625 | $ 2,571 | $ 58 | $ 61 | $ 2,683 | $ 2,632 |
| Transportation infrastructure and other assets not depreciated | 23,376 | 22,554 | 5 | 5 | 23,381 | 22,559 |
| Buildings | 7,826 | 7,702 | 2,312 | 2,410 | 10,138 | 10,112 |
| Furnishings, equipment, and intangible assets | 1,829 | 1,513 | 183 | 189 | 2,012 | 1,702 |
| Other improvements and infrastructure | 1,236 | 1,223 | 75 | 81 | 1,311 | 1,304 |
| Construction in progress | 891 | 906 | 293 | 104 | 1,184 | 1,010 |
| Total | $ 37,783 | $ 36,469 | $ 2,926 | $ 2,850 | $ 40,709 | $ 39,319 |

* Prior year balances restated for comparability

The state's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 187.

The most recent pavements condition assessment indicates that 92.8 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 92.2 percent in fair or better condition. For fiscal year 2015, actual maintenance and preservation expenditures were 17.8 percent lower than planned, and over the past five fiscal years, the actual expenditures were 6.2 percent lower than planned.

The most recent bridge condition assessment indicates that 92.1 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 93 percent in good or fair condition. For fiscal year 2015, the actual maintenance and preservation expenditures were 9.9 percent lower than planned, and over the past five fiscal years, the actual expenditures were 8.4 percent lower than planned.

**Bond Debt.** At the end of fiscal year 2015, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance premuims of $19.87 billion, an increase of 2.4 percent from fiscal year 2014. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $5.61 billion general obligation debt that remains unissued.

General obligation debt is subject to the limitation prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2015, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.5 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2009 - 2014 is $14.79 billion. The debt service limitation, 8.5 percent of this mean, is $1.26 billion. The state's maximum annual debt service as of June 30, 2015, subject to the constitutional debt limitation is $1.13 billion, or $128.3 million less than the debt service limitation.

For further information on the debt limit, refer to the statistical section on page 282 of this report or the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer at: http://www.tre.wa.gov/documents/debt_cdl2015.pdf.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2015, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA+ by Fitch Ratings.

STATE OF WASHINGTON
**Bond Debt**
*(in millions of dollars)*

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2015 | 2014* | 2015 | 2014* | 2015 | 2014 |
| General obligation (GO) bonds | $ 19,396 | $ 18,954 | $ 4 | $ 8 | $ 19,400 | $ 18,962 |
| Accreted interest on zero interest rate GO bonds | 472 | 416 | - | - | 472 | 416 |
| Revenue bonds | 2,316 | 2,021 | 1,991 | 2,109 | 4,307 | 4,130 |
| Total | $ 22,184 | $ 21,391 | $ 1,995 | $ 2,117 | $ 24,179 | $ 23,508 |

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2015, of $4.31 billion, an increase of $177.1 million over fiscal year 2014. The increase is primarily related to grant anticipation revenue bonds issued by the Washington State Department of Transportation and revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling $3.19 billion were refunded during the year. Washington's refunding activity produced $449.4 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 114 of this report.

## Conditions with Expected Future Impact

**Economic Outlook.** Washington is well positioned for economic and population expansion. The state has a diverse industrial and environmental base that supports trade with Pacific Rim countries as well as knowledge-based industries including information, health, business, and financial services.

Washington's expanding economy, accelerated gains in hiring, and recovering housing markets have had a positive effect on revenue growth. Further economic growth and a continued expansion in the housing and commercial building markets should keep revenues growing at a sound pace.

That said, in the coming year, legislative leaders and management will be facing a number of challenges including:

- The slowing Chinese economy, the negative impact of a stronger dollar on exports, and the volatility in the stock markets pose threats to the U.S. and Washington economies.

- Under legislation approved in 2012, and beginning with the 2013-15 biennium, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four year period.

- The courts have also made it clear that in addressing budget shortfalls the past six years, the state sometimes went too far in cutting services, such as for at-risk children and individuals with mental illness. Washington continues to address the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made during the 2013-15 biennium, it was insufficient to satisfy the court.

**General Election.** There is a measure on the state's November 3, 2015, general election ballot that addresses state taxes. This measure would reduce the state retail sales tax by 1 percent unless the Legislature refers to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and legislative approval for fee increases. If passed, the measure could impact the state fiscally.

Election results are not final or official until certified. By law December 3, 2015, is the last day for the Office of the Secretary of State to certify General Election returns. Information is posted as available on the Secretary of State's website at: http://www.sos.wa.gov.

**Rainy Day Account.** In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA). The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 30, 2015, $211.9 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2015, by three-fifths vote of each house, the Legislature appropriated $77.2 million from the BSA solely for emergency fire service mobilization, fire suppression, and fire damage recovery costs. Additionally, the Legislature, also by three-fifths vote of each house, authorized the transfer from the BSA to the General Fund the amount attributable to extraordinary revenue growth, not to exceed $50.0 million. The BSA had a fund balance of $513.1 million as of June 30, 2015.

**The Guaranteed Education Tuition (GET) Program.** The funded status of the GET Program increased during fiscal year 2015 reflecting lower assumed tuition growth in response to Engrossed Second Substitute Bill (E2SSB) 5954 which was signed into law by the Governor on July 6, 2015. E2SSB 5954 reduces tuition at all public institutions of higher learning during the fiscal years 2016 and 2017 and limits tuition growth in future years. In response to E2SSB 5954, the GET Program Committee authorized refunds of approximately $75.0 million in amortization fees to account holders which was recognized as of June 30, 2015. The Committee also permitted account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater, without the usual penalties, fees, or waiting period. The full extent of E2SSB 5954's impact on the Program cannot reasonably be estimated as of the date of these financial statements.

## Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127.

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**Basic Financial Statements**

# Government-wide Financial Statements

## Statement of Net Position

June 30, 2015

*(expressed in thousands)*

Continued

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| **ASSETS** | | | | |
| Cash and pooled investments | $ 6,208,919 | $ 4,788,138 | $ 10,997,057 | $ 201,985 |
| Taxes receivable (net of allowance for uncollectibles) | 3,566,252 | - | 3,566,252 | - |
| Other receivables (net of allowance for uncollectibles) | 2,133,349 | 1,694,183 | 3,827,532 | 156,261 |
| Internal balances | 128,004 | (128,004) | - | - |
| Due from other governments | 3,870,500 | 118,451 | 3,988,951 | - |
| Inventories and prepaids | 110,639 | 60,884 | 171,523 | 23,632 |
| Restricted cash and investments | 375,987 | 7,613 | 383,600 | 5,770 |
| Restricted receivables, current | 22,094 | 3,172 | 25,266 | - |
| Investments, noncurrent | 5,768,557 | 17,602,903 | 23,371,460 | 151,347 |
| Restricted investments, noncurrent | - | 63,277 | 63,277 | 21,842 |
| Restricted receivables, noncurrent | 2,262 | - | 2,262 | - |
| Restricted net pension asset | 1,624,791 | 379 | 1,625,170 | - |
| Other assets | - | 345,082 | 345,082 | 137,739 |
| Capital assets: | | | | |
| Non-depreciable assets | 26,892,627 | 354,954 | 27,247,581 | 71,321 |
| Depreciable assets (net of accumulated depreciation) | 10,890,596 | 2,570,573 | 13,461,169 | 720,039 |
| Total capital assets | 37,783,223 | 2,925,527 | 40,708,750 | 791,360 |
| **Total Assets** | 61,594,577 | 27,481,605 | 89,076,182 | 1,489,936 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred outflows on hedging derivatives | 5,008 | - | 5,008 | 422 |
| Deferred outflows on refundings | 4,776 | 30,263 | 35,039 | 6,435 |
| Deferred outflows on pensions | 471,489 | 52,523 | 524,012 | 60 |
| **Total Deferred Outflows of Resources** | 481,273 | 82,786 | 564,059 | 6,917 |
| **Total Assets and Deferred Outflows of Resources** | $ 62,075,850 | $ 27,564,391 | $ 89,640,241 | $ 1,496,853 |

The notes to the financial statements are an integral part of this statement.

## Statement of Net Position

June 30, 2015

*(expressed in thousands)*

Concluded

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION** | | | | |
| **LIABILITIES** | | | | |
| Accounts payable | $ 1,386,564 | $ 171,495 | $ 1,558,059 | $ 88,156 |
| Contracts and retainage payable | 186,343 | 26,406 | 212,749 | - |
| Accrued liabilities | 1,867,539 | 522,338 | 2,389,877 | 115,980 |
| Obligations under security lending agreements | 143,201 | 144,305 | 287,506 | - |
| Due to other governments | 1,333,526 | 108,986 | 1,442,512 | - |
| Unearned revenues | 422,226 | 62,105 | 484,331 | 13,622 |
| Long-term liabilities: | | | | |
| Due within one year | 1,533,506 | 2,350,163 | 3,883,669 | 18,379 |
| Due in more than one year | 28,925,118 | 27,752,827 | 56,677,945 | 428,207 |
| **Total Liabilities** | 35,798,023 | 31,138,625 | 66,936,648 | 664,344 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred inflows on refundings | 173 | 248 | 421 | - |
| Deferred inflows on pensions | 1,943,983 | 157,369 | 2,101,352 | 1,566 |
| **Total Deferred Inflows of Resources** | 1,944,156 | 157,617 | 2,101,773 | 1,566 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 19,957,567 | 972,671 | 20,930,238 | 378,736 |
| Restricted for: | | | | |
| Unemployment compensation | - | 4,240,486 | 4,240,486 | - |
| Nonexpendable permanent endowments | 2,326,331 | - | 2,326,331 | - |
| Expendable endowment funds | 1,250,545 | - | 1,250,545 | - |
| Pensions | 1,624,791 | 379 | 1,625,170 | - |
| Wildlife and natural resources | 932,384 | - | 932,384 | - |
| Transportation | 725,319 | - | 725,319 | - |
| Budget stabilization | 513,079 | - | 513,079 | - |
| Higher education | 226,187 | - | 226,187 | - |
| Capital projects | 1,883 | - | 1,883 | - |
| Other purposes | 719,862 | - | 719,862 | 19,779 |
| Unrestricted | (3,944,277) | (8,945,387) | (12,889,664) | 432,428 |
| **Total Net Position** | 24,333,671 | (3,731,851) | 20,601,820 | 830,943 |
| **Total Liabilities, Deferred Inflows of Resources, and Net Position** | $ 62,075,850 | $ 27,564,391 | $ 89,640,241 | $ 1,496,853 |

The notes to the financial statements are an integral part of this statement.

## Statement of Activities

For the Fiscal Year Ended June 30, 2015

*(expressed in thousands)*

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| **PRIMARY GOVERNMENT** | | | | |
| **Governmental Activities:** | | | | |
| General government | $ 1,986,904 | $ 886,577 | $ 249,961 | $ 5,984 |
| Education - elementary and secondary (K-12) | 9,426,361 | 21,434 | 1,076,055 | - |
| Education - higher education | 7,094,929 | 2,815,368 | 2,318,744 | 28,204 |
| Human services | 16,889,699 | 659,425 | 11,052,429 | - |
| Adult corrections | 955,748 | 7,847 | 1,605 | - |
| Natural resources and recreation | 1,334,991 | 455,311 | 194,809 | 25,231 |
| Transportation | 2,308,967 | 1,139,177 | 264,028 | 807,353 |
| Interest on long-term debt | 980,630 | - | - | - |
| **Total Governmental Activities** | 40,978,229 | 5,985,139 | 15,157,631 | 866,772 |
| **Business-Type Activities:** | | | | |
| Workers' compensation | 3,018,472 | 2,375,268 | 7,905 | - |
| Unemployment compensation | 968,381 | 1,256,593 | 56,669 | - |
| Higher education student services | 2,313,539 | 2,216,414 | 11,807 | 104 |
| Washington's lottery | 466,120 | 603,200 | - | - |
| Guaranteed education tuition program | (584,590) | 53,100 | - | - |
| Other | 156,569 | 125,977 | 343 | - |
| **Total Business-Type Activities** | 6,338,491 | 6,630,552 | 76,724 | 104 |
| **Total Primary Government** | $ 47,316,720 | $ 12,615,691 | $ 15,234,355 | $ 866,876 |
| **COMPONENT UNITS** | $ 1,080,079 | $ 944,899 | $ 125,833 | $ - |
| Total Component Units | $ 1,080,079 | $ 944,899 | $ 125,833 | $ - |

**General Revenues:**

Taxes, net of related credits:

Sales and use

Business and occupation

Property

Motor vehicle and fuel

Excise

Cigarette and tobacco

Public utilities

Insurance premium

Other

Interest and investment earnings

**Total general revenues**

Excess (deficiency) of revenues over expenses before contributions to endowments and transfers

Contributions to endowments

Transfers

Change in Net Position

**Net Position - Beginning, as restated**

**Net Position - Ending**

The notes to the financial statements are an integral part of this statement.

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | Component Units |
| $ (844,382) | $ - | $ (844,382) | |
| (8,328,872) | - | (8,328,872) | |
| (1,932,613) | - | (1,932,613) | |
| (5,177,845) | - | (5,177,845) | |
| (946,296) | - | (946,296) | |
| (659,640) | - | (659,640) | |
| (98,409) | - | (98,409) | |
| (980,630) | - | (980,630) | |
| (18,968,687) | - | (18,968,687) | |
| - | (635,299) | (635,299) | |
| - | 344,881 | 344,881 | |
| - | (85,214) | (85,214) | |
| - | 137,080 | 137,080 | |
| - | 637,690 | 637,690 | |
| - | (30,249) | (30,249) | |
| - | 368,889 | 368,889 | |
| (18,968,687) | 368,889 | (18,599,798) | |
| | | | $ (9,347) |
| | | | (9,347) |
| 9,000,790 | - | 9,000,790 | - |
| 3,393,679 | - | 3,393,679 | - |
| 2,018,393 | - | 2,018,393 | 18,132 |
| 1,253,179 | - | 1,253,179 | - |
| 926,550 | 19,847 | 946,397 | - |
| 474,183 | - | 474,183 | - |
| 455,112 | - | 455,112 | - |
| 555,976 | - | 555,976 | - |
| 54,483 | - | 54,483 | - |
| 306,705 | 377,238 | 683,943 | 5,257 |
| 18,439,050 | 397,085 | 18,836,135 | 23,389 |
| (529,637) | 765,974 | 236,337 | 14,042 |
| 65,419 | - | 65,419 | - |
| 136,364 | (136,364) | - | - |
| (327,854) | 629,610 | 301,756 | 14,042 |
| 24,661,525 | (4,361,461) | 20,300,064 | 816,901 |
| $ 24,333,671 | $ (3,731,851) | $ 20,601,820 | $ 830,943 |

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## Basic Financial Statements

# Fund Financial Statements

## Balance Sheet
## GOVERNMENTAL FUNDS
June 30, 2015
*(expressed in thousands)*

| | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| **ASSETS** | | | | | |
| Cash and pooled investments | $ 1,669,615 | $ 194,762 | $ 476,023 | $ 3,075,518 | $ 5,415,918 |
| Investments | 34,736 | 1,810,135 | 3,677,830 | 248,107 | 5,770,808 |
| Taxes receivable (net of allowance) | 3,393,471 | 10,879 | - | 161,902 | 3,566,252 |
| Other receivables (net of allowance) | 174,954 | 1,047,060 | 45,952 | 845,160 | 2,113,126 |
| Due from other funds | 254,788 | 269,825 | 61 | 320,655 | 845,329 |
| Due from other governments | 1,028,195 | 248,541 | - | 2,459,842 | 3,736,578 |
| Inventories and prepaids | 13,644 | 15,122 | - | 52,748 | 81,514 |
| Restricted cash and investments | 51,362 | 1,207 | - | 240,786 | 293,355 |
| Restricted receivables | 509 | 4,780 | - | 5,385 | 10,674 |
| **Total Assets** | 6,621,274 | 3,602,311 | 4,199,866 | 7,410,103 | 21,833,554 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Deferred outflows on hedging derivatives | - | - | - | 5,008 | 5,008 |
| **Total Deferred Outflows of Resources** | - | - | - | 5,008 | 5,008 |
| **Total Assets and Deferred Outflows of Resources** | $ 6,621,274 | $ 3,602,311 | $ 4,199,866 | $ 7,415,111 | $ 21,838,562 |
| **RESOURCES, AND FUND BALANCES** | | | | | |
| **LIABILITIES** | | | | | |
| Accounts payable | $ 807,023 | $ 75,748 | $ 34,074 | $ 421,549 | $ 1,338,394 |
| Contracts and retainages payable | 50,576 | 4,513 | 3,293 | 126,359 | 184,741 |
| Accrued liabilities | 241,105 | 417,117 | 673,370 | 77,309 | 1,408,901 |
| Obligations under security lending agreements | 77,442 | 829 | 225 | 58,053 | 136,549 |
| Due to other funds | 183,462 | 52,551 | 4,524 | 501,832 | 742,369 |
| Due to other governments | 993,345 | 11,103 | - | 208,793 | 1,213,241 |
| Unearned revenue | 142,414 | 202,079 | - | 75,167 | 419,660 |
| Claims and judgments payable | 29,303 | - | - | 58,070 | 87,373 |
| **Total Liabilities** | 2,524,670 | 763,940 | 715,486 | 1,527,132 | 5,531,228 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Unavailable revenue | 1,431,185 | 9,631 | 17,962 | 150,554 | 1,609,332 |
| **Total Deferred Inflows of Resources** | 1,431,185 | 9,631 | 17,962 | 150,554 | 1,609,332 |
| **FUND BALANCES** | | | | | |
| Nonspendable fund balance | 47,353 | 46,258 | 2,194,618 | 246,697 | 2,534,926 |
| Restricted fund balance | 533,279 | 606 | 1,271,800 | 2,563,574 | 4,369,259 |
| Committed fund balance | 105,667 | 2,765,816 | - | 3,094,510 | 5,965,993 |
| Assigned fund balance | 1,014,952 | 16,060 | - | - | 1,031,012 |
| Unassigned fund balance | 964,168 | - | - | (167,356) | 796,812 |
| **Total Fund Balances** | 2,665,419 | 2,828,740 | 3,466,418 | 5,737,425 | 14,698,002 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | $ 6,621,274 | $ 3,602,311 | $ 4,199,866 | $ 7,415,111 | $ 21,838,562 |

The notes to the financial statements are an integral part of this statement.

## Reconciliation of the Balance Sheet to the Statement of Net Position GOVERNMENTAL FUNDS

June 30, 2015

*(expressed in thousands)*

| | | |
|---|---|---|
| **Total Fund Balances for Governmental Funds** | | $ 14,698,002 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Non-depreciable assets | $ 26,855,466 | |
| Depreciable assets | 18,957,753 | |
| Less: Accumulated depreciation | (8,805,938) | |
| Total capital assets | | 37,007,281 |
| Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a financial resource and therefore is not reported in the funds. | | 1,624,791 |
| Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are considered deferred inflows in the funds. | | 1,609,332 |
| Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the funds. | | 457,090 |
| Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in the funds. | | (1,883,765) |
| Unmatured interest on general obligation bonds is not recognized in the funds until due. | | (391,301) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. | | (260,750) |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Bonds and other financing contracts payable | $ (21,736,515) | |
| Accreted interest on bonds | (471,951) | |
| Compensated absences | (517,444) | |
| Other postemployment benefits obligations | (2,002,153) | |
| Net pension liability | (2,907,783) | |
| Pollution remediation obligations | (169,698) | |
| Unclaimed property | (130,656) | |
| Claims and judgments | (41,020) | |
| Other obligations | (549,789) | |
| Total long-term liabilities | | (28,527,009) |
| **Net Position of Governmental Activities** | | $ 24,333,671 |

The notes to the financial statements are an integral part of this statement.

## Statement of Revenues, Expenditures, and Changes in Fund Balances
## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2015

*(expressed in thousands)*

| | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Retail sales and use taxes | $ 8,903,396 | $ - | $ - | $ 97,394 | $ 9,000,790 |
| Business and occupation taxes | 3,388,542 | - | - | 5,137 | 3,393,679 |
| Property taxes | 2,018,393 | - | - | - | 2,018,393 |
| Excise taxes | 787,226 | 32,994 | - | 106,330 | 926,550 |
| Motor vehicle and fuel taxes | - | - | - | 1,253,179 | 1,253,179 |
| Other taxes | 1,928,356 | 171,801 | - | 276,798 | 2,376,955 |
| Licenses, permits, and fees | 115,400 | 937 | - | 1,543,323 | 1,659,660 |
| Other contracts and grants | 181,802 | 865,920 | - | 264,915 | 1,312,637 |
| Timber sales | 1,654 | - | 24,830 | 101,323 | 127,807 |
| Federal grants-in-aid | 12,052,763 | 1,448,517 | - | 1,210,486 | 14,711,766 |
| Charges for services | 55,822 | 2,587,387 | 1 | 625,627 | 3,268,837 |
| Investment income (loss) | 7,665 | 39,308 | 195,535 | 64,197 | 306,705 |
| Miscellaneous revenue | 287,529 | 99,759 | 3,128 | 530,033 | 920,449 |
| Contributions and donations | - | - | 65,419 | - | 65,419 |
| Unclaimed property | 55,885 | - | - | - | 55,885 |
| **Total Revenues** | 29,784,433 | 5,246,623 | 288,913 | 6,078,742 | 41,398,711 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 845,562 | - | 125 | 484,435 | 1,330,122 |
| Human services | 16,794,009 | - | - | 772,392 | 17,566,401 |
| Natural resources and recreation | 444,989 | - | - | 794,131 | 1,239,120 |
| Transportation | 37,362 | - | - | 1,845,512 | 1,882,874 |
| Education | 10,176,508 | 5,154,442 | 4,285 | 579,556 | 15,914,791 |
| Intergovernmental | 116,841 | - | - | 348,423 | 465,264 |
| Capital outlays | 52,223 | 203,603 | 18,884 | 1,972,779 | 2,247,489 |
| Debt service: | | | | | |
| Principal | 7,676 | 21,417 | - | 915,208 | 944,301 |
| Interest | 1,359 | 12,645 | - | 968,130 | 982,134 |
| **Total Expenditures** | 28,476,529 | 5,392,107 | 23,294 | 8,680,566 | 42,572,496 |
| **Excess of Revenues Over (Under) Expenditures** | 1,307,904 | (145,484) | 265,619 | (2,601,824) | (1,173,785) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Bonds issued | 186,887 | 85,851 | - | 939,352 | 1,212,090 |
| Refunding bonds issued | - | - | - | 2,610,505 | 2,610,505 |
| Payments to escrow agents for refunded bond debt | - | - | - | (3,127,361) | (3,127,361) |
| Issuance premiums | 5,351 | 2,281 | - | 664,665 | 672,297 |
| Other debt issued | 7,129 | 20,553 | - | 3,642 | 31,324 |
| Transfers in | 465,587 | 1,308,765 | 499,976 | 2,787,616 | 5,061,944 |
| Transfers out | (1,118,524) | (1,145,904) | (684,820) | (1,988,019) | (4,937,267) |
| **Total Other Financing Sources (Uses)** | (453,570) | 271,546 | (184,844) | 1,890,400 | 1,523,532 |
| **Net Change in Fund Balances** | 854,334 | 126,062 | 80,775 | (711,424) | 349,747 |
| **Fund Balances - Beginning, as restated** | 1,811,085 | 2,702,678 | 3,385,643 | 6,448,849 | 14,348,255 |
| **Fund Balances - Ending** | $ 2,665,419 | $ 2,828,740 | $ 3,466,418 | $ 5,737,425 | $ 14,698,002 |

The notes to the financial statements are an integral part of this statement.

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
## GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2015

*(expressed in thousands)*

| | | |
|---|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | | $ 349,747 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | | |
| Capital outlays | $ 1,884,932 | |
| Less: Depreciation expense | (597,939) | 1,286,993 |
| Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are unavailable in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the Statement of Activities. This amount is the net adjustment. | | (849,012) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities. | | (339,539) |
| Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net position. In the current period, these amounts consist of: | | |
| Bonds and other financing contracts issued | $ (4,479,476) | |
| Principal payments on bonds and other financing contracts | 3,745,918 | |
| Accreted interest on bonds | (56,015) | (789,573) |
| Some expenses/revenue reductions reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also payments of certain obligations related to prior periods are recognized in governmental funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of: | | |
| Compensated absences | $ (3,693) | |
| Other postemployment benefits | (369,673) | |
| Pensions | 514,041 | |
| Pollution remediation | (4,859) | |
| Claims and judgments | (2,011) | |
| Accrued interest | 11,011 | |
| Unclaimed property | (29,878) | |
| Other obligations | (101,408) | 13,530 |
| **Change in Net Position of Governmental Activities** | | $ (327,854) |

The notes to the financial statements are an integral part of this statement.

# Statement of Net Position
## PROPRIETARY FUNDS
June 30, 2015
*(expressed in thousands)*

| | Business-Type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program |
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and pooled investments | $ 74,518 | $ 3,675,155 | $ 744,379 | $ 11,109 |
| Investments | 68,487 | - | 20,430 | 75,818 |
| Other receivables (net of allowance) | 788,643 | 601,276 | 230,789 | 53,639 |
| Due from other funds | 106 | 18,044 | 18,519 | 2 |
| Due from other governments | 1,085 | 33,698 | 64,125 | - |
| Inventories | 233 | - | 39,506 | - |
| Prepaid expenses | 2,071 | - | 10,160 | - |
| Restricted cash and investments | 738 | - | 6,875 | - |
| Restricted receivables | - | - | 3,172 | - |
| **Total Current Assets** | 935,881 | 4,328,173 | 1,137,955 | 140,568 |
| **Noncurrent Assets:** | | | | |
| Investments, noncurrent | 14,634,116 | - | 185,750 | 2,653,039 |
| Restricted investments, noncurrent | 1,938 | - | 61,339 | - |
| Restricted receivables, noncurrent | - | - | - | - |
| Restricted net pension asset | - | - | 379 | - |
| Other noncurrent assets | 3,284 | - | 133,036 | 208,757 |
| Capital assets: | | | | |
| Land and other non-depreciable assets | 3,240 | - | 57,424 | - |
| Buildings | 65,134 | - | 3,186,276 | - |
| Other improvements | 1,289 | - | 94,643 | - |
| Furnishings, equipment, and intangibles | 98,924 | - | 582,740 | 106 |
| Infrastructure | - | - | 42,646 | - |
| Accumulated depreciation | (108,124) | - | (1,415,745) | (91) |
| Construction in progress | 11,183 | - | 281,567 | - |
| **Total Noncurrent Assets** | 14,710,984 | - | 3,210,055 | 2,861,811 |
| **Total Assets** | 15,646,865 | 4,328,173 | 4,348,010 | 3,002,379 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred outflows on refundings | - | - | 30,263 | - |
| Deferred outflows on pensions | 14,868 | - | 33,297 | 151 |
| **Total Deferred Outflows of Resources** | 14,868 | - | 63,560 | 151 |
| **Total Assets and Deferred Outflows of Resources** | $ 15,661,733 | $ 4,328,173 | $ 4,411,570 | $ 3,002,530 |

The notes to the financial statements are an integral part of this statement.

Continued

| Nonmajor Enterprise Funds | Total | Governmental Activities Internal Service Funds |
|---|---|---|
| $ 94,850 | $ 4,600,011 | $ 742,273 |
| 23,392 | 188,127 | 12,827 |
| 19,836 | 1,694,183 | 19,432 |
| 13,376 | 50,047 | 77,344 |
| 5,116 | 104,024 | 28,379 |
| 8,500 | 48,239 | 17,645 |
| 414 | 12,645 | 11,481 |
| - | 7,613 | 82,632 |
| - | 3,172 | 11,420 |
| 165,484 | 6,708,061 | 1,003,433 |
| 129,998 | 17,602,903 | 35,649 |
| - | 63,277 | - |
| - | - | 2,262 |
| - | 379 | - |
| 5 | 345,082 | 791 |
| 1,540 | 62,204 | 6,212 |
| 12,828 | 3,264,238 | 507,594 |
| 2,557 | 98,489 | 16,215 |
| 32,337 | 714,107 | 903,123 |
| - | 42,646 | 1,968 |
| (24,947) | (1,548,907) | (690,119) |
| - | 292,750 | 30,949 |
| 154,318 | 20,937,168 | 814,644 |
| 319,802 | 27,645,229 | 1,818,077 |
| - | 30,263 | - |
| 4,207 | 52,523 | 19,175 |
| 4,207 | 82,786 | 19,175 |
| $ 324,009 | $ 27,728,015 | $ 1,837,252 |

## Statement of Net Position
## PROPRIETARY FUNDS
June 30, 2015
*(expressed in thousands)*

| | Business-Type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION** | | | | |
| **LIABILITIES** | | | | |
| **Current Liabilities:** | | | | |
| Accounts payable | $ 8,851 | $ - | $ 148,554 | $ 408 |
| Contracts and retainages payable | 9,377 | 56 | 16,475 | 220,000 |
| Accrued liabilities | 212,913 | - | 249,760 | 63,651 |
| Obligations under security lending agreements | 68,487 | - | - | 75,818 |
| Bonds and notes payable | 4,050 | - | 95,483 | - |
| Due to other funds | 6,769 | 2,989 | 154,519 | 318 |
| Due to other governments | 4 | 84,642 | 4 | - |
| Unearned revenue | 7,022 | - | 55,079 | - |
| Claims and judgments payable | 1,959,663 | - | - | - |
| **Total Current Liabilities** | 2,277,136 | 87,687 | 719,874 | 360,195 |
| **Noncurrent Liabilities:** | | | | |
| Claims and judgments payable | 23,106,486 | - | - | - |
| Bonds and notes payable | - | - | 1,945,135 | - |
| Net pension liability | 102,264 | - | 227,675 | 956 |
| Other long-term liabilities | 52,033 | - | 318,215 | 1,822,487 |
| **Total Noncurrent Liabilities** | 23,260,783 | - | 2,491,025 | 1,823,443 |
| **Total Liabilities** | 25,537,919 | 87,687 | 3,210,899 | 2,183,638 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred inflows on refundings | - | - | 248 | - |
| Deferred inflows on pensions | 43,615 | - | 99,470 | 424 |
| **Total Deferred Inflows of Resources** | 43,615 | - | 99,718 | 424 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 67,595 | - | 886,269 | 15 |
| Restricted for: | | | | |
| Unemployment compensation | - | 4,240,486 | - | - |
| Pensions | - | - | 379 | - |
| Unrestricted | (9,987,396) | - | 214,305 | 818,453 |
| **Total Net Position** | (9,919,801) | 4,240,486 | 1,100,953 | 818,468 |
| **Total Liabilities, Deferred Inflows of Resources, and Net Position** | $ 15,661,733 | $ 4,328,173 | $ 4,411,570 | $ 3,002,530 |

The notes to the financial statements are an integral part of this statement.

