OFFICIAL STATEMENT DATED OCTOBER 13, 2011

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Ratings:
Fitch Ratings: AA+
Moody's: Aa1
Standard & Poor's: AA+
(See "BOND RATINGS.")

$518,775,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS
(SR 520 CORRIDOR PROGRAM—TOLL REVENUE), SERIES 2012C

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

The State of Washington Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program—Toll Revenue), Series 2012C (the "Series 2012C Bonds"), are general obligations of the State of Washington (the "state") to which the state has pledged its full faith, credit and taxing power. The Series 2012C Bonds are first payable from Toll Revenue and Motor Vehicle Fuel Taxes and are issued as Third Tier Bonds and Triple Pledge Bonds all as further described under "SECURITY FOR THE SERIES 2012C BONDS." The 2012C Bonds are being issued to provide funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside Project, to fund capitalized interest and to pay costs of issuing the Series 2012C Bonds. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT."

Interest on the Series 2012C Bonds is payable semiannually on each June 1 and December 1, beginning June 1, 2012. The principal of the Series 2012C Bonds is payable in the stated maturity amounts on each June 1 as set forth on page i of this Official Statement. The Series 2012C Bonds are subject to redemption prior to maturity at the times and prices set forth under "DESCRIPTION OF THE SERIES 2012C BONDS—Redemption Provisions."

The Series 2012C Bonds are issuable as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co. (the "Registered Owner"), as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2012C Bonds. Individual purchases of the Series 2012C Bonds will be made in book-entry form only. The Series 2012C Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof. Purchasers of the Series 2012C Bonds will not receive certificates representing their interest in the Series 2012C Bonds purchased. The principal of and interest on the Series 2012C Bonds are payable by the fiscal agency of the state, as paying agent, registrar, transfer agent, and authenticating agent (the "Bond Registrar") (currently The Bank of New York Mellon), to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to Beneficial Owners of the Series 2012C Bonds, as described under "DESCRIPTION OF THE SERIES 2012C BONDS—Book-Entry System."

In the opinion of Bond 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 Series 2012C Bonds, interest on the Series 2012C Bonds 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 on the Series 2012C Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Series 2012C Bonds 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 on the Series 2012C Bonds received by certain S corporations may be subject to tax, and interest on the Series 2012C Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Series 2012C Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The Series 2012C Bonds are offered when, as and if issued, subject to receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Bond 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. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, as counsel to the Underwriters.

It is anticipated that the Series 2012C Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about October 31, 2011.

J.P. Morgan **Citigroup**

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 Series 2012C Bonds 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 Series 2012C Bonds 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 was obtained from DTC's website. 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 Series 2012C Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Series 2012C Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information set forth in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do 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 Series 2012C Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon an exception contained in such act.

STATE OF WASHINGTON
$518,775,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS
(SR 520 CORRIDOR PROGRAM—TOLL REVENUE), SERIES 2012C

SERIES 2012C SERIAL BONDS

Due June 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2017	$ 10,835,000	5.000%	1.950%	116.059	93974CE89
2018	11,375,000	5.000	2.200	117.071	93974CE97
2019	11,945,000	5.000	2.500	117.170	93974CF21
2020	12,540,000	5.000	2.740	117.179	93974CF39
2021	13,165,000	5.000	2.860	117.824	93974CF47
2022	13,825,000	5.000	3.040	116.186[2]	93974CF54
2023	14,515,000	5.000	3.190	114.841[2]	93974CF62
2024	15,240,000	5.000	3.350	113.427[2]	93974CF70
2025	16,005,000	5.000	3.490	112.207[2]	93974CF88
2026	16,805,000	5.250	3.490	114.228[2]	93974CF96
2027	17,685,000	5.250	3.590	113.356[2]	93974CG20
2028	18,615,000	5.000	3.790	109.644[2]	93974CG38
2029	19,545,000	5.000	3.870	108.973[2]	93974CG46
2030	20,525,000	5.000	3.940	108.389[2]	93974CG53
2031	21,550,000	5.000	4.000	107.892[2]	93974CG61
2032	22,625,000	5.000	4.040	107.562[2]	93974CG79
2033	23,760,000	5.000	4.070	107.315[2]	93974CG95
Subtotal	$280,555,000				

SERIES 2012C TERM BONDS

Due June 1	Principal Amount	Interest Rate	Yield	Price	CUSIP[1]
2041	$238,220,000	5.000%	4.200%	106.254[2]	93974CG87

Total	**$518,775,000**

(1) CUSIP® is a registered trademark of the American Bankers Association. 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 Series 2012C Bonds. Neither the state nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

(2) Priced to the June 1, 2021, par call date.

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STATE FINANCE COMMITTEE
OF THE
STATE OF WASHINGTON

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

CHRISTINE O. GREGOIRE.....Governor and Member

BRAD OWEN .....Lieutenant Governor and Member

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

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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

The availability of this Official Statement via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

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 Series 2012C Bonds. Information appearing on any such website is not incorporated by reference in this Official Statement.

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$518,775,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS
(SR 520 CORRIDOR PROGRAM—TOLL REVENUE), SERIES 2012C

INTRODUCTION

The purpose of this Official Statement, including the cover hereof and the appendices hereto, is to provide information in connection with the offering and sale by the State of Washington (the "state" or "Washington") of the above-captioned bonds (the "Series 2012C Bonds").

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 basic financial statements for the state's fiscal year ended June 30, 2010, are included as Appendix D—"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS."

See Appendix F—"THE MASTER RESOLUTION—Section 1.01" for capitalized terms used herein and not specifically defined.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2012C Bonds.

Simultaneously with the sale of the Series 2012C Bonds, the state sold $461,380,000 in various purpose general obligation refunding bonds and $42,330,000 in motor vehicle fuel tax general obligation refunding bonds for debt service savings.

State Finance Committee

The State Legislature (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.

By the enactment of Chapter 18, Laws of 2010, 1st Spec. Sess., the Legislature amended RCW 39.42.030(2) to authorize the Committee to delegate to the 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.

DESCRIPTION OF THE SERIES 2012C BONDS

Authority and Purpose

The State of Washington Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program—Toll Revenue), Series 2012C (the "Series 2012C Bonds"), in the principal amount of $518,775,000, are being issued pursuant to Chapter 498, Laws of 2009, as amended by Chapter 377, Laws of 2011 (RCW 47.10.879-.888; Chapter 39.42 RCW; and Resolution No. 1117 of the Committee (the "Master Resolution") and Resolution No. 1118 of the Committee acting by and through the Treasurer (the "Bond Sale Resolution" and, together with the Master Resolution, the "Series 2012C Bond Resolution").

The Series 2012C Bonds are being issued to provide funds to pay and reimburse state expenditures for a portion of costs of the SR 520 Floating Bridge and Eastside Project, to fund capitalized interest and to pay costs of issuing the Series 2012C Bonds. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT."

Description of the Series 2012C Bonds

The Series 2012C Bonds are dated the date of their initial delivery and will be issued as fully registered, book-entry only bonds in the denominations of $5,000 each or any integral multiple thereof within a single maturity.

Interest on the Series 2012C Bonds is calculated on the basis of a 360-day year and 12 30-day months. Interest on the Series 2012C Bonds will be payable semiannually on each June 1 and December 1, beginning June 1, 2012, at the rates shown on page i hereof.

Principal of the Series 2012C Bonds is payable on each June 1 in the years and amounts shown on page i hereof.

Pursuant to authority granted in Chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state 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 herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York Mellon to act as the fiscal agent for the state for a term that began February 1, 2007, and continues to January 31, 2015. Under the terms of the current fiscal agency contract, The Bank of New York Mellon will authenticate the Series 2012C Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "DESCRIPTION OF THE SERIES 2012C BONDS—Book-Entry Bonds."

Redemption Provisions

Optional Redemption. The state may redeem the Series 2012C Bonds maturing on or after June 1, 2022, as a whole or in part on any date on or after June 1, 2021 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

Mandatory Redemption. The state will redeem the Series 2012C Term Bonds maturing on June 1, 2041, randomly in the manner determined by the Bond Registrar at par plus accrued interest on June 1 in the years and amounts set forth below:

Years	Amounts
2034	$ 24,945,000
2035	26,195,000
2036	27,505,000
2037	28,880,000
2038	30,325,000
2039	31,840,000
2040	33,430,000
2041 (maturity)	35,100,000
	$238,220,000

If the state redeems under the optional redemption provisions, purchases in the open market or defeases Series 2012C Term Bonds, the par amount of the Series 2012C Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) will be credited against one or more scheduled mandatory redemption amounts for those Series 2012C Term Bonds, as determined by the state.

Partial Redemption. If less than all of the Series 2012C Bonds are to be redeemed at the option of the state, the state may select the maturity or maturities to be redeemed. If less than all of any maturity of the Series 2012C Bonds are to be redeemed, those Bonds or portions thereof to be redeemed are to be selected in a random method by the Bond Registrar or DTC, as applicable, in accordance with their respective standard procedures. Any Bond in the principal amount of greater than $5,000 may be partially redeemed in any integral multiple of $5,000.

Notice of Redemption; Conditional Notice of Optional Redemption. Notice of redemption shall be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owners of the Series 2012C Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; provided, however, so long as the Series 2012C Bonds are in book-entry only form, notice of redemption will be given in accordance with the operational arrangements then in effect at DTC. The state will not provide notice of redemption to any Beneficial Owners of the Series 2012C Bonds. In the case of an optional redemption, such redemption is to be conditioned on the receipt by the Bond Registrar of sufficient funds for such redemption. If the Bond Registrar does not receive funds sufficient to carry out an optional redemption, the redemption notice may be rescinded by further notice given to the Registered Owners of the affected Bonds. Such event will not constitute an Event of Default under the Master Resolution. A notice of optional redemption may state that the state retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled redemption date.

Purchase of Bonds

The state has reserved the right to purchase any of the Series 2012C Bonds at any time and at any price.

Defeasance

The state may issue refunding bonds pursuant to the laws of the state or use money from any other lawful source to pay the principal of and interest on the Series 2012C Bonds, or that portion thereof included in a refunding or defeasance plan, as the same become due and payable and to redeem and retire, release, refund or defease all or a portion of such then-outstanding Series 2012C Bonds (the "defeased Series 2012C Bonds") and to pay the costs of the refunding or defeasance. The Master Resolution provides that if money and/or "Government Obligations" (as defined in Chapter 39.53 RCW, as now in existence or hereafter amended) maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient, together with any money initially deposited, to provide for the payment of the principal of and interest on the defeased Series 2012C Bonds when due in accordance with their respective terms are set aside in a special fund (the "trust account") to effect such payment, and are pledged irrevocably in accordance with a refunding plan adopted by the state for the purpose of effecting such payment, then no further payments need be made into the Third Tier Debt Service Subaccount for the payment of principal of and interest on those defeased Series 2012C Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of the Series 2012C Bond Resolution, except the right to receive payment of the principal of and interest on those defeased Series 2012C Bonds when due in accordance with their respective terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and such defeased Series 2012C Bonds shall no longer be deemed to be outstanding under the Series 2012C Bond Resolution.