Concluded

| Nonmajor Enterprise Funds | Total | Governmental Activities Internal Service Funds |
|---|---|---|
| $ 13,682 | $ 171,495 | $ 48,170 |
| 497 | 246,405 | 1,601 |
| 61,953 | 588,277 | 77,509 |
| - | 144,305 | 6,652 |
| 460 | 99,993 | 92,295 |
| 17,129 | 181,724 | 48,545 |
| 6,234 | 90,884 | 18,538 |
| 4 | 62,105 | 2,566 |
| 4,571 | 1,964,234 | 204,807 |
| 104,530 | 3,549,422 | 500,683 |
| 9,784 | 23,116,270 | 530,929 |
| 5,065 | 1,950,200 | 468,688 |
| 32,081 | 362,976 | 389,519 |
| 130,646 | 2,323,381 | 147,792 |
| 177,576 | 27,752,827 | 1,536,928 |
| 282,106 | 31,302,249 | 2,037,611 |
| - | 248 | 173 |
| 13,860 | 157,369 | 60,218 |
| 13,860 | 157,617 | 60,391 |
| 18,792 | 972,671 | 266,879 |
| - | 4,240,486 | - |
| - | 379 | - |
| 9,251 | (8,945,387) | (527,629) |
| 28,043 | (3,731,851) | (260,750) |
| $ 324,009 | $ 27,728,015 | $ 1,837,252 |

## Statement of Revenues, Expenses, and Changes in Net Position
## PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2015

*(expressed in thousands)*

| | Business-Type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program |
| **OPERATING REVENUES** | | | | |
| Sales | $ - | $ - | $ 98,484 | $ - |
| Less: Cost of goods sold | - | - | (63,467) | - |
| Gross profit | - | - | 35,017 | - |
| Charges for services | 9 | - | 1,949,525 | 52,804 |
| Premiums and assessments | 2,337,483 | 1,240,601 | - | - |
| Lottery ticket proceeds | - | - | - | - |
| Federal aid for unemployment insurance benefits | - | 56,669 | - | - |
| Miscellaneous revenue | 37,944 | 15,992 | 168,441 | 296 |
| **Total Operating Revenues** | 2,375,436 | 1,313,262 | 2,152,983 | 53,100 |
| **OPERATING EXPENSES** | | | | |
| Salaries and wages | 150,278 | - | 776,563 | 2,799 |
| Employee benefits | 55,397 | - | 195,130 | 634 |
| Personal services | 11,304 | - | 4,125 | 1,134 |
| Goods and services | 82,416 | - | 953,679 | 888 |
| Travel | 4,145 | - | 26,138 | 56 |
| Premiums and claims | 2,666,452 | 968,381 | - | - |
| Guaranteed education tuition program expense | - | - | - | (590,103) |
| Lottery prize payments | - | - | - | - |
| Depreciation and amortization | 7,184 | - | 154,028 | 2 |
| Miscellaneous expenses | 41,041 | - | 21,958 | - |
| **Total Operating Expenses** | 3,018,217 | 968,381 | 2,131,621 | (584,590) |
| **Operating Income (Loss)** | (642,781) | 344,881 | 21,362 | 637,690 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Earnings (loss) on investments | 234,324 | 80,566 | 36,294 | 20,997 |
| Interest expense | (255) | - | (118,451) | - |
| Tax and license revenue | 104 | - | - | - |
| Other revenues (expenses) | 7,737 | - | 11,771 | - |
| **Total Nonoperating Revenues (Expenses)** | 241,910 | 80,566 | (70,386) | 20,997 |
| **Income (Loss) Before Contributions and Transfers** | (400,871) | 425,447 | (49,024) | 658,687 |
| Capital contributions | - | - | 104 | - |
| Transfers in | - | - | 400,955 | - |
| Transfers out | - | - | (393,563) | - |
| **Net Contributions and Transfers** | - | - | 7,496 | - |
| **Change in Net Position** | (400,871) | 425,447 | (41,528) | 658,687 |
| **Net Position - Beginning, as restated** | (9,518,930) | 3,815,039 | 1,142,481 | 159,781 |
| **Net Position - Ending** | $ (9,919,801) | $ 4,240,486 | $ 1,100,953 | $ 818,468 |

The notes to the financial statements are an integral part of this statement.

| Nonmajor Enterprise Funds | Total | Governmental Activities Internal Service Funds |
|---|---|---|
| $ 89,331 | $ 187,815 | $ 45,481 |
| (61,547) | (125,014) | (39,763) |
| 27,784 | 62,801 | 5,718 |
| 35,071 | 2,037,409 | 622,304 |
| 739 | 3,578,823 | 1,206,815 |
| 600,348 | 600,348 | - |
| - | 56,669 | - |
| 3,776 | 226,449 | 156,197 |
| 667,718 | 6,562,499 | 1,991,034 |
| 51,929 | 981,569 | 299,838 |
| 18,666 | 269,827 | 139,818 |
| 18,596 | 35,159 | 27,686 |
| 94,600 | 1,131,583 | 329,136 |
| 1,795 | 32,134 | 4,547 |
| - | 3,634,833 | 1,441,912 |
| - | (590,103) | - |
| 365,930 | 365,930 | - |
| 1,355 | 162,569 | 97,150 |
| 417 | 63,416 | 855 |
| 553,288 | 6,086,917 | 2,340,942 |
| 114,430 | 475,582 | (349,908) |
| 5,057 | 377,238 | 16,747 |
| (7,854) | (126,560) | (27,389) |
| 19,743 | 19,847 | 25 |
| 255 | 19,763 | 1,047 |
| 17,201 | 290,288 | (9,570) |
| 131,631 | 765,870 | (359,478) |
| - | 104 | 8,252 |
| 12,804 | 413,759 | 55,977 |
| (156,560) | (550,123) | (44,290) |
| (143,756) | (136,260) | 19,939 |
| (12,125) | 629,610 | (339,539) |
| 40,168 | (4,361,461) | 78,789 |
| $ 28,043 | $ (3,731,851) | $ (260,750) |

## Statement of Cash Flows
## PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015
*(expressed in thousands)*

| | Business-Type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from customers | $ 2,103,172 | $ 1,264,467 | $ 2,031,089 | $ 67,805 |
| Payments to suppliers | (1,942,454) | (982,641) | (1,494,612) | (77,615) |
| Payments to employees | (198,922) | - | (931,482) | (3,265) |
| Other receipts | 37,945 | 105,647 | 168,441 | 296 |
| Net Cash Provided (Used) by Operating Activities | (259) | 387,473 | (226,564) | (12,779) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Transfers in | - | - | 400,955 | - |
| Transfers out | - | - | (393,563) | - |
| Operating grants and donations received | 7,733 | - | 6,261 | - |
| Taxes and license fees collected | 104 | - | - | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | 7,837 | - | 13,653 | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Interest paid | (325) | - | (71,168) | - |
| Principal payments on long-term capital financing | (3,820) | - | (386,423) | - |
| Proceeds from long-term capital financing | - | - | 409,553 | - |
| Proceeds from sale of capital assets | 3 | - | 18,330 | - |
| Acquisitions of capital assets | (12,348) | - | (240,397) | (16) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (16,490) | - | (270,105) | (16) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Receipt of interest | 563,851 | 80,566 | 38,730 | 129,076 |
| Proceeds from sale of investment securities | 5,208,230 | - | 19,333 | 726,024 |
| Purchases of investment securities | (5,770,404) | - | (8,663) | (832,244) |
| Net Cash Provided (Used) by Investing Activities | 1,677 | 80,566 | 49,400 | 22,856 |
| Net Increase (Decrease) in Cash and Pooled Investments | (7,235) | 468,039 | (433,616) | 10,061 |
| Cash and Pooled Investments, July 1, as restated | 82,491 | 3,207,116 | 1,184,870 | 1,048 |
| Cash and Pooled Investments, June 30 | $ 75,256 | $ 3,675,155 | $ 751,254 | $ 11,109 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Operating Income (Loss) | $ (642,781) | $ 344,881 | $ 21,362 | $ 637,690 |
| **Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:** | | | | |
| Depreciation | 7,184 | - | 154,028 | 2 |
| Revenue reduced for uncollectible accounts | 37,132 | - | 1,268 | - |
| **Change in Assets: Decrease (Increase)** | | | | |
| Receivables | (234,621) | 56,852 | (15,803) | 15,002 |
| Inventories | 71 | - | 1,918 | - |
| Prepaid expenses | (1,836) | - | 4,269 | - |
| **Change in Deferred Outflows of Resources: Increase (Decrease)** | (1,670) | - | (3,595) | (26) |
| **Change in Liabilities: Increase (Decrease)** | | | | |
| Payables | 792,647 | (14,260) | (489,481) | (665,871) |
| **Change in Deferred Inflows of Resources: Decrease (Increase)** | 43,615 | - | 99,470 | 424 |
| **Net Cash or Cash Equivalents Provided by (Used in) Operating Activities** | $ (259) | $ 387,473 | $ (226,564) | $ (12,779) |

The notes to the financial statements are an integral part of this statement.

Continued

| Nonmajor Enterprise Funds | Total | Governmental Activities: Internal Service Funds |
|---|---|---|
| $ 723,383 | $ 6,189,916 | $ 2,112,342 |
| (562,665) | (5,059,987) | (1,864,171) |
| (68,337) | (1,202,006) | (415,681) |
| 3,794 | 316,123 | 163,453 |
| 96,175 | 244,046 | (4,057) |
| | | |
| 12,804 | 413,759 | 55,977 |
| (156,560) | (550,123) | (44,290) |
| 342 | 14,336 | 715 |
| 19,743 | 19,847 | 25 |
| (123,671) | (102,181) | 12,427 |
| | | |
| (248) | (71,741) | (22,985) |
| (442) | (390,685) | (42,051) |
| - | 409,553 | 38,602 |
| 115 | 18,448 | 8,598 |
| (3,824) | (256,585) | (123,888) |
| (4,399) | (291,010) | (141,724) |
| | | |
| 49 | 812,272 | 15,768 |
| 28,406 | 5,981,993 | 4,014 |
| (4,969) | (6,616,280) | (16,640) |
| 23,486 | 177,985 | 3,142 |
| (8,409) | 28,840 | (130,212) |
| 103,259 | 4,578,784 | 955,117 |
| $ 94,850 | $ 4,607,624 | $ 824,905 |
| | | |
| $ 114,430 | $ 475,582 | $ (349,908) |
| | | |
| 1,355 | 162,569 | 97,150 |
| 28 | 38,428 | 115 |
| | | |
| (1,500) | (180,070) | 3,041 |
| (1,129) | 860 | 1,951 |
| (199) | 2,234 | (6,493) |
| (45) | (5,336) | (953) |
| | | |
| (30,625) | (407,590) | 190,822 |
| 13,860 | 157,369 | 60,218 |
| $ 96,175 | $ 244,046 | $ (4,057) |

## Statement of Cash Flows
## PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2015
*(expressed in thousands)*

| | Business-Type Activities Enterprise Funds | | | |
|---|---|---|---|---|
| | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | | | |
| Contributions of capital assets | $ - | $ - | $ 104 | $ - |
| Amortization of annuity prize liability | - | - | - | - |
| Increase (decrease) in fair value of investments | (334,987) | - | 791 | (106,493) |
| Debt refunding deposited with escrow agent | - | - | 369,655 | - |
| Amortization of debt premium/discount | - | - | 48,721 | - |
| Increase in ownership of joint venture | - | - | 5,019 | - |

The notes to the financial statements are an integral part of this statement.

Concluded

| Nonmajor Enterprise Funds | Total | Governmental Activities Internal Service Funds |
|---|---|---|
| $ - | $ 104 | $ 8,252 |
| 7,606 | 7,606 | - |
| 5,008 | (435,681) | 523 |
| - | 369,655 | - |
| - | 48,721 | - |
| - | 5,019 | - |

## Statement of Net Position
## FIDUCIARY FUNDS
June 30, 2015
*(expressed in thousands)*

| | Private-Purpose Trust | Local Government Investment Pool | Pension and Other Employee Benefit Plans | Agency Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and pooled investments | $ 1,885 | $ 4,393,750 | $ 45,636 | $ 73,387 |
| Investments | - | 4,152,692 | - | 2,521 |
| Receivables, pension and other employee benefit plans: | | | | |
| Employers | - | - | 175,763 | - |
| Members (net of allowance) | - | - | 3,755 | - |
| Interest and dividends | - | - | 230,144 | - |
| Investment trades pending | - | - | 2,183,841 | - |
| Due from other pension and other employee benefit funds | - | - | 51,091 | - |
| Other receivables, all other funds | - | 699 | 137 | 8,679 |
| Due from other governments | - | - | - | 18,057 |
| **Total Current Assets** | 1,885 | 8,547,141 | 2,690,367 | 102,644 |
| **Noncurrent Assets:** | | | | |
| Investments, noncurrent, pension and other employee benefit plans: | | | | |
| Public equity | - | - | 37,594,459 | - |
| Fixed income | - | - | 17,858,971 | - |
| Private equity | - | - | 18,457,130 | - |
| Real estate | - | - | 11,967,076 | - |
| Security lending | - | - | 843,059 | - |
| Liquidity | - | - | 2,121,885 | - |
| Tangible assets | - | - | 1,631,483 | - |
| Investments, noncurrent, all other funds | 1,210 | 791,433 | - | 212 |
| Other noncurrent assets | - | - | - | 58,957 |
| Capital assets: | | | | |
| Furnishings, equipment, and intangibles | 37 | - | - | - |
| Accumulated depreciation | (23) | - | - | - |
| **Total Noncurrent Assets** | 1,224 | 791,433 | 90,474,063 | 59,169 |
| **Total Assets** | 3,109 | 9,338,574 | 93,164,430 | $ 161,813 |
| **LIABILITIES** | | | | |
| Accounts payable | 99 | - | - | $ 7,518 |
| Contracts and retainages payable | - | - | - | 29,893 |
| Accrued liabilities | 95 | 648,147 | 2,599,629 | 44,935 |
| Obligations under security lending agreements | - | - | 845,247 | 2,521 |
| Due to other funds | - | 82 | - | - |
| Due to other pension and other employee benefit funds | - | - | 51,091 | - |
| Due to other governments | - | 34,236 | - | 17,989 |
| Unearned revenue | - | - | 1,026 | - |
| Other long-term liabilities | - | - | - | 58,957 |
| **Total Liabilities** | 194 | 682,465 | 3,496,993 | $ 161,813 |
| **NET POSITION** | | | | |
| Net position restricted for: | | | | |
| Pensions | - | - | 86,055,159 | |
| Deferred compensation participants | - | - | 3,612,278 | |
| Local government pool participants | - | 8,656,109 | - | |
| Individuals, organizations, and other governments | 2,915 | - | - | |
| **Total Net Position** | $ 2,915 | $ 8,656,109 | $ 89,667,437 | |

The notes to the financial statements are an integral part of this statement.

## Statement of Changes in Net Position
## FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2015
*(expressed in thousands)*

| | Private-Purpose Trust | Local Government Investment Pool | Pension and Other Employee Benefit Plans |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions: | | | |
| Employers | $ - | $ - | $ 1,612,035 |
| Members | - | - | 1,146,532 |
| State | - | - | 74,842 |
| Participants | - | 13,328,959 | 208,424 |
| Total Contributions | - | 13,328,959 | 3,041,833 |
| Investment Income: | | | |
| Net appreciation (depreciation) in fair value | - | - | 2,221,532 |
| Interest and dividends | - | 10,820 | 1,831,285 |
| Earnings on investments | - | 124 | - |
| Less: Investment expenses | - | - | (317,747) |
| Net Investment Income (Loss) | - | 10,944 | 3,735,070 |
| Other Additions: | | | |
| Unclaimed property | 67,940 | - | - |
| Transfers from other plans | - | - | 4,754 |
| Miscellaneous revenue | 5 | - | 13 |
| Total Other Additions | 67,945 | - | 4,767 |
| **Total Additions** | 67,945 | 13,339,903 | 6,781,670 |
| **DEDUCTIONS** | | | |
| Pension benefits | - | - | 3,662,210 |
| Pension refunds | - | - | 506,393 |
| Transfers to other plans | - | - | 4,754 |
| Administrative expenses | 4,277 | 940 | 2,431 |
| Distributions to participants | - | 13,343,861 | 225,333 |
| Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws | 63,139 | - | - |
| **Total Deductions** | 67,416 | 13,344,801 | 4,401,121 |
| **Net Increase (Decrease)** | 529 | (4,898) | 2,380,549 |
| **Net Position - Beginning** | 2,386 | 8,661,007 | 87,286,888 |
| **Net Position - Ending** | $ 2,915 | $ 8,656,109 | $ 89,667,437 |

The notes to the financial statements are an integral part of this statement.

## Statement of Net Position
## COMPONENT UNITS
June 30, 2015
*(expressed in thousands)*

| | Public Stadium | Health Benefit Exchange | Valley Medical Center | Northwest Hospital |
|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and pooled investments | $ 7,747 | $ 8,171 | $ 53,431 | $ 12,783 |
| Investments | - | - | 22,526 | 1,029 |
| Investments, restricted | 4,848 | - | - | 922 |
| Other receivables (net of allowance) | 872 | 21,749 | 74,242 | 53,796 |
| Inventories | - | - | 4,781 | 5,346 |
| Prepaid expenses | 23 | 1,055 | 6,399 | 5,746 |
| **Total Current Assets** | 13,490 | 30,975 | 161,379 | 79,622 |
| **Noncurrent Assets:** | | | | |
| Investments, noncurrent | - | - | 106,580 | 44,767 |
| Restricted investments, noncurrent | 2,590 | - | 17,384 | 1,868 |
| Other noncurrent assets | - | - | - | 3,682 |
| Capital assets: | | | | |
| Land | 34,677 | - | 13,414 | 10,817 |
| Buildings | 460,637 | - | 423,194 | 132,851 |
| Other improvements | - | 637 | 18,490 | 26,801 |
| Furnishings, equipment and intangible assets | 19,423 | 45,400 | 231,453 | 207,110 |
| Accumulated depreciation | (218,134) | (23,195) | (341,794) | (262,986) |
| Construction in progress | - | - | 9,271 | 3,142 |
| **Total Noncurrent Assets** | 299,193 | 22,842 | 477,992 | 168,052 |
| **Total Assets** | 312,683 | 53,817 | 639,371 | 247,674 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred outflows on hedging derivatives | - | - | - | - |
| Deferred outflows on refundings | - | - | - | 6,435 |
| Deferred outflows on pensions | 23 | - | - | - |
| **Total Deferred Outflows of Resources** | 23 | - | - | 6,435 |
| **Total Assets and Deferred Outflows of Resources** | $ 312,706 | $ 53,817 | $ 639,371 | $ 254,109 |

The notes to the financial statements are an integral part of this statement.

Continued

| Nonmajor Component Units | Total |
|---|---|
| $ 38,762 | $ 120,894 |
| 57,536 | 81,091 |
| - | 5,770 |
| 5,602 | 156,261 |
| - | 10,127 |
| 282 | 13,505 |
| 102,182 | 387,648 |
| - | 151,347 |
| - | 21,842 |
| 134,057 | 137,739 |
| - | 58,908 |
| - | 1,016,682 |
| - | 45,928 |
| 1,783 | 505,169 |
| (1,631) | (847,740) |
| - | 12,413 |
| 134,209 | 1,102,288 |
| 236,391 | 1,489,936 |
| 422 | 422 |
| - | 6,435 |
| 37 | 60 |
| 459 | 6,917 |
| $ 236,850 | $ 1,496,853 |

## Statement of Net Position
## COMPONENT UNITS
June 30, 2015
*(expressed in thousands)*

| | Public Stadium | Health Benefit Exchange | Valley Medical Center | Northwest Hospital |
|---|---|---|---|---|
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION** | | | | |
| **LIABILITIES** | | | | |
| **Current Liabilities:** | | | | |
| Accounts payable | $ 30 | $ 20,966 | $ 16,800 | $ 11,473 |
| Contracts and retainages payable | 592 | 2,348 | - | 407 |
| Accrued liabilities | 4,275 | 7,661 | 80,163 | 37,988 |
| Unearned revenue | - | - | - | - |
| **Total Current Liabilities** | 4,897 | 30,975 | 96,963 | 49,868 |
| **Noncurrent Liabilities:** | | | | |
| Net pension liability | 61 | - | - | - |
| Other long-term liabilities | 3,700 | - | 312,398 | 108,691 |
| **Total Noncurrent Liabilities** | 3,761 | - | 312,398 | 108,691 |
| **Total Liabilities** | 8,658 | 30,975 | 409,361 | 158,559 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred inflows on pensions | 64 | - | - | - |
| **Total Deferred Inflows of Resources** | 64 | - | - | - |
| **NET POSITION** | | | | |
| Net investment in capital assets | 288,709 | 22,842 | 33,169 | 33,864 |
| Restricted for deferred sales tax | 8,282 | - | - | - |
| Restricted for other purposes | - | - | 8,012 | 2,402 |
| Unrestricted | 6,993 | - | 188,829 | 59,284 |
| **Total Net Position** | 303,984 | 22,842 | 230,010 | 95,550 |
| **Total Liabilities, Deferred Inflows of Resources, and Net Position** | $ 312,706 | $ 53,817 | $ 639,371 | $ 254,109 |

The notes to the financial statements are an integral part of this statement.

Concluded

| Nonmajor Component Units | Total |
|---|---|
| $ 38,718 | $ 87,987 |
| - | 3,347 |
| 1,094 | 131,181 |
| 13,622 | 13,622 |
| 53,434 | 236,137 |
| 3,357 | 3,418 |
| - | 424,789 |
| 3,357 | 428,207 |
| 56,791 | 664,344 |
| 1,502 | 1,566 |
| 1,502 | 1,566 |
| 152 | 378,736 |
| - | 8,282 |
| 1,083 | 11,497 |
| 177,322 | 432,428 |
| 178,557 | 830,943 |
| $ 236,850 | $ 1,496,853 |

## Statement of Revenues, Expenses, and Changes in Net Position
## COMPONENT UNITS

For the Fiscal Year Ended June 30, 2015

*(expressed in thousands)*

| | Public Stadium | Health Benefit Exchange | Valley Medical Center | Northwest Hospital |
|---|---|---|---|---|
| **EXPENSES** | $ 16,384 | $ 129,734 | $ 531,206 | $ 379,269 |
| **PROGRAM REVENUES** | | | | |
| Charges for services | 3,517 | 7,167 | 525,288 | 359,488 |
| Operating grants and contributions | - | 108,180 | - | 11,947 |
| **Total Program Revenues** | 3,517 | 115,347 | 525,288 | 371,435 |
| **Net Program Revenues (Expense)** | (12,867) | (14,387) | (5,918) | (7,834) |
| **GENERAL REVENUES** | | | | |
| Earnings (loss) on investments | 129 | - | 3,403 | 986 |
| Property taxes | - | - | 18,132 | - |
| **Total General Revenues** | 129 | - | 21,535 | 986 |
| **Change in Net Position** | (12,738) | (14,387) | 15,617 | (6,848) |
| **Net Position - Beginning, as restated** | 316,722 | 37,229 | 214,393 | 102,398 |
| **Net Position - Ending** | $ 303,984 | $ 22,842 | $ 230,010 | $ 95,550 |

The notes to the financial statements are an integral part of this statement.

| Nonmajor Component Units | Total |
|---|---|
| $ 23,486 | $ 1,080,079 |
| 49,439 | 944,899 |
| 5,706 | 125,833 |
| 55,145 | 1,070,732 |
| 31,659 | (9,347) |
| 739 | 5,257 |
| - | 18,132 |
| 739 | 23,389 |
| 32,398 | 14,042 |
| 146,159 | 816,901 |
| $ 178,557 | $ 830,943 |

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## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2015


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# Note 1
## Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is nationally accepted as the standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the significant accounting policies:

### A. REPORTING ENTITY

In defining the state of Washington for financial reporting purposes, management considers: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government) and organizations that are financially accountable to the state. Additionally, other organizations that do not meet the financial accountability criteria may be included in the reporting entity if the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either (1) able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government. The organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists: (1) the primary government is legally entitled to or can access the organization's resources; (2) the primary government is legally obligated or has otherwise assumed the obligation to finance or provide financial support to the organization; (3) the primary government is obligated in some manner for the debt of the organization.

Based on these criteria, the following are included in the financial statements of the primary government:

**State Agencies.** Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, councils (agencies), and all funds and subsidiary accounts of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor. Additionally, a small number of board positions are established by statute or independently elected.

The Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets resides with the state.

**Colleges and Universities.** The governing boards of the five state universities, the state college, and the 34 state community and technical colleges are appointed by the Governor. The governing board of each college and university appoints a president to function as chief administrator. The Legislature approves budgets and budget amendments for the appropriated funds of each college and university, which include the state's General Fund as well as certain capital projects funds. The State Treasurer issues general obligation debt for major campus construction projects. However, the colleges and universities are authorized to issue revenue bonds.

The University of Washington (UW) and Washington State University issue general revenue bonds that are payable from general revenues, including student tuition, grant indirect cost recovery, sales and services revenue, and investment income. All other revenue bonds issued by colleges and universities pledge the income derived from acquired or constructed assets such as housing, dining, and parking facilities. These revenue bonds are payable solely from, and secured by, fees and revenues derived from the operation of constructed facilities. The legal liability for the bonds and the ownership of the college and university assets reside with the state.

Colleges and universities do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges and universities are legally part of the state, their financial operations, including their blended component units, are reported in the state's financial statements using the fund structure prescribed by GASB.

**Retirement Systems.** The state of Washington, through the Department of Retirement Systems, administers eight retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Public Safety Employees' Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are three additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the State Board for Volunteer Fire Fighters and Reserve Officers, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrative Office of the Courts under the direction of the Board for Judicial Administration. The Higher Education Retirement Plan Supplemental Defined Benefit Plans are administered by the state's colleges and universities.

The Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems, together with the state, provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All of the aforementioned retirement systems are included in the primary government's financial statements.

**Blended Component Units**

Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. Financial information for the state's blended component units may be obtained from the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA, 98504-3127. The following entities are blended in the state's financial statements:

**Tobacco Settlement Authority.** The Tobacco Settlement Authority (TSA) was created by the Legislature in March 2002, as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created solely for the purpose of issuing bonds to securitize a portion of the state's future tobacco settlement revenue. Proceeds of the debt instrument were transferred to the state to help fund health care, long-term care, and other programs of the state. Refer to Note 7.A for additional information.

**Association of University Physicians**. The University of Washington Physicians (UWP) was established for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM.

**UW Medicine Neighborhood Clinics.** The UW Medicine Neighborhood Clinics (Neighborhood Clinics) were established for the exclusive benefit of the University's School of Medicine, UWP and its affiliated medical centers, Harborview Medical Center, and the University of Washington Medical Center. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents, and students.

**Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3** were formed to acquire, construct, or renovate certain real properties for the benefit of the University of Washington in fulfilling its educational, medical, or scientific research missions.

**Tumwater Office Properties and FYI Properties** were formed to design and construct office facilities to house state employees. The facilities were financed with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service.

**Discrete Component Units**

Discretely presented component units are reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the state and primarily serve or benefit those outside of the state. They are financially accountable to the state, or have relationships with the state such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation.

The state's component units each have a year-end of June 30 with the exception of the Washington Economic Development Finance Authority and the Washington Health Benefit Exchange which have a December 31 year-end.

The following entities are discretely presented in the financial statements of the state in the component unit's column:

The **Washington State Housing Finance Commission,** the **Washington Higher Education Facilities Authority,** the **Washington Health Care Facilities Authority,** and the **Washington Economic Development Finance Authority** (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

The **Washington State Public Stadium Authority (PSA**) was created by the Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total $296.6 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as required in statute.

Project costs in excess of $300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility.

Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority
CenturyLink Field & Event Center
800 Occidental Avenue South, #700
Seattle, WA 98134

The **Washington Health Benefit Exchange (Exchange)** was created by the Legislature to implement a central marketplace for individuals, families, and small employers to shop for health insurance and access federal tax credits pursuant to the Patient Protection and Affordable Care Act of 2010. Federal grant funding financed the Exchange design, development, and implementation phases as well as the first full year of operation during 2014. Beginning in 2015, the Exchange is to be self-sustaining through Medicaid program cost reimbursements, premium tax assessments, and other assessments.

Financial reports of the Exchange may be obtained at the following address:

Washington Health Benefit Exchange
810 Jefferson Street SE
Olympia, WA 98501

**Northwest Hospital** was created January 1, 2010, under an affiliation agreement between UW Medicine and Northwest Hospital and Medical Center (Northwest Hospital). UW Medicine is an academic medical center comprised of UW School of Medicine, UW Neighborhood Clinics, UW Medical Center, Harborview Medical Center, Association of University Physicians, as well as the University's membership in the Seattle Cancer Care Alliance and the Children's University Medical Group.

Northwest Hospital is a 281-bed full service acute care hospital. The University is the sole corporate member of Northwest Hospital. Financial reports of Northwest Hospital may be obtained at the following address:

Northwest Hospital
1550 N. 115th Street
Seattle, WA 98133-9733

**Valley Medical Center** was created July 1, 2011, through a strategic alliance between UW Medicine and Public Hospital District No. 1 of King County. Valley Medical Center owns and operates a 321-bed full service acute care hospital and 45 clinics located throughout southeast King County. Financial reports of Valley Medical Center may be obtained at the following address:

Valley Medical Center
400 S. 43rd Street
Renton, WA 98055

**Joint Ventures**

In 1998, the University of Washington Medical Center (Medical Center) entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the **Seattle Cancer Care Alliance**

**(SCCA)**. Each member of the SCCA has a one-third interest. The mission of the SCCA is to eliminate cancer as a cause of human suffering and death and to become recognized as the premier cancer research and treatment center in the Pacific Northwest. The SCCA integrates the cancer research, teaching, and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Under the agreement, the Medical Center provides the patient care to all adult inpatients of the SCCA.

Inpatient Services – The SCCA operates a 20-bed unit located within the Medical Center in which its adult inpatients receive care. The fiscal intermediary has determined that the 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. The SCCA provides medical oversight and management of the inpatient unit. Under agreements, the Medical Center provides inpatient care services to the SCCA including necessary personnel, equipment, and ancillary services.

Outpatient Services – The SCCA operates an ambulatory cancer care service facility in Seattle. The Medical Center provides various services to the SCCA's outpatient facility including certain pharmacy, laboratory, and pathology services as well as billing, purchasing, and other administrative services.

The state accounts for the Medical Center's interest in SCCA under the equity method of accounting. Income of $5.0 million was recorded in fiscal year 2015, bringing the total equity investment to $107.7 million which is recognized in the state's financial statements in the Higher Education Student Services Fund.

Separate financial statements for SCCA may be obtained from:

Seattle Cancer Care Alliance
825 Eastlake Avenue East
PO Box 19023
Seattle, WA 98109-1023

The University of Washington and Seattle Children's Hospital established **Children's University Medical Group (CUMG)** to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions.

Separate financial statements for CUMG may be obtained from:

Children's University Medical Group
4500 Sand Point Way NE, Suite 100
Seattle, WA 98105

## B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**Statement of Net Position.** The Statement of Net Position presents the state's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. As a general rule, balances between governmental and business-type activities are eliminated.

**Statement of Activities.** The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally, the effect of internal activities is eliminated. Exceptions to this rule include charges between the workers' compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

## Fund Financial Statements

The state uses 642 accounts that are combined into 51 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

**Major Governmental Funds:**

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

- **Higher Education Special Revenue Fund** primarily accounts for tuition, student fees, and grants and contracts received for educational and research purposes.

- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the income earned on investments.

**Major Enterprise Funds:**

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds, requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state and to pay unemployment benefits.

- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

- **Guaranteed Education Tuition Program Fund** accounts for Washington's Guaranteed Education Tuition (GET) Program. GET is a qualified tuition program under Section 529 of the Internal Revenue Code.

The state includes the following governmental and proprietary fund types within nonmajor funds:

**Nonmajor Governmental Funds:**

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are restricted or committed to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system, and maintenance and preservation of interstate and non-interstate highway systems; driver licensing, highway and non-highway operations, and capital improvements; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources that are restricted or committed to expenditures for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for financial resources that are restricted or committed to expenditures for the acquisition, construction, or improvement of major state-owned capital facilities (other than highway infrastructure or those financed by proprietary funds).

- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

**Nonmajor Proprietary Funds:**

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the state lottery, vocational/education programs at correctional institutions, and other activities.

- **Internal Service Funds** account for the provision of legal, motor pool, data processing, risk management, health insurance, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.

- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool, which is reported by the state as the sponsoring government.

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.

- **Agency Funds** account for resources held by the state in a custodial capacity for other governments, private organizations, or individuals.

**Operating and Nonoperating Revenues and Expenses**. The state's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state's workers' compensation and health insurance funds consist of premiums and assessments collected. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

## C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities and deferred outflows of resources and deferred inflows of resources are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria are met. Expenditure-driven grant revenue is considered available if it can be collected by the state at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by unavailable revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred. However, unmatured interest on general long-term obligations is recognized when due and certain liabilities including compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available spendable financial resources.

The state reports both unavailable and unearned revenues on its governmental fund balance sheet. Unavailable revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Unearned revenues arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets, liabilities, deferred outflows of resources, and deferred inflows of resources associated with the operations of these funds are included on their respective statements of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

## D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

### 1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Position, Balance Sheets, and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. For reporting purposes, pooled investments are stated at fair value or amortized cost, which approximates fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost which approximates fair value. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at: http://www.tre.wa.gov/documents/lgipCafr/lgipCafrFY15.pdf, or phone number (360) 902-9000. TTY users dial 711 to be connected to the state TTY operator.

In the absence of readily ascertainable fair values, certain pension trust fund investments, including real estate and private equity, are reported at fair value based on the individual investment's capital account balance at the closest available reporting period, adjusted for subsequent activity. At June 30, 2015, these alternative investments are valued at $32.06 billion. Because of the inherent uncertainties in the estimation of fair value, it is possible that the estimates will change.

All other noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Additional disclosure describing investments is provided in Note 3.

### 2. Receivables and Payables

Receivables in the state's governmental fund type accounts consist primarily of taxes and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Position, except for the net residual balances due between the governmental and business-type activities, which are reported as internal balances. Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

### 3. Inventories and Prepaids

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported in the state's financial statements if the fiscal year-end balance on hand at an inventory control point is estimated to be $50,000 or more. Consumable inventories are valued at cost using either the first-in, first-out or weighted average methods. Donated consumable inventories are recorded at fair market value.

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are valued at cost using the first-in, first-out method.

Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $7.0 million in federally donated consumable inventories, which are offset by unearned revenue because they are not earned until they are distributed to clients.

Prepaid items are those certain types of supplies and/or services (not inventory) that are acquired or purchased during an accounting period but not used or consumed during that accounting period.

In governmental fund type accounts, prepaid items are generally accounted for using the purchases method. Under the purchases method, prepaid items are treated as expenditures when purchased and residual balances, if any, at year-end are not accounted for as assets.

In proprietary and trust fund type accounts, prepaid items are accounted for using the consumption method. The portion of supplies or services consumed or used during a period is recorded as an expense. The balance that remains is reported as an asset until consumed or used.

## 4. Restricted Assets

Certain cash, investments, and other assets are classified as restricted assets on the Statement of Net Position and Balance Sheet because their use is limited by debt covenants, escrow arrangements, or other regulations.

## 5. Capital Assets

Capital assets are tangible and intangible assets held and used in state operations, which have a service life of more than one year and meet the state's capitalization policy.

It is the state's policy to capitalize:

- All land, including land use rights with indefinite lives acquired with the purchase of the underlying land, and ancillary costs;
- The state highway system operated by the Department of Transportation;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or more;
- Intangible assets, either purchased or internally developed, with a cost of $1 million or more that are identifiable by meeting one of the following conditions:
    - The asset is capable of being separated or divided and sold, transferred, licensed, rented, exchanged;
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable;
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer; and
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater except for assets held by the University of Washington (UW). The capitalization threshold for all other capital assets held by the UW is $2,000.

Assets acquired by capital leases are capitalized if the assets' fair market value meets the state's capitalization thresholds described above.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use (ancillary costs). Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In enterprise and trust funds, net interest costs (if material) incurred during the period of construction are capitalized. In fiscal year 2015, $86.9 million in interest costs were incurred, and $7.7 million net interest costs were capitalized.

State agencies are not required to capitalize art collections, library reserve collections, and museum and historical collections that are considered inexhaustible, in that their value does not diminish over time, if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation/amortization is calculated using the straight-line method over the estimated useful lives of the assets.

Generally, estimated useful lives are as follows:

| | |
|---|---|
| Buildings & building components | 5-50 years |
| Furnishings, equipment & collections | 3-50 years |
| Other improvements | 3-50 years |
| Intangibles | 3-50 years |
| Infrastructure | 20-50 years |

The cost and related accumulated depreciation/amortization of disposed capital assets are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets;
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale; and
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the modified approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Position. Depreciation/amortization expense related to capital assets is reported in the Statement of Activities.

Capital assets and the related depreciation/amortization expense are also reported in the proprietary fund financial statements.

In governmental funds, capital assets are not capitalized in the accounts that acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in the year assets are acquired or construction costs are incurred. No depreciation/amortization is reported.

## 6. Deferred Outflows/Inflows of Resources

In addition to assets, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The category of deferred outflow of resources reported in the government-wide and proprietary fund statements of net position relates to debt refunding, pensions, and hedging derivative instruments.

Deferred outflows on debt refunding result when the net carrying value of refunded debt exceeds its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

Deferred outflows on hedging derivative instruments represent the unrealized loss in fair value of the contract at fiscal year end.

In addition to liabilities, the Balance Sheet and Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that

time. Deferred inflows of resources reported by the state relate to unavailable revenue, debt refunding, pensions, and hedging derivative instruments.

Unavailable revenue arises only under the modified accrual basis of accounting, and so is reported only on the governmental funds balance sheet. Governmental funds report deferred inflows for unavailable revenues primarily from two sources: taxes and long-term receivables. These amounts are recognized as inflows of resources in the periods that the amounts become available.

Deferred inflows on refunding result when the reacquisition price of the refunding debt exceeds the net carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

Deferred inflows on hedging derivative instruments represent the unrealized gain in fair value of the contract at fiscal year end.

## 7. Compensated Absences

State employees accrue vested vacation leave at a variable rate based on years of service. In general, accrued vacation leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested, i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a sick leave buyout option in which, each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate its compensated absences obligation with future resources rather than advance funding it with available spendable financial resources.

For government-wide reporting purposes, the state reports compensated absences obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Position.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is payable, i.e., upon employee's use, resignation, or retirement. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits, as applicable, as the leave is earned.

## 8. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Position. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums and discounts are deferred and amortized over the life of the bonds.

For governmental fund financial reporting, the face (par) amount of debt issued is reported as other financing sources. Premiums and discounts on original debt issuance are also reported as other financing sources and uses, respectively. Issue costs are reported as debt service expenditures.

## 9. Fund Equity

In governmental fund type accounts, fund equity is called "fund balance." Fund balance is reported in classifications which reflect the extent to which the state is bound to honor constraints on the purposes for which the amounts can be spent. Classifications include:

- **Nonspendable** fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.

- **Restricted** fund balance represents amounts for which constraints are placed on their use by the state constitution, enabling legislation, or external resource providers such as creditors, grantors, or laws or regulations of other governments.

- **Committed** fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by state law as adopted by the state Legislature. The commitment remains in place until the Legislature changes or eliminates the state law.

- **Assigned** fund balance represents amounts that are intended for a specific purpose by management, but are neither restricted nor committed. Generally, assignment is expressed by joint legislative and executive staff action.

- **Unassigned** fund balance represents the residual amount for the General Fund that is not contained in the other classifications. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that the expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

For government-wide reporting as well as in proprietary funds, fund equity is called net position. Net position is comprised of three components: net investment in capital assets; restricted; and unrestricted.

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- **Restricted** net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

- **Unrestricted** net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then use unrestricted resources as they are needed.

In fiduciary funds, net assets are held in trust for individuals and external organizations.

## E. OTHER INFORMATION

### 1. Insurance Activities

**Workers' Compensation.** Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all employers to secure coverage for job-related injuries and diseases, with few exceptions, through the Workers' Compensation Fund or through self-insurance.

Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, vocational, disability, and pension benefits to qualifying individuals sustaining work-related injuries or illnesses. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension plan supports cost-of-living adjustments (COLA) granted for time-loss and disability payments; however, these are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience, except for the Supplemental Pension Fund premiums which are based on a flat rate per hours worked independent of risk class or past experience. In addition to its regular premium plan which is required for all employers, the Workers' Compensation Fund offers a voluntary retrospective premium-rating plan under which premiums are subject to three annual adjustments based on group and individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the groups and individual employers approximately ten months after the end of each plan year.

The Department of Labor and Industries, as administrator of the workers' compensation program, establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have already occurred. The length of time for which such costs must be estimated varies depending on the benefit involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount.

Claims payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

The Department of Labor and Industries prepares a stand-alone financial report for its Workers' Compensation Program. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Labor and Industries, PO Box 44833, Olympia, Washington 98504-4833 or by visiting their website at: http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp.

**Risk Management.** The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for liabilities arising from the operations of the Washington state ferries, employee bonds, and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past ten fiscal years. Otherwise, the self-insurance liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the self-insurance liability program in proportion to their anticipated exposure to liability losses.

**Health Insurance.** The state of Washington administers and provides medical, dental, basic life, and basic long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, tribal governments, political subdivisions, and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations. Because the state and its employees are the predominant participants in the employee health insurance program, it is accounted for in an internal service fund, the Employee Insurance Fund.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is available on a self-paid basis to former employees and employees who are temporarily not in pay status.

Most coverage is also available on a self-paid basis to eligible retirees. In accordance with the provisions of GASB Statement No. 43, an agency fund, the Retiree Health Insurance Fund, is used to account for the retiree health insurance program. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 64 percent of the eligible subscribers in fiscal year 2015. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

## 2. Postemployment Benefits

**COBRA.** In compliance with federal law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), the state offers health and dental benefits on a temporary basis to qualified beneficiaries whose benefit coverage would otherwise end because of a qualifying event such as loss of employment. COBRA coverage is available on a self-paid basis and is the same medical and dental coverage available to state employees.

**Medical Expense Plan.** As disclosed in Note 1.D, at the time of separation from state service due to retirement or death, the state offers a 25 percent buyout of an employee's accumulated sick leave. Individual state agencies may offer eligible employees a medical expense plan (MEP) that meets the requirements of the Internal Revenue Code. Agencies offering an MEP deposit the retiring employee's sick leave buyout in the MEP for reimbursement of medical expenses.

**Retirement Benefits.** Refer to Note 11 Retirement Plans and Note 12 Other Postemployment Benefits.

### 3. Interfund/Interagency Activities

The state engages in two major categories of interfund/ interagency activity: reciprocal and nonreciprocal. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

### 4. Donor-restricted Endowments

The state of Washington reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. There is no state law that governs endowment spending; rather, the policies of individual university and college boards govern the spending of net appreciation on investments.

Under the current spending policy, distributions to programs approximate an annual percentage rate of 4 percent of a five-year rolling average of the endowment's market valuation.

The net appreciation available for authorization for expenditure by governing boards totaled $577.6 million. This amount is reported as restricted for expendable endowment funds on the government-wide Statement of Net Position.

# Note 2
## Accounting, Reporting, and Entity Changes

**Reporting Changes**. Effective for fiscal year 2015 reporting, the state adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 68 *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual based financial statements.

Statement No. 71 *Pension Transition for Contributions Made subsequent to the Measurement Date*. GASB Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

**Fund Reclassification.** During fiscal year 2015, it was determined that an account should be reclassified to a capital projects type fund because bond proceeds now comprise the majority of its resources. Accordingly, the beginning fund balance in the General Fund was reduced by $14.4 million and the beginning fund balance of the State Facilities Fund, a nonmajor capital projects fund, was increased by $14.4 million. Additionally an account was reclassified to a special revenue fund type as it now has a dedicated revenue source. This resulted in a beginning fund balance reduction of $672 thousand in the General Fund and an increase of $672 thousand in the Human Services Fund, a nonmajor special revenue fund.

Also during fiscal year 2015, an agency was abolished and its accounts receivable were transferred to another agency that recorded the accounts receivables in a different fund. As a result the beginning fund balance of the Central Administrative and Regulatory Fund, a nonmajor special revenue fund, was reduced by $19 thousand, and fund balance of the Higher Education Facilities Fund, a nonmajor capital projects fund, was increased by $19 thousand.

**Prior Period Adjustment.** The state recorded a reduction to the beginning net position balance in the following funds as a result of implementing GASB Statement No. 68:

- Major Proprietary Funds: Worker's Compensation $134.5 million, Higher Education Student Services $295.5 million, and Guaranteed Education Tuition Program $1.2 million;
- Nonmajor Proprietary Funds: Lottery $7.0 million, Institutional $10.4 million, and Other Activities $25.6 million;
- Internal Service Funds: General Services $115.0 million, Data Processing Revolving $41.6 million, and Higher Education Revolving $31.7 million.
- Component Units: Public Stadium Authority, a major component unit, $129 thousand; and the Washington State Housing Finance Commission and the Washington State Health Care Facilities Authority, both nonmajor component units, $3.7 million and $311 thousand, respectively.

The University of Washington (UW) posted a beginning balance adjustment to correct for both over accruing and incorrectly allocating employee benefits. The adjustment increased fund balance in the Higher Education Special Revenue Fund, a major governmental fund, by $74.4 million ($63.7 million to correct the over accrual and $10.7 million to correct the under allocation to other funds); decreased fund balance in the Higher Education Student Services Fund, a major proprietary fund, by $9.2 million, and decreased fund balance in the Higher Education Revolving Fund, an internal service fund, by $1.5 million.

The Department of Commerce recorded a prior period adjustment in order to properly offset long-term loans receivables with non-spendable fund balance rather than unavailable revenue. This resulted in increases to fund balance in the following nonmajor special revenue funds: $82.7 million in the Central Administrative and Regulatory Fund, $517.1 million in the Human Services Fund, and $259.7 million in the Local Construction and Loan Fund.

The Department of Natural Resources recorded a prior period adjustment to record three previously unrecorded local bank accounts which increased fund balance in the Central Administrative and Regulatory Fund, nonmajor special revenue fund, by $3.2 million.

The beginning net position of Valley Medical Center, a major component unit, was increased by $2.5 million to record a component unit that was previously not reported.

The beginning net position of Northwest Hospital, a major component unit, was increased by $2.7 million to record a component unit that was previously not reported.

**Governmental Capital Assets and Long-term Obligations.** The state recorded a beginning balance adjustment to long-term obligations associated with governmental funds of $2.85 billion as a result of the implementation of GASB Statement No. 68.

The Department of Transportation recorded a prior period adjustment of $94.3 million to governmental capital assets, and $9.4 million to governmental long-term obligations to record previously unrecorded capital assets and long-term obligations.

The UW posted a beginning balance adjustment of $127.0 million to governmental long-term obligations to properly reflect outstanding debt.

Fund equity at July 1, 2014, has been restated as follows (expressed in thousands):

| | Fund equity (deficit) at June 30, 2014, as previously reported | Fund Reclassification | Prior Period Adjustment | Fund equity (deficit) as restated, July 1, 2014 |
|---|---|---|---|---|
| **Governmental Funds:** | | | | |
| General | $ 1,826,141 | $ (15,056) | $ - | $ 1,811,085 |
| Higher Education Special Revenue | 2,628,295 | - | 74,383 | 2,702,678 |
| Higher Education Endowment | 3,385,643 | - | - | 3,385,643 |
| Nonmajor Governmental | 5,571,060 | 15,056 | 862,733 | 6,448,849 |
| **Proprietary Funds:** | | | | |
| Enterprise Funds: | | | | |
| Workers' Compensation | (9,384,408) | - | (134,522) | (9,518,930) |
| Unemployment Compensation | 3,815,039 | - | - | 3,815,039 |
| Higher Education Student Services | 1,447,141 | - | (304,660) | 1,142,481 |
| Guaranteed Education Tuition Program | 160,990 | - | (1,209) | 159,781 |
| Nonmajor Enterprise | 83,235 | - | (43,067) | 40,168 |
| Internal Service Funds | 268,649 | - | (189,860) | 78,789 |
| **Fiduciary Funds:** | | | | |
| Private Purpose Trust | 2,386 | - | - | 2,386 |
| Local Government Investment Pool | 8,661,007 | - | - | 8,661,007 |
| Pension and Other Employee Benefit Plans | 87,286,888 | - | - | 87,286,888 |
| **Component Units:** | | | | |
| Public Stadium | 316,851 | - | (129) | 316,722 |
| Health Benefit Exchange | 37,229 | - | - | 37,229 |
| Valley Medical Center | 211,893 | - | 2,500 | 214,393 |
| Northwest Hospital | 99,707 | - | 2,691 | 102,398 |
| Nonmajor Component Units | 150,177 | - | (4,018) | 146,159 |

# Note 3
# Deposits and Investments

## A. DEPOSITS

**Custodial Credit Risk**. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the state would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The state minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

At June 30, 2015, $1.21 billion of the state's deposits with financial institutions were insured or collateralized, with the remaining $9.0 million uninsured/uncollateralized.

## B. INVESTMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS (PENSION TRUST FUNDS)

### 1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the pension trust funds is vested within the voting members of the Washington State Investment Board (WSIB). The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The pension trust funds consist of retirement contributions from employer and employee participants in the Washington State Retirement System and related earnings on those contributions. The Retirement System is administered by the Department of Retirement Systems. The WSIB has exclusive control of the investment of all money invested in the pension trust funds.

In accordance with RCW 43.33A.110, the WSIB manages the pension fund portfolio to achieve maximum return at a prudent level of risk. The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation within consideration of the other remaining asset classes.

**Eligible Investments**. The WSIB is authorized by statute as having investment management responsibility for pension trust funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy in the following: U.S. treasury bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, and other tangible assets, or other forms of private equity; asset-backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during fiscal year 2015.

**Commingled Trust Fund**. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments used as an investment vehicle for 14 separate retirement plans and one supplemental pension funding account. These plans hold shares in the CTF which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to share ownership in the CTF, each retirement plan holds short-term investments that are used to manage each plan's cash needs.

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1, 2, and 3, Teachers' Retirement System (TRS) Plans 1, 2, and 3, School Employees' Retirement System (SERS) Plans 2 and 3, Law Enforcement Officers' and Fire Fighters' Retirement Plans 1 and 2, Washington State Patrol Retirement System Plans 1 and 2, Public Safety Employees' Retirement System Plan 2, Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund, and the Higher Education Retirement Supplemental Benefit Fund. PERS Plan 3, TRS Plan 3, and SERS Plan 3 are hybrid defined benefit/defined contribution plans. The participants of those plans have

the option to direct their contributions to the CTF or invest their defined contributions in other external options not managed by the WSIB.

**CTF Investment Policies and Restrictions**. The CTF is comprised of public markets equities, fixed income securities, private equity investments, tangible assets, real estate, and an innovation portfolio. The CTF's performance objective is to exceed the return of two custom benchmarks, each consisting of public indices weighted according to asset allocation targets.

The asset allocation for the CTF is formally reviewed at least every four years. The allocation policy is reviewed more frequently if there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the pension trust funds.

When market values fall outside policy ranges, assets are rebalanced first by using normal cash flows and then through reallocations of assets across asset classes. In cases of a major rebalancing, the pension trust funds can utilize futures, forward contracts, and options in order to maintain exposure within each asset class and reduce transaction costs. Major rebalancing can occur to bring asset classes within their target ranges or when the pension trust funds are transitioning managers.

To achieve the performance and diversification objectives of the pension trust funds, the public markets equity program seeks to achieve the highest return possible consistent with prudent risk management and the desire for downside protection, with passive equity strategies as the default whenever strategies with better risk/return profiles cannot be identified; provide diversification to the pension trust funds' overall investment program; maintain liquidity in public equity; and maintain transparency into all public equity strategies to the extent possible.

The public markets equity portion of the pension trust funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S., and emerging markets. The program has a global benchmark, currently the Morgan Stanley Capital International All Country World Investable Market Index. A mix of external managers approved by the WSIB is used to manage the program. Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored appropriately. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets. Active management is used when the pension trust funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

The fixed income segment is managed to achieve the highest return possible consistent with the desire to control asset volatility, emphasize high yield to maturity opportunities to add value through active management, provide diversification to the overall investment program, and to meet or exceed the return of the Barclays Capital Universal Bond Index, with volatility similar to or less than the index.

RCW 43.33A.140 prohibits a corporate fixed income issue cost from exceeding 3 percent of the CTF's market value at the time of purchase, and 6 percent of its market value thereafter. However, the WSIB manages with a more restrictive concentration constraint, limiting exposure to any corporate issuer to 3 percent of the CTF fixed income portfolio's market value at all times.

The fixed income portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade (as defined by Barclays Capital Global Family of Fixed Income Indices). Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio. Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio. The duration of the portfolio (the sensitivity of the portfolio's fair value to changes in the level of interest rates) is targeted to be within plus or minus 20 percent of the duration of the Barclays Capital Universal Index.

The major sector allocations of the fixed income portfolio are limited to the following ranges: U.S. treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 80 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 5 percent to 45 percent.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types are generally divided into venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made through limited partnership or direct investment vehicles.

The private equity investment portfolio is managed to meet or exceed the returns of the Russell 3000 by 300 basis points in the long term. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments is primarily targeted to those funds, separate accounts, or tangible asset operating companies providing the WSIB with the most robust governance provisions related to acquisitions, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

The WSIB's current return objective for tangible assets calls for a target benchmark of 4 percent above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The income generated from bond-like lease payments coupled with the hard asset qualities of commercial real estate combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class.

The WSIB's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the WSIB's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions, related transactions, and ongoing operational decisions for annual capital expenditures.

Volatility in the real estate portfolio is minimized through a combination of factors. First, the majority of the WSIB's partners own real estate assets in a private investment form which are not subject to public market volatility. Second, real estate capital is diversified among a host of partners with varying investment styles. Third, partnership assets are invested in numerous economic regions, including foreign markets, and in various property types. Finally, the WSIB's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's real estate portfolio current benchmark seeks to earn an 8 percent annual investment return over a rolling 10-year period.

The innovation portfolio investment strategy is to provide the WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities.

## 2. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the pension trust funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2015, the pension trust funds had unfunded commitments of $11.26 billion, $7.39 billion, $1.97 billion, and $22.0 million in private equity, real estate, tangible assets, and the innovation portfolio, respectively.

## 3. Securities Lending

State law and board policy permit the pension trust funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the pension trust funds in securities lending transactions. As State Street Corporation is the custodian bank for the pension trust funds, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2015, was approximately $1.4 billion. The pension trust funds report securities on loan in their respective categories in the Statement of Net Position. At June 30, 2015, cash collateral received totaling $843.1 million is reported as securities lending obligation, and the fair value of the reinvested cash collateral totaling $843.1 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2015, was $638.4 million.

During the fiscal year, debt and equity securities were loaned and collateralized by the pension trust funds' agent with cash, U.S. government or U.S. agency securities

including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

The following table summarizes the securities held by the pension trust funds from reinvestment of cash collateral and securities received as collateral at June 30, 2015 (in millions):

| | |
|---|---|
| Treasuries | $358.2 |
| Mortgage-backed | 342.0 |
| Repurchase agreements | 293.2 |
| Cash equivalents and other | 291.7 |
| Yankee CD | 196.4 |
| **Total collateral held** | $1,481.5 |

During fiscal year 2015, securities lending transactions could be terminated on demand by either the pension trust funds or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 days.

Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value could be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the pension trust funds by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2015, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the pension trust funds incurred no losses during fiscal year 2015 resulting from a default by either the borrowers or the securities lending agents.

## 4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

While the pension trust funds do not have a formal policy relating to interest rate risk, the pension trust funds' fixed income investments are actively managed to meet or exceed the return of the Barclays Capital Universal Index, with a duration target within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2015, the duration of the pension trust funds' fixed income investments was within the duration target of this index.

The two schedules below provide information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective duration, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal.

**Pension Trust Funds**
**Schedule of Maturities and Effective Duration**
**June 30, 2015**
*(expressed in thousands)*

| Investment Type | Fair Value | Maturity: Less than 1 Year | Maturity: 1-5 Years | Maturity: 6-10 Years | Maturity: More than 10 Years | Effective Duration (in years) |
|---|---|---|---|---|---|---|
| Mortgage and other asset-backed securities | $ 1,585,736 | $ 537,516 | $ 1,013,488 | $ 19,968 | $ 14,764 | 2.42 |
| Corporate bonds | 9,127,577 | 450,265 | 4,102,531 | 3,126,281 | 1,448,500 | 5.97 |
| U.S. government and agency securities | 6,061,063 | 560,577 | 4,430,546 | 764,764 | 305,176 | 4.09 |
| Foreign government and agency securities | 1,084,595 | - | 478,760 | 399,336 | 206,499 | 5.76 |
| Total investments categorized | 17,858,971 | $ 1,548,358 | $ 10,025,325 | $ 4,310,349 | $ 1,974,939 | 5.01* |
| Investments not required to be categorized: | | | | | | |
| Cash and cash equivalents | 2,152,831 | | | | | |
| Equity securities | 29,776,692 | | | | | |
| Alternative investments | 32,055,690 | | | | | |
| Total investments not categorized | 63,985,213 | | | | | |
| **Total Investments** | $ 81,844,184 | | | | | |

** Excludes cash and cash equivalents*

Credit ratings of investments are presented using the Moody's rating scale as follows:

**Pension Trust Funds**
**Investment Credit Ratings**
**June 30, 2015**
*(expressed in thousands)*

| Moody's Credit Rating | Investment Type: Mortgage and Other Asset-Backed Securities | Investment Type: Corporate Bonds | Investment Type: Foreign Government and Agency Securities | Total Fair Value |
|---|---|---|---|---|
| Aaa | $ 1,576,671 | $ 448,883 | $ 154,624 | $ 2,180,178 |
| Aa1 | - | 17,690 | 58,243 | 75,933 |
| Aa2 | - | 108,170 | 53,744 | 161,914 |
| Aa3 | - | 685,548 | 161,701 | 847,249 |
| A1 | 765 | 549,410 | - | 550,175 |
| A2 | - | 683,167 | - | 683,167 |
| A3 | - | 835,879 | 79,636 | 915,515 |
| Baa1 | - | 1,189,824 | 45,837 | 1,235,661 |
| Baa2 | 7,205 | 1,328,324 | 304,354 | 1,639,883 |
| Baa3 | - | 2,274,568 | 169,859 | 2,444,427 |
| Ba1 or lower | 1,095 | 1,006,114 | 56,597 | 1,063,806 |
| **Total** | $ 1,585,736 | $ 9,127,577 | $ 1,084,595 | $ 11,797,908 |

## 5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The pension trust funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments of the pension trust funds as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization.

**Concentration of Credit Risk**. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The policy of the pension trust funds states no corporate fixed income issue cost shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2015.

**Custodial Credit Risk**. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the pension trust funds would not be able to recover the value of their deposits, investments, or collateral securities that are in the possession of an outside party. The pension trust funds do not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the pension trust funds.

## 6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The pension trust funds do not have a formal policy to limit foreign currency risk. The WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

The following schedule presents the exposure of the pension trust funds' investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds. This is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars. In addition, the CTF has foreign currency exposure at June 30, 2015, of $822.6 million invested in various international commingled equity index funds.

**Pension Trust Funds**
**Foreign Currency Exposure by Country**
**June 30, 2015**
*(expressed in thousands)*

| | Investment Type in U.S. Dollar Equivalent | | | | | |
|---|---|---|---|---|---|---|
| **Foreign Currency Denomination** | **Cash and Cash Equivalents** | **Debt Securities** | **Equity Securities** | **Alternative Assets** | **Open Foreign Exchange Contracts-Net** | **Total** |
| Australia-Dollar | $ 7,133 | $ 292,665 | $ 470,618 | $ 26,129 | $ 253 | $ 796,798 |
| Brazil-Real | 233 | 242,801 | 130,843 | - | - | 373,877 |
| Canada-Dollar | 11,495 | - | 725,668 | - | (1,405) | 735,758 |
| Chile-Peso | - | 63,980 | 5,329 | - | - | 69,309 |
| China-Yuan | 278 | 57,614 | - | - | - | 57,892 |
| Columbia-Peso | - | 102,035 | - | - | - | 102,035 |
| Denmark-Krone | 287 | - | 206,437 | - | (629) | 206,095 |
| E.M.U.-Euro | 1,821 | - | 3,104,461 | 2,379,773 | 4,138 | 5,490,193 |
| Hong Kong-Dollar | 1,985 | - | 662,835 | - | - | 664,820 |
| India-Rupee | 250 | 109,523 | 147,604 | - | - | 257,377 |
| Indonesia-Rupiah | 137 | 50,618 | 62,726 | - | - | 113,481 |
| Japan-Yen | 16,097 | - | 2,342,284 | - | (2,769) | 2,355,612 |
| Malaysia-Ringgit | 7 | 56,526 | 62,924 | - | - | 119,457 |
| Mexico-Peso | 65 | 102,866 | 64,422 | - | (18) | 167,335 |
| New Israel-Sheqel | 219 | - | 43,715 | - | (153) | 43,781 |
| New Taiwan-Dollar | 1,272 | - | 166,792 | - | - | 168,064 |
| New Zealand-Dollar | 120 | - | 12,842 | - | 14 | 12,976 |
| Norway-Krone | 1,042 | - | 64,357 | - | 128 | 65,527 |
| Philippines-Peso | 4 | 38,989 | 24,615 | - | - | 63,608 |
| Singapore-Dollar | 1,241 | - | 171,501 | - | (5) | 172,737 |
| South Africa-Rand | 507 | - | 121,421 | - | 13 | 121,941 |
| South Korea-Won | 289 | - | 223,738 | - | - | 224,027 |
| Sweden-Krona | 800 | - | 440,279 | - | (371) | 440,708 |
| Switzerland-Franc | (25) | - | 942,733 | - | 187 | 942,895 |
| Thailand-Baht | (1) | 45,837 | 53,360 | - | - | 99,196 |
| Turkey-Lira | - | 51,599 | 73,003 | - | - | 124,602 |
| United Kingdom-Pound | 12,274 | - | 2,283,906 | - | 5,754 | 2,301,934 |
| Other | 127 | 77,178 | 54,315 | - | (3) | 131,617 |
| **Total** | $ 57,657 | $ 1,292,231 | $ 12,662,728 | $ 2,405,902 | $ 5,134 | $ 16,423,652 |

## 7. Derivatives

Pension trust funds are authorized to utilize various derivative financial instruments including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. At June 30, 2015, the pension trust funds held investments in financial futures and forward currency contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Position in the period of change. The derivative instruments are considered investment derivatives and not hedging derivatives.

Derivatives are generally used to achieve the desired market exposure of a security, index, or currency; adjust portfolio duration; or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors.

A derivative instrument could be a contract negotiated on behalf of the pension trust funds and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract, such as forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the pension trust funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2015, the pension trust funds counterparty risk was not deemed to be significant.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk due to the possible nonperformance by a counterparty. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote.

At June 30, 2015, the pension trust funds had outstanding forward currency contracts with a net unrealized gain of $5.1 million. The aggregate forward currency exchange contracts receivable and payable were $1.96 billion and $1.96 billion, respectively. The contracts have varying maturity dates ranging from August 12, 2015, to September 16, 2015.

At June 30, 2015, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $91.9 million. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Derivatives which are exchange traded are not subject to credit risk. The counterparty credit ratings for forward currency contracts that are subject to credit risk outstanding at June 30, 2015, had a credit rating of no less than A3 using Moody's rating scale.

The following schedule presents the significant terms for derivatives held as investments by the pension trust funds:

**Pension Trust Funds**
**Derivative Investments**
**June 30, 2015**
*(expressed in thousands)*

| | Changes in Fair Value - Included in Investment Income (Loss) Amount | Fair Value - Investment Derivative Amount | Notional |
|---|---|---|---|
| **Futures Contracts:** | | | |
| Bond index futures | $ 25,674 | $ (3,555) | $ 841,300 |
| Equity index futures | (3,766) | (8,476) | 18,048 |
| **Total** | $ 21,908 | $ (12,031) | $ 859,348 |
| **Forward Currency Contracts** | $ 55,941 | $ 5,146 | $ 1,960,628 |

8. **Reverse Repurchase Agreements** – None.

## C. INVESTMENTS – WORKERS' COMPENSATION FUND

### 1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Fund investments is vested in the voting members of the Washington State Investment Board (WSIB). The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, in making investment decisions and seeking to meet investment objectives.

The Workers' Compensation Fund consists of contributions from employers and their employees participating in the state workers' compensation program, and related earnings on those contributions. The workers' compensation program provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

In accordance with state laws, the Workers' Compensation Fund investments are managed to limit fluctuations in the industrial insurance premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is:

- Maintain the solvency of the funds.
- Maintain premium rate stability.
- Ensure sufficient assets are available to fund the expected liability payments.
- Subject to the objectives above, achieve a maximum return at a prudent level of risk.

**Eligible Investments**. Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and chapter 43.33A RCW. Eligible investments include:

- U.S. equities.
- International equities.
- U.S. treasuries and government agencies.
- Credit bonds.
- Mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Asset-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Commercial mortgage-backed securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Investment grade non-U.S. dollar bonds.

**Investment Restrictions**. To meet stated objectives, investments of the Workers' Compensation Fund are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140.

- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.

- Asset allocations are to be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations.

- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- Sector allocation for U.S. equities should be within a range of 55 percent to 65 percent. Allocation for international equities should be within a range of 35 percent to 45 percent.

- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International (MSCI) U.S. Investable Market Index. The benchmark and structure for international equities will be the MSCI All Country World Ex U.S. Investable Market Index. Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 80 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, and mortgage-backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practical.

- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. Total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of total market value of the funds.

## 2. Securities Lending

State law and WSIB policy permit the Workers' Compensation Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the Workers' Compensation Fund in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Fund, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2015, was approximately $102.6 million. The Workers' Compensation Fund reports securities on loan in the Statement of Net Position in their respective categories. At June 30, 2015, cash collateral received totaling $68.2 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $68.2 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2015, was $38.3 million.

During fiscal year 2015, debt securities were loaned and collateralized by the Workers' Compensation Fund's agent with cash and U.S. government or U.S. agency securities including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2015 (in millions):

| | |
|---|---|
| Mortgage-backed | $38.3 |
| Cash equivalents and other | 28.6 |
| Repurchase agreements | 23.7 |
| Yankee CD | 15.9 |
| **Total collateral held** | $106.5 |

During fiscal year 2015, securities lending transactions could be terminated on demand by either the Workers' Compensation Fund or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5

days and an average weighted final maturity of 79.7 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Fund by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2015, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Workers' Compensation Fund incurred no losses during fiscal year 2015 resulting from a default by either the borrowers or the securities lending agents.

## 3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Fund does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Fund portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2015, the Workers' Compensation Fund portfolio durations were within the prescribed duration targets.

The two schedules below provide information about the interest rate risks associated with the Workers' Compensation Fund investments as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective duration, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities taking into account possible prepayments of principal.

**Workers' Compensation Fund**
**Schedule of Maturities and Effective Duration**
**June 30, 2015**
*(expressed in thousands)*

| | | Maturity | | | | |
|---|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less than 1 Year** | **1-5 Years** | **6-10 Years** | **More than 10 Years** | **Effective Duration (in years)** |
| Mortgage and other asset-backed securities | $ 1,893,746 | $ 295,992 | $ 1,405,828 | $ 117,915 | $ 74,011 | 3.02 |
| Corporate bonds | 8,969,474 | 468,390 | 3,350,231 | 1,885,623 | 3,265,230 | 7.46 |
| U.S. government and agency securities | 1,210,817 | 7,005 | 891,546 | 25,133 | 287,133 | 7.05 |
| Foreign government and agencies | 529,299 | 38,280 | 282,285 | 152,755 | 55,979 | 4.91 |
| Total investments categorized | 12,603,336 | $ 809,667 | $ 5,929,890 | $ 2,181,426 | $ 3,682,353 | 6.65* |
| Investments not required to be categorized: | | | | | | |
| Commingled investment trusts | 1,895,746 | | | | | |
| Cash and cash equivalents | 135,026 | | | | | |
| Total investments not categorized | 2,030,772 | | | | | |
| **Total Investments** | $ 14,634,108 | | | | | |

* *Excludes cash and cash equivalents*

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

**Workers' Compensation Fund**
**Investment Credit Ratings**
**June 30, 2015**
*(expressed in thousands)*

| | Investment Type | | | |
|---|---|---|---|---|
| **Moody's Equivalent Credit Rating** | **Mortgage and Other Asset-Backed Securities** | **Corporate Bonds** | **Foreign Government and Agencies** | **Total Fair Value** |
| Aaa | $ 1,845,424 | $ 480,823 | $ 150,888 | $ 2,477,135 |
| Aa2 | 48,322 | 83,699 | 51,950 | 183,971 |
| Aa3 | - | 1,240,437 | 197,778 | 1,438,215 |
| A1 | - | 896,830 | 37,408 | 934,238 |
| A2 | - | 1,276,296 | - | 1,276,296 |
| A3 | - | 1,410,431 | - | 1,410,431 |
| Baa1 | - | 1,274,530 | 14,453 | 1,288,983 |
| Baa2 | - | 916,326 | 50,164 | 966,490 |
| Ba1 or lower | - | 1,390,102 | 26,658 | 1,416,760 |
| **Total** | $ 1,893,746 | $ 8,969,474 | $ 529,299 | $ 11,392,519 |

## 4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Fund investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The rated debt investments of the Workers' Compensation Fund as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization.

**Concentration of Credit Risk**. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Fund policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2015.

**Custodial Credit Risk**. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the Workers' Compensation Fund would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Fund does not have a policy relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Fund.

## 5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Fund does not have a formal policy to limit foreign currency risk. At June 30, 2015, the only securities held by the Workers' Compensation Fund with potential foreign currency exposure were $695.0 million invested in an international commingled equity index fund.

The following schedule presents the exposure of the Workers' Compensation Fund to foreign currency risk. The schedule is stated in U.S. dollars.

**Workers' Compensation Fund**
**Foreign Currency Exposure by Country**
**June 30, 2015**
*(expressed in thousands)*

| Foreign Currency Denomination | Equity Securities |
|---|---|
| Australia-Dollar | $ 33,301 |
| Brazil-Real | 10,714 |
| Canada-Dollar | 47,376 |
| Denmark-Krone | 8,477 |
| E.M.U.-Euro | 145,065 |
| Hong Kong-Dollar | 53,555 |
| India-Rupee | 12,703 |
| Japan-Yen | 119,409 |
| Mexico-Peso | 6,555 |
| New Taiwan-Dollar | 20,695 |
| Singapore-Dollar | 7,590 |
| South Africa-Rand | 11,765 |
| South Korea-Won | 23,356 |
| Sweden-Krona | 15,350 |
| Switzerland-Franc | 43,557 |
| United Kingdom-Pound | 102,342 |
| Miscellaneous Foreign Currencies | 33,158 |
| **Total** | $ 694,968 |

### 6. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Workers' Compensation Fund is authorized to utilize various derivative financial instruments including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. The Workers' Compensation Fund mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2015, the only derivative securities held directly by the Workers' Compensation Fund were collateralized mortgage obligations of $1.3 billion.