If the refunding or defeasance plan provides for the defeased Series 2012C Bonds to be secured by money and/or Government Obligations pledged irrevocably for the redemption of the defeased Series 2012C Bonds, then only the debt service on the Series 2012C Bonds which are not defeased Series 2012C Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, will be included in the computation of Annual Debt Service.

Although as a matter of internal policy the state uses only direct obligations of the United States of America and obligations guaranteed by the United States of America in defeasance escrows, the Master Resolution permits the use of any Government Obligation. The term "Government Obligations" has the meaning given in Chapter 39.53 RCW, as amended, currently: (1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and bank certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of state law.

Book-Entry System

When issued, the Series 2012C Bonds will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as nominee of DTC. DTC will act as securities depository for the Series 2012C Bonds. Individual purchases will be made in book-entry form only through DTC, and purchasers will not receive physical certificates representing their interests in the

Series 2012C Bonds purchased. For information about DTC and its book-entry system, see Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Termination of Book-Entry System

If DTC resigns as the securities depository and no substitute can be obtained, or if the state has determined that it is in the best interest of the Beneficial Owners of the Series 2012C Bonds that they be able to obtain bond certificates, the ownership of the Series 2012C Bonds may be transferred to any person as described in the Series 2012C Bond Resolution and the Series 2012C Bonds no longer will be held in fully immobilized form. New Series 2012C Bonds then will be issued in appropriate denominations and registered in the names of the Beneficial Owners. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

State and Bond Registrar Responsibilities

Neither the state nor the Bond Registrar will have any responsibility or any liability to the 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 Series 2012C Bonds 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 of and premium, if any, or interest on the Series 2012C Bonds; (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 Series 2012C Bonds.

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of proceeds to be received from the sale of the Series 2012C Bonds:

Sources	
Par Amount of Series 2012C Bonds	$518,775,000
Original Issue Premium/Discount	48,697,263
Total Sources	$567,472,263
Uses	
Deposit to Bond Proceeds Subaccount	$550,004,395
Costs of Issuance[(1)]	496,718
Capitalized Interest[(2)]	15,253,527
Underwriting Spread	1,717,623
Total Uses	$567,472,263

(1) Includes fees for services of the rating agencies, financial advisors, bond counsel and disclosure counsel, and other costs.
(2) Capitalized interest funded for approximately seven months.

SECURITY FOR THE SERIES 2012C BONDS

Introduction

Pursuant to the Bond Act (described below under "Statutory Framework – Bond Act"), for the purpose of providing funds to finance the costs of the SR 520 Floating Bridge and Eastside Project, the Legislature authorized the issuance and sale, at the request of the state Department of Transportation ("WSDOT"), of

$1,950,000,000 of general obligation bonds of the state first payable from toll revenue and then state excise taxes on motor vehicle and special fuels ("Motor Vehicle Fuel Taxes"). The Bond Act also authorizes the Committee to issue the authorized bonds as toll revenue bonds payable solely from toll revenue and not as general obligation bonds. Under the Bond Act, "toll revenue" means and includes only such toll revenue or portion thereof that is pledged to the payment of the bonds in the resolution authorizing their issuance, and the Committee in the Master Resolution has pledged certain toll revenue (the "Toll Revenue") to the payment of bonds (the "Bonds") issued under the Master Resolution, including the Series 2012C Bonds. The Secretary of Transportation has requested the issuance of the Series 2012C Bonds, which are the first bonds issued under the Bond Act.

Pursuant to the Series 2012C Bond Resolution, the Committee has designated the Series 2012C Bonds as "Triple Pledge Bonds," which are Bonds issued under the Master Resolution to which the state has pledged Toll Revenue, Motor Vehicle Fuel Taxes and the state's full faith and credit. The principal of and premium, if any, and interest on the Triple Pledge Bonds, including the 2012C Bonds, shall be first payable from Toll Revenue and other funds held in any related Debt Service Subaccount in the Toll Facility Bond Retirement Account that are pledged to the payment of the applicable Series of Bonds, and from Toll Revenue and other funds held in the Revenue Stabilization Subaccount. If and to the extent the Toll Revenue and those other funds are not sufficient to pay the principal of and premium, if any, and interest on any Triple Pledge Bonds as the same shall become due and payable, that unpaid principal of and premium, if any, and interest on the Triple Pledge Bonds shall be payable first from Motor Vehicle Fuel Taxes, and second from other money of the state legally available therefor.

See Appendix F—"THE MASTER RESOLUTION-Section 1.01" for definitions of various terms used in this section.

Pledge of Full Faith and Credit

The Series 2012C Bonds are general obligations of the state and, as provided in the Constitution and in the Series 2012C Bond Resolution, the full faith, credit and taxing power of the state are pledged irrevocably to the payment of general obligation bonds, including the Series 2012C Bonds. The Constitution requires the Legislature to provide by appropriation for the payment of the principal of and interest on the state's general obligation bonds as they become due and provides that in any event, any court of record may compel such payment. See "GENERAL FUND" in Appendix A—"GENERAL AND ECONOMIC INFORMATION" for a discussion of general state revenues that may be applied to pay general obligation bonds.

There is no express provision in the Constitution or in state law on the priority of payment of debt service on state debt as compared to the payment of other state obligations. The constitutional mandate regarding payment of state debt, however, does require that the Legislature appropriate sufficient funds to pay state debt when due, and provides expressly for judicial enforcement of the state's payment obligation on that debt. No other provision of the Constitution contains comparable language providing the courts with authority to compel payment of other state obligations.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

The proceeds of the Motor Vehicle Fuel Taxes are pledged to the payment of the principal of and premium, if any, and interest on the Series 2012C Bonds.

The principal of and interest on the Series 2012C Bonds are first payable from Toll Revenue and other funds held in the Third Tier Debt Service Subaccount and in the Toll Facility Bond Retirement Account that are pledged to the payment of the Series 2012C Bonds, and from Toll Revenue and other funds held

in the Revenue Stabilization Subaccount. If and to the extent the Toll Revenue and those other funds are not sufficient to pay the principal of and interest on any Series 2012C Bond as the same shall become due and payable, that unpaid principal of and interest on the Series 2012C Bonds is to be payable first from Motor Vehicle Fuel Taxes, and second from other money of the state legally available therefor. In the Bond Act, the Legislature has agreed to continue to impose those Motor Vehicle Fuel Taxes in amounts sufficient to pay, when due, the principal of and interest on all Triple Pledge Bonds, including the Series 2012C Bonds.

Any Motor Vehicle Fuel Taxes required to pay the Series 2012C Bonds, or the interest thereon when due, is to be taken from that portion of the Motor Vehicle Fund which results from the imposition of Motor Vehicle Fuel Taxes and which is appropriated to WSDOT for state highway purposes, and shall never constitute a charge against any allocations of motor vehicle and special fuels tax revenues to the state, counties, cities, and towns unless the amount arising from Motor Vehicle Fuel Taxes distributed to the state in the Motor Vehicle Fund proves insufficient to meet the requirements for bond retirement or interest on the Series 2012C Bonds.

The charge on Motor Vehicle Fuel Taxes for payment of the Series 2012C Bonds is equal to the charge on motor vehicle and special fuel excise taxes for the payment of the principal of and interest on any other general obligation bonds of the state issued under authority of legislation authorized by the 45th Session of the Legislature (1979-1980) or thereafter and which pledged (on an equal basis) Motor Vehicle Fuel Taxes for the payment of the principal thereof and interest thereon.

Pledge of Toll Revenue and Obligation to Impose Tolls

Bonds issued pursuant to the Master Resolution are equally and ratably secured, with the same right, pledge and preference with respect to the Toll Revenue, as all other Outstanding Bonds of the same Tier, without preference, priority or distinction on account of the date of issuance or maturity of the Bonds of the same Tier. Bonds issued under the Master Resolution have a right, pledge and preference to payment from Toll Revenue in the following order of priority: (1) First Tier Bonds, (2) Second Tier Bonds, (3) Third Tier Bonds, and (4) Fourth Tier Bonds. The Series 2012C Bonds are issued as Third Tier Bonds with respect to Toll Revenue. There are no other Bonds Outstanding.

All Series 2012C Bonds and other Third Tier Bonds are equally and ratably secured and have the same right and pledge preference established for the benefit of the Series 2012C Bonds, including, without limitation, rights to the Toll Facilities Account and rights to the Third Tier Debt Service Subaccount in the Toll Facility Bond Retirement Account. The principal of and interest on the Series 2012C Bonds are first payable from Toll Revenue and from other funds held in the Third Tier Debt Service Subaccount in the Toll Facility Bond Retirement Account, and from Toll Revenue and other funds held in the Revenue Stabilization Subaccount and if Toll Revenue is not sufficient, from Motor Vehicle Fuel Taxes and other money of the state legally available therefor. The Series 2012C Bonds are not secured by any Debt Service Reserve Subaccount in the Toll Facility Bond Retirement Account. See "Toll Facilities Accounts" below.

Toll Revenue is irrevocably pledged for the benefit of all Bonds authorized by the Bond Act and the Master Resolution, including the Series 2012C Bonds. The Toll Revenue so pledged and then or thereafter received by the state is immediately subject to that pledge, and the obligation to perform the contractual provisions made in the Master Resolution has priority over any or all other obligations and liabilities of the state with regard to the Toll Revenue, to the extent provided in the Master Resolution.

As authorized and directed by the Legislature pursuant to the Toll Facilities Act and the Bond Act, the Committee on behalf of the state in the Master Resolution has pledged for the benefit of the Holders of

Outstanding Bonds, including the Series 2012C Bonds, that the state will impose and maintain Tolls on the SR 520 Corridor (the "SR 520 Corridor"), which is that portion of State Route ("SR") 520 between its junctions with Interstate 5 ("I-5") and SR 202, and on any other Eligible Toll Facilities on which the Legislature has authorized the imposition of Tolls in respect of Bonds, including the Series 2012C Bonds, in amounts sufficient to pay, when due, the principal of and interest on the Bonds, including the Series 2012C Bonds. Other than the SR 520 Corridor, currently there are no other Eligible Toll Facilities on which the Legislature has either authorized the imposition of Tolls in respect of Bonds or authorized to become part of a System under the Master Resolution. As further authorized and directed by the Legislature pursuant to the Toll Facilities Act and the Bond Act, the Committee on behalf of the state in the Master Resolution further has pledged for the benefit of the Holders of Outstanding Bonds, including the Series 2012C Bonds, that the state will not impair or withdraw the delegation to the Tolling Authority of the power to fix and adjust Tolls as provided in the Toll Facilities Act. See "Statutory Framework for Pledge of Toll Revenue" below.

"Toll Revenue" means, for purposes of the Master Resolution, all Tolls collected on the SR 520 Corridor and any other Eligible Toll Facilities that may become part of a System of Eligible Toll Facilities under the Master Resolution and all interest income derived from the investment of Toll receipts. The term "Toll Revenue" includes late charges, damages, liquidated or otherwise, collected under any agreement involving any Project (other than damages that the WSDOT Representative determines shall be applied to Costs of a Project), proceeds of business interruption insurance, amounts transferred from the Revenue Stabilization Subaccount to the Toll Facilities Account in that Fiscal Year, and proceeds of the sale of surplus property acquired for any Project, but does not include (1) Motor Vehicle Fuel Taxes, (2) programmatic grants by the Federal Highway Administration or other sources received for the benefit of transportation facilities in the state, or (3) Federal Credit Payments. Toll Revenue for any Fiscal Year does not include amounts that the WSDOT Representative, in consultation with the Treasurer Representative, determines within 120 days after the end of any Fiscal Year shall be transferred from the Toll Facilities Account to the Revenue Stabilization Subaccount in that Fiscal Year, but shall include amounts which the WSDOT Representative, in consultation with the Treasurer Representative, determines within 120 days after the end of any Fiscal Year shall be transferred in any Fiscal Year from the Revenue Stabilization Subaccount to the Toll Facilities Account in that Fiscal Year. The statutes governing tolls on the SR 520 Corridor and described under "Statutory Framework for Pledge of Toll Revenue," use the term "toll revenue," which is a broader definition than "Toll Revenue" as defined in the Master Resolution.

Statutory Framework for Pledge of Toll Revenue

The following is a summary of various statutes that authorize the collection of tolls on the SR 520 Corridor, the issuance of the Series 2012C Bonds and other Bonds and provide the framework for other provisions of the Master Resolution.

Toll Facilities Act

Designation of Eligible Toll Facilities. Under Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011, of the state (together, the "Toll Facilities Act"), the Legislature may specifically identify and designate portions of the state highway system as an eligible toll facility, including, but not limited to, transportation corridors, bridges, crossings, interchanges, on-ramps, off-ramps, approaches, bi-state facilities, and interconnections between highways ("Eligible Toll Facilities"). In the Toll Facilities Act, the Legislature designated the SR 520 Corridor as an Eligible Toll Facility and has authorized the imposition of tolls only for travel on the floating bridge portion of the SR 520 Corridor.

Tolling Authority. In the Toll Facilities Act, the Legislature also has delegated to the State Transportation Commission, the delegated tolling authority for the state (the "Tolling Authority"), the legal power to set, review and adjust tolls on Eligible Toll Facilities identified by the Legislature and on which the Legislature has authorized the imposition of tolls. The Transportation Commission is a seven-member body of citizens appointed by the Governor for six-year terms. The Secretary of Transportation and a representative from the Governor's office serve as *ex officio* members.

Setting Toll Rates. The Toll Facilities Act directs that, in setting and adjusting toll rates, the Tolling Authority must ensure that tolls will generate revenue sufficient to: (1) meet operating costs of the Eligible Toll Facilities, including necessary maintenance, preservation, renewal, replacement, administration, and toll enforcement; (2) meet obligations for the timely payment of debt service on bonds issued for Eligible Toll Facilities, and any other associated financing costs including, but not limited to, required reserves, minimum debt service coverage and other appropriate contingency funding, insurance, and compliance with all other financial and other covenants made by the state in the bond proceedings; (3) meet obligations to reimburse the Motor Vehicle Fund for Motor Vehicle Fuel Taxes applied to the payment of bonds issued for Eligible Toll Facilities; and (4) meet any other obligations of the Tolling Authority to provide its proportionate share of funding contributions for any projects or operations of the Eligible Toll Facilities.

Toll Revenue. The Toll Facilities Act provides that "toll revenue" includes all toll receipts, all interest income derived from the investment of toll receipts, and any gifts, grants, and other funds received for the benefit of eligible toll facilities. The Bond Act (described under "Bond Act" below) provides in addition that "toll revenue" includes funds received for the benefit of transportation facilities in the state, and further provides that, for the purposes of any pledge of toll revenue to the payment of particular bonds issued under the Bond Act, "toll revenue" means and includes only such toll revenue or portion thereof that is pledged to the payment of those bonds in the resolution authorizing the issuance of those bonds. The Committee in the Master Resolution has pledged certain toll revenue (the "Toll Revenue") to the payment of Bonds issued under the Master Resolution, including the Series 2012C Bonds. See "Pledge of Toll Revenue and Obligation to Impose Tolls."

State Pledges Regarding Tolls. The Toll Facilities Act further provides that, when the Legislature has specifically identified and designated an Eligible Toll Facility and authorized the issuance of bonds for the financing of the Eligible Toll Facility that are payable from and secured by a pledge of toll revenue, the Legislature further agrees for the benefit of the owners of outstanding bonds issued by the state for Eligible Toll Facilities to continue in effect and not to impair or withdraw the authorization of the Tolling Authority to fix and adjust tolls as provided in the Toll Facilities Act, and directed the Committee to pledge the state's obligation to impose and maintain tolls, together with the application of toll revenue as described in the Toll Facilities Act to owners of any bonds.

Deposits to Toll Facilities Account. The Legislature created the SR 520 Corridor Account (the "Toll Facilities Account") in the state treasury, and authorized the Treasurer to establish subaccounts in the Toll Facilities Account for the purposes of segregating toll charges, bond sale proceeds, and other revenues. The Toll Facilities Act requires that there be deposited in the Toll Facilities Account: (1) all proceeds of bonds issued for the state route number 520 bridge replacement and HOV program (the "SR 520 Corridor Program"), including capitalized interest; (2) all tolls and other revenues received from the operation of the SR 520 Corridor as an Eligible Toll Facility, deposited at least monthly; (3) interest earnings on amounts in the Toll Facilities Account; (4) proceeds from the sale of surplus real property acquired for the SR 520 Corridor Program; and (5) damages, liquidated or otherwise, collected under any contract involving the SR 520 Corridor Program.

Uses of Toll Facilities Account. Subject to covenants made by the state in bond proceedings authorizing the issuance and sale of bonds for the SR 520 Corridor Program, tolls, other revenues and interest received from the operation of the SR 520 Corridor as an Eligible Toll Facility and deposited in the Toll Facilities Account may be used: (1) for payment of required costs to construct, improve, preserve, maintain, manage, or operate the SR 520 Corridor; (2) to cover operating costs of the SR 520 Corridor, including necessary maintenance, preservation, administration and toll enforcement; (3) to meet obligations for repayment of debt and interest incurred for the SR 520 Corridor, including, but not limited to, required reserves and insurance; (4) to meet obligations to provide funding for any projects or operations on the SR 520 Corridor; (5) to provide for operations of conveyances of people or goods; (6) for any other improvements to the SR 520 Corridor; and (7) to repay amounts required to be repaid to the Motor Vehicle Fund.

Bond Act. Pursuant to Chapter 498, Laws of 2009, as amended by Chapter 377, Laws of 2011 (RCW 47.10.879-.888) (the "Bond Act"), the Legislature authorized the Committee to issue, at the request of WSDOT, $1,950,000,000 of general obligation bonds of the state, to which the state's full faith and credit are pledged and are first payable from toll revenue and Motor Vehicle Fuel Taxes, to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor Program. As described below, the Bond Act also authorizes the Committee to issue the authorized bonds as toll revenue bonds, which are payable solely from and secured solely by toll revenue rather than as general obligation bonds to which the state's full faith and credit are pledged. As described above, the Committee pursuant to the Master Resolution has authorized the sale and issuance of Bonds, including the Series 2012C Bonds, that are payable from and secured by Toll Revenue in addition to Motor Vehicle Fuel Taxes, but has reserved the right to authorize, pursuant to resolutions separate from the Master Resolution, the sale and issuance of a portion of the bonds authorized by the Bond Act as bonds that are not payable from or secured by the Toll Revenue that is pledged to pay and secure Bonds issued under the Master Resolution, including the Series 2012C Bonds.

Deposit of Bond Proceeds. The Bond Act provides that the proceeds of the bonds authorized thereunder are to be deposited in the Toll Facilities Account. No bonds may be sold without prior legislative appropriation of the net proceeds of the sale of the bonds. In Chapter 247, Laws of 2010 (the State Transportation Budget for the 2009-11 Biennium), the Legislature appropriated from the Toll Facilities Account up to $231,763,000 in proceeds from the sale of bonds authorized in the Bond Act, and in Chapter 367, Laws of 2011 (the State Transportation Budget for the 2011-13 Biennium), the Legislature appropriated from the Toll Facilities Account up to $987,717,000 in proceeds from the sale of bonds authorized in the Bond Act.

Payment of Bonds. The bonds authorized in the Bond Act are to be first paid from the toll facility bond retirement account created in the state treasury (the "Toll Facility Bond Retirement Account"), and the Committee is authorized to create special subaccounts in the Toll Facility Bond Retirement Account to facilitate payment of those bonds. The Bond Act authorizes the Committee to issue the bonds either as general obligation bonds to which the state's full faith and credit are pledged and that are first payable from toll revenue and Motor Vehicle Fuel Taxes or as toll revenue bonds that are secured solely by, and payable solely from, toll revenue.

Issuance of Bonds as General Obligation Bonds. If the bonds are issued as general obligation bonds, the Bond Act provides that the bonds shall state that they are general obligations of the state, shall pledge the full faith and credit of the state to the payment of the principal of and interest on the bonds, and shall contain an unconditional promise to pay principal and interest when due. The Bond Act provides that such general obligation bonds shall be first payable from toll revenue and then from proceeds of Motor Vehicle Fuel Taxes to the extent toll revenue is not available for that purpose.

The Bond Act requires that toll revenue and Motor Vehicle Fuel Taxes be pledged to the payment of the bonds issued as general obligation bonds, and the Legislature in the Bond Act agrees to continue to impose toll charges on the SR 520 Corridor, and on any other Eligible Toll Facility designated by the Legislature and on which the imposition of tolls is authorized by the Legislature in respect of the bonds, and to impose Motor Vehicle Fuel Taxes in amounts sufficient to pay, when due, the principal of and interest on all such authorized general obligation bonds.

The Bonds and any other general obligation bonds of the state that have been or that may be authorized and that pledge Motor Vehicle Fuel Taxes for their payment have an equal charge against the revenues from Motor Vehicle Fuel Taxes.

The Series 2012C Bonds are being issued under the Master Resolution as Bonds designated by the state as Triple Pledge Bonds to which Toll Revenue, Motor Vehicle Fuel Taxes and the state's full faith and credit are pledged.

Issuance of Bonds as Toll Revenue Bonds. The Bond Act provides that if the Committee determines, in consultation with WSDOT and the Tolling Authority, that it will be beneficial for the state, the Committee, upon the request of WSDOT, is authorized to issue and sell the bonds as toll revenue bonds and not as general obligation bonds.

The Bond Act provides that toll revenue bonds shall state that payment or redemption of the bonds and interest and premium thereon is payable solely from and secured solely by a direct pledge, charge, and lien upon toll revenue and is not a general obligation of the state to which the full faith and credit of the state is pledged.