### 7. Reverse Repurchase Agreements – None.

## D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL

### 1. Summary of Investment Policies

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The State Treasurer and designated investment officers shall adhere to all restrictions on the investment of funds established by law and by policy.

The LGIP portfolio is invested in a manner generally consistent with Rule 2a-7 money market funds, as currently recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Investments are stated at amortized cost, which approximates fair value. Security transactions are reported on a trade date basis in accordance with generally accepted accounting principles.

**Investment Objectives**. The objectives of the LGIP investment policy, in priority order, are safety, liquidity, and return on investment.

Safety of principal is the primary objective. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

The investment portfolio will remain liquid to enable the State Treasurer to meet all cash requirements that might reasonably be anticipated.

The LGIP will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the pool.

**Eligible Investments**. Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 39.59, and 43.84.080 RCW). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government.
- Obligations of government-sponsored corporations that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two designated Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper, provided that the OST adheres with policies and procedures of the Washington State Investment Board regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit or demand deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political subdivisions.

**Investment Restrictions.** To provide for safety and liquidity of funds, the LGIP policy places the following restrictions on the investment portfolio:

- Investments are restricted to fixed rate securities that mature in 397 days or less, except securities utilized in repurchase agreements and U.S. government floating or variable rate notes which may have a maximum maturity of 762 days, provided they have reset dates within one year and that on any reset date can reasonably be expected to have a market value that approximates their amortized cost.
- The weighted average maturity of the portfolio will not exceed 60 days.
- The weighted average life of the portfolio will not exceed 120 days.
- The purchase of investments in securities other than those issued by the U.S. government or its agencies will be limited.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

## 2. Securities Lending

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the market value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. Cash collateral received from the lending of non coupon-bearing securities shall not be valued at less than 102 percent of market value, not to exceed par.

The cash is invested by the lending agent in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian. One option available to the lending agent is to invest cash collateral with the LGIP. Maturities of investments made with cash collateral are generally matched to maturities of securities loaned.

During fiscal year 2015, the LGIP lent U.S. agency and treasury securities. Cash collateral was reinvested in repurchase agreements and interest bearing bank deposits. At fiscal year end, there were no securities on loan.

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During fiscal year 2015, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, contracts require the lending agent to indemnify the LGIP if the borrowers fail to return securities and if collateral is inadequate to replace the securities lent, or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were no violations of legal or contractual provisions and no losses resulting from a default of a borrower or lending agent during the fiscal year.

## 3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. To mitigate the effect of interest rate risk, the LGIP portfolio is invested in high quality, highly liquid obligations with limited maximum and average maturities.

The LGIP's policy establishes weighted average maturity and weighted average life limits not to exceed 60 and 120 days, respectively. As of June 30, 2015, the LGIP had a weighted average maturity of 36 days and a weighted average life of 86 days.

The following schedule presents the LGIP investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2015:

**Local Government Investment Pool (LGIP)**
**June 30, 2015**
*(expressed in thousands)*

| | | Maturity | |
|---|---|---|---|
| **Investment Type** | **Amortized Cost** | **Less than 1 Year** | **1-5 Years** |
| U.S. agency obligations | $ 6,742,020 | $ 5,950,587 | $ 791,433 |
| U.S. government obligations | 849,632 | 849,632 | - |
| Repurchase agreements | 2,968,200 | 2,968,200 | - |
| Interest bearing bank accounts | 820,277 | 820,277 | - |
| Certificates of deposit and other | 64,121 | 64,121 | - |
| **Total** | $ 11,444,250 | $ 10,652,817 | $ 791,433 |

## 4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, banker's acceptances, commercial paper, deposits with qualified public depositaries, and obligations of the state of Washington or its political subdivisions.

Banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two NRSROs at the time of purchase. The LGIP currently does not have any banker's acceptances, commercial paper, or municipal bonds in its portfolio.

**Custodial Credit Risk**. Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the LGIP will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the LGIP's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The market value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the purchase of securities of any one issuer, with the exception of U.S. Treasury and U.S. Agency securities, to no more than 5 percent of the portfolio.

Repurchase agreements comprise 25.9 percent of the total portfolio as of June 30, 2015. The LGIP limits the securities utilized in repurchase agreements to U.S. treasury and U.S. agency securities. The LGIP requires delivery of all securities utilized in repurchase agreements and the securities are priced daily.

As of June 30, 2015, U.S. treasury securities comprised 7.4 percent of the total portfolio. U.S. agency securities comprised 58.9 percent of the total portfolio, including Federal Home Loan Bank (44.9 percent), Federal Home Loan Mortgage Corporation (2 percent), Federal Farm Credit Bank (10.1 percent), and Federal National Mortgage Association (1.9 percent).

## 5. Foreign Currency Risk - None.

## 6. Derivatives - None.

## 7. Repurchase and Reverse Repurchase Agreements

The market value plus accrued income of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The market value plus accrued income of all other securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement.

The securities utilized in repurchase agreements are priced daily and held by the LGIP's custodian in the state's name.

Collateralized mortgage obligations utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. As of June 30, 2015, repurchase agreements totaled $2.97 billion.

State law also permits the LGIP to enter into reverse repurchase agreements which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the value of the securities.

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 2015, the LGIP did not enter into any reverse repurchase agreements.

## E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE, ENDOWMENT, AND STUDENT SERVICES FUNDS

### 1. Summary of Investment Policies

The investments of the University of Washington represent 74 percent of the total investments in Higher Education Special Revenue, Endowment, and Student Services Funds.

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer.

The University of Washington Investment Committee, comprised of board members and investment professionals, advises on matters relating to the management of the University's investment portfolios.

The majority of the University's investments are insured, registered, and held by the University's custodial bank as an agent for the University. Investments not held by the custodian include venture capital, private equity, opportunistic investments, marketable alternatives, mortgages, real assets, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2015, the Invested Funds Pool totaled $1.53 billion. The fund also owns units in the Consolidated Endowment Fund valued at $806.2 million on June 30, 2015.

By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2 percent in fiscal year 2015. Endowment operating and gift accounts received 3 percent in fiscal year 2015 with the distributions directed to the University. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. Chapter 24.55 RCW and the Uniform Prudent Management of Institutional Funds Act allow for total return expenditure in the CEF under comprehensive prudent standards.

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4 percent applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1 percent supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $3.0 million at June 30, 2015.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was $111.4 million at June 30, 2015. Income received from these trusts, which is included in investment income, was $6.2 million for the year ended June 30, 2015.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $71.5 million in fiscal year 2015 from the sale of investments.

The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these

investments reported in the prior year(s). The net appreciation in the fair value of investments during the year ended June 30, 2015, was $151.2 million.

The following schedule presents the fair value of the University's investments by type at June 30, 2015:

**University of Washington**
**June 30, 2015**
*(expressed in thousands)*

| Investment Type | Carrying Value |
|---|---|
| Cash equivalents | $ 403,978 |
| Fixed income | 1,726,481 |
| Equity | 1,733,102 |
| Non-marketable alternatives | 353,053 |
| Absolute return | 561,999 |
| Real assets | 189,447 |
| Miscellaneous | 8,602 |
| **Total** | $ 4,976,662 |

## 2. Funding Commitments

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2015, the University had outstanding commitments to fund alternative investments in the amount of $329.9 million. The University believes it has adequate liquidity and funding sources to meet these obligations.

## 3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. As of June 30, 2015, the University had no securities on loan.

## 4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform while controlling the interest rate risk in the portfolio.

Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 1.81 years at June 30, 2015.

## 5. Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline.

The University's investment policies limit fixed income exposure to investment grade assets. The investment policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of AA as issued by a nationally recognized rating organization. The investment policy for the Invested Funds' liquidity pool requires each manager to maintain an average quality rating of A and to hold at least 25 percent of their portfolios in government and government agency issues.

The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

**Custodial Credit Risk**. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy regarding custodial credit risk.

However, all University investments in the CEF and the Invested Funds Pool are held in the name of the University and are not subject to custodial credit risk.

**Concentration of Credit Risk**. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The CEF investment policy limits concentration by manager, country (other than U.S.), and market sector. The University further mitigates concentration of credit risk through the due diligence of each manager and careful monitoring of asset concentrations.

The composition of the fixed income securities at June 30, 2015, along with credit quality and effective duration measures is summarized below. The schedule excludes $36.0 million of fixed income securities held outside the CEF and the Invested Funds Pool, which makes up 1.69 percent of the University's investments.

**University of Washington**
**Invested Funds Pool and Consolidated Endowment Fund**
**Fixed Income Credit Quality and Effective Duration**
**June 30, 2015**
*(expressed in thousands)*

| Investment Type | U.S. Government | Investment Grade* | Non-Invest-ment Grade | Not Rated | Total | Effective Duration (in years) |
|---|---|---|---|---|---|---|
| U.S. treasuries | $ 842,525 | $ - | $ - | $ - | $ 842,525 | 1.43 |
| U.S. government agency | 644,721 | - | - | - | 644,721 | 2.46 |
| Mortgage-backed | - | 107,070 | 75,060 | 22,415 | 204,545 | 2.01 |
| Asset-backed | - | 195,968 | 6,998 | 24,111 | 227,077 | 1.73 |
| Corporate and other | - | 175,364 | - | 200 | 175,564 | 1.14 |
| **Total** | $ 1,487,246 | $ 478,402 | $ 82,058 | $ 46,726 | $ 2,094,432 | 1.81 |

* Investment grade securities are those that are rated BBB and higher by Standard and Poor's or Baa and higher by Moody's.

## 6. Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure. To manage foreign currency exposure, the University also enters into foreign currency forward contracts, futures contracts, and options. The University held non-U.S. denominated securities at June 30, 2015, of $1.20 billion.

The following schedule, stated in U.S. dollars, details the market value of foreign denominated securities by currency type:

**University of Washington**
**Consolidated Endowment Fund**
**Foreign Currency Risk**
**June 30, 2015**
*(expressed in thousands)*

| Foreign Currency | Amount |
|---|---|
| China-Yuan | $ 211,184 |
| E.M.U.-Euro | 174,487 |
| India-Rupee | 112,679 |
| Japan-Yen | 110,617 |
| Hong Kong-Dollar | 60,046 |
| South Korea-Won | 56,835 |
| Britain-Pound | 54,880 |
| Brazil-Real | 54,225 |
| Switzerland-Franc | 39,061 |
| Russia-Ruble | 36,218 |
| Canada-Dollar | 35,385 |
| Philippines-Peso | 29,100 |
| Taiwan-Dollar | 27,055 |
| Mexico-Peso | 23,898 |
| Remaining currencies | 169,400 |
| **Total** | $ 1,195,070 |

### 7. Derivatives

The University's investment policies allow investing in various derivative instruments, including futures, swaps, and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value.

Credit exposure represents exposure to counterparties relating to financial instruments where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2015. The University had no hedging derivatives, only derivatives for investment purposes.

Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

The following schedule presents the significant terms for derivatives held as investments by the University:

**University of Washington**
**Derivative Investments**
**June 30, 2015**
*(expressed in thousands)*

| Category | Changes in Fair Value - Included in Investment Income (Loss) Amount | Fair Value - Investment Derivative Amount | Notional |
|---|---|---|---|
| Futures contracts | $ (461) | $ 100,286 | $ 100,747 |

### 8. Reverse Repurchase Agreements – None.

## F. INVESTMENTS - OFFICE OF THE STATE TREASURER CASH MANAGEMENT ACCOUNT

### 1. Summary of Investment Policies

The Office of the State Treasurer (OST) operates the state's Cash Management Account for investing Treasury/Trust funds in excess of daily requirements. Investment income earned is allocated based on average daily cash balance. Pursuant to state law, all earnings on investments of Treasury/Trust funds are credited to the General Fund except as specifically provided in RCW 43.79A.040 and RCW 43.84.092. In fiscal year 2015, all of the investment income reported by the General Fund was earned by other funds.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

The emphasis on "expected" is to recognize that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of any investment decision is known with certainty at the time the decision is made.

**Eligible Investments**. Eligible investments are only those securities and deposits authorized by statute (chapters 39.58, 39.59, 43.250, and 43.84.080 RCW). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies or of corporations wholly owned by the U.S. government.
- Obligations of government-sponsored enterprises that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the banker's acceptance is rated by more than two

NRSROs, it must have the highest rating from all of the organizations.

- Commercial paper, provided that the OST adheres to policies and procedures of the Washington State Investment Board regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool (LGIP).
- Obligations of the state of Washington or its political subdivisions.

**Investment Restrictions**. To provide for the safety and liquidity of Treasury/Trust funds, the Cash Management Account investment portfolio is subject to the following restrictions:

- The final maturity of any security will not exceed ten years.
- Purchase of collateralized mortgage obligations is not allowed.
- The allocation to investments subject to high price sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

Additionally, investments in non-government securities, excluding collateral of repurchase agreements, must fall within prescribed limits.

## 2. Securities Lending

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the market value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the LGIP. At June 30, 2015, cash collateral totaled $148.3 million, all of which was invested in the LGIP.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2015, the fair value of securities on loan totaled $144.8 million.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2015, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

## 3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The Treasury/Trust investments are separated into portfolios with objectives based primarily on liquidity needs.

The OST's investment policy limits the weighted average maturity of its investments based on cash flow expectations. Policy also directs due diligence to be exercised with timely reporting of material deviation from expectations and actions taken to control adverse developments as may be possible.

The following schedule presents the OST investments and related maturities, and provides information about the associated interest rate risks as of June 30, 2015:

**Office of the State Treasurer (OST)**
**Cash Management Account**
**June 30, 2015**
*(expressed in thousands)*

| | | Maturity | |
|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less than 1 Year** | **1-5 Years** |
| U.S. agency obligations | $ 2,122,497 | $ 418,406 | $ 1,704,091 |
| U.S. government obligations | 1,202,418 | 186,679 | 1,015,739 |
| Certificates of deposit | 149,071 | 149,071 | - |
| Investments with LGIP | 1,786,267 | 1,786,267 | - |
| Interest bearing bank accounts | 71,140 | 71,140 | - |
| **Total** | $ 5,331,393 | $ 2,611,563 | $ 2,719,830 |

## 4. Credit Risk

The OST limits credit risk by adhering to the OST investment policy which restricts the types of investments the OST can participate in, such as: U.S. government and agency securities, banker's acceptances, commercial paper, and deposits with qualified public depositaries.

**Custodial Credit Risk**. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The OST investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment.

**Concentration of Credit Risk**. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During fiscal year 2015, the OST did not own any non-governmental securities subject to this restriction.

## 5. Foreign Currency Risk - None.

## 6. Derivatives - None.

## 7. Repurchase and Reverse Repurchase Agreements

Repurchase agreements and securities accepted for repurchase agreements are subject to the following additional restrictions.

Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the state's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement.

Repurchase agreements with any single primary dealer or financial institution will not exceed 20 percent of the portfolio or $600 million, whichever is greater. The maximum term of repurchase agreements will be 180 days. The share of the portfolio allocated to repurchase agreements with maturities beyond 30 days will not exceed 30 percent of the total portfolio.

Securities utilized in repurchase agreements with a maturity date longer than seven days are priced at least weekly and are held by the Treasury/Trust custodian in the state's name.

Treasury, agency, and money market securities will be priced at 102 percent of market value plus accrued income, except where the counterparty is the Federal Reserve Bank of New York, in which case they will be priced at 100 percent of market value plus accrued income.

Mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of market value plus accrued income.

Collateralized mortgage obligation securities utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council test or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.
Only securities authorized in statute for the investment of public funds are utilized in repurchase agreements. There were no repurchase agreements as of June 30, 2015.

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the market value of the securities.

If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. There were no reverse repurchase agreements during fiscal year 2015.

# Note 4
## Receivables, Unearned and Unavailable Revenues

### A. GOVERNMENTAL FUNDS

#### Taxes Receivable
Taxes receivable at June 30, 2015, consisted of the following (expressed in thousands):

| Taxes Receivable | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| Property | $ 1,017,320 | $ - | $ - | $ - | $ 1,017,320 |
| Sales | 1,778,527 | - | - | - | 1,778,527 |
| Business and occupation | 628,465 | - | - | - | 628,465 |
| Estate | 2,222 | 10,730 | - | - | 12,952 |
| Fuel | - | - | - | 144,602 | 144,602 |
| Liquor | - | - | - | 5,560 | 5,560 |
| Marijuana | - | - | - | 11,949 | 11,949 |
| Other | 4,625 | 149 | - | 380 | 5,154 |
| Subtotals | 3,431,159 | 10,879 | - | 162,491 | 3,604,529 |
| Less: Allowance for uncollectible receivables | 37,688 | - | - | 589 | 38,277 |
| **Total Taxes Receivable** | $ 3,393,471 | $ 10,879 | $ - | $ 161,902 | $ 3,566,252 |

#### Other Receivables
Other receivables at June 30, 2015, consisted of the following (expressed in thousands):

| Other Receivables | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| Public assistance [1] | $ 686,501 | $ - | $ - | $ - | $ 686,501 |
| Accounts receivable | 128,936 | 859,647 | 23,492 | 313,569 | 1,325,644 |
| Interest | 4,358 | 6,581 | 4,546 | 6,327 | 21,812 |
| Investment trades pending | 14,835 | - | - | 9,080 | 23,915 |
| Loans [2] | 5,918 | 131,257 | - | 463,593 | 600,768 |
| Long-term contracts [3] | 3,546 | - | 17,962 | 97,842 | 119,350 |
| Miscellaneous | 15,684 | 78,671 | - | 39,972 | 134,327 |
| Subtotals | 859,778 | 1,076,156 | 46,000 | 930,383 | 2,912,317 |
| Less: Allowance for uncollectible receivables | 684,824 | 29,096 | 48 | 85,223 | 799,191 |
| **Total Other Receivables** | $ 174,954 | $ 1,047,060 | $ 45,952 | $ 845,160 | $ 2,113,126 |

Notes:
[1] Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.
[2] Significant long-term portions of loans receivable include $112.5 million in the Higher Education Special Revenue Fund for student loans and $451.9 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.
[3] Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

## Unearned Revenue

Unearned revenue at June 30, 2015, consisted of the following (expressed in thousands):

| Unearned Revenue | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| Other taxes | $ 1,224 | $ - | $ - | $ 24 | $ 1,248 |
| Charges for services | 105,729 | 185,499 | - | 35,291 | 326,519 |
| Child support | 20,135 | - | - | - | 20,135 |
| Donable goods | 7 | - | - | 6,881 | 6,888 |
| Grants and donations | 3,671 | 1,584 | - | 8,832 | 14,087 |
| Prepaid tolls | - | - | - | 14,518 | 14,518 |
| Seizure of forfeited assets | - | - | - | 2,035 | 2,035 |
| Miscellaneous | 11,648 | 14,996 | - | 7,586 | 34,230 |
| **Total Unearned Revenue** | $ 142,414 | $ 202,079 | $ - | $ 75,167 | $ 419,660 |

## Unavailable Revenue

Unavailable revenue at June 30, 2015, consisted of the following (expressed in thousands):

| Unavailable Revenue | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| Property taxes | $ 996,751 | $ - | $ - | $ - | $ 996,751 |
| Other taxes | 425,888 | 9,631 | - | 254 | 435,773 |
| Timber sales | 3,546 | - | 17,962 | 97,842 | 119,350 |
| Charges for services | - | - | - | 51,835 | 51,835 |
| Miscellaneous | 5,000 | - | - | 623 | 5,623 |
| **Total Unavailable Revenue** | $ 1,431,185 | $ 9,631 | $ 17,962 | $ 150,554 | $ 1,609,332 |

## B. PROPRIETARY FUNDS

### Other Receivables

Other receivables at June 30, 2015, consisted of the following (expressed in thousands):

| | Business-Type Activities Enterprise Funds | | | | | | Governmental Activities |
|---|---|---|---|---|---|---|---|
| Other Receivables | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program | Nonmajor Enterprise Funds | Total | Internal Service Funds |
| Accounts receivable | $ 816,544 | $ 717,075 | $ 291,545 | $ 47,243 | $ 19,910 | $ 1,892,317 | $ 17,817 |
| Interest | 112,356 | - | 935 | 4,741 | - | 118,032 | 418 |
| Investment trades pending | 5 | - | - | 1,655 | - | 1,660 | 1,398 |
| Miscellaneous | 12,184 | - | 16,617 | - | 8 | 28,809 | 269 |
| Subtotals | 941,089 | 717,075 | 309,097 | 53,639 | 19,918 | 2,040,818 | 19,902 |
| Less: Allowance for uncollectible receivables | 152,446 | 115,799 | 78,308 | - | 82 | 346,635 | 470 |
| **Total Other Receivables** | $ 788,643 | $ 601,276 | $ 230,789 | $ 53,639 | $ 19,836 | $ 1,694,183 | $ 19,432 |

### Unearned Revenue

Unearned revenue at June 30, 2015, consisted of the following (expressed in thousands):

| | Business-Type Activities Enterprise Funds | | | | | | Governmental Activities |
|---|---|---|---|---|---|---|---|
| Unearned Revenue | Workers' Compensation | Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program | Nonmajor Enterprise Funds | Total | Internal Service Funds |
| Charges for services | $ - | $ - | $ 52,479 | $ - | $ - | $ 52,479 | $ 2,566 |
| Grants and donations | 5,961 | - | - | - | - | 5,961 | - |
| Other taxes | 552 | - | - | - | - | 552 | - |
| Miscellaneous | 509 | - | 2,600 | - | 4 | 3,113 | - |
| **Total Unearned Revenue** | $ 7,022 | $ - | $ 55,079 | $ - | $ 4 | $ 62,105 | $ 2,566 |

## C. FIDUCIARY FUNDS

### Other Receivables

Other receivables at June 30, 2015, consisted of $9.5 million for interest and other miscellaneous amounts.

### Unearned Revenue

Unearned revenue at June 30, 2015, consisted of $1.0 million for service credit restorations reported in Pension and Other Employee Benefit Plans.

# Note 5
## Interfund Balances and Transfers

### A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2015, consisted of the following (expressed in thousands):

| | Due From | | | | |
|---|---|---|---|---|---|
| Due To | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Workers' Compensation |
| General | $ - | $ 34,835 | $ - | $ 194,420 | $ 517 |
| Higher Education Special Revenue | 58,032 | - | 17 | 44,050 | 823 |
| Higher Education Endowment | - | - | - | 52 | - |
| Nonmajor Governmental Funds | 89,193 | 1,681 | 4,507 | 210,355 | 814 |
| Workers' Compensation | 11 | - | - | 90 | - |
| Unemployment Compensation | 1,174 | 1,677 | - | 14,810 | 15 |
| Higher Education Student Services | 407 | 2,963 | - | 11,637 | 244 |
| Guaranteed Education Tuition Program | - | - | - | - | - |
| Nonmajor Enterprise Funds | 8,793 | 514 | - | 2,658 | 113 |
| Internal Service Funds | 25,852 | 10,881 | - | 23,760 | 4,243 |
| Fiduciary Funds | - | - | - | - | - |
| **Totals** | $ 183,462 | $ 52,551 | $ 4,524 | $ 501,832 | $ 6,769 |

Except as noted below, interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred and (2) interfund transfers were accrued and when the liquidations occurred.

Interfund balances include: (1) a $19.8 million loan from a nonmajor governmental fund to the General Fund which is expected to be paid over the next five years; (2) a $7.3 million loan between nonmajor governmental funds which is expected to be paid over the next seven years, and (3) a $126.4 million revolving loan from the Higher Education Special Revenue Fund to the Higher Education Student Services Fund.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $51.1 million within the state's Pension Trust Funds.

| Due From | | | | | | |
|---|---|---|---|---|---|---|
| Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | Totals |
| $ 2 | $ 8 | $ 137 | $ 15,299 | $ 9,570 | $ - | $ 254,788 |
| - | 154,355 | 161 | 43 | 12,344 | - | 269,825 |
| - | - | - | - | - | 9 | 61 |
| 2,986 | 6 | 4 | 49 | 11,060 | - | 320,655 |
| - | - | - | - | - | 5 | 106 |
| - | 35 | - | 232 | 87 | 14 | 18,044 |
| - | - | - | - | 3,220 | 48 | 18,519 |
| - | - | - | - | - | 2 | 2 |
| 1 | 75 | 8 | 977 | 233 | 4 | 13,376 |
| - | 40 | 8 | 529 | 12,031 | - | 77,344 |
| - | - | - | - | - | - | - |
| $ 2,989 | $ 154,519 | $ 318 | $ 17,129 | $ 48,545 | $ 82 | $ 972,720 |

## B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2015, consisted of the following (expressed in thousands):

| | Transferred To | | | | |
|---|---|---|---|---|---|
| **Transferred From** | **General** | **Higher Education Special Revenue** | **Higher Education Endowment** | **Nonmajor Governmental Funds** | **Workers' Compensation** |
| General | $ - | $ - | $ 222 | $ 1,103,708 | $ - |
| Higher Education Special Revenue | 28,041 | - | 499,126 | 206,591 | - |
| Higher Education Endowment | - | 649,887 | - | 34,933 | - |
| Nonmajor Governmental Funds | 309,173 | 246,851 | 628 | 1,427,287 | - |
| Workers' Compensation | - | - | - | - | - |
| Unemployment Compensation | - | - | - | - | - |
| Higher Education Student Services | - | 391,306 | - | 2,225 | - |
| Guaranteed Education Tuition Program | - | - | - | - | - |
| Nonmajor Enterprise Funds | 126,163 | 6,050 | - | 11,543 | - |
| Internal Service Funds | 2,210 | 14,671 | - | 1,329 | - |
| **Totals** | $ 465,587 | $ 1,308,765 | $ 499,976 | $ 2,787,616 | $ - |

Except as noted below, transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (4) move profits from the Lottery Fund as required by law, and (5) transfer amounts to and from the General Fund as required by law.

On June 30, 2015, $211.9 million was transferred from the General Fund Basic Account to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. Additionally, the Legislature authorized the transfer from the BSA to the General Fund the amount attributable to extraordinary revenue growth of $37.9 million. The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature. The BSA is reported as an Administrative Account within the General Fund.

In addition to the transfers noted in the schedule above, there were transfers of $4.8 million within the state's Pension Trust Funds.

| Transferred To | | | | | |
|---|---|---|---|---|---|
| Unemployment Compensation | Higher Education Student Services | Guaranteed Education Tuition Program | Nonmajor Enterprise Funds | Internal Service Funds | Totals |
| $ - | $ - | $ - | $ - | $ 14,594 | $ 1,118,524 |
| - | 400,955 | - | - | 11,191 | 1,145,904 |
| - | - | - | - | - | 684,820 |
| - | - | - | - | 4,080 | 1,988,019 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | 32 | 393,563 |
| - | - | - | - | - | - |
| - | - | - | 12,804 | - | 156,560 |
| - | - | - | - | 26,080 | 44,290 |
| $ - | $ 400,955 | $ - | $ 12,804 | $ 55,977 | $ 5,531,680 |

# Note 6
## Capital Assets

Capital assets at June 30, 2015, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

### A. GOVERNMENTAL CAPITAL ASSETS

The following is a summary of governmental capital asset activity for the year ended June 30, 2015 (expressed in thousands):

| Capital Assets | Balances July 1, 2014 * | Additions | Deletions/ Adjustments | Balances June 30, 2015 |
|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | |
| Land | $ 2,571,351 | $ 76,226 | $ (22,200) | $ 2,625,377 |
| Transportation infrastructure | 22,416,792 | 818,243 | - | 23,235,035 |
| Intangible assets - indefinite lives | 12,914 | 2,024 | - | 14,938 |
| Art collections, library reserves, and museum and historical collections | 124,447 | 3,410 | (1,562) | 126,295 |
| Construction in progress | 906,261 | 541,820 | (557,099) | 890,982 |
| **Total capital assets, not being depreciated** | 26,031,765 | | | 26,892,627 |
| **Capital assets, being depreciated:** | | | | |
| Buildings | 12,331,158 | 475,415 | (18,189) | 12,788,384 |
| Accumulated depreciation | (4,629,158) | (336,125) | 3,052 | (4,962,231) |
| Net buildings | 7,702,000 | | | 7,826,153 |
| Other improvements | 1,426,011 | 43,960 | (6,159) | 1,463,812 |
| Accumulated depreciation | (682,463) | (50,606) | 5,594 | (727,475) |
| Net other improvements | 743,548 | | | 736,337 |
| Furnishings, equipment, and intangible assets | 4,705,174 | 625,135 | (206,574) | 5,123,735 |
| Accumulated depreciation | (3,191,916) | (278,214) | 174,976 | (3,295,154) |
| Net furnishings, equipment, and intangible assets | 1,513,258 | | | 1,828,581 |
| Infrastructure | 962,088 | 56,688 | (8,055) | 1,010,721 |
| Accumulated depreciation | (483,168) | (30,144) | 2,116 | (511,196) |
| Net infrastructure | 478,920 | | | 499,525 |
| **Total capital assets, being depreciated, net** | 10,437,726 | | | 10,890,596 |
| **Governmental Activities Capital Assets, Net** | $ 36,469,491 | | | $ 37,783,223 |

* Beginning balances reflect the prior period adjustments by the Department of Transportation for assets not previously placed into inventory, which resulted in an increase in capital assets of $98.4 million and an increase in accumulated depreciation of $4.1 million.

## B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2015 (expressed in thousands):

| Capital Assets | Balances July 1, 2014 | Additions | Deletions/ Adjustments | Balances June 30, 2015 |
|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | |
| Land | $ 60,752 | $ - | $ (3,203) | $ 57,549 |
| Intangible assets - indefinite lives | 4,580 | - | - | 4,580 |
| Art collections | 35 | 40 | - | 75 |
| Construction in progress | 103,825 | 212,917 | (23,992) | 292,750 |
| **Total capital assets, not being depreciated** | 169,192 | | | 354,954 |
| **Capital assets, being depreciated:** | | | | |
| Buildings | 3,263,882 | 18,730 | (18,374) | 3,264,238 |
| Accumulated depreciation | (854,176) | (98,909) | 967 | (952,118) |
| Net buildings | 2,409,706 | | | 2,312,120 |
| Other improvements | 97,959 | 693 | (163) | 98,489 |
| Accumulated depreciation | (39,602) | (6,177) | 42 | (45,737) |
| Net other improvements | 58,357 | | | 52,752 |
| Furnishings, equipment, and intangible assets | 675,028 | 51,207 | (12,128) | 714,107 |
| Accumulated depreciation | (485,413) | (56,076) | 11,091 | (530,398) |
| Net furnishings, equipment, and intangible assets | 189,615 | | | 183,709 |
| Infrastructure | 42,331 | 315 | - | 42,646 |
| Accumulated depreciation | (19,055) | (1,407) | (192) | (20,654) |
| Net infrastructure | 23,276 | | | 21,992 |
| **Total capital assets, being depreciated, net** | 2,680,954 | | | 2,570,573 |
| **Business-Type Activities Capital Assets, Net** | $ 2,850,146 | | | $ 2,925,527 |

## C. DEPRECIATION

Depreciation expense for the year ended June 30, 2015, was charged by the primary government as follows (expressed in thousands):

| | | Amount |
|---|---|---|
| **Governmental Activities:** | | |
| General government | $ | 79,798 |
| Education - elementary and secondary (K-12) | | 6,276 |
| Education - higher education | | 382,701 |
| Human services | | 37,752 |
| Adult corrections | | 44,653 |
| Natural resources and recreation | | 34,716 |
| Transportation | | 109,193 |
| **Total Depreciation Expense - Governmental Activities *** | $ | 695,089 |
| **Business-Type Activities:** | | |
| Workers' compensation | $ | 7,184 |
| Unemployment compensation | | - |
| Higher education student services | | 154,028 |
| Guaranteed education tuition program | | 2 |
| Other | | 1,355 |
| **Total Depreciation Expense - Business-Type Activities** | $ | 162,569 |

* Includes $97.2 million internal service fund depreciation that was allocated to governmental activities as a component of net internal service fund activity.