Toll revenue is pledged to the payment of bonds issued as toll revenue bonds, and the Legislature in the Bond Act agrees to continue to impose these toll charges on the SR 520 Corridor, and on any other Eligible Toll Facility designated by the Legislature and on which the imposition of tolls is authorized by the Legislature in respect of the bonds, in amounts sufficient to pay, when due, the principal of and interest on all such authorized toll revenue bonds.

The Bond Act provides that, for the purposes of any pledge of toll revenue to the payment of particular bonds issued under the Bond Act, "toll revenue" means and includes only such toll revenue or portion thereof that is pledged to the payment of those bonds in the resolution authorizing their issuance.

Authority of Committee; Bond Resolution. The Bond Act provides that the Committee may include in any resolution authorizing the issuance of any bonds such terms, provisions, covenants and conditions as it deems appropriate to market and sell the bonds, and to confer rights upon the owners of bonds and safeguard rights of owners of bonds, including, among other things: (1) provisions regarding the maintenance and operation of the Eligible Toll Facilities; (2) the pledges, uses, and priorities of application of toll revenue; (3) provisions that bonds shall be payable from and secured solely by toll revenue, or shall be payable from and secured by both toll revenue and by a pledge of Motor Vehicle Fuel Taxes and the full faith and credit of the state; (4) in consultation with WSDOT and the Tolling Authority, the financial covenants requiring that the Eligible Toll Facilities must produce specified coverage ratios of toll revenue to debt service on bonds; (5) the purposes and conditions that must be satisfied prior to the issuance of additional bonds payable from and secured by any toll revenue on an equal basis with previously issued and outstanding bonds payable from and secured by toll revenue; (6) provisions that bonds for which any toll revenue is pledged, or for which a pledge of any toll revenue may be reserved, may be structured on a senior, parity, subordinate, or special lien basis in relation to any other bonds for which toll revenue is pledged, with respect to toll revenue only; and (7) provisions

regarding reserves, credit enhancements, liquidity facilities, and payment agreements with respect to bonds.

System of Eligible Toll Facilities

Subject to satisfying certain conditions, the Legislature may designate Additional Eligible Toll Facilities as a part of a System of Eligible Toll Facilities (the "System") in accordance with the provisions set forth in the Master Resolution. The System initially consists of the SR 520 Corridor. See Appendix F—"THE MASTER RESOLUTION—Article V."

Toll Facilities Accounts

Toll Facilities Account. Under the Master Resolution, the following subaccounts have been established within the Toll Facilities Account: (1) Operating and Maintenance Reserve Subaccount to pay Operating and Maintenance Expenses if Toll Revenue is insufficient to pay all Operating and Maintenance Expenses when due; (2) Revenue Stabilization Subaccount to fund costs relating to the System or debt service on Bonds; (3) Repair and Replacement Reserve Subaccount to pay Repair and Replacement Expenses for the System; (4) Bond Proceeds Subaccount for deposit of Bond proceeds; and (5) Deferred Sales Tax Subaccount to pay Deferred Sales Tax Obligations if provided by statute granting a deferral of state and local sales and use taxes for a Project. Amounts in the Toll Facilities Account and not required to be deposited into a subaccount may be used for any purpose for which the account may be used. Amounts in the Repair and Replacement Reserve Subaccount and the Deferred Sales Tax Subaccount are not pledged to Bondholders.

See Appendix F—"THE MASTER RESOLUTION—Sections 6.03 through 6.07" for a description of the subaccounts in the Toll Facilities Account.

Toll Facility Bond Retirement Account. Under the Master Resolution, the following Subaccounts have been established within the Toll Facility Bond Retirement Account: (1) First Tier Debt Service Subaccount; (2) First Tier Common Debt Service Reserve Subaccount; (3) Second Tier Debt Service Subaccount; (4) Second Tier Common Debt Service Reserve Subaccount; (5) Third Tier Debt Service Subaccount; (6) Third Tier Common Debt Service Reserve Subaccount; (7) Fourth Tier Debt Service Subaccount; and (8) Fourth Tier Common Debt Service Reserve Subaccount. See Appendix F—"THE MASTER RESOLUTION-Sections 6.08 through 6.11" for a description of the subaccounts in the Toll Facility Bond Retirement Account.

Amounts in the Third Tier Debt Service Subaccount are pledged to the payment of the Series 2012C Bonds. The Series 2012C Bonds are not secured by any Debt Service Reserve Subaccount in the Toll Facility Bond Retirement Account.

<u>Payment of Series 2012C Bonds</u>. The Committee is required, on or before June 30 of each year, to certify to the Treasurer the amount of Toll Revenue and Motor Vehicle Fuel Taxes, if any, required to pay principal of and interest on the Series 2012C Bonds in the next Fiscal Year. The Treasurer, subject to the applicable provisions of the Bond Act, is required to withdraw revenues from the Toll Facilities Account and, if required, from the Motor Vehicle Fund and from any general state revenues received in the state treasury, and deposit in the Third Tier Debt Service Subaccount such amounts as are required to pay debt service on the Series 2012C Bonds at such times as required by the bond proceedings.

On or before the date payments are due, the Treasurer will pay to the Bond Registrar, from money in the Toll Facility Bond Retirement Account, sums sufficient to pay the principal of and interest coming due on Bonds then Outstanding. Any surplus money in the Toll Facility Bond Retirement Account may, in the

discretion of the Committee, be used to redeem or purchase in the open market any Bonds payable from the Toll Facility Bond Retirement Account (subject to applicable bond covenants) prior to scheduled maturities or may remain in the Toll Facility Bond Retirement Account to reduce the transfers to the Toll Facility Bond Retirement Account, of Toll Revenue and Motor Vehicle Fuel Taxes, if any, otherwise required to pay Annual Debt Service on Outstanding Bonds.

Flow of Funds

The state will make payments and transfer or reserve funds in the Toll Facilities Account, as applicable, in the order of priority set forth below. To the extent that amounts available in the Toll Facilities Account are sufficient only to partially provide for one of the purposes described in (2) through (9), the available amount shall be allocated on a *pro rata* basis among the Series of Bonds in the applicable Tier.

(1) Each month, to pay the Operating and Maintenance Expenses.

(2) On or before the last Business Day of each calendar month, to the First Tier Debt Service Subaccount amounts, taking into account amounts already on deposit therein, sufficient to pay one-twelfth of principal and one-sixth of interest (or Hedge Payments) coming due on First Tier Bonds.

(3) On or before the last Business Day of each calendar month, to the First Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s) or to reimburse a Credit Provider for the draw on a Credit Facility in the First Tier Debt Service Reserve Subaccount.

(4) On or before the last Business Day of each calendar month, to the Second Tier Debt Service Subaccount amounts, taking into account amounts already on deposit therein, sufficient to pay one-twelfth of principal and one-sixth of interest (or Hedge Payments) coming due on Second Tier Bonds.

(5) On or before the last Business Day of each calendar month, to the Second Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s) or to reimburse a Credit Provider for the draw on a Credit Facility in the Second Tier Debt Service Reserve Subaccount.

(6) On or before the last Business Day of each calendar month, to the Third Tier Debt Service Subaccount amounts, taking into account amounts already on deposit therein, sufficient to pay one-twelfth of principal and one-sixth of interest (or Hedge Payments) coming due on Third Tier Bonds.

(7) On or before the last Business Day of each calendar month, to the Third Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s) or to reimburse a Credit Provider for the draw on a Credit Facility in the Third Tier Debt Service Reserve Subaccount.

(8) On or before the last Business Day of each calendar month, to the Fourth Tier Debt Service Subaccount amounts, taking into account amounts already on deposit therein, sufficient to pay one-twelfth of principal and one-sixth of interest (or Hedge Payments) coming due on Fourth Tier Bonds.

(9) On or before the last Business Day of each calendar month, to the Fourth Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s) or to reimburse a Credit Provider for the draw on a Credit Facility in the Fourth Tier Debt Service Reserve Subaccount.

(10) On or before the last Business Day of each calendar month, to the Operating and Maintenance Reserve Subaccount an amount necessary to maintain a balance therein equal to the amount determined in accordance with the Master Resolution.

(11) On or before the last Business Day of each calendar month, to the Deferred Sales Tax Subaccount the amount required to amortize each Deferred Sales Tax Obligation as required by the statute granting a deferral of state and local sales and use taxes for a Project and as set forth in a Bond Sale Resolution.

(12) On or before the last Business Day of each calendar month, to the Motor Vehicle Fund the amount, if any, required to repay the Motor Vehicle Fuel Taxes that have been used to date to pay principal of and interest on any Triple Pledge Bonds.

(13) On or before the last Business Day of each calendar month, to the Repair and Replacement Reserve Subaccount the amount, if any, to be deposited therein pursuant to the Master Resolution.

(14) Within 120 days after the end of each Fiscal Year, to the Revenue Stabilization Subaccount the amount, if any, to be deposited therein pursuant to the Master Resolution.

(15) Each month, funds for the construction and completion of the SR 520 Corridor Program and any other Project financed with Bonds, as reflected in the System Budget.

(16) To any proper purpose of the System.

See Appendix F—"THE MASTER RESOLUTION—Section 6.12" for the complete flow of funds.

Priority of Pledge for TIFIA Bond Upon Occurrence of Bankruptcy Related Event

As described in Appendix F—"THE MASTER RESOLUTION—Article IX," upon the occurrence of a Bankruptcy Related Event, any then-Outstanding TIFIA Bond will be deemed to be and will automatically become a First Tier Bond for all purposes of the Master Resolution, and the TIFIA Bondholder will be deemed to be the Holder of such First Tier Bond. In that event, such Outstanding TIFIA Bonds would be secured by and be payable from Toll Revenue on a basis equal to that of other then-Outstanding First Tier Bonds (but not by any First Tier Debt Service Reserve Subaccount), thereby diluting the security for any other then-Outstanding First Tier Bonds and attaining a priority in the pledge of Toll Revenue over any then-Outstanding Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds that are not TIFIA Bonds, such as the Series 2012C Bonds. There currently are no Outstanding TIFIA Bonds.

A "Bankruptcy Related Event" for this purpose means (1) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (a) liquidation, reorganization or other relief in respect of the state or any of its debts, or of a substantial part of the assets of the state, under any Insolvency Law, or (b) the appointment of a receiver, trustee, liquidator, custodian, sequestrator, conservator or similar official for the state for a substantial part of the assets of the state, and, in any case referred to in the foregoing subclauses (a) and (b), such proceeding or petition shall continue undismissed for 60 days or an

order or decree approving or ordering any of the foregoing shall be entered or (2) the state shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator, custodian, sequestrator, conservator or similar official for the state or for a substantial part of the assets of the state, or (b) generally not be paying its debts as they become due unless such debts are the subject of a bona fide dispute, or become unable to pay its debts generally as they become due, or (c) make a general assignment for the benefit of creditors, or (d) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition with respect to it described in clause (1) of this definition, or (e) commence a voluntary proceeding under any Insolvency Law, or file a voluntary petition seeking liquidation, reorganization, an arrangement with creditors or an order for relief under any Insolvency Law, or (f) file an answer admitting the material allegations of a petition filed against it in any proceeding referred to in the foregoing subclauses (a) through (e), inclusive, of this clause (2), or (g) take any action for the purpose of effecting any of the foregoing. Bond Counsel has advised the state that neither the current provisions of the U.S. Bankruptcy Act nor any provision of Washington law would permit the occurrence of a Bankruptcy Related Event (except for (2)(b) above) in respect of the state or WSDOT, which constitutes a department of state government.

Additional Bonds

The state may issue one or more Series of Bonds to pay the Cost of the Eligible Toll Facilities that are part of the System, to refund all or a portion of a Series of Bonds, or for any combination of those purposes if certain conditions set forth in the Master Resolution are met at the time of the issuance of that Series of Bonds. Among the conditions to the issuance of a Series of Bonds are that there be on file a certificate of the Traffic Consultant, Consulting Engineer, WSDOT Representative and/or Treasurer Representative, as applicable, demonstrating sufficiency of Net Revenue and other requirements set forth in the Master Resolution. See Appendix F—"THE MASTER RESOLUTION—Section 2.09."

In the Master Resolution, the state has pledged that it will not issue additional obligations payable from Toll Revenue with a pledge position prior and superior to the First Tier Bonds. Nothing contained in the Master Resolution shall prevent the state from issuing additional obligations with a pledge position with respect to Toll Revenue that is subordinate to the pledge position of the Bonds or from issuing obligations that are secured by a pledge of revenues of Eligible Toll Facilities other than the SR 520 Corridor that have not been designated as Additional Eligible Toll Facilities and are, therefore, not a part of the System.

Other Debt for the 520 Corridor Program

The Committee in the Master Resolution has reserved the right to authorize, pursuant to a resolution or resolutions separate from the Master Resolution, the issuance of a portion of the bonds authorized by the Bond Act as bonds that are not payable from or secured by the Toll Revenue that is pledged to pay and secure Bonds issued under the Master Resolution. Such separately authorized bonds are currently expected to be Grant Anticipation Revenue Vehicles ("GARVEE") bonds payable from and secured by grants by the Federal Highway Administration or other sources received for the benefit of transportation facilities in the state, which grants and other sources do not constitute Toll Revenue for the purposes of the Master Resolution. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT—Sources of Funds—*Bonds*."

Bond Covenants

Establishment and Collection of Tolls. The state, acting by and through the Tolling Authority, has covenanted to set and adjust the Toll Rate Schedule and maintain Tolls on the SR 520 Corridor and on any Additional Eligible Toll Facilities at rates that will generate Toll Revenue sufficient to pay Operating

and Maintenance Expenses; to pay, when due, the principal of and interest on all Outstanding Bonds; and to meet the state's financial and other covenants under the Master Resolution and applicable law.

The Committee on behalf of the state has pledged that the state will continue in effect and not impair or withdraw the power delegated to the Tolling Authority to set, adjust and maintain Tolls on the System of Eligible Toll Facilities as provided in the Master Resolution and in the Toll Facilities Act, including the specific provisions of RCW 47.56.850 in effect as of the date of the Master Resolution as follows:

(1) Set toll rates, establish appropriate exemptions, if any, and make adjustments as conditions warrant on Eligible Toll Facilities.

(2) Review toll collection policies, toll operations policies, and toll revenue expenditures on the Eligible Toll Facilities and report annually on this review to the Legislature.

(3) In setting and periodically adjusting toll rates, the Tolling Authority shall ensure that toll rates will generate revenue at least sufficient to:

(a) Provide for the Operating and Maintenance Expenses of the Eligible Toll Facilities;

(b) Meet obligations for the timely deposit of required amounts into the Debt Service Subaccounts and timely payment of debt service on Bonds issued for Eligible Toll Facilities (including Hedge Payments), and for any other associated financing costs including, but not limited to, Debt Service Reserve Requirements, the minimum debt coverage covenants set forth under "*Rate Covenant*" below, deposits into the Operating and Maintenance Reserve Subaccount and the Repair and Replacement Reserve Subaccount, and other payments required to comply with all financial and other covenants made in the Master Resolution, in any Bond Sale Resolution and in other proceedings related to the issuance of Bonds;

(c) Meet other anticipated funding obligations of the System, giving due regard to the Projected Toll Rate Schedule provided to the Tolling Authority by WSDOT and the Treasurer pursuant to the Master Resolution; and

(d) Unless otherwise directed by the Legislature, to meet obligations to reimburse the Motor Vehicle Fund for Motor Vehicle Fuel Taxes applied to the payment of bonds issued for Eligible Toll Facilities. Unless otherwise directed by the Legislature or determined by agreement of the Treasurer Representative and the WSDOT Representative, each advance of Motor Vehicle Fuel Taxes for the payment of Triple Pledge Bonds shall be repaid in 36 monthly installments commencing in the sixth calendar month following the date such advance is made. Each installment shall be in an amount equal to one-thirty-sixth of the amount of the related advance; *provided, however,* that the final installment shall be in an amount equal to the entire then-outstanding amount of such advance.

(4) The Tolling Authority shall include variable pricing in adopting Toll Rate Schedules and establishing Tolls, and Tolls shall be set to maintain travel time, speed, and reliability and to generate sufficient Toll Revenue to meet all requirements of (3), above. Tolls should be set to maintain and optimize System performance, recognizing the need to maintain a financially prudent balance between System performance and the generation of revenue required for the purposes specified in (3) above. Tolls may be adjusted to reflect inflation as measured by the consumer price index or as necessary to provide for the timely payment of debt service on Bonds,

to comply with other requirements of the Master Resolution and to provide for other eligible Project costs. Tolls may vary for type of vehicle, time of day, traffic conditions, or other factors designed to improve performance of the System.

(5) In fixing and adjusting toll rates, the only Toll Revenue to be taken into account shall be Toll Revenue pledged to Bonds that includes Toll receipts, and the only debt service requirements to be taken into account must be debt service on Bonds payable from and secured by Toll Revenue that includes Toll receipts.

(6) The Legislature has pledged in RCW 47.56.850 to appropriate Toll Revenue as necessary to carry out the purposes of that section. When the Legislature has specifically identified and designated an Eligible Toll Facility and authorized the issuance of Bonds for the financing of the Eligible Toll Facility that are payable from and secured by a pledge of Toll Revenue, the Legislature has further agreed for the benefit of the Bondholders of outstanding Bonds issued for Eligible Toll Facilities to continue in effect and not to impair or withdraw the authorization of the Tolling Authority to fix and adjust tolls as provided in RCW 47.56.850. The Legislature has also provided for pledges relating to the setting of Tolls in RCW 47.10.887 and in RCW 47.56.870(3). In the Master Resolution, the Committee has pledged, to Bondholders, the state's obligation to impose and maintain tolls, together with the application of Toll Revenue as described in the Master Resolution and herein and in the provisions of RCW 47.56.850, RCW 47.10.887 and RCW 47.56.870(3) in effect as of the date of the Master Resolution.

Rate Covenant. The Tolling Authority shall establish, and WSDOT shall charge and collect, Tolls for the privilege of traveling on the System of Eligible Toll Facilities at rates sufficient to meet the Operating and Maintenance Expenses and produce in each Fiscal Year in which any Bonds are Outstanding Net Revenues that are in an amount at least equal to (1), (2), (3), (4) and (5) below (the "Rate Covenant"):

(1) 150 percent of the Annual Debt Service with respect to all Outstanding First Tier Bonds;

(2) 135 percent of the Annual Debt Service with respect to all Outstanding First Tier Bonds and Second Tier Bonds;

(3) 125 percent of the Annual Debt Service with respect to all Outstanding First Tier Bonds, Second Tier Bonds and Third Tier Bonds;

(4) 110 percent of the Annual Debt Service with respect to all Outstanding Bonds; and

(5) 100 percent of the Annual Debt Service with respect to all Outstanding Bonds and all other deposits required in items (3), (5), (7) and (9) through (13) of the "Flow of Funds" section to the extent such deposits must be paid with Toll Revenue and have not been otherwise paid or provided for from Bond proceeds or other available funds.

The failure of the System in any Fiscal Year to produce Toll Revenue in the amounts sufficient to enable the state to comply with the Rate Covenant, which failure may continue during the succeeding Fiscal Year, shall not, in and of itself, constitute an Event of Default under the Master Resolution if: (1) WSDOT within 60 days after the end of the Fiscal Year requests the written recommendations of the Traffic Consultant as to how to increase Toll Revenue in the following Fiscal Year to the level required to comply with the Rate Covenant, (2) within 60 days of the date of the request from WSDOT, the Traffic Consultant provides to WSDOT, the Treasurer and the Tolling Authority the written recommendations described in clause (1), and (3) the Tolling Authority takes steps to implement those recommendations

within 60 days after receipt thereof and diligently proceeds to substantially comply with the recommendations of the Traffic Consultant.

See Appendix F—"THE MASTER RESOLUTION—Section 7.02" for additional provisions applicable to the Rate Covenant, including the use of the Revenue Stabilization Subaccount for purposes of the Rate Covenant.

Other Covenants. See Appendix F—"THE MASTER RESOLUTION—Article VII" for additional covenants in the Master Resolution, including covenants to prepare operating and capital budgets for the System, maintain and operate the System, proceed with diligence to construct and complete the SR 520 Corridor Program to the extent authorized by applicable law, maintain insurance or self-insurance on the System, not to dispose of portions of the System without meeting specified conditions, and prepare financial statements for the System.

Defaults and Remedies

The Master Resolution defines Events of Default, including payment default and failure to perform any covenant or agreement in the Master Resolution (subject to specified rights to cure), or a Bankruptcy Related Event; provides for a Bond Owners' Trustee so long as an Event of Default has not been remedied; sets forth remedies available to the Bond Owners' Trustee and Registered Owners of Bonds upon an Event of Default; and sets forth the priority for application of money collected by the Bond Owners' Trustee. See Appendix F—"THE MASTER RESOLUTION—Article IX."

Limitation and Enforceability of Remedies

The remedies of the Holders of the Series 2012C Bonds upon the occurrence of an Event of Default under the Master Resolution are limited to instituting such suits, actions or other appropriate proceedings seeking to collect any amounts due and owing from the state or a writ of mandate to enforce specific performance of any covenant, agreement or condition contained in Master Resolution or in any of the Outstanding Bonds or the duties imposed upon the Tolling Authority or WSDOT consistent with the applicable provisions of the Bond Act. ACCELERATION IS NOT A REMEDY AVAILABLE TO HOLDERS OF THE SERIES 2012C BONDS. See Appendix F—"THE MASTER RESOLUTION—Article IX."

The remedies available under the Master Resolution are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law, such remedies may not be readily available. In addition, enforcement of such remedies (1) may be subject to general principles of equity which may permit the exercise of judicial discretion, (2) are subject to the exercise in the future by the state and its political subdivisions of the police power inherent in the sovereignty of the state, (3) are subject, in part, to the provisions of the U.S. Bankruptcy Act and other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, to the extent, if any, such laws are applicable to the state and (4) are subject to the exercise by the U.S. of the powers delegated to it by the Federal constitution. The various legal opinions to be delivered concurrently with the delivery of the Series 2012C Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2012C Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and equitable remedies and proceedings generally.