## D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2015, are as follows (expressed in thousands):

| Agency / Project Commitments | Construction In Progress June 30, 2015 | Remaining Project Commitments |
|---|---|---|
| **Department of Commerce:** | | |
| Pacific Tower renovations | $ 11,704 | $ - |
| **Consolidated Technology Services:** | | |
| State Data Center buildout | 11,053 | 1,808 |
| **Employment Security Department** | | |
| Unemployment Tax & Benefit system and other projects | 6,107 | 18,339 |
| **Department of Enterprise Services:** | | |
| 1063 Building project | 5,459 | 77,017 |
| Various projects | 25,380 | 30,002 |
| **Military Department** | | |
| Pierce County readiness center and other projects | 13,178 | 25,670 |
| **Department of Social and Health Services:** | | |
| Residential housing unit renovations and other projects | 33,141 | 4,947 |
| **Department of Veterans Affairs:** | | |
| Walla Walla Veterans Home, Eastern Washington State Cemetery, and other projects | 11,319 | 43,034 |
| **Department of Corrections:** | | |
| Correctional center units security and safety improvements, and other projects | 15,907 | 16,045 |
| **Department of Transportation:** | | |
| State ferry vessels and terminals, locomotives, and other projects | 120,480 | 104,688 |
| Transportation infrastructure | - | 1,382,028 |
| **Department of Fish and Wildlife:** | | |
| Voights Creek hatchery, Soos Creek, Fir Island farm restoration, and other projects | 19,100 | 57,971 |
| **University of Washington:** | | |
| Hec Ed student services and Graves renovation projects | 2,132 | 1,031 |
| UW Medical Center expansion and renovation projects | 101,993 | 20,252 |
| Maple and Terry Hall renovations, Lander Hall replacement, | 108,578 | 12,775 |
| NanaEngineering & Sciences building, animal research and care facility, UW police department, and other projects | 156,133 | 119,646 |
| Burke Gilman trail and other parking projects | 3,542 | 3,330 |
| **Washington State University:** | | |
| Clean technology laboratory, animal health research facility, digital classroom, Spokane teaching health center, and other facility projects | 65,079 | 126,541 |
| Baily-Brayton field clubhouse and indoor practice facility projects | 66 | 10,057 |
| Cultural house, Tri Cities student union and other projects | 577 | 17,215 |
| Chief Joseph Village renovation, global scholars, and other housing projects | 48,324 | 50,882 |
| Police station, smart grid, Vancouver parking lot, and other projects | 4,943 | 8,864 |
| **Eastern Washington University:** | | |
| Pence union building renovation, science center, water system upgrade, and other projects | 3,756 | 14,055 |
| **Central Washington University:** | | |
| Getz-Short renovation, Samuel communication & technology center, and other projects | 5,229 | 6,055 |
| Science hall phase two project | 32,921 | 30,741 |
| **The Evergreen State College:** | | |
| Science center lab 1 & 2, and other projects | 6,455 | 1,925 |
| **Western Washington University:** | | |
| Carver Hall renovation, housing and dining, and other projects | 21,995 | 12,586 |
| **Community and Technical Colleges:** | | |
| ctcLink project | 66,744 | 33,256 |
| Green River Trades & Industry, Auburn center, and student center replacement projects | 52,938 | 17,458 |
| Lower Columbia Health and Science building, and fitness center project | 44,067 | 2,471 |
| Grays Harbor Schermer project | 41,195 | 1,617 |
| Edmonds SET building project | 1,838 | 47,841 |
| Tacoma health careers center and health & wellness center projects | 33,800 | 14,500 |
| Other miscellaneous community college projects | 87,498 | 92,362 |
| **Other Agency Projects** | 21,101 | 17,556 |
| **Total Construction in Progress** | $ 1,183,732 | $ 2,424,565 |

# Note 7
# Long-Term Liabilities

## A. BONDS PAYABLE

Bonds payable at June 30, 2015, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the Legislature or by a body designated by statute (presently the State Finance Committee).

Legislative authorization arises:

- From an affirmative vote of 60 percent of the members of each house of the Legislature, without voter approval, in which case the amount of such debt is generally subject to the constitutional debt limitation described below;
- When authorized by law for a distinct work or object and approved by a majority of the voters voting thereon at a general election, or a special election called for that purpose, in which case the amount of the debt so approved is not subject to the constitutional debt limitations described below;
- By the State Finance Committee without limitation as to amount, and without approval of the Legislature or approval of the voters.

The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) meeting temporary deficiencies of the state treasury if such debt is discharged within 12 months of the date of incurrence and is incurred only to provide for appropriations already made by the Legislature; or (2) refunding of outstanding obligations of the state.

### Legal Debt Limitation

The State Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues which may be allocated to pay principal and interest on debt subject to these limitations. In November 2012, voters passed a constitutional amendment specifying that maximum annual payments of principal and interest on all debt subject to the limit may not exceed a percentage of the average of the prior six years' general state revenues; this percentage currently stands at 8.5 percent and will decline to 8 percent by July 1, 2034. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

The State Constitution requires the State Treasurer to certify the debt service limitation for each fiscal year. In accordance with these provisions, the debt service limitation for fiscal year 2015 is $1.26 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $18.77 billion general obligation bond debt principal outstanding at June 30, 2015, $11.16 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2015, did not exceed the authorized debt service limitation.

For further information on the debt limit refer to the Certification of the Debt Limitation of the State of Washington available from the Office of the State Treasurer at:
http://www.tre.wa.gov/documents/debt_cd2015.pdf
or to Schedule 11 in the Statistical Section of this report.

### Authorized But Unissued

The state had a total of $5.61 billion in general obligation bonds authorized but unissued as of June 30, 2015, for the purpose of capital construction, higher education, transportation, and various other projects throughout the state.

### Interest Rates

Interest rates on fixed rate general obligation bonds range from 0.2 to 6.4 percent. Interest rates on revenue bonds range from 0.5 to 7.4 percent.

## Debt Service Requirements to Maturity

### General Obligations Bonds

General obligation bonds have been authorized and issued primarily to provide funds for:

- Acquisition and construction of state and common school capital facilities;
- Transportation construction and improvement projects;
- Assistance to local governments for public works capital projects; and
- Refunding of general obligation bonds outstanding.

Outstanding general obligation bonds are presented in the Washington State Treasurer's Annual Report for 2015. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963, or by visiting their website at:
http://www.tre.wa.gov/aboutUs/publications/annualReports.shtml.

Total debt service requirements to maturity for general obligation bonds as of June 30, 2015, are as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **General Obligation Bonds** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2016 | $ 892,262 | $ 894,477 | $ 4,050 | $ 110 | $ 896,312 | $ 894,587 |
| 2017 | 917,539 | 885,722 | - | - | 917,539 | 885,722 |
| 2018 | 909,284 | 844,404 | - | - | 909,284 | 844,404 |
| 2019 | 906,459 | 807,091 | - | - | 906,459 | 807,091 |
| 2020 | 908,437 | 772,419 | - | - | 908,437 | 772,419 |
| 2021-2025 | 4,506,094 | 3,104,095 | - | - | 4,506,094 | 3,104,095 |
| 2026-2030 | 4,376,413 | 2,079,821 | - | - | 4,376,413 | 2,079,821 |
| 2031-2035 | 3,378,305 | 881,025 | - | - | 3,378,305 | 881,025 |
| 2036-2040 | 1,729,340 | 260,724 | - | - | 1,729,340 | 260,724 |
| 2041-2045 | 238,045 | 12,584 | - | - | 238,045 | 12,584 |
| **Total Debt Service Requirements** | $ 18,762,178 | $ 10,542,362 | $ 4,050 | $ 110 | $ 18,766,228 | $ 10,542,472 |

## Revenue Bonds

Revenue bonds are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state.

**General Revenue**.
The University of Washington and Washington State University issue general revenue bonds that are payable from general revenues, including student tuition, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2015, include $698.4 million in governmental activities and $1.36 billion in business-type activities.

**Pledged Revenue**.
The remainder of the state's revenue bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Total debt service requirements for revenue bonds to maturity as of June 30, 2015, are as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **Revenue Bonds** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2016 | $ 113,487 | $ 100,646 | $ 89,178 | $ 87,632 | $ 202,665 | $ 188,278 |
| 2017 | 114,078 | 101,272 | 53,005 | 85,757 | 167,083 | 187,029 |
| 2018 | 113,030 | 95,803 | 55,603 | 83,706 | 168,633 | 179,509 |
| 2019 | 118,468 | 90,359 | 57,293 | 81,310 | 175,761 | 171,669 |
| 2020 | 122,443 | 84,654 | 58,823 | 78,805 | 181,266 | 163,459 |
| 2021-2025 | 686,194 | 327,376 | 316,349 | 349,651 | 1,002,543 | 677,027 |
| 2026-2030 | 312,165 | 205,446 | 336,844 | 270,002 | 649,009 | 475,448 |
| 2031-2035 | 281,417 | 129,472 | 328,421 | 186,768 | 609,838 | 316,240 |
| 2036-2040 | 238,159 | 66,019 | 362,778 | 100,360 | 600,937 | 166,379 |
| 2041-2045 | 113,635 | 23,070 | 195,529 | 17,546 | 309,164 | 40,616 |
| 2046-2050 | 62,669 | 9,469 | - | - | 62,669 | 9,469 |
| 2051-2055 | 13,689 | 736 | - | - | 13,689 | 736 |
| **Total Debt Service Requirements** | $ 2,289,434 | $ 1,234,322 | $ 1,853,823 | $ 1,341,537 | $ 4,143,257 | $ 2,575,859 |

Governmental activities include revenue bonds outstanding at June 30, 2015, of $273.2 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517.9 million in bonds and transferred $450.0 million to the state to be used for increased health care, long-term care, and other programs.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $407.2 million, payable through 2033. For the current year, both pledged revenue and debt service were $47.4 million.

Governmental activities include grant anticipation revenue bonds outstanding at June 30, 2015, of $786.3 million issued for the Washington State Department of Transportation. The bonds were issued to finance a portion of the costs of constructing the State Route 520 Floating Bridge and Eastside Project.

These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds. Total principal and interest remaining on the bonds is $997.5 million, payable through 2024. For the current year both pledged revenue and debt service were $39.1 million.

Governmental activities include the Transportation Infrastructure Finance and Innovation Act Bond (TIFIA Bond) outstanding at June 30, 2015, of $195.2 million. The bonds were issued to finance a portion of the State Route 520 Corridor Program.

The TIFIA Bond is payable solely from toll revenues and does not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of this bond. Total principal and interest remaining on the bond is $347.2 million, payable through 2051.

Governmental activities include revenue bonds outstanding at June 30, 2015, of $43.4 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in fiscal year 2006.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $59.7 million, payable through 2029. For the current year, both pledged revenue and debt service were $999 thousand.

Governmental activities include revenue bonds outstanding at June 30, 2015, of $286.8 million issued by FYI Properties, a blended component unit of the state. The bonds, issued in 2009, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Olympia, Washington which the state occupied beginning in fiscal year 2012.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $517.5 million, payable through 2039. For the current year, both pledged revenue and debt service were $21.6 million.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2015, of $6.1 million issued by the City of Aberdeen. The bonds were used to extend utilities to the state Department of Corrections Stafford Creek Corrections Center (SCCC). The Department of Corrections entered into an agreement with the City of Aberdeen to pay a system development fee sufficient to pay the debt service on the bonds. The bonds were issued in 1998 and 2002, and refunded by the city in 2010, and are payable solely from current operating appropriations.

The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on these bonds is $7.0 million, payable through 2022. For the current year, both pledged revenue and debt service were $1.6 million.

The state's colleges and universities may also issue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within business-type activities and are secured by a pledge of specific revenues. These bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds.

Total pledged specific revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2015, are as follows (expressed in thousands):

| Source of Revenue Pledged | Housing and Dining Revenues (Net of Operating Expenses) | Student Facilities Fees and Earnings on Invested Fees | Bookstore Revenues |
|---|---|---|---|
| Current revenue pledged | $ 27,812 | $ 27,727 | $ 82 |
| Current year debt service | 18,930 | 11,547 | 202 |
| Total future revenues pledged * | 349,838 | 190,956 | 3,842 |
| Description of debt | Housing and dining bonds issued in 1998-2015 | Student facilities bonds issued in 2006-2015 | Student union and recreation center bonds issued in 2004 |
| Purpose of debt | Construction and renovation of student housing and dining | Construction and renovation of student activity and sports facilities | Construct new bookstore as part of new student union and recreation center building |
| Term of commitment | 2026-2042 | 2031-2039 | 2034 |
| Percentage of debt service to pledged revenues (current year) | 68.1% | 41.7% | 246.4% |

* Total future principal and interest payments.

## B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2015, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature.

Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2015, are as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|---|---|---|---|---|---|
| **Certificates of Participation** | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| **By Fiscal Year:** | | | | | | |
| 2016 | $ 121,143 | $ 34,652 | $ 4,302 | $ 1,230 | $ 125,445 | $ 35,882 |
| 2017 | 55,050 | 19,271 | 4,306 | 1,507 | 59,356 | 20,778 |
| 2018 | 52,161 | 17,065 | 4,080 | 1,335 | 56,241 | 18,400 |
| 2019 | 46,956 | 14,941 | 3,673 | 1,169 | 50,629 | 16,110 |
| 2020 | 42,078 | 13,024 | 3,291 | 1,019 | 45,369 | 14,043 |
| 2021-2025 | 144,951 | 42,856 | 11,337 | 3,352 | 156,288 | 46,208 |
| 2026-2030 | 95,996 | 14,035 | 7,509 | 1,098 | 103,505 | 15,133 |
| 2031-2035 | 17,288 | 1,055 | 1,352 | 83 | 18,640 | 1,138 |
| **Total Debt Service Requirements** | $ 575,623 | $ 156,899 | $ 39,850 | $ 10,793 | $ 615,473 | $ 167,692 |

## C. DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds.

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds.

As a result, the refunded bonds are considered defeased and the liability is removed from the government-wide statement of net position.

### Current Year Defeasances

#### Bonds

**Governmental Activities**.
On July 9, 2014, the state issued $420.5 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.9 percent to refund $443.5 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.8 percent. The refunding resulted in a $37.8 million gross debt service savings over the next 12 years and a net present value savings of $29.8 million.

Also on July 9, 2014, the state issued $420.1 million of various purpose general obligation refunding bonds with an average interest rate of 4.8 percent to refund $438.5 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $38.0 million gross debt service savings over the next 12 years and a net present value savings of $30.5 million.

On November 6, 2014, the state issued $301.8 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5 percent to refund $328.0 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $53.0 million gross debt service savings over the next 18 years and a net present value savings of $40.9 million.

Also on November 6, 2014, the state issued $616.0 million of various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $675.8 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $119.6 million gross debt service savings over the next 18 years and a net present value savings of $95.7 million.

On February 4, 2015, the state issued $458.8 million in various purpose general obligation refunding bonds with an average interest rate of 5 percent to refund $492.3 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $54.8 million gross debt service savings over the next 18 years and a net present value savings of $45.3 million.

On March 4, 2015, the state issued $147.3 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 5 percent to refund $155.7 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $14.8 million gross debt service savings over the next 16 years and a net present value savings of $12.0 million.

Also on March 4, 2015, the state issued $132.7 million of motor vehicle fuel tax general obligation refunding bonds with an average interest rate of 4.8 percent to refund $144.2 million of motor vehicle fuel tax general obligation bonds with an average interest rate of 4.5 percent. The refunding resulted in a $17.8 million gross

debt service savings over the next 16 years and a net present value savings of $11.4 million.

Also on March 4, 2015, the state issued $113.3 million of various purpose general obligation refunding bonds with an average interest rate of 4.6 percent to refund $120.6 million of various purpose general obligation bonds with an average interest rate of 4.5 percent. The refunding resulted in a $10.7 million gross debt service savings over the next 13 years and a net present value savings of $9.1 million.

**Business-Type Activities**.
On August 21, 2014, the Washington Biomedical Research Properties II, a blended component unit of the University of Washington, issued $115.7 million in lease revenue refunding bonds with an average interest rate of 4.5 percent to refund $118.9 million of lease revenue bonds with an average interest rate of 5 percent. The refunding resulted in a $15.0 million gross debt service savings over the next 12 years and an economic gain of $12.6 million.

On March 4, 2015, the University of Washington issued $176.1 million in general revenue refunding bonds with an average interest rate of 4.4 percent to refund $190.2 million of business-type activity lease revenue bonds with an average interest rate of 5 percent. The refunding resulted in a $75.0 million gross debt service savings over the next 15 years and an economic gain of $38.1 million.

On March 4, 2015, Western Washington University issued $13.4 million in housing and dining refunding bonds with an average interest rate of 4 percent to refund $15.2 million of housing and dining revenue bonds with an average interest rate of 6 percent. The refunding resulted in a $1.9 million gross debt service savings over the next 12 years and an economic gain of $1.6 million.

On March 11, 2015, Washington State University issued $64.5 million in general revenue refunding bonds with an average interest rate of 5% to refund $13.0 million in housing and dining revenue bonds with an average interest rate of 4.3%, $5.7 million in parking revenue bonds with an average interest rate of 4.3%, and $53.4 million in student fees revenue bonds with an average interest rate of 5%. The refunding resulted in an $11.0 million gross debt service savings over the next 9 to 24 years and an economic gain of $8.5 million.

## Prior Year Defeasances

In prior years, the state defeased certain general obligation bonds, revenue bonds, and certificates of participation by placing the proceeds of new bonds and certificates in an irrevocable trust to provide for all future debt service payments on the prior bonds and certificates.

Accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the state's financial statements.

### General Obligation Bond Debt

On June 30, 2015, $3.82 billion of general obligation bonded debt outstanding is considered defeased.

### Revenue Bond Debt

On June 30, 2015, $306.4 million of revenue bonded debt outstanding is considered defeased.

### Certificates of Participation Debt

On June 30, 2015, $44.8 million of certificates of participation debt outstanding is considered defeased.

## D. LEASES

Leases at June 30, 2015, are reported by the state of Washington within governmental activities and business-type activities, as applicable.

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease.

Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Land, buildings, and equipment under capital leases as of June 30, 2015, include the following (expressed in thousands):

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Buildings | $ 1,705 | $ 4,512 |
| Equipment | 8,468 | 14,840 |
| Less: Accumulated Depreciation | (5,750) | (10,174) |
| **Totals** | $ 4,423 | $ 9,178 |

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2015 (expressed in thousands):

| | Capital Leases | | Operating Leases | |
|---|---|---|---|---|
| **Capital and Operating Leases** | **Governmental Activities** | **Business-Type Activities** | **Governmental Activities** | **Business-Type Activities** |
| **By Fiscal Year:** | | | | |
| 2016 | $ 1,553 | $ 2,850 | $ 178,497 | $ 28,513 |
| 2017 | 1,134 | 2,794 | 140,827 | 26,155 |
| 2018 | 520 | 2,002 | 112,507 | 21,250 |
| 2019 | 514 | 1,516 | 86,455 | 11,190 |
| 2020 | 498 | 1,383 | 46,581 | 10,452 |
| 2021-2025 | 1,608 | 3,814 | 115,095 | 34,517 |
| 2026-2030 | - | - | 29,543 | 22,487 |
| 2031-2035 | - | - | 15,878 | 22,175 |
| 2036-2040 | - | - | 12,817 | 24,505 |
| 2041-2045 | - | - | 8,991 | 24,783 |
| **Total Future Minimum Payments** | 5,827 | 14,359 | 747,191 | 226,027 |
| Less: Executory Costs and Interest Costs | (386) | (1,409) | - | - |
| **Net Present Value of Future Minimum Lease Payments** | $ 5,441 | $ 12,950 | $ 747,191 | $ 226,027 |

The total operating lease rental expense for fiscal year 2015 for governmental activities was $354.7 million, of which $231 thousand was for contingent rentals. The total operating lease rental expense for fiscal year 2015 for business-type activities was $35.8 million.

## E. CLAIMS AND JUDGMENTS

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation is a business-type activity, and risk management and health insurance are governmental activities. A description of the risks to which the state is exposed by these activities, and the ways in which the state handles the risks, is presented in Note 1.E.

### Workers' Compensation

At June 30, 2015, $36.12 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $25.07 billion. These claims are discounted at assumed interest rates of 1.5 percent (non-pension and cost of living adjustments), 4.5 to 6.4 percent (pensions not yet granted), and 6.4 percent (granted pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $25.07 billion as of June 30, 2015, include $11.83 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

These COLA payments are funded on a pay-as-you-go basis, and the workers' compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due.

The remaining claims liabilities of $13.23 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during fiscal years 2014 and 2015 were as follows (expressed in thousands):

| Workers' Compensation Fund | Balances Beginning of Fiscal Year | Incurred Claims and Changes in Estimates | Claim Payments | Balances End of Fiscal Year |
|---|---|---|---|---|
| 2014 | $ 23,627,560 | 2,953,508 | (2,143,534) | $ 24,437,534 |
| 2015 | $ 24,437,534 | 2,814,134 | (2,185,519) | $ 25,066,149 |

## Risk Management

The Risk Management Fund administers tort and sundry claims filed against Washington state agencies, except the University of Washington. The fund reports a tort liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for tort claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense.

Because actual liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to general and automobile liability matters.

As of June 30, 2015, outstanding and actuarially determined claims against the state and its agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division, including actuarially projected defense costs were $579.9 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined liabilities.

At June 30, 2015, the Risk Management Fund held $60.8 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Changes in the balances of risk management claims liabilities during fiscal years 2014 and 2015 were as follows (expressed in thousands):

| Risk Management Fund | Balances Beginning of Fiscal Year | Incurred Claims and Changes in Estimates | Claim Payments | Tort Defense Payments | Balances End of Fiscal Year |
|---|---|---|---|---|---|
| 2014 | $ 542,709 | 74,760 | (48,488) | (18,993) | $ 549,988 |
| 2015 | $ 549,988 | 110,648 | (59,621) | (21,087) | $ 579,928 |

## Health Insurance

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2015, health insurance claims liabilities totaling $73.6 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claims liabilities during fiscal years 2014 and 2015 were as follows (expressed in thousands):

| Health Insurance Fund | Balances Beginning of Fiscal Year | Incurred Claims and Changes in Estimates | Claim Payments | Balances End of Fiscal Year |
|---|---|---|---|---|
| 2014 | $ 59,873 | 856,230 | (845,854) | $ 70,249 |
| 2015 | $ 70,249 | 934,082 | (930,724) | $ 73,607 |

## F. POLLUTION REMEDIATION

The state reports pollution remediation obligations in accordance with GASB Statement No. 49. The liability reported involves estimates of financial responsibility and amounts recoverable as well as remediation costs.

The liability could change over time as new information becomes available and as a result of changes in remediation costs, technology, and regulations governing remediation efforts. Additionally, the responsibilities and liabilities discussed in this disclosure are intended to refer to obligations solely in the accounting context. This disclosure does not constitute an admission of any legal responsibility or liability. Further, it does not establish or affect the rights or obligations of any person under the law, nor does this disclosure impose upon the state any new mandatory duties or obligations.

The state and its agencies are participating as potentially responsible parties in numerous pollution remediation projects under the provisions of the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA, generally referred to as Superfund) and the state Model Toxics Control Act.

There are 27 projects in progress for which the state has recorded a liability of $70.7 million.

The state has also voluntarily agreed to conduct certain remediation activities to the extent of funding paid to the state by third parties for such purposes. At June 30, 2015, the state has recorded a liability of $99.0 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $169.7 million, measured at its estimated amount, using the expected cash flow technique. The overall estimate is based on professional judgment, experience, and historical cost data. For some projects, the state can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the state has experience. In other cases, the estimates are limited to an amount specified in a settlement agreement, consent decree, or contract for remediation services.

The pollution remediation activity at some sites for which the state would otherwise have a reportable obligation is at a point where certain costs are not reasonably estimable. For example, a site assessment, remedial investigation, or feasibility study is in progress and the cleanup methodology has not yet been determined; consequently, associated future costs cannot be estimated.

The state's reported liability does not include remediation costs for future activities where costs are not yet reasonably estimable.

## G. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2015, is reported by the state of Washington within governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for fiscal year 2015 is as follows (expressed in thousands):

| Governmental Activities: | Beginning Balance July 1, 2014 * | Additions | Reductions | Ending Balance June 30, 2015 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Long-Term Debt:** | | | | | |
| GO Bonds Payable: | | | | | |
| General obligation (GO) bonds | $ 18,397,375 | $ 3,464,175 | $ 3,618,030 | $ 18,243,520 | $ 845,260 |
| GO - zero coupon bonds (principal) | 556,942 | - | 38,284 | 518,658 | 47,002 |
| Subtotal - GO bonds payable | 18,954,317 | 3,464,175 | 3,656,314 | 18,762,178 | 892,262 |
| Accreted interest - GO - zero coupon bonds | 415,936 | 56,015 | - | 471,951 | 46,372 |
| Revenue bonds payable | 1,987,810 | 358,420 | 56,796 | 2,289,434 | 113,487 |
| Plus: Unamortized issuance premiums | 33,284 | 652,415 | 25,688 | 660,011 | - |
| **Total Bonds Payable** | 21,391,347 | 4,531,025 | 3,738,798 | 22,183,574 | 1,052,121 |
| **Other Liabilities:** | | | | | |
| Certificates of participation | 569,885 | 69,672 | 63,934 | 575,623 | 121,143 |
| Plus: Deferred issuance premiums | - | 5,645 | 833 | 4,812 | - |
| Claims and judgments | 762,934 | 168,471 | 67,276 | 864,129 | 295,105 |
| Installment contracts | 2,185 | - | 2,185 | - | - |
| Leases | 8,526 | 172 | 3,257 | 5,441 | 1,490 |
| Compensated absences | 549,417 | 351,998 | 348,478 | 552,937 | 63,647 |
| Net pension liability | 4,557,121 | 553,718 | 1,813,537 | 3,297,302 | - |
| Other postemployment benefits obligations | 1,720,545 | 384,249 | - | 2,104,794 | - |
| Pollution remediation obligations | 164,839 | 26,327 | 21,468 | 169,698 | - |
| Unclaimed property refunds | 100,779 | 29,878 | 1 | 130,656 | - |
| Other | 461,594 | 143,727 | 35,663 | 569,658 | - |
| **Total Other Liabilities** | 8,897,825 | 1,733,857 | 2,356,632 | 8,275,050 | 481,385 |
| **Total Long-Term Debt** | $ 30,289,172 | $ 6,264,882 | $ 6,095,430 | $ 30,458,624 | $ 1,533,506 |

* Beginning balances have been adjusted as follows: a $4.16 billion increase to net pension liability as a result of implementing GASB Statement No. 68; a $127.0 million increase to properly reclassify outstanding revenue bonds payable from business type activities to governmental activities; and a $9.4 million increase to other long-term obligations to record previously unrecorded obligations.

For governmental activities, certificates of participation are being repaid approximately 18 percent from the General Fund, 35 percent from the Higher Education Special Revenue Fund, 18 percent from the Wildlife and Natural Resources (a nonmajor special revenue fund), 17 percent from the Motor Vehicle (a nonmajor special revenue fund), and the balance from various governmental funds. The compensated absences liability will be liquidated approximately 42 percent by the General Fund, 35 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 67 percent by the Risk Management Fund (an internal service fund), 10 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The other postemployment benefits obligations liability will be liquidated approximately 45 percent by the General Fund, 31 percent by the Higher Education Special Revenue Fund, and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 58 percent by the Wildlife and Natural Resources Fund (a nonmajor governmental fund), and the balance by various other governmental funds. The unclaimed property refunds will be liquidated against future unclaimed property deposited to the General Fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for fiscal year 2015 is as follows (expressed in thousands):

| Business-Type Activities | Beginning Balance July 1, 2014 * | Additions | Reductions | Ending Balance June 30, 2015 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Long-Term Debt:** | | | | | |
| General obligation bonds payable | $ 7,870 | $ - | $ 3,820 | $ 4,050 | $ 4,050 |
| Revenue bonds payable | 2,009,431 | 658,671 | 814,279 | 1,853,823 | 89,178 |
| Plus: Unamortized issuance premiums | 100,203 | 53,300 | 16,021 | 137,482 | - |
| Less: Deferred issuance discounts | (149) | 54 | - | (95) | - |
| **Total Bonds Payable** | 2,117,355 | 712,025 | 834,120 | 1,995,260 | 93,228 |
| **Other Liabilities:** | | | | | |
| Certificates of participation | 35,328 | 10,386 | 5,864 | 39,850 | 4,302 |
| Plus: Deferred issuance premiums | 2,414 | - | 281 | 2,133 | - |
| Claims and judgments | 24,447,479 | 1,147,338 | 514,313 | 25,080,504 | 1,964,234 |
| Lottery prize annuities payable | 149,840 | 89,536 | 109,470 | 129,906 | 20,129 |
| Tuition benefits payable | 2,767,000 | 47,000 | 772,000 | 2,042,000 | 220,000 |
| Leases | 15,335 | - | 2,385 | 12,950 | 2,463 |
| Compensated absences | 68,671 | 32,773 | 23,942 | 77,502 | 45,807 |
| Net pension liability | 521,589 | 45,701 | 204,314 | 362,976 | - |
| Other postemployment benefits obligations | 174,022 | 44,072 | - | 218,094 | - |
| Other | 41,849 | 125,037 | 25,071 | 141,815 | - |
| **Total Other Liabilities** | 28,223,527 | 1,541,843 | 1,657,640 | 28,107,730 | 2,256,935 |
| **Total Long-Term Debt** | $ 30,340,882 | $ 2,253,868 | $ 2,491,760 | $ 30,102,990 | $ 2,350,163 |

* Beginning balances have been adjusted as follows: a $521.6 million increase to net pension liability as a result of implementing GASB Statement No. 68 and a $127.0 million decrease to properly reclassify outstanding revenue bonds payable from business type activities to governmental activities.

# Note 8
## No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their full faith and credit for the payment of such bonds.

Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The schedule below presents the June 30, 2015, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

| Financing Authorities | Principal Balance |
|---|---|
| Washington State Housing Finance Commission | $ 3,419,567 |
| Washington Higher Education Facilities Authority | 759,833 |
| Washington Health Care Facilities Authority | 5,609,000 |
| Washington Economic Development Finance Authority | 682,472 |
| **Total No Commitment Debt** | $ 10,470,872 |

# Note 9
## Governmental Fund Balances

### A. GOVERNMENTAL FUND BALANCES

The state's governmental fund balances are reported according to the relative constraints that control how amounts can be spent. Classifications include nonspendable, restricted, committed, and assigned, which are further described in Note 1.D.9.

A summary of governmental fund balances at June 30, 2015, is as follows (expressed in thousands):

| Fund Balances | General | Higher Education Special Revenue | Higher Education Endowment | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| **Nonspendable:** | | | | | |
| Permanent funds | $ - | $ - | $ 2,123,387 | $ 202,944 | $ 2,326,331 |
| Consumable inventories | 13,550 | 10,919 | - | 43,637 | 68,106 |
| Investments | - | 35,339 | 71,231 | 116 | 106,686 |
| Other receivables – long-term | 33,803 | - | - | - | 33,803 |
| **Total Nonspendable Fund Balance** | $ 47,353 | $ 46,258 | $ 2,194,618 | $ 246,697 | $ 2,534,926 |
| **Restricted for: *** | | | | | |
| Higher education | $ - | $ 606 | $ 1,266,076 | $ 210,050 | $ 1,476,732 |
| Education | - | - | 5,349 | 23,987 | 29,336 |
| Transportation | - | - | - | 711,931 | 711,931 |
| Other purposes | 683 | - | - | 6,054 | 6,737 |
| Human services | - | - | 375 | 468,375 | 468,750 |
| Wildlife and natural resources | 18,890 | - | - | 913,494 | 932,384 |
| Local grants and loans | - | - | - | 260 | 260 |
| School construction | 627 | - | - | 47,867 | 48,494 |
| State facilities | - | - | - | 1,883 | 1,883 |
| Budget stabilization | 513,079 | - | - | - | 513,079 |
| Debt service | - | - | - | 66,726 | 66,726 |
| Pollution remediation | - | - | - | 99,559 | 99,559 |
| Operations and maintenance | - | - | - | 7,799 | 7,799 |
| Repair and replacement | - | - | - | 3,403 | 3,403 |
| Third tier debt service | - | - | - | 2,186 | 2,186 |
| **Total Restricted Fund Balance** | $ 533,279 | $ 606 | $ 1,271,800 | $ 2,563,574 | $ 4,369,259 |
| **Committed for:** | | | | | |
| Higher education | $ 73,261 | $ 2,765,816 | $ - | $ 37,770 | $ 2,876,847 |
| Education | 23 | - | - | 2,242 | 2,265 |
| Transportation | - | - | - | 212,881 | 212,881 |
| Other purposes | 10,494 | - | - | 279,137 | 289,631 |
| Human services | 9,429 | - | - | 753,341 | 762,770 |
| Wildlife and natural resources | 12,460 | - | - | 395,521 | 407,981 |
| Local grants and loans | - | - | - | 1,098,693 | 1,098,693 |
| State facilities | - | - | - | 528 | 528 |
| Debt service | - | - | - | 314,397 | 314,397 |
| **Total Committed Fund Balance** | $ 105,667 | $ 2,765,816 | $ - | $ 3,094,510 | $ 5,965,993 |
| **Assigned for:** | | | | | |
| Working capital | $ 1,014,952 | $ 16,060 | $ - | $ - | $ 1,031,012 |
| **Total Assigned Fund Balance** | $ 1,014,952 | $ 16,060 | $ - | $ - | $ 1,031,012 |

*Net position restricted as a result of enabling legislation totaled $8.5 million.

## B. BUDGET STABILIZATION ACCOUNT

In accordance with Article 7, Section 12 of the Washington State Constitution, the state maintains the Budget Stabilization Account ("Rainy Day Fund"). The Budget Stabilization Account is reported in the General Fund.

By June 30 of each fiscal year, an amount equal to 1 percent of the general state revenues for that fiscal year is transferred to the Budget Stabilization Account.

The Budget Stabilization Account balance can only be used as follows: (a) if the Governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safety, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account, via separate legislation setting forth the nature of the emergency and containing an appropriation limited to the above-authorized purposes as contained in the declaration, by a favorable vote of a majority of the members elected to each house of the Legislature; (b) if the employment growth forecast for any fiscal year is estimated to be less than 1 percent, then for that fiscal year money may be withdrawn and appropriated from the Budget Stabilization Account by the favorable vote of a majority of the members elected to each house of the Legislature; (c) any amount may be withdrawn and appropriated from the Budget Stabilization Account at any time by the favorable vote of at least three-fifths of the members of each house of the Legislature.

When the balance in the Budget Stabilization Account, including investment earnings, equals more than 10 percent of the estimated general state revenues in that fiscal year, the Legislature by the favorable vote of a majority of the members elected to each house of the Legislature may withdraw and appropriate the balance to the extent that the balance exceeds 10 percent of the estimated general state revenues. These appropriations may be made solely for deposit to the Education Construction Fund.

At June 30, 2015, the Budget Stabilization Account had restricted fund balance of $513.1 million.

# Note 10
# Deficit Net Position

### Data Processing Revolving Fund

The Data Processing Revolving Fund, an internal service fund, had a deficit net position of $71.8 million at June 30, 2015. The Data Processing Revolving Fund is primarily used to account for and report activities such as data processing and communication services to other state agencies.