Additional Information

For additional information, see Appendix A—"GENERAL AND ECONOMIC INFORMATION—INDEBTEDNESS AND OTHER OBLIGATIONS," Appendix B—"BONDS OUTSTANDING," and Appendix F—"THE MASTER RESOLUTION."

SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT

History

The SR 520 Corridor is 12.8 miles long from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond. The map on the following page shows the SR 520 Corridor. The corridor connects Seattle to major housing and employment centers in the region's eastside communities, including Bellevue, Kirkland, Redmond and Medina. The corridor includes two major bridges: the Evergreen Point floating bridge, which is 1.42 miles long and is the longest floating bridge in the world, and the Portage Bay (elevated) bridge. The SR 520 Corridor provides an east-west link across Lake Washington for approximately 100,000 daily vehicle trips. It is one of two major east-west roadways crossing Lake Washington. The route has two general-purpose lanes in each direction throughout its length and an incomplete high occupancy vehicle ("HOV") lane system east of Lake Washington.

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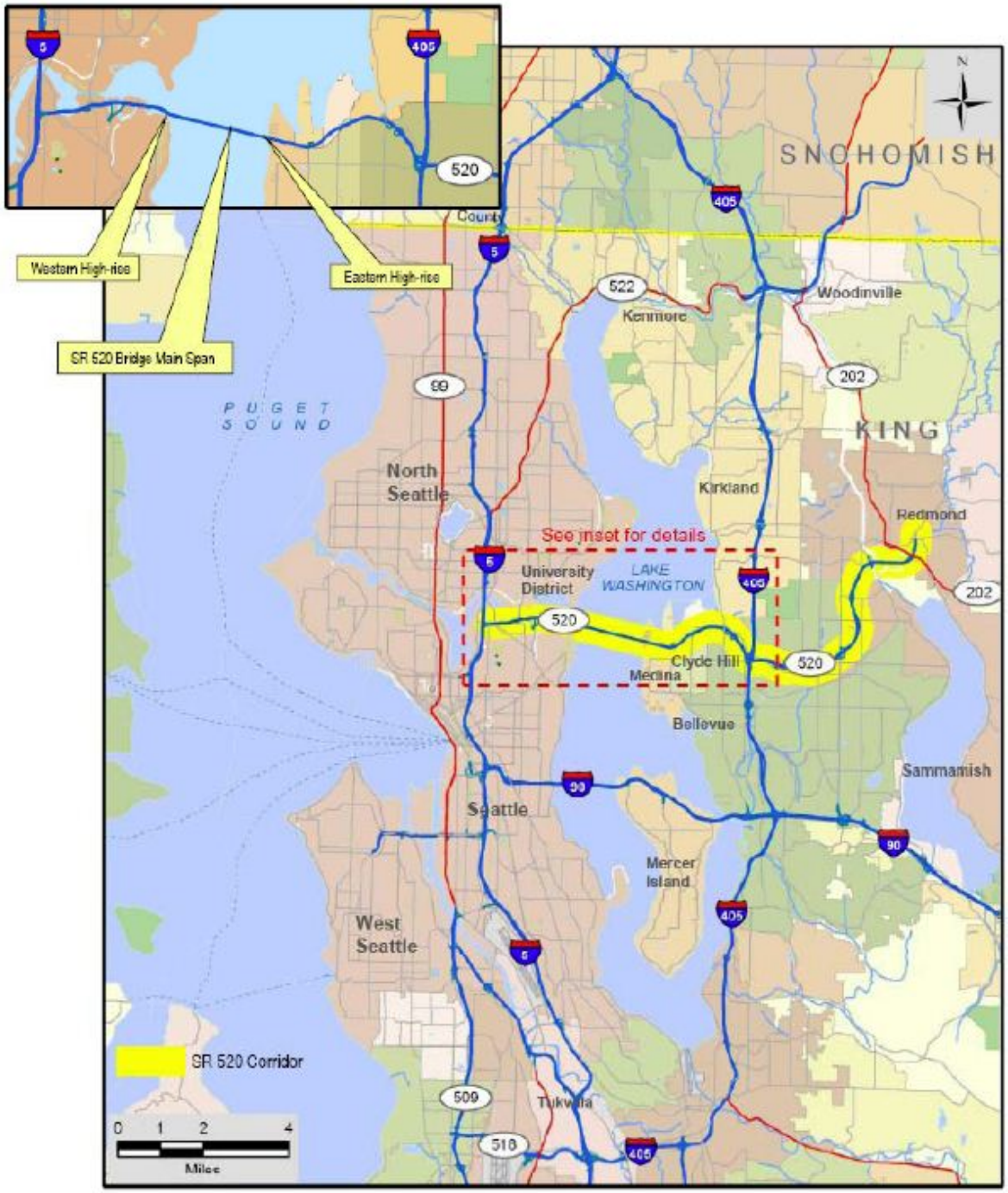
SR 520 Corridor Program – Corridor Map



Source: SR 520 Bridge Investment Grade Traffic and Revenue Study dated August 29, 2011

Built in the 1960's, the Evergreen Point floating bridge is currently vulnerable to failure in severe windstorms and earthquakes. The current bridge was designed to carry 65,000 vehicles per day. In 1997, the Transportation Commission initiated a comprehensive planning study of the corridor's transportation needs and designated a study committee that documented the deficiencies in the corridor, including recurrent congestion, geometric deficiencies such as inadequate shoulder width, and the structural integrity of the bridges. The study committee recommended three alternatives to carry through an environmental review process for selection of a SR 520 capital improvement plan. A draft environmental impact statement ("DEIS") was published in 2006. In 2007, the Legislature created a mediation process, which endorsed a configuration with four general-purpose lanes and two transit/HOV lanes supported by pontoons. WSDOT, King County Metro and Sound Transit developed a high capacity transit plan for the corridor in 2008, which included the use of a planned bus rapid transit system across the corridor.

In 2009, the Legislature authorized tolling on the SR 520 Corridor and directed a legislative work group to develop design and financing recommendations for the corridor from I-5 to the east end of the floating bridge. In 2010, the Legislature directed the formation of a work group to study and make recommendations for alternative effective transit connections and design refinement and mitigation measures with respect to the westside (Seattle) portion of the SR 520 Corridor Program. WSDOT worked with the City of Seattle, King County, the University of Washington, the Central Puget Sound Regional Transit Authority and others in this process. The recommendations were submitted to the Governor and the transportation committees of the Legislature in December 2010. Tolling on the SR 520 Corridor is expected to begin in December 2011, in advance of construction of the major portion of the SR 520 Floating Bridge and Eastside Project.

Description of SR 520 Floating Bridge and Eastside Project

The SR 520 Floating Bridge and Eastside Project is comprised of the following major projects: (1) construction of a pontoon facility and pontoon construction (together, the "Pontoon Project"), (2) Medina to SR 202-Eastside Transit and HOV Project ("Eastside Project"), (3) the Floating Bridge and Landings Project, including an interim connection to the West Approach Bridge, and (4) the preliminary design work and strategic right-of-way acquisition for the SR 520 Westside Project. The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside Project, but has not authorized funding for the Westside Project. The SR 520 Corridor Program includes the four projects included in the SR 520 Floating Bridge and Eastside Project as well as the Westside Project. If funded by the Legislature, the Westside Project will construct a new six-lane corridor from I-5 to the new floating bridge, a new Portage Bay bridge, a reversible transit/HOV ramp to I-5, and other improvements.

The contract for the new bridge requires that the bridge will open to traffic no later than July 1, 2015, with construction completed in 2016. WSDOT is administering environmental approvals, design and construction of the SR 520 Floating Bridge and Eastside Project.

Pontoon Project. The Pontoon Project includes construction of a pontoon casting facility and 33 pontoons within that facility, wetland and aquatic mitigation for impacts created by the facility, and a moorage facility to store the pontoons until they are needed for the Floating Bridge and Landings Project.

In 2006, WSDOT and the Federal Highway Administration ("FHWA") began planning for a possible failure of the floating portion of the SR 520 bridge before its planned replacement and identified measures that might speed up replacing the floating bridge should a catastrophic failure occur. The agencies determined that building new replacement pontoons would require the longest lead time of any single activity related to bridge replacement. Work on the Pontoon Project began in February 2010.

A new casting facility for constructing pontoons is currently under construction in Grays Harbor County. As part of the Pontoon Project, 23 large pontoons and 10 smaller stability pontoons will be constructed. The large

pontoons are 360 feet long, 75 feet wide, 30 feet tall and over 11,000 tons each. These pontoons will be stored in a mooring site in Grays Harbor County until they are needed for the replacement of the bridge. As part of the Pontoon Project, 3.61 acres of sensitive areas must be mitigated to replace the functional loss of wetlands and habitat for aquatic resources.

Eastside Project. The Eastside Project will complete the HOV lane system on SR 520 from the eastern shore of Lake Washington to 108th Avenue N.E. in Bellevue and reconfigure the HOV lanes from the outside to inside lane from 108th Avenue N.E. to SR 202 in Redmond, build lids, relocate transit stops, construct a direct access interchange, and build fish-passable culverts under the highway, among other improvements. The project is designed to enhance transit and HOV travel time and reliability, improve safety and support current and planned growth east of Lake Washington.

Floating Bridge and Landings Project. The Floating Bridge and Landings Project will construct a new bridge to replace the Evergreen Point floating bridge, connect the new bridge to the existing SR 520 facility on the west side of Lake Washington and the Eastside Project, demolish the existing bridge and construct a new maintenance facility. The new bridge will include six lanes, including two general-purpose lanes in each direction and one transit/HOV lane in each direction, wider, safer shoulders that will allow vehicles to pull over in the case of a breakdown, a 14-foot-wide bicycle and pedestrian path, and the ability to accommodate future light rail.

The Floating Bridge and Landings Project will use the pontoons constructed in the Pontoon Project as well as an additional 44 pontoons constructed under the Floating Bridge and Landings Project contract. The pontoons will be connected to grounded approach structures on each end and held in place by steel cables that will be connected to anchors buried in the lake bed. Once the pontoons are in place, the new bridge roadway will be constructed on top of the pontoons. The bridge will connect to the Eastside Project currently under construction. Once the new floating bridge is constructed, the existing floating bridge will be dismantled.

The current bridge closes to traffic when there are 50 mph winds sustained for 15 minutes. The new bridge pontoons, bridge deck and anchor cables will be designed to withstand a 100-year wind storm. A 100-year storm in the Seattle area is defined as a storm with 98 mph winds sustained over 20 seconds. A 100-year storm is considered a rare and extreme event. The standard anticipates reasonably repairable damage, but no major failures of structural components as a result of the storm event.