The Data Processing Revolving Fund is supported by user charges. Due to budgetary considerations, user rates are designed to cover cash outflows including debt service as opposed to the full cost of services which includes depreciation. Since the Data Processing Revolving Fund reports a debt-financed building, this funding approach has an impact on net position. Debt service allocates principal retirement on a straight line basis while depreciation on the fund's building is componentized which accelerates expense in the early years of the building's life. As a result, the fund reports both an operating loss and a negative net investment in capital assets.

The following schedule details the change in net position for the Data Processing Revolving Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

| Data Processing Revolving Fund | Net Position |
|---|---|
| **Balance, July 1, 2014 *** | $ (39,963) |
| Fiscal year 2015 activity | (31,853) |
| **Balance, June 30, 2015** | $ (71,816) |

* Beginning balance reflects the prior period adjustment of $41.6 million related to the implementation of GASB Statement No. 68.

## Higher Education Revolving Fund

The Higher Education Revolving Fund, an internal service fund, had a deficit net position of $2.5 million at June 30, 2015. The Higher Education Revolving Fund is used to manage college and university support service activities such as stores, data processing, and motor pool. Additionally, beginning in fiscal year 2015, the University of Washington is using the Higher Education Revolving Fund to allocate costs associated with its higher education supplemental retirement plan.

The Higher Education Revolving Fund is primarily supported by user charges and interest earnings. During fiscal year 2015, the University of Washington's supplemental retirement plan obligation exceeded the associated revenue, resulting in a deficit net position.

The following schedule details the change in net position for the Higher Education Revolving Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

| Higher Education Revolving Fund | Net Position |
|---|---|
| **Balance, July 1, 2014 *** | $ 38,158 |
| Fiscal year 2015 activity | (40,615) |
| **Balance, June 30, 2015** | $ (2,457) |

* Beginning balance reflects the prior period adjustment of $31.7 million related to the implementation of GASB Statement No. 68, and a $1.5 million adjustment to properly record employee benefits of the University of Washington.

## Risk Management Fund

The Risk Management Fund, an internal service fund, had a deficit net position of $523.2 million at June 30, 2015. The Risk Management Fund is used to administer the Self-Insurance Liability Program (SILP). The SILP was initiated in 1990 and is intended to provide funds for the payment of all tort claims and defense expenses. The program investigates, processes, and adjudicates tort and sundry claims filed against Washington state agencies, with the exception of the University of Washington and the Department of Transportation Ferries Division.

The Risk Management Fund is supported by premium assessments to state agencies. The state is restricted by law from accumulating funds in the SILP in excess of 50 percent of total outstanding and actuarially determined claims. As a consequence, when outstanding and incurred but not reported claims are actuarially determined and accrued, the result is a deficit net position.

The following schedule details the change in net position for the Risk Management Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

| Risk Management Fund | Net Position |
|---|---|
| **Balance, July 1, 2014** | $ (486,165) |
| Fiscal year 2015 activity | (37,046) |
| **Balance, June 30, 2015** | $ (523,211) |

## State Facilities Fund

The State Facilities Fund, a capital projects fund, had a deficit fund balance of $165.5 million at June 30, 2015. The State Facilities Fund is used to pay for various capital projects throughout the state.

The State Facilities Fund is primarily supported by bond proceeds, income from property, and sales of property. Costs were incurred during fiscal year 2015 but the bonds to support these projects were not issued until after June 30, 2015, resulting in a deficit fund balance.

The following schedule details the change in fund balance for the State Facilities Fund during the fiscal year ended June 30, 2015 (expressed in thousands):

| State Facilities Fund | Net Position |
|---|---|
| **Balance, July 1, 2014 *** | $ 210,592 |
| Fiscal year 2015 activity | (376,065) |
| **Balance, June 30, 2015** | $ (165,473) |

* Beginning balance reflects the prior period adjustment of $14.4 million due to a fund reclassification.

# Note 11
## Retirement Plans

### A. GENERAL

The state implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Pensions* for the fiscal year 2015 financial reporting. Washington's pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the state has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

The state Legislature establishes and amends laws pertaining to the creation and administration of all state public retirement systems. Additionally the state Legislature authorizes state agency participation in plans other than those administered by the state.

**Basis of Accounting.** Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for the state as an employer, for fiscal year 2015, expressed in thousands:

| Aggregate Pension Amounts - All Plans | | |
|---|---|---|
| Pension liabilities | $ | 3,252,383 |
| Pension assets | $ | (1,625,168) |
| Deferred outflows of resources related to pensions | $ | 524,011 |
| Deferred inflows of resources related to pensions | $ | 2,101,352 |
| Pension expense/expenditures | $ | 143,218 |

**Investments.** The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3B.

**Department of Retirement Systems.** As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems are comprised of 12 defined benefit pension plans and three defined benefit/defined contribution plans as follows:

- Public Employees' Retirement System (PERS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

- Teachers' Retirement System (TRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
  - Plan 3 - defined benefit/defined contribution

- School Employees' Retirement System (SERS)
  Plan 2 - defined benefit
  Plan 3 - defined benefit/defined contribution

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
  Plan 1 - defined benefit
  Plan 2 - defined benefit

- Public Safety Employees' Retirement System (PSERS)
  Plan 2 - defined benefit

- Washington State Patrol Retirement System (WSPRS)
  Plan 1 - defined benefit
  Plan 2 - defined benefit

- Judicial Retirement System (JRS)
  Defined benefit plan

- Judges' Retirement Fund (Judges)
  Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, LEOFF, PSERS, and WSPRS, systems and plans was funded by an employer rate of 0.18 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

Pursuant to RCW 41.50.770, the state offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the GASB. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report/.

**State Board for Volunteer Fire Fighters and Reserve Officers.** As established in chapter 41.24 RCW, the State Board for Volunteer Fire Fighters and Reserve Officers administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

**Administrative Office of the Courts.** As established in chapter 2.14 RCW, the Administrative Office of the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

**Higher Education.** As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay as you go basis) which is administered by the state.

## B. STATE PARTICIPATION IN PLANS ADMINISTERED BY DRS

### 1. DRS Plans – Employer Disclosures

The state is not an employer in SERS Plan 2/3 nor LEOFF Plan 1.

#### Public Employees' Retirement System

**Plan Description.** The Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan

3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Refer to section E of this note for a description of the defined contribution component of PERS Plan 3.

**Benefits Provided.** PERS plans provide retirement, disability, and death benefits to eligible members.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Plan 3 members have the option to retire early with reduced benefits.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

The Judicial Benefit Multiplier (JBM) Program began January 1, 2007. This program gave eligible justices and judges an option to increase the benefit multiplier used in their retirement benefit calculation for their judicial service periods of employement. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could chose to join JBM. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established memebership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership they will be enrolled as a member of both PERS Plan 2 and JBM.

**Contributions.** PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS JBM members and employers pay increased contributions that, along with investment earnings, fund the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

**Actuarial Assumptions.** The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | 3.75% |
| Investment rate of return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 0.80% |
| Tangible Assets | 5% | 4.10% |
| Real Estate | 15% | 5.30% |
| Global Equity | 37% | 6.05% |
| Private Equity | 23% | 9.05% |
| Total | 100% | |

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount rate.** The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the

long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

**Collective Net Pension Liability/(Asset).** At June 30, 2015, the state reported $2.13 billion for its proportionate share of the collective net pension liability for PERS Plan 1 and $995.9 million for PERS Plan 2/3. The state's proportion for PERS Plan 1 was 42.37 percent, an increase of 0.2 percent since the prior reporting period, and 49.27 percent for PERS Plan 2/3, an increase of 0.62 percent. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

| PERS Plan 1<br>Employer's proportionate share<br>of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 2,630,597 |
| Current Discount Rate | $ | 2,134,189 |
| 1% Increase | $ | 1,708,072 |

| PERS Plan 2/3<br>Employer's proportionate share<br>of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 4,153,930 |
| Current Discount Rate | $ | 995,856 |
| 1% Increase | $ | (1,416,324) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a PERS Plan 1 pension expense of $127.2 million, and recognized a PERS Plan 2/3 pension expense of $165.7 million. At June 30, 2015, PERS Plan 1 and PERS Plan 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| PERS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 266,868 |
| Change in proportion | - | - |
| State contributions subsequent to the measurement date | 192,106 | - |
| Total | $ 192,106 | $ 266,868 |

| PERS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,055,617 |
| Change in proportion | 20,488 | - |
| State contributions subsequent to the measurement date | 219,054 | - |
| Total | $ 239,542 | $ 1,055,617 |

For PERS Plan 1, $192.1 million, and for PERS Plan 2/3, $219.1 million, reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| PERS Plan 1 | | |
|---|---|---|
| 2016 | $ | (66,717) |
| 2017 | $ | (66,717) |
| 2018 | $ | (66,717) |
| 2019 | $ | (66,717) |
| 2020 | $ | - |
| Thereafter | $ | - |

| PERS Plan 2/3 | | |
|---|---|---|
| 2016 | $ | (258,050) |
| 2017 | $ | (258,050) |
| 2018 | $ | (258,050) |
| 2019 | $ | (260,979) |
| 2020 | $ | - |
| Thereafter | $ | - |

## Teachers' Retirement System

**Plan Description.** The Legislature established the Teachers' Retirement System (TRS) in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees.

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are a Plan 1 member. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, are members of TRS Plan 3.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Refer to section E of this note for a description of the defined contribution component of TRS Plan 3.

**Benefits Provided.** TRS plans provide retirement, disability, and death benefits to eligible members.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

TRS Plan 3 members have the option to retire early with reduced benefits.

TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

The Judicial Benefit Multiplier (JBM) Program began January 1, 2007. This program gave eligible justices and judges an option to increase the benefit multiplier used in their retirement benefit calculation for their judicial service periods of employement. Beginning January 1, 2007, any justice or judge who was in a judicial position at that time could chose to join JBM. Any justice or judge elected or appointed to office on or after January 1, 2007, who elects to join DRS membership will also be mandated into JBM. If they have already established memebership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership they will be enrolled as a member of both PERS Plan 2 and JBM.

**Contributions.** TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from TRS-covered employment.

TRS JBM members and employers pay increased contributions that, along with investment earnings, fund the increased retirement benefits of those justices and judges who participate in the program.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

**Actuarial Assumptions.** The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | 3.75% |
| Investment rate of return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 0.80% |
| Tangible Assets | 5% | 4.10% |
| Real Estate | 15% | 5.30% |
| Global Equity | 37% | 6.05% |
| Private Equity | 23% | 9.05% |
| Total | 100% | |

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including TRS Plan 2/3, whose rates include a component for the TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

**Collective Net Pension Liability/(Asset).** At June 30, 2015, the state reported a liability of $22.9 million for its proportionate share of the collective net pension liability for TRS Plan 1 and $1.9 million for TRS Plan 2/3. The state's proportion for TRS Plan 1 was 0.78 percent, an increase of 0.02 percent since the prior reporting period, and 0.59 percent for TRS Plan 2/3, an increase of 0.16 percent. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

| TRS Plan 1<br>Employer's proportionate share of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 29,499 |
| Current Discount Rate | $ | 22,924 |
| 1% Increase | $ | 17,279 |

| TRS Plan 2/3<br>Employer's proportionate share of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 16,631 |
| Current Discount Rate | $ | 1,913 |
| 1% Increase | $ | (9,026) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a TRS Plan 1 pension expense of $1.9 million, and recognized a TRS Plan 2/3 pension expense of $1.6 million. At June 30, 2015, TRS Plan 1 and TRS Plan 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| TRS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 4,020 |
| Change in proportion | - | - |
| State contributions subsequent to the measurement date | 1,921 | - |
| Total | $ 1,921 | $ 4,020 |

| TRS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 4,391 |
| Change in proportion | 1,410 | - |
| State contributions subsequent to the measurement date | 1,933 | - |
| Total | $ 3,343 | $ 4,391 |

For TRS Plan 1, $1.9 million, and for TRS Plan 2/3, $1.9 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| TRS Plan 1 | | |
|---|---|---|
| 2016 | $ | (1,005) |
| 2017 | $ | (1,005) |
| 2018 | $ | (1,005) |
| 2019 | $ | (1,005) |
| 2020 | $ | - |
| Thereafter | $ | - |

| TRS Plan 2/3 | | |
|---|---|---|
| 2016 | $ | (791) |
| 2017 | $ | (791) |
| 2018 | $ | (791) |
| 2019 | $ | (791) |
| 2020 | $ | 183 |
| Thereafter | $ | - |

## Law Enforcement Officers' and Fire Fighters' Retirement System

**Plan Description.** The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) was established in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception.

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The board's duties include adopting contribution rates and recommending policy changes to the Legislature.

**Benefits Provided.** LEOFF plans provide retirement, disability, and death benefits to eligible members.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

| Years of Service | Percent of FAS |
|---|---|
| 20+ | 2.0% |
| 10-19 | 1.5% |
| 5-9 | 1.0% |

A cost of living allowance (COLA) is granted based on the Consumer Price Index.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service. FAS is based on the highest consecutive 60 months. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF members have the option to retire early with reduced benefits.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

**Contributions.** LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations.

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees are not required to contribute as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The methods used to determine contribution requirements are established under state statute.

Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. For fiscal year 2014, the state contributed $55.6 million to LEOFF Plan 2.

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

The state is not an employer in LEOFF Plan 1 plan; however, the state is a nonemployer contributing entity for LEOFF Plan 1. For LEOFF Plan 2 the state is both an employer and a nonemployer contributing entity. Refer to Section B.2 of this note for nonemployer contributing entity disclosures.

The following information applies to the state as a LEOFF Plan 2 employer.

**Actuarial Assumptions.** The total net pension asset was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | 3.75% |
| Investment rate of return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to

fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 0.80% |
| Tangible Assets | 5% | 4.10% |
| Real Estate | 15% | 5.30% |
| Global Equity | 37% | 6.05% |
| Private Equity | 23% | 9.05% |
| Total | 100% | |

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

**Collective Net Pension Liability/(Asset).** At June 30, 2015, the state reported an asset of $11.2 million for its proportionate share of the collective net pension asset for LEOFF Plan 2. The state's proportion for LEOFF Plan 2 was 0.84 percent, a decrease of 0.01 percent since the prior reporting period. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers and the nonemployer contributing entity.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

| LEOFF Plan 2<br>Employer's proportionate share<br>of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 4,782 |
| Current Discount Rate | $ | (11,175) |
| 1% Increase | $ | (23,151) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a LEOFF Plan 2 pension expense of $(554) thousand. At June 30, 2015, LEOFF Plan 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| LEOFF Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 5,913 |
| Change in proportion | 15 | - |
| State contributions subsequent to the measurement date | 1,250 | - |
| Total | $ 1,265 | $ 5,913 |

For LEOFF Plan 2, $1.3 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| LEOFF Plan 2 | | |
|---|---|---|
| 2016 | $ | (1,475) |
| 2017 | $ | (1,475) |
| 2018 | $ | (1,475) |
| 2019 | $ | (1,475) |
| 2020 | $ | 2 |
| Thereafter | $ | - |

## Public Safety Employees' Retirement System

**Plan Description.** The Public Safety Employees' Retirement System (PSERS) was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions are established in chapter 41.37 RCW and may be amended only by the Legislature. PSERS membership includes full-time employees meeting specific eligibility criteria that are employed by Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, Washington State Patrol, Washington state counties, corrections departments of Washington state cities except for Seattle, Tacoma, and Spokane, or correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS is a cost-sharing, multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

**Benefits Provided.** PSERS provides retirement, disability, and death benefits to eligible members.

PSERS members are vested after an employee completes five years of eligible service. PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. A cost of living allowance (COLA) is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

PSERS members have the option to retire early with reduced benefits.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

**Contributions.** PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine contribution requirements are established under state statute.

Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

**Actuarial Assumptions.** The total net pension asset was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | 3.75% |
| Investment rate of return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of

information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 0.80% |
| Tangible Assets | 5% | 4.10% |
| Real Estate | 15% | 5.30% |
| Global Equity | 37% | 6.05% |
| Private Equity | 23% | 9.05% |
| Total | 100% | |

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3, PSERS Plan 2, and SERS Plan 2/3 employers whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

**Collective Net Pension Liability/(Asset).** At June 30, 2015, the state reported an asset of $7.0 million for its proportionate share of the collective net pension asset for PSERS Plan 2. The state's proportion for PSERS Plan 2 was 48.26 percent, an increase of 0.36 percent since the prior reporting period. The proportions are based on the state's contributions to the pension plan relative to the contributions of all participating employers.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

| PSERS Plan 2 Employer's proportionate share of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 39,052 |
| Current Discount Rate | $ | (6,988) |
| 1% Increase | $ | (39,678) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a PSERS Plan 2 pension expense of $9.2 million. At June 30, 2015, PSERS Plan 2 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| PSERS Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 10,425 |
| Change in proportion | 16 | - |
| State contributions subsequent to the measurement date | 8,965 | - |
| Total | $ 8,981 | $ 10,425 |

For PSERS Plan 2, $9.0 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| PSERS Plan 2 | |
|---|---|
| 2016 | $ (2,603) |
| 2017 | $ (2,603) |
| 2018 | $ (2,603) |
| 2019 | $ (2,603) |
| 2020 | $ 3 |
| Thereafter | $ - |

## Washington State Patrol Retirement System

**Plan Description.** The Washington State Patrol Retirement System (WSPRS) was established by the Legislature in 1947. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the Legislature. Any commissioned employee of the Washington State Patrol is eligible to participate.

WSPRS is a single-employer, defined benefit retirement system. WSPRS members who joined the system by December 31, 2002, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

Effective June 7, 2012, those WSPRS members who have service credit within PERS Plan 2 have options to transfer their service credit earned as commercial vehicle enforcement officers or as communications officers into the WSPRS, provided the member pays the full actuarial cost of the transfer.

At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

For membership information refer to the table presented in Section B.3 of this note.

**Benefits Provided.** WSPRS plans provide retirement and death benefits to eligible members.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Active members are eligible for retirement at the age of 55 with no minimum required service credit, or at any age with 25 years of service credit, and must retire at age 65. This mandatory requirement does not apply to the Chief of the Washington State Patrol.

The monthly benefit is 2 percent of the average final salary (AFS) per year of service, capped at 75 percent. A cost of living allowance is granted based on the Consumer Price Index, capped at 3 percent annually.

WSPRS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

**Contributions.** WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates, subject to revision by the Legislature. The preliminary employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. The methods used to determine contribution requirements are established under state statute.

Members in WSPRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from WSPRS-covered employment.

Required contribution rates for fiscal year 2015 are presented in the table in section B.3 of this note.

**Actuarial Assumptions.** The total net pension asset was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial

assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | 3.75% |
| Investment rate of return | 7.50% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 0.80% |
| Tangible Assets | 5% | 4.10% |
| Real Estate | 15% | 5.30% |
| Global Equity | 37% | 6.05% |
| Private Equity | 23% | 9.05% |
| Total | 100% | |

The inflation component used to create the above table is 2.7 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent on pension plan investments was applied to determine the total pension liability.

Refer to the table in section B.3 of this note for the change in net pension liability.

**Net Pension Liability/(Asset).** At June 30, 2015, the state reported a net pension asset of $26.0 million.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 7.5 percent, as well as what the employers' net pension

liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

| WSPRS Plan 1/2 Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 156,101 |
| Current Discount Rate | $ | (26,003) |
| 1% Increase | $ | (168,669) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a WSPRS pension expense of $(5.4) million. At June 30, 2015, the WSPRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| WSPRS Plan 1/2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 85,154 |
| Change in proportion | - | - |
| State contributions subsequent to the measurement date | 6,680 | - |
| Total | $ 6,680 | $ 85,154 |

For WSPRS 1/2, $6.7 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| WSPRS Plan 1/2 | | |
|---|---|---|
| 2016 | $ | (21,288) |
| 2017 | $ | (21,288) |
| 2018 | $ | (21,288) |
| 2019 | $ | (21,290) |
| 2020 | $ | - |
| Thereafter | $ | - |

**Judges' Retirement Fund**

**Plan Description.** The Judges' Retirement Fund was created by the Legislature on March 22, 1937 to provide retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the Legislature.

Judges' Retirement Fund is a single-employer, defined benefit retirement system. There are currently no active members in this plan. For membership information refer to the table presented in Section B.3 of this note.

**Benefits Provided.** Judges' Retirement Fund provides retirement benefits to judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts of the state of Washington. The system was closed to new entrants on August 8, 1971, with new judges joining the Judicial Retirement System.

**Contributions.** There are no active members remaining in the Judges' Retirement Fund. Past contributions were made based on rates set in statute. By statute, employees were required to contribute 6.5 percent of covered payroll with an equal amount contributed by the state.

Retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings and employer contributions. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2014, no such appropriations or contributions were made.

**Actuarial Assumptions.** The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | N/A |
| Investment rate of return | 4.00% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional

mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount Rate.** Contributions are made to the Judges' Retirement Fund to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 4.29 percent for the June 30, 2014 measurement date. Refer to the table in section B.3 of this note for the change in net pension liability.

**Net Pension Liability/(Asset).** At June 30, 2015, the state reported a net pension liability of $2.2 million.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 4.29 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate (expressed in thousands).

| Judges' Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 2,358 |
| Current Discount Rate | $ | 2,191 |
| 1% Increase | $ | 2,075 |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a Judges' Retirement Fund pension expense of $98 thousand. At June 30, 2015, the Judges' Retirement Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| Judges' | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 32 | - |
| Change in proportion | - | - |
| State contributions subsequent to the measurement date | - | - |
| Total | $ 32 | $ - |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| Judges' | | |
|---|---|---|
| 2016 | $ | 8 |
| 2017 | $ | 8 |
| 2018 | $ | 8 |
| 2019 | $ | 8 |
| 2020 | $ | - |
| Thereafter | $ | - |

## Judicial Retirement System

**Plan Description.** The Judicial Retirement System (JRS) was established by the Legislature in 1971. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the Legislature. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971.

JRS is a single-employer, defined benefit retirement system. There are no active members remaining in the Judicial Retirement System. For membership information refer to the table presented in Section B.3 of this note.

**Benefits Provided.** JRS provides retirement, disability, and death benefits to eligible members.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service. The system was closed to new entrants on July 1, 1988, with new judges joining PERS.

The benefit per year of service calculated as a percent of final average salary (FAS) is shown in the table below. This benefit is capped at 75 percent of FAS, exclusive of cost-of-living increases.

| Years of Service | Percent of FAS |
|---|---|
| 15+ | 3.5% |
| 10-14 | 3.0% |

**Contributions.** JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, and employee contributions.

Past contributions were made based on rates set in statute. By statute, employees were required to contribute 7.5 percent of covered payroll with an equal amount contributed by the state.

JRS member contributions to the plan are not refundable.

The state guarantees the solvency of JRS on a pay-as-you-go basis. Each biennium, the Legislature, through appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For fiscal year 2014, the state contributed $10.6 million.

**Actuarial Assumptions.** The total pension liability was determined by an actuarial valuation as of June 30, 2013, with the results rolled forward to the June 30, 2014, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | N/A |
| Investment rate of return | 4.00% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

**Discount Rate.** Contributions are made to JRS to ensure cash is available to make benefit payments. Since this plan is operated on a pay-as-you-go basis, the discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 4.29 percent for the June 30, 2014, measurement date.

Refer to the table in section B.3 of this note for the change in net pension liability.

**Net Pension Liability/(Asset).** At June 30, 2015, the state reported a net pension liability of $95.3 million.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the state as an employer, calculated using the discount rate of 4.29 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate (expressed in thousands).

| JRS<br>Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 104,668 |
| Current Discount Rate | $ | 95,310 |
| 1% Increase | $ | 87,377 |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state recognized a JRS pension expense of $4.2 million. At June 30, 2015, JRS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| JRS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | - |
| Change in proportion | 122 | - |
| State contributions subsequent to the measurement date | 10,600 | - |
| Total | $ 10,722 | $ - |

For JRS, $10.6 million reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| | JRS |
|---|---|
| 2016 | $ 31 |
| 2017 | $ 31 |
| 2018 | $ 30 |
| 2019 | $ 30 |
| 2020 | $ - |
| Thereafter | $ - |

## 2. DRS Plans – Nonemployer Contributing Entity Disclosures

For fiscal year 2015, the state was considered a nonemployer contributing entity in special funding situations for two DRS-administered pension plans, LEOFF Plan 1 and LEOFF Plan 2. State contributions are required by statute to be made directly to these plans to fund pensions. Section B.1 of this note provides the detailed descriptions of these plans, their benefit terms, contribution requirements, significant assumptions used to measure pension liability and mortality, and the discount rate.

**Basis for Nonemployer Contributing Entity Contributions.** LEOFF Plan 1 has a net pension asset as of the June 30, 2014 measurement date. If needed, RCW 41.26.080 would require employer and employee contributions of 6 percent, and the remaining liabilities funded by the state pursuant to chapter 41.45 RCW. For fiscal year 2014, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 87.12 percent based on historical contributions to the plan.

LEOFF Plan 2 has a net pension asset as of the June 30, 2014, measurement date. In this plan, the state is an employer and also a nonemployer contributing entity. RCW 41.26.725 limits the employee contributions to 50 percent, employer contributions to 30 percent, and the state contribution to 20 percent of the cost of benefits. In no instance shall the state contribution exceed 4 percent of payroll. For fiscal year 2014, the nonemployer contributing entity's proportionate share of the net pension asset was considered substantial at 39.52 percent based on total plan contributions received in fiscal year 2014.

**Collective Net Pension Liability/(Asset).** At June 30, 2015, the state as nonemployer contributing entity reported a net pension asset of $1.06 billion and $524.4 million for its proportionate share of the collective net pension asset for LEOFF Plan 1 and LEOFF Plan 2 respectively. The nonemployer contributing entity's proportion for LEOFF Plan 1 was 87.12 percent, the same as the prior reporting period, and 39.52 percent for LEOFF Plan 2, a decrease of 0.20 percent. The proportion of the state nonemployer contributions related to LEOFF Plan 1 was based on historical contributions from the state and employers plus fiscal year 2014 retirement benefit payments. The proportion of the state nonemployer contributions related to LEOFF Plan 2 was based on the state's contributions to the pension plan relative to the total state contributions and all participating employers.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the nonemployer contributing entity calculated using the discount rate of 7.5 percent, as well as what the nonemployer contributing entity's net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate (expressed in thousands).

| LEOFF Plan 1<br>Nonemployer contributing entity proportionate share of Net Pension Liability (Asset) | |
|---|---|
| 1% Decrease | $ (661,311) |
| Current Discount Rate | $ (1,056,583) |
| 1% Increase | $ (1,392,526) |

| LEOFF Plan 2 Nonemployer contributing entity proportionate share of Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 224,422 |
| Current Discount Rate | $ | (524,419) |
| 1% Increase | $ | (1,086,375) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015, the state as nonemployer contributing entity recognized $(134.6) million pension expense for LEOFF Plan 1 and $(25.9) million pension expense for LEOFF Plan 2.

At June 30, 2015, the state as nonemployer contributing entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

| LEOFF Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 391,493 |
| Change in proportion | - | - |
| State contributions subsequent to the measurement date | 52 | - |
| Total | $ 52 | $ 391,493 |

| LEOFF Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 277,471 |
| Change in proportion and difference between state contributions and proportionate share of contributions | 693 | - |
| State contributions subsequent to the measurement date | 58,674 | - |
| Total | $ 59,367 | $ 277,471 |

For LEOFF Plan 1, $52 thousand, and for LEOFF Plan 2, $58.7 million, reported as deferred outflows of resources related to pensions resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30 (expressed in thousands):

| LEOFF Plan 1 | | |
|---|---|---|
| 2016 | $ | (97,873) |
| 2017 | $ | (97,873) |
| 2018 | $ | (97,873) |
| 2019 | $ | (97,874) |
| 2020 | $ | - |
| Thereafter | $ | - |

| LEOFF Plan 2 | | |
|---|---|---|
| 2016 | $ | (69,239) |
| 2017 | $ | (69,239) |
| 2018 | $ | (69,239) |
| 2019 | $ | (69,239) |
| 2020 | $ | 128 |
| Thereafter | $ | 50 |

## 3. Tables for Plans Administered by the Department of Retirement Services

### TABLE 1: Single Employer Plan Membership

Membership of the single employer plans administered by the Department of Retirement Systems consisted of the following at June 30, 2013, the date of the latest actuarial valuation for all plans:

| | Number of Participating Members | | | |
|---|---|---|---|---|
| Plans | Inactive Members (Or Beneficiaries) Currently Receiving Benefits | Inactive Members Entitled To But Not Yet Receiving Benefits | Active Members | Total Members |
| WSPRS 1 | 964 | 119 | 657 | 1,740 |
| WSPRS 2 | - | 10 | 409 | 419 |
| JRS | 114 | - | - | 114 |
| Judges | 12 | - | - | 12 |
| **Total** | 1,090 | 129 | 1,066 | 2,285 |

### TABLE 2: Change in Net Pension Liability/(Asset)

The following table presents the change in net pension liability/(asset) of the single employer plans administered by the Department of Retirement Systems at June 30, 2013, the date of the latest actuarial valuation for all plans (expressed in thousands):

| Change in Net Pension Liability/(Asset) | WSPRS | JRS | Judges |
|---|---|---|---|
| **TOTAL PENSION LIABILITY** | | | |
| Service cost | $ 18,041 | $ - | $ - |
| Interest | 75,249 | 4,319 | 137 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | - | - | - |
| Changes of assumptions | - | - | - |
| Benefit payments, including refunds of member contributions | (47,510) | (9,480) | (444) |
| **Net Change in Total Pension Liability** | 45,780 | (5,161) | (307) |
| **Total Pension Liability--Beginning** | 1,026,644 | 105,502 | 3,453 |
| **Total Pension Liability --Ending (a)** | $ 1,072,424 | $ 100,341 | $ 3,146 |
| **PLAN FIDUCIARY NET POSITION** | | | |
| Contributions--employer | $ 6,587 | $ 10,600 | $ - |
| Contributions--employee | 6,555 | - | - |
| Net investment income | 176,856 | 25 | 7 |
| Benefit payments, including refunds of member contributions | (47,510) | (9,480) | (444) |
| Administrative expense | (84) | - | - |
| Other | 509 | - | - |
| **Net Change in Plan Fiduciary Net Position** | 142,913 | 1,145 | (437) |
| **Plan Fiduciary Net Position--Beginning** | 955,514 | 3,886 | 1,392 |
| **Plan Fiduciary Net Position--Ending (b)** | $ 1,098,427 | $ 5,031 | $ 955 |
| **Plan's Net Pension Liability (Asset)--Beginning** | $ 71,130 | $ 101,616 | $ 2,061 |
| **Plan's Net Pension Liability (Asset)--Ending (a) - (b)** | $ (26,003) | $ 95,310 | $ 2,191 |

### TABLE 3: Required Contribution Rates

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans administered by the Department of Retirement Systems at the close of the fiscal year 2015, were as follows:

| Required Contribution Rates | Employer | | | | Employee | | |
|---|---|---|---|---|---|---|---|
| | Plan 1 | Plan 2 | Plan 3 | | Plan 1 | Plan 2 | Plan 3 |
| **PERS** | | | | | | | |
| **Employees Not Participating in JBM** | | | | | | | |
| State agencies, local governmental units | 5.03% | 5.03% | 5.03% | | 6.00% | 4.92% | ** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| PERS Plan 1 UAAL | 4.00% | 4.00% | 4.00% | | | | |
| Total | 9.21% | 9.21% | 9.21% | * | | | |
| State govt elected officials | 9.55% | 5.03% | 5.03% | | 7.50% | 4.92% | ** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| PERS Plan 1 UAAL | 4.00% | 4.00% | 4.00% | | | | |
| Total | 13.73% | 9.21% | 9.21% | * | | | |
| **Employees Participating in JBM** | | | | | | | |
| State agencies | 7.53% | 7.53% | 7.53% | | 9.76% | 9.80% | 7.50%*** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| PERS Plan 1 UAAL | 4.00% | 4.00% | 4.00% | | | | |
| Total | 11.71% | 11.71% | 11.71% | * | | | |
| Local governmental units | 5.03% | 5.03% | 5.03% | | 12.26% | 12.30% | 7.50%*** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| PERS Plan 1 UAAL | 4.00% | 4.00% | 4.00% | | | | |
| Total | 9.21% | 9.21% | 9.21% | * | | | |
| **TRS** | | | | | | | |
| **Employees Not Participating in JBM** | | | | | | | |
| State agencies, local governmental units | 5.73% | 5.73% | 5.73% | | 6.00% | 4.96% | ** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| TRS Plan 1 UAAL | 4.48% | 4.48% | 4.48% | | | | |
| Total | 10.39% | 10.39% | 10.39% | * | | | |
| State govt elected officials | 5.73% | 5.73% | 5.73% | | 7.50% | 4.96% | ** |
| Administrative fee | 0.18% | 0.18% | 0.18% | | | | |
| TRS Plan 1 UAAL | 4.48% | 4.48% | 4.48% | | | | |
| Total | 10.39% | 10.39% | 10.39% | * | | | |
| **Employees Participating in JBM** | | | | | | | |
| State agencies | 10.21% | N/A | N/A | | 9.76% | N/A | N/A |
| Administrative fee | 0.18% | N/A | N/A | | | | |
| Total | 10.39% | | | | | | |
| **LEOFF** | | | | | | | |
| Ports and universities | N/A | 8.41% | N/A | | N/A | 8.41% | N/A |
| Administrative fee | N/A | 0.18% | N/A | | | | |
| Total | | 8.59% | | | | | |
| Local governmental units | N/A | 5.05% | N/A | | N/A | 8.41% | N/A |
| Administrative fee | 0.18% | 0.18% | N/A | | | | |
| Total | 0.18% | 5.23% | | | | | |
| State of Washington | N/A | 3.36% | N/A | | N/A | N/A | N/A |
| **WSPRS** | | | | | | | |
| State agencies | 7.91% | 7.91% | N/A | | 6.59% | 6.59% | N/A |
| Administrative fee | 0.18% | 0.18% | N/A | | | | |
| Total | 8.09% | 8.09% | | | | | |
| **PSERS** | | | | | | | |
| State agencies, local governmental units | N/A | 6.36% | N/A | | N/A | 6.36% | N/A |
| Administrative fee | N/A | 0.18% | N/A | | | | |
| PSERS Plan 1 UAAL | N/A | 4.00% | N/A | | | | |
| Total | | 10.54% | | | | | |

* Plan 3 defined benefit portion only.
** Variable from 5% to 15% based on rate selected by the member.
*** Minimum rate.
N/A indicates data not applicable.

## C. PLAN ADMINISTERED BY THE STATE BOARD FOR VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS

### Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

**Plan Description.** The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. As established in chapter 41.24 RCW, the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) is a cost-sharing, multiple-employer defined benefit plan and is administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The board is appointed by the Governor and is comprised of five members of fire departments covered by chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation.

As of June 30, 2015, there were approximately 500 municipalities contributing to the plan. Additionally, the state, a nonemployer contributing entity, contributes 40 percent of the fire insurance premium tax.

**Plan Members.** Membership in the VFFRPF requires volunteer firefighter service with a fire department of an electing municipality of Washington state, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

At June 30, 2015 (the date of the latest valuation), VFFRPF membership consisted of the following:

| Plan Membership | |
|---|---|
| Inactive plan members or beneficiaries currently receiving benefits | 4,208 |
| Inactive plan members entitled to but not yet receiving benefits | 6,092 |
| Active plan members | 10,093 |
| Total membership | 20,393 |

**Benefits Provided.** VFFRPF provides retirement, disability, and death benefits to eligible members. Benefits are established in chapter 41.24 RCW which may be amended only by the Legislature.

Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Municipalities consist of fire departments, emergency medical service districts and law enforcement agencies. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $214 thousand. Funeral and burial expenses are also paid in a lump sum of $2 thousand for members on active duty. Members receiving disability benefits at the time of death shall be paid $500.

Effective June 7, 2012, at any time prior to retirement or at the time of retirement, a member of the VFFRPF may purchase retirement pension coverage for years of eligible service prior to the member's enrollment in the system or for years of service credit lost due to the withdrawal of the member's pension fee contributions. A member choosing to purchase such retirement pension coverage must contribute to the system equal to the actuarial value of the resulting benefit increase.

There were no material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2015.

**Contributions.** VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and state contributions. In accordance with chapter 41.24 RCW, the state contribution is set at 40 percent of the fire insurance premium tax. The state is considered a nonemployer contributing entity; however, this is not considered a special funding situation. For fiscal year 2015, the fire insurance premium tax contribution was $5.9 million.

The municipality rate for emergency medical service districts (EMSD) and law enforcement agencies is set each year by the State Board for Volunteer Fire Fighters and Reserve Officers, based on the actual cost of participation as determined by the Office of the State Actuary (OSA). All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates set for 2015 were the following:

| | Firefighters | EMSD & Reserve Officers |
|---|---|---|
| Member fee | $ 30 | $ 30 |
| Municipality fee | 30 | 105 |
| Total fee | $ 60 | $ 135 |

**Investments.** The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Further information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in Note 3B.

The Office of the State Treasurer (OST) manages a small portion of the assets for the VFFRPF. By statute, balances in the accounts in the state treasury and in the custody of the treasurer may be pooled for banking and investment purposes.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return. Eligible investments are only those securities and deposits authorized by statute.

Further information about the investment of pension funds by the OST, their valuation, classifications, concentrations, and maturities can be found in Note 3F.

**Rate of Return.** For the year ended June 30, 2015, the annual money-weighted rate of return on VFFRPF investments, net of pension plan investment expense, was 4.05 percent. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

**Pension Liability/(Asset).** The components of the net pension liability of the participating VFFRPF municipalities at June 30, 2015, were as follows (dollars expressed in thousands):

| Pension Liability | |
|---|---|
| Total pension liability | $ 188,584 |
| Plan fiduciary net position | (207,855) |
| Participating municipality net pension liability (asset) | $ (19,271) |
| Plan fiduciary net position as a percentage of the total pension liability | 110.22% |

**Actuarial Assumptions.** The total pension liability was determined by an actuarial valuation as of June 30, 2014, and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Inflation | 3.00% |
| Salary increases | N/A |
| Investment rate of return | 7.00% |

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

WSIB's long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, adjusted to remove (or dampen) any short-term changes to WSIB's CMAs that we don't expect over the entire fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 1.70% |
| Tangible Assets | 5% | 4.40% |
| Real Estate | 15% | 5.80% |
| Global Equity | 37% | 6.60% |
| Private Equity | 23% | 9.60% |
| Total | 100% | |

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

In consultation with OST, OSA selected a 4 percent long-term investment rate of return on assets managed by OST. Based upon the investment portfolio, this assumption was calculated as 100 basis points above OSA's current assumption for total inflation of 3 percent.

As the VFFRPF has assets managed by both WSIB and OST, the long-term expected rate of return of 7 percent represents an approximate weighted-average of the assets managed by WSIB (7.5 percent expected return) and the assets managed by OST (4 percent expected return).

**Discount Rate.** The discount rate used to measure the total pension liability was 7 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate.** The following presents the net pension liability/(asset) of the municipalities calculated using the discount rate of 7 percent, as well as what the municipalities' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6 percent) or 1 percentage point higher (8 percent) than the current rate (expressed in thousands):

| Municipalities' Net Pension Liability (Asset) | | |
|---|---|---|
| 1% Decrease | $ | 6,577 |
| Current Discount Rate | $ | (19,271) |
| 1% Increase | $ | (40,137) |

## D. HIGHER EDUCATION RETIREMENT PLAN SUPPLEMENTAL DEFINED BENEFIT PLANS

The Higher Education Defined Contribution Retirement Plans, described in Note 11.E, have a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component, which was closed to new entrants as of July 1, 2011, is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of fiscal year 2015. The previous valuation was performed in 2013.

The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2015, and 2013, was $596.7 million and $460.8 million, respectively, and is amortized over an 10 year period. The Annual Required Contribution (ARC) of $85.8 million includes amortization of the UAL ($60.3 million) and normal cost or current cost ($23.8 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 4 percent and projected salary increases of 3.75 percent. Approximately $1.81 billion and $1.76 billion of payroll were covered under these plans during the valuation periods 2015 and 2013, respectively.

The following table reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30 (expressed in millions):

| Net Pension Obligation | 2015 | 2014 | 2013 |
|---|---|---|---|
| Annual required contribution | $ 85.8 | $ 63.8 | $ 63.8 |
| Payments to beneficiaries | (6.5) | (5.6) | (4.9) |
| Increase (decrease) in NPO | 79.3 | 58.2 | 58.9 |
| NPO at beginning of year | 328.6 | 270.3 | 211.4 |
| NPO at end of year | $ 407.9 | $ 328.5 | $ 270.3 |

## E. DEFINED CONTRIBUTION PLANS

### Public Employees' Retirement System Plan 3

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to section B of this note for PERS Plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

### Teachers' Retirement System Plan 3

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Refer to section B of this note for TRS Plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from TRS-covered employment.

### Judicial Retirement Account

The Judicial Retirement Account (JRA) Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts (AOC), under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. At June 30, 2015, there were five active members and 147 inactive members in JRA. The state, through the AOC, is the sole participating employer.

Beginning January 1, 2007, any justice or judge who was in a judicial position at that time and who chose to join the Judicial Benefit Multiplier (JBM) Program could no longer participate in JRA. Any justice or judge elected or appointed to office on or after January 1, 2007 who elects to join DRS membership will also be mandated into JBM. If they have already established membership in PERS or TRS Plan 1 they will rejoin that plan, but if they have never had membership, they will be enrolled as a member of both PERS Plan 2 and JBM.

JRA Plan members are required to contribute 2.5 percent of covered salary. The state, as employer, contributes an equal amount on a monthly basis. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the Legislature.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The Administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death is to be paid to the member's estate, or such person or persons, trust or organization, as the member has nominated by written designation.

For fiscal year 2015 the state recognized pension expense for contributions of $20 thousand made to employee accounts. No plan refunds were made.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (WSIB) for investment services. Under this agreement, DRS is responsible for all record keeping, accounting, and reporting of member accounts and the WSIB is granted the full power to establish investment policy, develop participant investment options and manage the investment funds for the JRA Plan, consistent with the provisions of RCW 2.14.080 and 43.84.150.

### Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental defined benefit plan component. The state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each participate in a plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have, at all times, a 100 percent vested interest in their accumulations.

RCW 28B.10.400, et. seq. assigns the authority to establish and amend benefit provisions to the board of regents of the state universities, the boards of trustees of the regional universities and the state college, the state board for community colleges, and the Student Achievement Council.

Employee contribution rates, based on age, range from 5 percent to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW.

For fiscal year 2015 employer and employee contributions were $194.0 and $193.8 million respectively, for a total of $387.8 million.

# Note 12
## Other Postemployment Benefits

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer defined benefit other postemployment benefit (OPEB) plan.

### Plan Description and Contributions Information

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 66 of the state's K-12 schools and educational service districts (ESDs), and 227 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 245 K-12 schools and ESDs. As of June 2015, membership in the PEBB plan consisted of the following:

| | Active Employees | Retirees [1] | Total |
|---|---|---|---|
| State | 108,899 | 30,640 | 139,539 |
| K-12 schools and ESDs [2] | 2,561 | 32,993 | 35,554 |
| Political subdivisions | 12,571 | 1,687 | 14,258 |
| **Total** | 124,031 | 65,320 | 189,351 |

[1] Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

[2] In fiscal year 2015, there were 106,879 full-time equivalent active employees in the 245 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For calendar year 2015, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows (expressed in dollars):

| Required Premium [3] | | |
|---|---|---|
| Medical | $ | 965 |
| Dental | | 81 |
| Life | | 4 |
| Long-term disability | | 2 |
| Total | $ | 1,052 |
| Employer contribution | $ | 910 |
| Employee contribution | | 142 |
| Total | $ | 1,052 |

[3] Per 2015 Index Rate Model 7.5.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2014, the average weighted implicit subsidy was valued at $291 per member per month, and in calendar year 2015, the average weighted implicit subsidy is projected to be $308 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state legislature. In calendar year 2014, the explicit subsidy was up to $150 per member per month, and it remained up to $150 per member per month in calendar year 2015.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. In calendar year 2015, the cost of the subsidies was approximately 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

### Summary of Significant Accounting Policies

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported by the state as an agency fund using the accrual basis. It has no assets. The PEBB OPEB plan does not issue a publically available financial report.

### Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following tables show the components of the state's annual OPEB cost for fiscal year 2015 and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands). All contributions required by the funding method were paid.

| | | |
|---|---|---|
| Annual required contribution | $ | 498,399 |
| Interest on net OPEB obligation | | 75,783 |
| Amortization of net OPEB obligation | | (71,806) |
| Annual OPEB cost (expense) | | 502,376 |
| Contribuitons made* | | (74,055) |
| Increase in net OPEB obligatoin | | 428,321 |
| Net OPEB obligation - beginning of year | | 1,894,567 |
| Net OPEB obligation - end of year* | $ | 2,322,888 |

*estimated

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2015, 2014, and 2013 were as follows (dollars expressed in thousands):

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Annual OPEB cost | $ 502,376 | $ 358,442 | $ 347,033 |
| % of annual OPEB cost contributed | 14.70% | 21.70% | 19.90% |
| Net OPEB obligation | $ 2,322,888 | $ 1,894,567 | $ 1,613,775 |

### Funded Status and Funding Progress

The funded status of the plan as of January 1, 2015, the latest date for which information is available, was as follows (expressed in thousands):

| | | |
|---|---|---|
| Actuarial accrued liability (AAL) | $ | 5,273,530 |
| Actuarial value of plan assets | | - |
| Unfunded actuarial accrued liabliity (UAAL) | $ | 5,273,530 |
| Funded ratio (actuarial value of plan assets/AAL) | | 0.00% |
| Covered payroll (active plan members) | $ | 6,218,744 |
| UAAL as a percentage of covered payroll | | 84.80% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

| | |
|---|---|
| Actuarial valuation date | January 1, 2015 |
| Actuarial cost method | Projected Unit Credit (PUC) |
| Amortization method | Closed, level percentage of projected payroll amortization method |
| Remaining amortization period | 30 years for each new layer of NOO |
| Asset valuation method | N/A - no assets |
| Actuarial assumptions: | |
| Investment rate of return | 4.0% |
| Projected salary increases | 3.75% |
| Health care inflation rate | 8.0% initial rate, 4.9% ultimate rate in 2094 |
| Inflation rate | 3.0% |

# Note 13
## Derivative Instruments

### Hedging Derivatives

In addition to investment derivatives as described in Note 3, the state, through the Washington State Department of Transportation Ferries Division (WSF) entered into commodity swap agreements to hedge a portion of WSF diesel fuel consumption.

The following table presents the hedging derivative instruments as of June 30, 2015 (expressed in thousands):

| | Changes in Fair Value | | Fair Value at June 30, 2015 | | Notional amount |
|---|---|---|---|---|---|
| | Classification | Amount | Classification | Amount | (in gallons) |
| **Governmental Activites** | | | | | |
| Cash Flow Hedges: | | | | | |
| Commodity Swaps | Deferred Outflow | $ 5,008 | Accounts Payable | $ 5,008 | 9,072 |

The commodity swaps noted above were reviewed for hedge accounting and were deemed effective using the regression analysis method.

### Objective

The objective for the hedge transaction is to minimize the volatility of the price of diesel fuel and therefore stabilize the percentage of the WSF operating budget represented by fuel purchases. To accomplish this, a strategy of active hedging has been implemented by WSF to control the uncertain costs of fuel and allow for more accurate budget estimates.

### Significant Terms

The significant terms of active hedges WSF entered into during fiscal year 2015 are presented in the table below:

| Type | Counterparty | Contract price range per gallon | Variable rate received | Trade date | Settlement period | Monthly notional amount (in gallons) |
|---|---|---|---|---|---|---|
| Commodity | Cargill | $2.89 - $2.93 | NYMEX ULSD Heating Oil | 7/11/2014 | 9/2014 - 6/2015 | 252,000 |
| Commodity | Cargill | $2.83 - $2.85 | NYMEX ULSD Heating Oil | 8/18/2014 | 9/2014 - 6/2015 | 252,000 |
| Commodity | Cargill | $2.80 - $2.82 | NYMEX ULSD Heating Oil | 9/9/2014 | 10/2014 - 6/2015 | 252,000 |
| Commodity | Cargill | $2.71 - $2.75 | NYMEX ULSD Heating Oil | 9/25/2014 | 10/2014 - 6/2015 | 252,000 |
| Commodity | Cargill | $2.76 - $2.82 | NYMEX ULSD Heating Oil | 9/9/2014 | 7/2015 - 6/2016 | 252,000 |
| Commodity | Cargill | $2.74 - $2.79 | NYMEX ULSD Heating Oil | 9/25/2014 | 7/2015 - 6/2016 | 252,000 |
| Commodity | Cargill | $1.94 | NYMEX ULSD Heating Oil | 12/30/2014 | 7/2015 - 6/2016 | 252,000 |

The hedging strategy consists of a reference to futures contracts of New York Mercantile Exchange (NYMEX) Ultra Low Sulfur Diesel (ULSD) Heating Oil. This commodity remains highly correlated to the diesel fuel type being used by WSF. These fuel hedges require no initial cash investment and provide monthly settlements.

The monthly settlements are based on the daily prices of the respective commodities whereby WSF will either receive a payment, or make a payment to the counterparty depending on the average monthly prices of the commodities in relation to the contract prices.

## Fair Value.

The state reports its hedging derivative instruments at fair value as either accounts payable - liability (negative fair value amount) or as other receivables - asset (positive fair value amount). The fair value represents the current price to settle swap assets or liabilities in the market place if a swap were to be terminated. The changes in fair value for hedging derivatives represent the unrealized gain or loss on the contracts and are reported as deferred inflows or deferred outflows of resources respectively. At fiscal year end, the state reports the fair value and changes in fair value related to hedging derivative instruments on the Balance Sheet for Non-major Governmental Funds and the Government-wide Statement of Net Position.

## Risks

The following risks are generally associated with commodity swap agreements:

**Basis risk**. Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedged item are based on different reference rates. Statistically, the relationship between heating oil prices and diesel fuel prices has been quite stable over the past five years with a 98 percent correlation. This means that the heating oil futures price explains 98 percent of the variance in the price that WSF pays for its diesel fuel, making it highly reliable. In order to mitigate basis risk, WSF continually monitors the relationship between futures prices and the price of diesel fuel delivered.

**Termination Risk.** Termination risk is the risk that there will be a mandatory early termination of the commodity swap that would result in WSF either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty suffers degraded credit quality or fails to perform. Upon termination, payment may be required by either party, reflecting fair value at the time of termination.

**Credit Risk**. Credit risk is the risk that the counterparty fails to make the required payments or otherwise comply with the terms of the swap agreement. WSF is exposed to credit risk in the amount of the derivative's fair value. When the fair value of any derivative has a positive market value, then WSF is exposed to the actual risk that the counterparty will not fulfill its obligation. To mitigate credit risk, WSF monitors the credit ratings of the counterparties. At June 30, 2015, credit ratings of the state's counterparty were as follows:

| Counterparty | Moody's | Standard & Poor's | Fitch |
|---|---|---|---|
| Cargill | A2 | A | A |

# Note 14
# Commitments and Contingencies

## A. CAPITAL COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $2.42 billion at June 30, 2015.

## B. ENCUMBRANCES

Encumbrances, which represent commitments related to unperformed contracts for goods or services, are included in restricted, committed or assigned fund balance, as appropriate. Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2015 are (expressed in thousands):

| | |
|---|---|
| General Fund | $ 29,750 |
| Higher Education Special Revenue Fund | 169 |
| Nonmajor Governmental Funds | 530,924 |

## C. SUMMARY OF SIGNIFICANT LITIGATION

### Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. In addition, at any given point, there may be numerous lawsuits involving the implementation, reduction, or elimination of specific state programs that could significantly impact expenditures, revenues, and potentially have future budgetary impact. This summary considers significant litigation not covered by tort insurance. Tort case liabilities are disclosed in Note 7.E, Claims and Judgments, Risk Management.

The state is the defendant in a number of cases alleging inadequate funding of state programs or services. Claims include: funding inadequacies and inequities in basic education; inadequate funding for care of the disabled, and elderly; and inadequate funding for the provision of, daily personal care, medical and mental health services to children, the elderly, and the disabled. Collective claims in these programmatic and service cases exceed $35 million exclusive of the basic education case, which will be substantial but is difficult to quantify at this juncture. In addition, adverse rulings in some of these cases could result in significant future costs.

The state is also a defendant in a number of cases contesting: the denial of health care benefits to seasonal and part-time state employees, the methodologies used to calculate reimbursement rates to certain health care providers, and the scope of covered care. Claims in this category exceed $150 million.

The Department of Revenue routinely has claims for refunds or exemptions in various stages of administrative and legal review. Cases involving such claims currently total approximately $50 million, though an adverse ruling could result in additional claims being brought by similarly situated taxpayers.

The state is a defendant in a number of lawsuits related to: habitat restoration and environmental remediation arising out of highway/roadway construction and maintenance. While estimates are not available for all lawsuits, claims for damages equate to approximately $155 million per annum.

The state is a defendant in a number of lawsuits by employees and other entities alleging various infractions of law or contract. These suits claim back pay, damages, or future entitlements valued at approximately $150 million.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

### Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's annual payment under the settlement was approximately $109.2 million in fiscal year 2015. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment is subject to the same offsets, reductions, and adjustments as are applicable to the annual base payment. The fiscal year 2015 strategic contribution payment was approximately $37 million.

In 2006, 2007, 2008, and 2009, determinations were made that disadvantages experienced by manufacturers as a result of participating in the MSA were a "significant factor" contributing to market share losses by those manufacturers. These determinations related to sales data for the years 2003, 2004, 2005, and 2006.

With respect to 2003 sales data, Washington and a number of other states participated in a single national arbitration of the nonparticipating manufacturer (NPM) adjustment dispute. In late 2013, the arbitration panel issued a decision in Washington's favor, unanimously concluding that Washington proved that

it diligently enforced the qualifying statute during calendar year 2003 and, therefore, for that calendar year is not subject to an NPM adjustment under the MSA. Of the 15 states that went to an arbitration hearing, only nine were found to have diligently enforced. As a result of that decision, in fiscal year 2014, Washington received approximately $14 million more than it would have otherwise received due to the release of amounts placed in the MSA Disputed Payment Account (DPA) related to the 2003 calendar year. More importantly, if Washington had not prevailed in the arbitration, its fiscal year 2014 payment would have been reduced by approximately $100 million due to the application of the NPM adjustment.

The panel's decision addressed only the 2003 calendar year. Washington and other states are engaged in negotiations with participating manufacturers regarding potential arbitration proceedings involving the 2004 calendar year. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" in its share of between $0 and $137 million for the year 2004, $0 and $131 million for the year 2005, and $0 and $119 million for the year 2006.

In addition, the states and the participating manufacturers have entered into an agreement under which the states will not contest that the disadvantages experienced by manufacturers as a result of participating in the MSA were a significant factor contributing to market share losses for the years 2007 through 2013. Washington faces potential NPM adjustments that put at risk Washington's entire MSA payment. For example, the potential NPM adjustment for the year 2007 is between $0 and $123 million, and for the year 2008, it is between $0 and $173 million.

## D. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies.

Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state.

The state estimates and recognizes claims and judgments liabilities for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

## E. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue.

The rebatable arbitrage must be paid to the federal government. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

## F. FINANCIAL GUARANTEES

### School District Credit Enhancement Program

In accordance with Chapter 39.98 RCW (School District Credit Enhancement Program), the state has guaranteed outstanding voter-approved general obligation bonds of school districts within the state in the amount of $9.33 billion at June 30, 2015. The guarantees extend through the life of the bonds, with a final maturity date of the longest series in 2043.

In the event that a school district has insufficient funds to make a required debt service payment on a guaranteed bond, the state is required to transfer sufficient funds to make the payment. School districts for which the state has made all or part of a debt service payment shall reimburse the state treasurer for all money drawn on their behalf, as well as interest and penalties. The state has not paid debt service on any school debt since the inception of the program in 2000.

## G. GUARANTEED EDUCATION TUITION (GET) LOSS CONTINGENCY

Engrossed Second Substitute Senate Bill (E2SSB) 5954 was signed into law by the Governor on July 6, 2015, establishing the College Affordability Program. It reduces tuition at all public institutions of higher education during the next two years and limits tuition growth in future years. Subsequent to the passage of E2SSB 5954, the State Guaranteed Education Tuition (GET) Program Committee authorized account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater. Account holders have until December 15, 2016, to request a refund. The financial impact of this action cannot reasonably be estimated as of the date of these financial statements.

## H. OTHER COMMITMENTS AND CONTINGENCIES

### Local Option Capital Asset Lending Program

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment and in the year 2000 for real estate. The Local Option Capital Assets Lending (LOCAL) program allows local governments to pool their financing requests together with Washington state agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure.

These COPs do not constitute a debt or pledge of the full faith and credit of the state; rather, local governments pledge their full faith and credit in a general obligation pledge.

In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2015, outstanding certificates of participation notes totaled $81.2 million for 150 local governments participating in LOCAL. The state estimates that the LOCAL program liability, if any, will be immaterial to its overall financial condition.

# Note 15
# Subsequent Events

## A. BOND ISSUES

In September 2015, the state issued:

- $188.0 million in motor vehicle fuel tax general obligation bonds for funding various transportation projects.
- $188.3 million in general obligation refunding bonds for the purpose of refunding certain various purpose general obligation bonds of the state.
- $443.8 million in general obligation bonds for various state capital projects.
- $51.1 million in general obligation (green bonds) to fund certain projects which have been identified as environmentally beneficial.
- $60.6 million in taxable general obligation bonds for capital projects and loan programs for low-income housing and various energy efficiency and renewable energy projects.

In September 2015, the University of Washington issued $159.2 million in general revenue and refunding bonds and $36.4 million in general revenue and refunding taxable bonds to refund Northwest Hospital commercial papers, fund Denny Hall, animal care and research facilities, SW campus central utility plant, and other internal lending program projects.

Also in September 2015, the University of Washington through Washington Biomedical Research Properties 3.2, a blended component unit, issued $132.1 million in lease revenue bonds to fund the design, construction, and equipping of a new biomedical research facility.

In September 2015, The Evergreen State College issued $4.1 million in revenue refunding bonds to refund housing revenue bonds.

Later in the 2015 calendar year, Washington State University is planning to issue approximately $40.0 million in general revenue bonds to construct a Student Union Building on the Tri-Cities campus and renovate the bookstore building.

## B. CERTIFICATES OF PARTICIPATION

In September 2015, the state issued $57.6 million in Certificates of Participation.

In October 2015, the state issued $134.6 million in Certificates of Participation and $23.4 million in refunding Certificates of Participation.

## C. GENERAL ELECTION

There is an initiative on the state's November 3, 2015, general election ballot that addresses state taxes. This measure would reduce the state retail sales tax by 1 percent unless the Legislature refers to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and legislative approval for fee increases. If passed, the measure could impact the state fiscally.

Election results are not final or official until certified. By law December 3, 2015, is the last day for the Office of the Secretary of State to certify General Election returns.

Information is posted on the Secretary of State's website at http://www.sos.wa.gov.

## D. LEGISLATION ENACTED SUBSEQUENT TO YEAR END

Engrossed Second Substitute Senate Bill (E2SSB) 5954 was signed into law by the Governor on July 6, 2015, establishing the College Affordability Program. It reduces tuition at all public institutions of higher education during the next two years and limits tuition growth in future years. E2SSB 5954 and subsequent decisions of the State Guaranteed Education Tuition (GET) Program Committee are significantly impacting the state's GET Program. Subsequent to June 30, 2015, the GET Committee directed the Program to:

- Refund approximately $75.0 million in amortization fees to account holders. The liability for these refunds is recognized as of June 30, 2015.
- Beginning September 2, 2015, through December 15, 2016, allow permit account holders, upon request, to receive a refund of their contributions or a fixed payout value, whichever is greater, without the usual penalties, fees, and minimum holding period. The financial impact of this action cannot reasonably be estimated as of the date of these financial statements.

Information about the State Guaranteed Education Tuition Program can be found at http://www.get.wa.gov.

## E. STATE SUPREME COURT ORDER

Washington continues to face the requirements of the state Supreme Court 2012 McCleary ruling that found that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made through the 2013-15 biennial budget, it was insufficient to satisfy the court. In September 2014, the court found the state in contempt and threatened sanctions if an acceptable funding plan was not in place by the end of the 2015 legislative session.

On August 13, 2015, shortly after the conclusion of the 2015 legislative session, the Washington State Supreme Court issued an order imposing daily penalties of $100 thousand until the legislature fully funds basic education as ordered in prior court rulings.

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# RSI
# Required Supplementary Information

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## BUDGETARY COMPARISON SCHEDULE
# General Fund

**Budgetary Comparison Schedule**
**General Fund**
For the Biennium Ended June 30, 2015
*(expressed in thousands)*

| | Original Budget 2013-15 Biennium | Final Budget 2013-15 Biennium | Actual 2013-15 Biennium | Variance with Final Budget |
|---|---|---|---|---|
| **Budgetary Fund Balance, July 1, as restated** | $ 472,246 | $ 472,246 | $ 472,246 | $ - |
| **Resources** | | | | |
| Taxes | 31,808,299 | 32,620,383 | 32,802,875 | 182,492 |
| Licenses, permits, and fees | 197,260 | 215,775 | 222,964 | 7,189 |
| Other contracts and grants | 529,972 | 526,952 | 420,675 | (106,277) |
| Timber sales | 5,040 | 4,363 | 3,686 | (677) |
| Federal grants-in-aid | 17,191,481 | 18,958,876 | 17,772,637 | (1,186,239) |
| Charges for services | 68,703 | 73,449 | 89,791 | 16,342 |
| Investment income (loss) | (9,830) | 965 | 3,157 | 2,192 |
| Miscellaneous revenue | 582,417 | 462,912 | 351,927 | (110,985) |
| Unclaimed property | 128,649 | 125,002 | 116,885 | (8,117) |
| Transfers from other funds | 1,333,052 | 1,475,687 | 1,484,679 | 8,992 |
| **Total Resources** | 52,307,289 | 54,936,610 | 53,741,522 | (1,195,088) |
| **Charges To Appropriations** | | | | |
| General government | 3,474,379 | 3,492,904 | 3,322,213 | 170,691 |
| Human services | 26,375,585 | 28,098,574 | 27,285,932 | 812,642 |
| Natural resources and recreation | 633,909 | 725,584 | 648,051 | 77,533 |
| Transportation | 94,456 | 94,155 | 84,364 | 9,791 |
| Education | 20,010,213 | 20,138,083 | 19,912,685 | 225,398 |
| Capital outlays | 965,922 | 917,722 | 462,588 | 455,134 |
| Transfers to other funds | 561,776 | 620,554 | 725,394 | (104,840) |
| **Total Charges To Appropriations** | 52,116,240 | 54,087,576 | 52,441,227 | 1,646,349 |
| **Excess Available For Appropriation Over (Under) Charges To Appropriations** | 191,049 | 849,034 | 1,300,295 | 451,261 |
| **Reconciling Items** | | | | |
| Bond sale proceeds | 138,792 | 203,542 | 341,315 | 137,773 |
| Issuance premiums | - | 891 | 5,910 | 5,019 |
| Assumed reversions | 140,000 | 239,531 | - | (239,531) |
| Working capital adjustment | - | - | (179,800) | (179,800) |
| Allocations | 50,001 | 2,500 | - | (2,500) |
| Noncash activity (net) | - | - | 84,377 | 84,377 |
| Nonappropriated fund balances | - | - | 51,014 | 51,014 |
| Changes in reserves (net) | - | - | (680) | (680) |
| **Total Reconciling Items** | 328,793 | 446,464 | 302,136 | (144,328) |
| **Budgetary Fund Balance, June 30** | $ 519,842 | $ 1,295,498 | $ 1,602,431 | $ 306,933 |

## BUDGETARY COMPARISON SCHEDULE
# General Fund - Budget to GAAP Reconciliation

**General Fund**
For the Biennium Ended June 30, 2015
*(expressed in thousands)*

| | | |
|---|---|---|
| **Sources/Inflows of Resources** | | |
| Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule | $ | 53,741,522 |
| Differences - budget to GAAP: | | |
| The following items are inflows of budgetary resources but are not revenue for financial reporting purposes: | | |
| Transfers from other funds | | (1,484,679) |
| Budgetary fund balance at the beginning of the biennium, as restated | | (472,246) |
| Appropriated loan principal repayment | | (3,184) |
| The following items are not inflows of budgetary resources but are revenue for financial reporting purposes: | | |
| Noncash commodities and electronic food stamp benefits | | 3,288,468 |
| Revenues collected for other governments | | 231,019 |
| Unanticipated receipts | | 1,215,892 |
| Noncash revenues | | 82,483 |
| Other | | 5,071 |
| Biennium total revenues | | 56,604,346 |
| Fiscal year 2014 total revenues, as restated for fund reclassification | | (26,847,449) |
| Nonappropriated activity | | 27,536 |
| **Total Revenues (GAAP Basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds** | $ | 29,784,433 |
| **Uses/Outflows of Resources** | | |
| Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule | $ | 52,441,227 |
| Differences - budget to GAAP: | | |
| The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes: | | |
| Appropriated transfers to other funds | | (2,536,683) |
| Other transfers to other funds | | (725,394) |
| Appropriated loan disbursements | | (14) |
| The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes: | | |
| Noncash commodities and electronic food stamp benefits | | 3,288,468 |
| Distributions to other governments | | 231,019 |
| Certificates of participation and capital lease acquisitions | | 9,052 |
| Expenditures related to unanticipated receipts | | 1,215,892 |
| Other | | 12,762 |
| Biennium total expenditures | | 53,936,329 |
| Fiscal year 2014 total expenditures, as restated for fund reclassification | | (26,124,434) |
| Nonappropriated activity | | 664,634 |
| **Total expenditures (GAAP basis) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds** | $ | 28,476,529 |

## BUDGETARY COMPARISON SCHEDULE
# Higher Education Special Revenue Fund

**Budgetary Comparison Schedule**
**Higher Education Special Revenue Fund**
For the Biennium Ended June 30, 2015
*(expressed in thousands)*

| | Original Budget 2013-15 Biennium | Final Budget 2013-15 Biennium | Actual 2013-15 Biennium | Variance with Final Budget |
|---|---|---|---|---|
| **Budgetary Fund Balance, July 1, as restated** | $ 93,087 | $ 93,087 | $ 93,087 | $ - |
| **Resources** | | | | |
| Taxes | 334,110 | 389,878 | 406,206 | 16,328 |
| Other contracts and grants | - | 438 | - | (438) |
| Charges for services | 917 | - | - | - |
| Investment income (loss) | 95 | - | 333 | 333 |
| Miscellaneous revenue | - | 602 | - | (602) |
| Transfers from other funds | 340,577 | 345,232 | 346,932 | 1,700 |
| **Total Resources** | 768,786 | 829,237 | 846,558 | 17,321 |
| **Charges To Appropriations** | | | | |
| Education | 608,761 | 673,423 | 672,339 | 1,084 |
| Transfers to other funds | 62,150 | 53,888 | 53,589 | 299 |
| **Total Charges To Appropriations** | 670,911 | 727,311 | 725,928 | 1,383 |
| **Excess Available For Appropriation Over (Under) Charges To Appropriations** | 97,875 | 101,926 | 120,630 | 18,704 |
| **Reconciling Items** | | | | |
| Working Capital Adjustment | - | - | (16,060) | (16,060) |
| Noncash activity (net) | - | - | (50,017) | (50,017) |
| Nonappropriated fund balances | - | - | 2,480,995 | 2,480,995 |
| Changes in reserves (net) | - | - | 230,874 | 230,874 |
| **Total Reconciling Items** | - | - | 2,645,792 | 2,645,792 |
| **Budgetary Fund Balance, June 30** | $ 97,875 | $ 101,926 | $ 2,766,422 | $ 2,664,496 |

## BUDGETARY COMPARISON SCHEDULE

# Higher Education Special Revenue Fund - Budget to GAAP Reconciliation

**Higher Education Special Revenue Fund**
For the Biennium Ended June 30, 2015
*(expressed in thousands)*

| | | |
|---|---|---|
| **Sources/Inflows of Resources** | | |
| Actual amounts (budgetary basis) "Total Resources" | | |
| from the Budgetary Comparison Schedule | $ | 846,558 |
| Differences - budget to GAAP: | | |
| The following items are inflows of budgetary resources but are not | | |
| revenue for financial reporting purposes: | | |
| Transfers from other funds | | (346,932) |
| Budgetary fund balance at the beginning of the biennium, as restated | | (93,087) |
| The following items are not inflows of budgetary resources but are | | |
| revenue for financial reporting purposes: | | |
| Noncash revenues | | 140 |
| Other | | - |
| Biennium total revenues | | 406,679 |
| Fiscal year 2014 total revenues | | (5,107,607) |
| Nonappropriated activity | | 9,947,551 |
| **Total Revenues (GAAP Basis) as reported on the Statement of Revenues,** | | |
| **Expenditures, and Changes in Fund Balances - Governmental Funds** | $ | 5,246,623 |
| **Uses/Outflows of Resources** | | |
| Actual amounts (budgetary basis) "Total Charges to Appropriations" | | |
| from the Budgetary Comparison Schedule | $ | 725,928 |
| Differences - budget to GAAP: | | |
| The following items are outflows of budgetary resources but are | | |
| not expenditures for financial reporting purposes: | | |
| Appropriated transfers to other funds | | (31,354) |
| Other transfers to other funds | | (53,589) |
| Biennium total expenditures | | 640,985 |
| Fiscal year 2014 total expenditures | | (5,047,518) |
| Nonappropriated activity | | 9,798,640 |
| **Total expenditures (GAAP basis) as reported on the Statement of Revenues,** | | |
| **Expenditures, and Changes in Fund Balance - Governmental Funds** | $ | 5,392,107 |

# BUDGETARY INFORMATION
## Notes to Required Supplementary Information

### GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature.

The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedule is not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedule extremely cumbersome. Section 2400.121 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases.