Right-of-Way Acquisition

All right-of-way has been acquired for the Pontoon Project. All right-of-way has been acquired for the Eastside Project except for two properties that are currently in the condemnation process. For the Floating Bridge and Landings Project, there are three real property rights and/or acquisitions underway: an airspace right and construction easement from a private property owner; a construction easement from a private property owner; and an aquatics land lease from the Department of Natural Resources. WSDOT must acquire these rights prior to June 30, 2012, to meet contractual obligations with its design-builder. WSDOT expects to meet this deadline.

Preliminary strategic right-of-way acquisitions are under way for the Westside Project. The complete right-of-way acquisition process for the Westside Project will not begin until additional funding is authorized by the Legislature.

Environmental Review

FHWA has endorsed the environmental documents for all three major projects. The Pontoon Project's Final Environmental Impact Statement ("FEIS") and Record of Decision ("ROD") have passed their appeal period,

as has the Finding of No Significant Impact ("FONSI") for the Eastside Project. The FEIS and ROD for the Floating Bridge and Landings Project and the Westside Project have both been issued; the appeal period for these documents will expire in February 2012.

An appeal has been filed against FHWA and WSDOT in United States District Court that alleges that the ROD and FEIS for the Floating Bridge and Landings Project and the Westside Project did not meet the requirements of the National Environmental Policy Act and the State Environmental Policy Act.

Estimated Project Costs

In 2009, the Legislature set a program budget for the entire SR 520 Corridor Program of $4.65 billion. The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside Project, but has not authorized funding for the Westside Project.

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The following is an estimate of the SR 520 Floating Bridge and Eastside Project capital costs, which includes WSDOT costs, sales taxes and risk contingency. Environmental and permitting costs are included in Preliminary Engineering. Approximately 96 percent of the estimated capital costs of the SR 520 Floating Bridge and Eastside Project is under construction or has been awarded for construction.

SR 520 Floating Bridge and Eastside Project Capital Costs

	Dollars in Millions
SR 520 Corridor Development	
Preliminary Engineering	112.6
Right-of-Way	4.2
Construction	3.2
Total	**120.0**
Pontoon Project	
Preliminary Engineering	39.3
Right-of-Way	7.1
Construction	470.2
Deferred Sales Tax	26.7
Contingency reserves	31.0
Total	**574.3**
Eastside Project	
Preliminary Engineering	45.1
Right-of-Way	35.3
Construction	380.4
Deferred Sales Tax	31.0
Contingency reserves	21.8
Total	**513.6**
Floating Bridge and Landings Project	
Preliminary Engineering	30.8
Right-of-Way	9.8
Construction	780.2
Deferred Sales Tax	66.5
Contingency Reserves	69.9
Total	**957.2**
Design and Right-of-Way for Westside Project	**267.3**
Grand Total	**2,432.4**

Source: WSDOT.

Major Construction Contracts

WSDOT is using design-build methodology for delivery of the major SR 520 Floating Bridge and Eastside Project contracts. When using this method, WSDOT identifies a conceptual plan and completes approximately 15 percent of the design. WSDOT requests design-build proposals based on the conceptual plan, including a technical proposal and price proposal. For each contract, WSDOT develops a risk allocation matrix that assigns responsibility for each risk to WSDOT or the design-builder. WSDOT then chooses the design-builder with the best combination of technical proposal and price. The contract is a single, fixed-price contract between WSDOT and the design-builder for design and construction services to provide a finished product.

After award, WSDOT performs administrative functions and quality verification and the design-builder performs design, construction, quality control and quality assurance functions.

Pontoon Project. There are three construction contracts for the Pontoon Project:

Pontoon Construction. In January 2010, WSDOT awarded a $367.3 million design-build contract to Kiewit-General Joint Venture ("K-G") to develop and construct the casting basin and the 33 replacement pontoons. K-G is made up of Kiewit Bridge & Marine District and General Construction Company. The K-G team has a long track record of building floating bridges, most recently completing the SR 104 Hood Canal floating bridge retrofit and replacement project in 2010. K-G also has worked on the Tacoma Narrows Bridge and the I-90 Lacey V. Murrow floating bridge.

Payments are based on monthly invoices submitted to WSDOT for review. WSDOT is authorized to assess liquidated damages as follows: (1) $5,000 per pontoon per day for delay in achieving the "Second Delivery Cycle Segment Physical Completion" beyond September 11, 2012; (2) $5,000 per pontoon per day for "Fourth Delivery Cycle Segment Physical Completion" beyond August 8, 2013; (3) $5,000 per pontoon per day for "Final Delivery Cycle Segment Physical Completion" beyond May 7, 2014; and (4) $5,000 per day for "Project Physical Completion beyond July 6, 2014.

Responsibility for the first $10 million worth of differing site conditions rests solely with K-G and with WSDOT above $10 million. Most of the site excavation is complete. The contract requires a one-year general warranty commencing on the day of "Project Physical Completion"; a one-year warranty period after the date of commissioning for electrical and control systems; and a five-year warranty period after the date of commissioning for the pump station.

Wetland Mitigation and Moorage. A $1.2 million contract to replace the functional loss of wetlands and habitat for aquatic resources was awarded by WSDOT to Rognlin's, Inc., in June 2011. A $4.5 million contract for the temporary moorage facility was awarded by WSDOT to Kiewit-General-Manson Joint Venture in July 2011.

Eastside Project. There are three construction contracts associated with the Eastside Project:

Eastside D-B Project. In October 2010, WSDOT awarded a $306.3 million design-build contract to Eastside Corridor Constructors, a joint venture of Granite Construction Company and PCL Construction Services and other Puget Sound-based contractors, to develop and construct the HOV lane system on SR 520 from the eastern shore of Lake Washington to 108th Avenue N.E. in Bellevue; this work includes reconstruction of SR 520, three lids, construction of fish-passable culverts, and relocating transit stops. Granite Construction is currently building bridge projects in Everett and Tacoma and PCL seismically retrofitted WSDOT's I-90 bridge in Seattle and built a Sound Transit light rail station.

Payments are made based on monthly invoices submitted to WSDOT for review. There are 1,115 calendar days allowed by the contract to reach "Substantial Completion." WSDOT is authorized to assess liquidated damages for a variety of issues such as late completion, failure to open lanes, loss of tolling revenue, disruption of power to the floating bridge, Intelligent Transportation System ("ITS"), and traffic signal and closed circuit television systems, and failure to vacate certain areas needed for subsequent projects. There is no cap on the amount of liquidated damages WSDOT can assess on this contract.

Responsibility for the first $5 million worth of differing site conditions rests solely with Eastside Corridor Constructors and with WSDOT above $5 million. The contract requires a one-year general warranty; a one-year warranty on illumination and electrical systems, traffic signal systems, and ITS, commencing on the

day of "Project Physical Completion"; and a landscaping warranty for two years on lid plantings and three years on wetland mitigation and roadside restoration plantings after acceptance of initial planting.

Wetland Mitigation and Lane Conversion. A contract for off-site wetland mitigation associated with construction of the HOV lane system is currently in development and scheduled for advertisement in April 2012. The approximate cost is anticipated to be $10 million. Construction contract advertisement for the 108th Ave. N.E. to SR 202 HOV lane conversion, which will restripe the existing SR 520 between 108th Ave. N.E. and SR 202 to relocate the HOV lanes from the outer to the inner roadway, is anticipated in Spring 2013. The cost is anticipated to be approximately $2 million.

Floating Bridge and Landings Project. There is one contract associated with the Floating Bridge and Landings Project. In August, 2011, WSDOT awarded a design-build contract to Kiewit-General-Manson, a joint venture, in the amount of $586.561 million to construct the Floating Bridge and Landings Project, which will construct a new floating bridge, connect the new bridge to both the existing SR 520 facility on the west side of the lake and new SR 520 facility on the east side of the lake, demolish the existing bridge, and construct a new maintenance facility. Manson Construction is an international construction firm with an office in Seattle and is experienced in heavy marine construction. Manson is currently working with WSDOT to replace the Manette Bridge in Bremerton, Washington. Kiewit-General-Manson will be supported by engineering firms KPFF and BergerABAM.

Payments under the contract are made based on monthly invoices submitted to WSDOT for review. The contract allows 1,429 calendar days after the Notice to Proceed 2 (August 31, 2011) to reach "Substantial Completion," 300 calendar days from "Substantial Completion" to "Physical Completion," and 90 days from "Physical Completion" to "Completion." WSDOT is authorized to assess liquidated damages for a variety of issues, such as late completion, failure to open lanes, loss of tolling revenue, disruption of power to the floating bridge, and ITS, and failure to vacate certain areas needed for subsequent projects. There is a cap on liability for liquidated damages of $50 million that WSDOT can assess on this contract. Responsibility for the first $10 million worth of differing site conditions rests solely with the design-builder. WSDOT is responsible for different site conditions above $10 million.

The contract requires a one-year general warranty; a one-year warranty on illumination and electrical systems, traffic signal systems, and ITS, commencing on the day of "Project Physical Completion"; and a three-year landscaping warranty on wetland mitigation and roadside restoration plantings after acceptance of initial planting.

Insurance and Performance Bonds. The SR 520 Floating Bridge and Eastside Project design-build contracts require performance and payment bonds with varying amounts of coverage particular to each contract. Both the Pontoon Project and Eastside Project contracts have a performance and payment bond requirement of 100 percent of the contract price. The Floating Bridge and Landings Project contract has performance and payment bond requirements of $500 million each (compared to a $586 million contract).

The Pontoon Project contract requires a builders risk policy with limits of the greater of $300 million or the "possible maximum loss" of the contract, and a similar policy for the Floating Bridge and Landings Project has limits of the greater of $500 million or the "possible maximum loss" of the contract.

In addition, each contract requires additional insurance coverage for smaller but significant items such as commercial general liability, environmental liability, excess liability, professional liability, marine insurance, owners and contractors protection, and automobile liability.

Construction Schedule

The following shows the status of major permits, actual or expected start dates for construction and expected substantial completion dates for the SR 520 Floating Bridge and Eastside Project.

Pontoon Project

Environmental	FEIS issued January 2011; Record of Decision issued February 2011	Appeal period expired
Major Permits	Including Clean Water Act ("CWA") Permits, Coastal Zone Management Certification, Shoreline Permits, Critical Areas Permit	All major permits have been received except state DFW – Scientific Collection, and Corps – Maintenance Dredging. Both expected by December 31, 2011
Pontoon Construction Design-Build Project	Contract executed February 2010 Construction began February 2011	Casting basin operational November 2011; Construction complete June 2014
Wetland Mitigation	Contract executed July 2011 Construction began August 2011	Construction complete December 2011; plant establishment through December 2012
Moorage	Contract executed July 2011 Construction begins October 2011	Construction complete January 2013

Source: WSDOT.

Eastside Project

Environmental	Finding of No Significant Impact (FONSI) issued May 2010	Appeal period expired
Major Permits	Water Quality Permit, Hydraulic Project Approval, Shoreline permits	Received
Eastside Transit and HOV Project Design-Build	Contract executed November 2010 Construction began March 2011	Construction complete December 2013
Wetland Mitigation	Construction start anticipated Summer 2012	Wetland operational December 2014
Lane Conversion	Construction start anticipated Summer 2012	Operational December 2013

Source: WSDOT.