For the state of Washington, a separate report has been prepared for the 2013-15 biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds/accounts at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. The report is available on line at http://www.ofm.wa.gov/cafr/2015/default.asp.

Legislative appropriations are strict legal limits on expenditures, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds/accounts are further controlled by the executive branch through the allotment process. This process allocates the expenditure plan into monthly allotments by program, source of funds, and object of expenditure. State law does not preclude the over-expenditure of allotments.

Proprietary funds/accounts can earn revenues and incur expenses (i.e., depreciation or cost of goods sold) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund/account business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to estimate revenue and make expenditure allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year-end are reported as restricted, committed, or assigned fund balance.

### Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with generally accepted accounting principles. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are capital asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature. Nonappropriated activities can represent a portion of a fund such as the Higher Education Special Revenue Fund or all of a fund such as the Higher Education Endowment and Tobacco Settlement Securitization Bond Debt Service Funds. Additionally, certain items including federal surplus food commodities, electronic food stamp benefits, and resources collected and distributed to other governments are also excluded because they are not appropriated.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements.

In the General Fund, Budgetary Fund Balance equals restricted fund balance reduced by a portion that is not available for budgeting, committed, and unassigned fund balances as reported on the Governmental Funds Balance Sheet. In the Higher Education Special Revenue Fund, Budgetary Fund Balance equals the sum of restricted and committed fund balance as reported on the Governmental Funds Balance Sheet. In all other funds except Wildlife and Natural Resources, Budgetary Fund Balance equals total fund balance less nonspendable fund balance as reported on the Governmental Funds Balance Sheet. The Budgetary Fund Balance in the Wildlife and Natural Resources fund is further reduced by a portion of restricted fund balance that is not available for budgeting.

## PENSION PLAN INFORMATION
## Single Employer Plans

continued

**Schedule of Changes in Net Pension Liability and Related Ratios**
**Washington State Patrol Retirement System - Plan 1/2**
Last Two Fiscal Years*
*(expressed in thousands)*

| | 2014 | 2013 |
|---|---|---|
| **Total Pension Liability** | | |
| Service cost | $ 18,041 | N/A |
| Interest | 75,249 | N/A |
| Changes of benefit terms | - | N/A |
| Differences between expected and actual experience | - | N/A |
| Changes in assumptions | - | N/A |
| Benefit payments, including refunds of employee contributions | (47,510) | N/A |
| **Net Change in Total Pension Liability** | 45,780 | N/A |
| **Total Pension Liability - Beginning** | 1,026,644 | N/A |
| **Total Pension Liability - Ending (a)** | $ 1,072,424 | $ 1,026,644 |
| **Plan Fiduciary Net Position** | | |
| Contributions - employer | $ 6,587 | N/A |
| Contributions - employee | 6,555 | N/A |
| Net investment income | 176,856 | N/A |
| Benefit payments, including refunds of employee contributions | (47,510) | N/A |
| Administrative expense | (84) | N/A |
| Other | 509 | N/A |
| **Net Change in Plan Fiduciary Net Position** | 142,913 | N/A |
| **Plan Fiduciary Net Position - Beginning** | 955,514 | N/A |
| **Plan Fiduciary Net Position - Ending (b)** | $ 1,098,427 | $ 955,514 |
| **State's Net Pension Liability/(Asset) - Ending (a) - (b)** | $ (26,003) | $ 71,130 |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability /(Asset)** | 102.42% | 93.07% |
| **Covered-employee payroll** | $ 85,046 | $ 81,895 |
| **State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll** | -30.58% | 86.85% |

N/A indicates data not available.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION
## Single Employer Plans

continued

**Schedule of Changes in Net Pension Liability and Related Ratios**
**Judicial Retirement System**
Last Two Fiscal Years*
*(expressed in thousands)*

| | 2014 | 2013 |
|---|---|---|
| **Total Pension Liability** | | |
| Service cost | $ - | N/A |
| Interest | 4,319 | N/A |
| Changes of benefit terms | - | N/A |
| Differences between expected and actual experience | - | N/A |
| Changes in assumptions | - | N/A |
| Benefit payments, including refunds of employee contributions | (9,480) | N/A |
| **Net Change in Total Pension Liability** | (5,161) | N/A |
| **Total Pension Liability - Beginning** | 105,502 | N/A |
| **Total Pension Liability - Ending (a)** | $ 100,341 | $ 105,502 |
| **Plan Fiduciary Net Position** | | |
| Contributions - employer | $ 10,600 | N/A |
| Contributions - employee | - | N/A |
| Net investment income | 25 | N/A |
| Benefit payments, including refunds of employee contributions | (9,480) | N/A |
| Administrative expense | - | N/A |
| Other | - | N/A |
| **Net Change in Plan Fiduciary Net Position** | 1,145 | N/A |
| **Plan Fiduciary Net Position - Beginning** | 3,886 | N/A |
| **Plan Fiduciary Net Position - Ending (b)** | $ 5,031 | $ 3,886 |
| **State's Net Pension Liability/(Asset) - Ending (a) - (b)** | $ 95,310 | $ 101,616 |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability/(Asset)** | 5.01% | 3.68% |
| **Covered-employee payroll** [1] | N/A | $ 160 |
| **State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll** [1] | N/A | 63510% |

N/A indicates data not available.
[1] Covered-employee payroll is not applicable because there are no active plan employees.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION
## Single Employer Plans

concluded

**Schedule of Changes in Net Pension Liability and Related Ratios**
**Judges' Retirement Fund**
Last Two Fiscal Years*
*(expressed in thousands)*

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ | - | | N/A |
| Interest | | 137 | | N/A |
| Changes of benefit terms | | - | | N/A |
| Differences between expected and actual experience | | - | | N/A |
| Changes in assumptions | | - | | N/A |
| Benefit payments, including refunds of employee contributions | | (444) | | N/A |
| **Net Change in Total Pension Liability** | | (307) | | N/A |
| | | | | |
| **Total Pension Liability - Beginning** | | 3,453 | | N/A |
| **Total Pension Liability - Ending (a)** | $ | 3,146 | $ | 3,453 |
| | | | | |
| **Plan Fiduciary Net Position** | | | | |
| Contributions - employer | $ | - | | N/A |
| Contributions - employee | | - | | N/A |
| Net investment income | | 7 | | N/A |
| Benefit payments, including refunds of employee contributions | | (444) | | N/A |
| Administrative expense | | - | | N/A |
| Other | | - | | N/A |
| **Net Change in Plan Fiduciary Net Position** | | (437) | | N/A |
| | | | | |
| **Plan Fiduciary Net Position - Beginning** | | 1,392 | | N/A |
| **Plan Fiduciary Net Position - Ending (b)** | $ | 955 | $ | 1,392 |
| | | | | |
| **State's Net Pension Liability/(Asset) - Ending (a) - (b)** | $ | 2,191 | $ | 2,061 |
| | | | | |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability/(Asset)** | | 30.36% | | 40.31% |
| **Covered-employee payroll** [1] | | N/A | | N/A |
| **State's Net Pension Liability/(Asset) as a percentage of covered-employee payroll** [1] | | N/A | | N/A |

N/A indicates data not available.
[1] Covered-employee payroll is not applicable because there are no active plan employees.
* This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION
## Single Employer Plans

continued

**Schedule of Contributions**
**Washington State Patrol Retirement System - Plan 1/2**
Last Ten Fiscal Years
*(expressed in thousands)*

| Year | Actuarially Determined Contributions | Contributions in relation to the Actuarial Determined Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 6,677 | $ 6,587 | $ 90 | $ 85,046 | 7.75% |
| 2013 | 2,500 | 6,478 | (3,978) | 81,895 | 7.91% |
| 2012 | 2,900 | 6,454 | (3,554) | 81,578 | 7.91% |
| 2011 | 2,300 | 5,251 | (2,951) | 81,882 | 6.41% |
| 2010 | 6,600 | 5,271 | 1,329 | 82,764 | 6.37% |
| 2009 | 5,000 | 6,371 | (1,371) | 82,719 | 7.70% |
| 2008 | 6,800 | 6,064 | 736 | 78,781 | 7.70% |
| 2007 | 5,300 | 3,278 | 2,022 | 72,688 | 4.51% |
| 2006 | 6,100 | 3,133 | 2,967 | 69,515 | 4.51% |
| 2005 | 3,400 | - | 3,400 | 65,805 | 0.00% |

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION
## Single Employer Plans

continued

**Schedule of Contributions**
**Judicial Retirement System**
Last Ten Fiscal Years
*(expressed in thousands)*

| Year | Actuarially Determined Contributions | Contributions in relation to the Actuarial Determined Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 9,205 | $ 10,600 | $ (1,395) | $ - | N/A |
| 2013 | 21,700 | 10,112 | 11,588 | 160 | 6320.00% |
| 2012 | 22,600 | 8,131 | 14,469 | 407 | 1997.79% |
| 2011 | 18,600 | 10,906 | 7,694 | 611 | 1784.94% |
| 2010 | 20,400 | 11,649 | 8,751 | 1,053 | 1106.27% |
| 2009 | 21,200 | 10,305 | 10,895 | 1,394 | 739.24% |
| 2008 | 26,600 | 9,712 | 16,888 | 1,496 | 649.20% |
| 2007 | 37,300 | 9,650 | 27,650 | 1,478 | 652.91% |
| 2006 | 27,700 | 6,716 | 20,984 | 1,534 | 437.81% |
| 2005 | 21,700 | 6,150 | 15,550 | 2,071 | 296.96% |

Contributions in relation to the Actuarially Determined Contributions are based on state contributions.

N/A indicates data not available. Beginning in 2014, there are no active members.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION
## Single Employer Plans

concluded

**Schedule of Contributions**
**Judges' Retirement Fund**
Last Ten Fiscal Years
*(expressed in thousands)*

| Year | Actuarially Determined Contributions | Contributions in relation to the Actuarial Determined Contributions | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2014 | $ 425 | $ - | $ 425 | $ - | N/A |
| 2013 | 400 | - | 400 | - | N/A |
| 2012 | 300 | - | 300 | - | N/A |
| 2011 | 100 | - | 100 | - | N/A |
| 2010 | - | - | - | - | N/A |
| 2009 | - | - | - | - | N/A |
| 2008 | - | 300 | (300) | - | N/A |
| 2007 | - | 300 | (300) | - | N/A |
| 2006 | 100 | 300 | (200) | - | N/A |
| 2005 | 100 | 500 | (400) | - | N/A |

Contributions in relation to the Actuarially Determined Contributions are based on state contributions.

N/A indicates data not available. There are no active employees.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## Notes to Required Supplementary Information

**Methods and assumptions used in calculations of Actuarial Determined Contributions (ADC) for PERS, TRS, LEOFF, and WSPRS.** The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

**Methods and assumptions used in calculations of the ADC for JRS and Judges.** The OSA calculates the ADC based on the results of an actuarial valuation, and sets the ADC equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined under chapters 2.10.90 and 2.12.60 RCW, the Legislature makes biennial appropriations in order to ensure the fund is solvent to make the necessary benefit payments.

## PENSION PLAN INFORMATION
## Cost Sharing Employer Plans

continued

| Schedule of the State's Proportionate Share of the Net Pension Liability<br>Public Employees' Retirement System (PERS) Plan 1<br>Measurement Date of June 30 *<br>*(expressed in thousands)* | |
|---|---|
| | **2014** |
| State PERS Plan 1 employers' proportion of the net pension liability/(asset) | 42.37% |
| State PERS Plan 1 employers' proportionate share of the net pension liability/(asset) | $ 2,134,189 |
| State PERS Plan 1 employers' covered-employee payroll | $ 143,836 |
| State PERS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll | 1483.77% |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | 61.19% |

* This schedule is to be built prospectively until it contains ten years of data.

| Schedule of the State's Proportionate Share of the Net Pension Liability<br>Public Employees' Retirement System (PERS) Plan 2/3<br>Measurement Date of June 30 *<br>*(expressed in thousands)* | |
|---|---|
| | **2014** |
| State PERS Plan 2/3 employers' proportion of the net pension liability/(asset) | 49.27% |
| State PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) | $ 995,856 |
| State PERS Plan 2/3 employers' covered-employee payroll | $ 4,215,934 |
| State PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll | 23.62% |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | 93.29% |

* This schedule is to be built prospectively until it contains ten years of data.

## PENSION PLAN INFORMATION
## Cost Sharing Employer Plans

continued

**Schedule of the State's Proportionate Share of the Net Pension Liability**
**Teachers' Retirement System (TRS) Plan 1**
Measurement Date of June 30 *
*(expressed in thousands)*

| | | 2014 |
|---|---|---|
| State TRS Plan 1 employers' proportion of the net pension liability/(asset) | | 0.78% |
| State TRS Plan 1 employers' proportionate share of the net pension liability/(asset) | $ | 22,924 |
| State TRS Plan 1 employers' covered-employee payroll | $ | 4,611 |
| State TRS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll | | 497.15% |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | | 68.77% |

* This schedule is to be built prospectively until it contains ten years of data.

**Schedule of the State's Proportionate Share of the Net Pension Liability**
**Teachers' Retirement System (TRS) Plan 2/3**
Measurement Date of June 30 *
*(expressed in thousands)*

| | | 2014 |
|---|---|---|
| State TRS Plan 2/3 employers' proportion of the net pension liability/(asset) | | 0.59% |
| State TRS Plan 2/3 employers' proportionate share of the net pension liability/(asset) | $ | 1,913 |
| State TRS Plan 2/3 employers' covered-employee payroll | $ | 25,673 |
| State TRS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll | | 7.45% |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | | 96.81% |

* This schedule is to be built prospectively until it contains ten years of data.

## PENSION PLAN INFORMATION
## Cost Sharing Employer Plans

continued

**Schedule of the State's Proportionate Share of the Net Pension Liability**
**Public Safety Employees' Retirement System (PSERS) Plan 2**
Measurement Date of June 30 *
*(expressed in thousands)*

| | 2014 |
|---|---|
| State PSERS Plan 2 employers' proportion of the net pension liability/(asset) | 48.26% |
| State PSERS Plan 2 employers' proportionate share of the net pension liability (asset) | $ (6,988) |
| State PSERS Plan 2 employers' covered-employee payroll | $ 130,172 |
| State PSERS Plan 2 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll | -5.37% |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | 105.01% |

* This schedule is to be built prospectively until it contains ten years of data.

**Schedule of the State's Proportionate Share of the Net Pension Liability**
**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1**
Measurement Date of June 30 *
*(expressed in thousands)*

| | 2014 |
|---|---|
| State's nonemployer proportion of the net pension liability/(asset) | 87.12% |
| State as nonemployer contributing entity proportionate share of the net pension liability/(asset) | $ (1,056,583) |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | 126.91% |

* This schedule is to be built prospectively until it contains ten years of data.

## PENSION PLAN INFORMATION
## Cost Sharing Employer Plans

concluded

| Schedule of the State's Proportionate Share of the Net Pension Liability<br>Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2<br>Measurement Date of June 30 *<br>*(expressed in thousands)* | | |
|---|---|---|
| | | **2014** |
| State LEOFF Plan 2 employers' proportion of the net pension liability/(asset) | | 0.84% |
| State as nonemployer contributing entity proportion of the net pension liability/(asset) | | 39.52% |
| State LEOFF Plan 2 employers' proportionate share of the net pension liability/(asset) | $ | (11,175) |
| State as nonemployer contributing entity total proportionate share of the net pension liability/(asset) | | (524,419) |
| Total | $ | (535,594) |
| State LEOFF Plan 2 employers' covered-employee payroll | $ | 18,259 |
| State LEOFF Plan 2 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll | | -61.20% |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | | 116.75% |

* This schedule is to be built prospectively until it contains ten years of data.

## PENSION PLAN INFORMATION
# Cost Sharing Employer Plans

| Schedule of Contributions<br>Public Employees' Retirement System (PERS) - Plan 1<br>Fiscal Year Ended June 30, 2014<br>*(dollars in thousands)* | |
|---|---|
| Contractually Required Contribution | $ 13,247 |
| Contributions in relation to the contractually required contribution | 13,245 |
| Contribution deficiency (excess) | $ 2 |
| Covered-employee payroll | $ 143,836 |
| Contributions as a percentage of covered-employee payroll | 9.21% |

| Schedule of Contributions<br>Public Employees' Retirement System (PERS) - Plan 2/3<br>Fiscal Year Ended June 30, 2014<br>*(dollars in thousands)* | |
|---|---|
| Contractually Required Contribution | $ 388,288 |
| Contributions in relation to the contractually required contribution | 386,812 |
| Contribution deficiency (excess) | $ 1,476 |
| Covered-employee payroll | $ 4,215,934 |
| Contributions as a percentage of covered-employee payroll | 9.18% |

| Schedule of Contributions<br>Teachers' Retirement System (TRS) - Plan 1<br>Fiscal Year Ended June 30, 2014<br>*(dollars in thousands)* | |
|---|---|
| Contractually Required Contribution | $ 479 |
| Contributions in relation to the contractually required contribution | 476 |
| Contribution deficiency (excess) | $ 3 |
| Covered-employee payroll | $ 4,611 |
| Contributions as a percentage of covered-employee payroll | 10.32% |

| Schedule of Contributions<br>Teachers' Retirement System (TRS) - Plan 2/3<br>Fiscal Year Ended June 30, 2014<br>*(dollars in thousands)* | |
|---|---|
| Contractually Required Contribution | $ 2,667 |
| Contributions in relation to the contractually required contribution | 2,947 |
| Contribution deficiency (excess) | $ (280) |
| Covered-employee payroll | $ 25,673 |
| Contributions as a percentage of covered-employee payroll | 11.48% |

| Schedule of Contributions<br>Public Safety Employees' Retirement System (PSERS) Plan 2<br>Fiscal Year Ended June 30, 2014<br>*(dollars in thousands)* | |
|---|---|
| Contractually Required Contribution | $ 13,720 |
| Contributions in relation to the contractually required contribution | 13,604 |
| Contribution deficiency (excess) | $ 116 |
| Covered-employee payroll | $ 130,172 |
| Contributions as a percentage of covered-employee payroll | 10.45% |

| Schedule of Contributions<br>Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2<br>Fiscal Year Ended June 30, 2014<br>*(dollars in thousands)* | |
|---|---|
| Contractually Required Contribution | $ 1,568 |
| Contributions in relation to the contractually required contribution | 1,222 |
| Contribution deficiency (excess) | $ 346 |
| Covered-employee payroll | $ 18,259 |
| Contributions as a percentage of covered-employee payroll | 6.69% |

Notes:
These schedules will be built prospectively until they contain ten years of data.
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 currently has no active members; therefore, no contributions are required or paid.

## PENSION PLAN INFORMATION

# Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

**Schedule of Change in Net Pension Liability**
Last Three Fiscal Years*
*(expressed in thousands)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Total Pension Liability** | | | |
| Service cost | $ 919 | $ 1,240 | N/A |
| Interest | 12,656 | 12,480 | N/A |
| Changes of benefit terms | - | - | N/A |
| Differences between expected and actual experience | (2,948) | - | N/A |
| Changes in assumptions | 1,931 | - | N/A |
| Benefit payments, including refunds of member contributions | (10,501) | (10,771) | N/A |
| **Net Change in Total Pension Liability** | 2,057 | 2,949 | N/A |
| **Total Pension Liability - Beginning** | 186,527 | 183,578 | N/A |
| **Total Pension Liability - Ending** | $ 188,584 | $ 186,527 | $ 183,578 |
| **Plan Fiduciary Net Position** | | | |
| Contributions - Municipalities | $ 913 | $ 953 | N/A |
| Contributions - Member | 76 | 95 | N/A |
| Contributions - State as nonemployer contributing entity | 5,903 | 6,383 | N/A |
| Net investment income | 8,289 | 31,892 | N/A |
| Benefit payments, including refunds of member contributions | (10,501) | (10,771) | N/A |
| Administrative expense | (1,020) | (1,469) | N/A |
| Other | - | (22) | N/A |
| **Net Change in Plan Fiduciary Net Position** | 3,660 | 27,061 | N/A |
| **Plan Fiduciary Net Position - Beginning** | 204,195 | 177,134 | N/A |
| **Plan Fiduciary Net Position - Ending** | $ 207,855 | $ 204,195 | $ 177,134 |
| **Plan's Net Pension Liability/(Asset) - Ending** | $ (19,271) | $ (17,668) | $ 6,444 |

N/A indicates data not available.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION

# Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

**Schedule of Net Pension Liability**
Last Three Fiscal Years*
*(expressed in thousands)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Total Pension Liability - Ending | $ 188,584 | $ 186,527 | $ 183,578 |
| Plan Fiduciary Net Position - Ending | 207,855 | 204,195 | 177,134 |
| **Plan's Net Pension Liability/(Asset) - Ending** | $ (19,271) | $ (17,668) | $ 6,444 |
| Plan fiduciary net position as a percentage of the total pension liability/(asset) | 110.22% | 109.47% | 96.49% |
| Covered-employee payroll | N/A | N/A | N/A |
| Plan's net pension liability/(asset) as a percentage of covered-employee payroll | N/A | N/A | N/A |

N/A indicates data not applicable. This is a volunteer organization.
*This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding. Percentages are calculated using unrounded totals.

*Source: Washington State Office of the State Actuary*

**Schedule of Contributions**
Last Ten Fiscal Years
*(expressed in thousands)*

| Year | Actuarially Determined Contribution | Contributions in relation to the Actuarial Determined Contribution | Contribution deficiency (excess) |
|---|---|---|---|
| 2015 | $ 6,653 | $ 6,816 | $ (163) |
| 2014 | 6,421 | 7,336 | (915) |
| 2013 | 4,600 | 6,946 | (2,346) |
| 2012 | 4,700 | 6,484 | (1,784) |
| 2011 | 5,300 | 6,778 | (1,478) |
| 2010 | 2,800 | 6,787 | (3,987) |
| 2009 | 2,500 | 6,223 | (3,723) |
| 2008 | 1,900 | 6,102 | (4,202) |
| 2007 | 3,000 | 7,063 | (4,063) |
| 2006 | 4,600 | 5,695 | (1,095) |

Neither covered-employee payroll nor contributions as a percentage of covered-employee payroll are applicable. This is a volunteer organization.

Prior to 2014, the Annual Required Contribution (ARC) amounts are presented for the Actuarially Determined Contributions.

Note: Figures may not total due to rounding.

*Source: Washington State Office of the State Actuary*

## PENSION PLAN INFORMATION

### Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund

| Schedule of Investment Returns<br>Last Two Fiscal Years* | | |
|---|---|---|
| | **2015** | **2014** |
| Annual money-weighted rate of return, net of investment expense | 4.05% | 18.50% |

*This schedule is to be built prospectively until it contains ten years of data.

*Source: Washington State Office of the State Actuary*

### Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Notes to Required Supplementary Information

The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with funding policy defined under chapter 41.24 RCW and adopted policies made by the State Board for Volunteer Fire Fighters and Reserve Officers. Consistent with the Board's contribution rate adoption process, the results of an actuarial valuation determine the ADC two years after the valuation date. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period ending June 30, 2015.

## OTHER POSTEMPLOYMENT BENEFITS INFORMATION

| Schedule of Funding Progress<br>Other Postemployment Benefits<br>*(expressed in millions)* | | | |
|---|---|---|---|
| | **2015** | **2013** | **2011** |
| Actuarial valuation date | 1/1/2015 | 1/1/2013 | 1/1/2011 |
| Actuarial value of plan assets | $ - | $ - | $ - |
| Actuarial accrued liability (AAL)* | 5,274 | 3,707 | 3,492 |
| Unfunded actuarial accrued liability (UAAL) | 5,274 | 3,707 | 3,492 |
| Funded ratio | 0% | 0% | 0% |
| Covered payroll | 6,219 | 5,787 | 5,937 |
| UAAL as a percentage of covered payroll | 85% | 64% | 59% |

* Based on projected unit credit actuarial cost method.

*Source: Washington State Office of the State Actuary*

## INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

### Condition Assessment

The state of Washington reports certain networks of infrastructure assets under the modified approach of the Governmental Accounting Standards Board Statement No. 34. Expenditures to maintain and preserve these assets are budgeted, recorded, and reported in lieu of depreciation expense. The state must meet the following requirements to report networks of assets under the modified approach:

- Maintain an up-to-date inventory of eligible infrastructure assets in an asset management system.
- Disclose the condition level established by administrative or executive policy, or by legislative action at which assets are to be preserved or maintained.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Document that assets are being preserved approximately at or above the disclosed condition level.
- Annually estimate the cost to maintain and preserve the assets at the established condition level.

Assets accounted for under the modified approach include the state's network of highway pavements, bridges, and rest areas. In fiscal year 2015, the state was responsible to maintain and preserve 20,732 pavement lane miles, 3,288 bridges and tunnels, and 48 rest areas.

## PAVEMENT CONDITION

The Washington State Department of Transportation (WSDOT) performs highway pavement assessments over a two year cycle utilizing three measurements to develop a scaled condition assessment: Pavement Structural Condition (PSC), International Roughness Index (IRI), and rutting.

The WSDOT uses the following rating scale for PSC:

| Category | PSC Range | Description |
|---|---|---|
| Very Good | 80 – 100 | Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80. |
| Good | 60 – 79 | Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70. |
| Fair | 40 – 59 | This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50. |
| Poor | 20 – 39 | Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30. |
| Very Poor | 0 – 19 | Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays. |

The IRI scale is measured in inches per mile. The WSDOT assesses pavements with a ride performance measure less than 221 inches per mile to be in fair or better condition.

Rutting is measured in inches with a measurement of 0.58 inches or less assessed at a condition of fair or better.

PSC, IRI, and rutting are combined to rate a section of pavement which is assigned the lowest condition of any of the three indices.

The following table shows the combined conditions and the ratings for each index:

| Category | PSC | IRI | Rutting |
|---|---|---|---|
| Very Good | 80 – 100 | < 96 | < 0.24 |
| Good | 60 – 79 | 96 – 170 | 0.24 – 0.41 |
| Fair | 40 – 59 | 171 – 220 | 0.42 – 0.58 |
| Poor | 20 – 39 | 221 – 320 | 0.59 – 0.74 |
| Very Poor | 0 – 19 | > 320 | > 0.74 |

The WSDOT's policy is to maintain 85 percent of pavements at a condition level of fair or better. The following table shows pavement condition ratings for state highways:

| Pavements<br>Percentage in Fair or Better Condition*<br>Two Year Cycle Ending Calendar Year | | | |
|---|---|---|---|
| 2013 | 2011 | 2009 | Average of Last Three Assessments |
| 92.8% | 91.2% | 92.7% | 92.2% |

* Starting in 2013 the methodology changed from being based solely on number of lane miles to being based on lane miles weighted by vehicle miles traveled. Vehicle miles traveled are key data for highway planning and management, and a common measure of roadway use.

The following table reflects the state's estimated and actual expenditures necessary to preserve state highways at the established condition level:

| Pavements<br>Preservation and Maintenance - Planned to Actual - Fiscal Year<br>*(expressed in thousands)* | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Planned | $ 173,716 | $ 122,868 | $ 137,779 | $ 148,811 | $ 122,203 |
| Actual | 142,789 | 143,598 | 108,972 | 148,366 | 117,811 |
| Variance | $ 30,927 | $ (20,730) | $ 28,807 | $ 445 | $ 4,392 |
| | 17.8% | (16.9%) | 20.9% | 0.3% | 3.6% |

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about pavements, refer to the WSDOT's website at:
http://www.wsdot.wa.gov/Business/MaterialsLab/Pavements/default.htm.

## BRIDGE CONDITION

The WSDOT performs sample condition assessments on state owned bridges in excess of 20 feet in length each year with all bridges inspected over a two year cycle. Underwater bridge components are inspected at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

The WSDOT uses a performance measure established in FHWA's "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges," which classifies the physical condition of bridges as good, fair, or poor based on structural sufficiency standards for the following bridge components: bridge superstructure, substructure, and deck. The appraisal data is collected in the National Bridge Inventory (NBI) and assigned a code from 0 to 9, with 0 being in a failed condition and 9 being in excellent condition.

| Category | National Bridge Inventory Code* | Description |
|---|---|---|
| Good | 7 or more | A range from no problems noted to some minor problems. |
| Fair | 5 or 6 | All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling, or scour. |
| Poor | 4 or less | Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour, or seriously affected primary structural components. |

*For 2015 the NBI code of 6 has changed from good condition to fair condition. This change aligns with federal reporting requirements.

The WSDOT's policy is to maintain 90 percent of bridges at a condition level of fair or better. The following table shows condition ratings for state bridges:

| Bridges<br>Percentage in Fair or Better Condition*<br>Two Year Cycle Ending Fiscal Year | | | |
|---|---|---|---|
| 2015 | 2013 | 2011 | Average of Last Three Assessments |
| 92.1% | 91.4% | 95.4% | 93.0% |

* The methodology for 2013 has changed from number of bridges to square footage of the bridge deck. This change aligns with federal reporting requirements.

The following table reflects the state's estimated and actual expenditures necessary to preserve the bridges at the established condition level:

| Bridges<br>Preservation and Maintenance - Planned to Actual - Fiscal Year<br>*(expressed in thousands)* | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Planned | $ 71,078 | $ 92,192 | $ 98,519 | $ 66,510 | $ 46,708 |
| Actual | 64,060 | 87,271 | 87,306 | 61,026 | 43,709 |
| Variance | $ 7,018 | $ 4,921 | $ 11,213 | $ 5,484 | $ 2,999 |
| | 9.9% | 5.3% | 11.4% | 8.2% | 6.4% |

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about bridges, refer to the WSDOT's website at: http://www.wsdot.wa.gov/Bridge/Structures/.

## SAFETY REST AREA CONDITION

The WSDOT performs safety rest area condition assessments over a two fiscal year cycle. Sites and buildings are divided into functional components that are assessed with a numerical rating of one to five. The rating is based on guidelines and parameters established by the WSDOT Capital Facilities Program and weighted by the criticality of the functional component.

The WSDOT's policy is to maintain 95 percent of safety rest areas in a condition of fair or better. The following table shows condition ratings for safety rest areas:

| Safety Rest Areas<br>Percentage in Fair or Better Condition<br>Two Year Cycle Ending Fiscal Year | | | |
|---|---|---|---|
| 2015 | 2013 | 2011 | Average of Last Three Assessments |
| 100.0% | 100.0% | 100.0% | 100.0% |

The following table reflects the state's estimated and actual expenditures necessary to preserve the safety rest areas at the established condition level:

| Safety Rest Areas<br>Preservation and Maintenance - Planned to Actual - Fiscal Year<br>*(expressed in thousands)* | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Planned | $ 8,463 | $ 7,488 | $ 6,607 | $ 6,278 | $ 6,259 |
| Actual | 8,369 | 7,591 | 6,676 | 6,467 | 6,514 |
| Variance | $ 94 | $ (103) | $ (69) | $ (189) | $ (255) |
| | 1.1% | (1.4%) | (1.0%) | (3.0%) | (4.1%) |

Actual expenditures may vary from planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate, defer, or reduce preservation or maintenance activity in response to economic forecasts and other factors.

For more information about safety rest areas, refer to WSDOT's website at: http://www.wsdot.wa.gov/safety/restareas.

# APPENDIX E

# DTC AND ITS BOOK-ENTRY SYSTEM

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## DTC AND ITS BOOK-ENTRY SYSTEM

*The following information has been provided by DTC. The State takes no responsibility for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each Principal Payment Date of the Certificates, each in the aggregate principal amount represented by such Certificates, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com (which website is not incorporated herein by reference).

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are to be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. When notices are given, they shall be sent by the Fiscal Agent to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Prepayment notices shall be sent to DTC. If less than all of the Certificates of a Principal Payment Date are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, prepayment and interest payments on the Certificates will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Certificate Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and are the responsibility of such Participant and not of DTC, the Fiscal Agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment and interest payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

10. The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.