Floating Bridge and Landings Project

Environmental	FEIS issued June, 2011; Record of Decision August 2011	Appeal period ends February 2012; Appeal filed September 2011
Major permits	Including General Bridge Permit, Clean Water Quality Certification, Aquatic Lands Use Authorization, Shoreline Permits	Anticipate receipt Spring 2012
Floating Bridge and Landings Design-Build Project Contract	Awarded August 2011 Anticipated construction start date Spring 2012	Contract requires the bridge be open to traffic no later than July 2015 and construction complete 2016

Source: WSDOT.

Project Risks

WSDOT has adopted the design-build delivery method for the SR 520 Floating Bridge and Eastside Project. All project risk, including the casting facility in the Pontoon Project contract and superstructure of the Floating Bridge and Landings Project contract, are the design responsibility of the design-builders with one significant exception. WSDOT maintained design responsibility for the pontoons. The design-builder will construct the pontoons pursuant to WSDOT's design and a degree of risk remains for design changes, and errors or omissions in the design that may be reflected in change orders and increased cost.

Although the design-build contracts fix expected construction costs and each component of the SR 520 Floating Bridge and Eastside Project has substantial reserves, in construction projects of the magnitude of the SR 520 Floating Bridge and Eastside Project, there is a possibility of time delays and cost increases. As a result, there can be no assurance that the costs of the SR 520 Floating Bridge and Eastside Project will not exceed current estimates or that the completion will not be delayed. While the various design-build contracts shift to the contractors a significant amount of the risk and responsibility for time delays and cost increases, the contracts ultimately allow for increases in price and extensions of time for performance in certain cases, including, but not limited to, WSDOT-directed changes, state caused delays, and certain defined force majeure events. The responsibility of a contractor for all phases of design and engineering under its contract may increase the impact that any financial instability, insolvency or bankruptcy of the contractor or the provider of any payment or performance bond could have on the cost of, or completion date for, the applicable component of the project. The payment bonds and performance bonds do not cover all events, and there can be no assurance that the bonds will be sufficient to satisfy all obligations under the contract. The amount of liquidated damages in a contract may not be sufficient to cover all of the losses in the event of a delay and WSDOT may elect not to collect liquidated damages. Construction and operation of the SR 520 Floating Bridge and Eastside Project is at risk from events of force majeure, such as earthquakes or other natural disasters, acts of sabotage, spills of hazardous material or other events. Construction or operations also may be stopped or delayed from non-casualty events such as discovery of archaeological artifacts, changes in law, delays in obtaining or maintaining permits, and litigation, among other things. Although the applicable contractor is required to provide insurance during construction, such policies will not cover damage and delay from all events that could interrupt construction.

Sources of Funds

The sources of funds for the SR 520 Floating Bridge and Eastside Project include: (1) Toll Revenue, (2) state Motor Vehicle Fuel Taxes, (3) Federal funds, and (4) Bond proceeds.

See "SECURITY FOR THE 2012C BONDS" for a description of the statutory framework, the Tolling Authority, the Bonds and the definition of Toll Revenues.

Toll Revenue. In 2008, the Legislature established the Tolling Implementation Committee to evaluate a range of tolling options for the SR 520 Corridor and to conduct a public outreach effort. The Committee's report analyzed ten tolling scenarios to determine the impact of various tolling and toll policy options. In 2009, the Legislature authorized tolling on the SR 520 Corridor, including the early tolling of the existing bridge prior to constructing the new bridge. Tolling on the SR 520 Corridor was originally scheduled to start in April 2011, and is now expected to begin in December 2011. Toll rates will vary depending on the time of day and collected for trips in both directions. Toll collection will be all-electronic, with no toll booths. Toll payment obligations will be recorded via transponder and video collection systems. The Legislature designated the Commission as the state Tolling Authority with the authority to set tolls on SR 520.

Paying Tolls. Until the new bridge opens, tolls will be collected at the east high rise section of the SR 520 bridge. Once the new bridge opens, tolls will be collected at a location on the eastern shore of Lake Washington. Tolls will be collected in both directions via electronic toll collection and video collection systems. Tolls will be collected electronically from those with a "Good To Go!" account. Those with accounts will pay either via transponders or registered license plates linked to a prepaid account. The license plates of drivers without an account will be photographed and the drivers may pay on-line or by mail within 72 hours or wait to receive a bill in the mail. The state has contracted with Electronic Transaction Consultants Corp. to provide hardware, software and customer service center operations for the tolls. The maintenance on the toll collection system will be done by Telvent in conjunction with WSDOT staff.

Initial Tolls. The Transportation Commission set the initial tolls for SR 520 in January 2011. The Legislature also ratified by statute the adoption of toll rates and the Transportation Commission's commitment to adjust tolls as necessary to provide for bond debt service and operation, maintenance, preservation and replacement of the SR 520 Corridor Program, and to comply with bond covenants. Initial tolls for passenger cars with "Good To Go!" accounts range from $1.60 off-peak to $3.50 peak each direction on weekdays. Weekend base tolls vary from $1.10 to $2.20. Tolls will not be collected from 11 p.m. to 5 a.m. during the construction period. Users who do not have a "Good To Go!" account pay an additional $1.50 per transaction. Vehicles are tolled according to vehicle classes by number of axles. The rates for multi-axle vehicles are determined by multiplying the number of axles by the per axle toll rate for two-axle vehicles using the same payment method. Buses, private regular route buses, and WSDOT-sanctioned carpools will not pay tolls.

Starting July 1, 2012, the toll rates will increase 2.5 percent annually, subject to review and potential adjustment by the Transportation Commission in order to generate Toll Revenue sufficient to meet the costs and obligations described under "SECURITY FOR THE SERIES 2012C BONDS—Statutory Framework—Toll Facilities Act—Setting Toll Rates."

Enforcement. Individuals who do not pay their toll within 80 days will receive a civil penalty and pay an additional $40 per occurrence fine. Failure to pay the civil penalty will result in a hold by the Department of Licensing on the vehicle registration. Vehicles that improperly use the HOV lane to avoid a toll could be subject to a driving violation by the state patrol.

Motor Vehicle Fuel Taxes. In 2003, the Legislature approved a 5-cent per gallon increase in Motor Vehicle Fuel Taxes to be deposited into the Transportation 2003 (Nickel) Account. The revenue in this account is

dedicated to a specific list of improvements within the state highway system. The tax increase provided $52 million toward the initial SR 520 Floating Bridge and Eastside Project development costs. In 2005, the Legislature approved a second funding package, primarily funded by an additional Motor Vehicle Fuel Tax increase of 9 1/2 cents per gallon for certain critical transportation-related projects, including $500 million for the SR 520 Floating Bridge and Eastside Project.

Federal Funds. The Legislature designated $1.2 billion of its future Federal-aid highway formula funding to the SR 520 Floating Bridge and Eastside Project. A portion of those funds will be used as pay-as-you-go funding while the majority of the future Federal funds intended for the SR 520 Floating Bridge and Eastside Project are expected to be used to repay GARVEE bonds as described below.

Bonds. In 2009 and 2011, the Legislature authorized the issuance of $1.95 billion of bonds for the SR 520 Account. The bonds may be issued as Bonds under the Master Resolution or as debt under a separate resolution. The Series 2012C Bonds are being issued and other Bonds may be issued as general obligation bonds first payable from Toll Revenue, secondarily from Motor Vehicle Fuel Taxes, and third from certain other state sources. The Bonds also may be issued as toll revenue bonds payable solely from Toll Revenue if the State Finance Committee, in consultation with WSDOT and the Transportation Commission, determines that it will be beneficial for the state. See "SECURITY FOR THE 2012C BONDS." The state has not decided how much, if any, of the various possible types of bonds will be issued for the SR 520 Floating Bridge and Eastside Project. No bonds may be issued without prior legislative authorization of the net proceeds of the sale of the bonds.

The state expects to issue Grant Anticipation Revenue Vehicles ("GARVEE") bonds to fund a portion of the SR 520 Floating Bridge and Eastside Project. Any GARVEE bonds would not be issued under the Master Resolution. To use GARVEE bond proceeds on a project, the project must be approved for Federal-aid debt financing, allowing the project to receive reimbursement for eligible debt-related costs. Prior to issuing GARVEE bonds, WSDOT and FHWA will enter into a memorandum of understanding to document the procedures for programming and authorizing projects, distribution, billing and payment of debt service and closing out the projects. In January 2011, FHWA determined that the financial plan for the Pontoon Project is adequate to meet anticipated construction costs. WSDOT expects to submit the Eastside Project and Floating Bridge and Landings Project in advance to preserve the eligibility to reimburse bond-related costs with future Federal-aid funds. The eligibility of a GARVEE bond issuance for reimbursement does not constitute a commitment, guarantee or obligation on the part of the U.S. to provide payment of debt service on such debt.

In February 2011, WSDOT submitted a Letter of Interest to the Transportation Infrastructure Finance and Innovation Act ("TIFIA") Joint Program Office of the U.S. Department of Transportation in response to a notice of funding availability. The TIFIA program provides flexible, low interest loans on a competitive basis to transportation projects that meet specific criteria for project significance, stewardship, and private participation. In July 2011, WSDOT was approved to submit a full application for TIFIA financing. WSDOT expects to submit an application in the fall of 2011 requesting a $320 million TIFIA loan for the Floating Bridge and Landings Project and the Eastside Project. WSDOT expects to receive a decision on its application in the spring of 2012. If any TIFIA loans are approved, the debt would be issued as Bonds under the Master Resolution and would be secured by Toll Revenue.

Plan of Finance. The following is an estimate of the sources of funds and expected uses of funds for the construction of the SR 520 Floating Bridge and Eastside Project.

Sources and Uses of Funds

Sources of Funds	**Dollars in Millions**
Sales Tax Deferral[1]	124.2
Motor Vehicle Fuel Taxes	553.9
Federal Funds	11.6
Project Fund deposits from bond proceeds[2]	1,666.4
Toll Revenue available for construction	76.3
Total Estimated Revenues	2,432.4

Uses of Funds	**Dollars in Millions**
SR 520 Corridor Development	120.0
Pontoon Project	574.3
Floating Bridge and Landings Project	957.2
Design and Right-of-Way for Westside Project	267.3
Eastside Project	513.6
Total Estimated Uses	2,432.4

(1) Sales Taxes are calculated on each contract but will be paid over a 10-year period beginning five years after substantial completion of the SR 520 Floating Bridge and Eastside Project. Sales Taxes are calculated and included under the contracts for the various components of the SR 520 Floating Bridge and Eastside Project.

(2) Excludes capitalized interest, debt service reserve deposits and bond issuance costs.

Source: WSDOT.

In addition to the Series 2012C Bonds, the state expects to issue approximately $500 million in net GARVEE bond proceeds in the spring of 2012, approximately $419 million in net GARVEE bond proceeds in Fiscal Year 2013, and approximately $248 million in net First Tier Bond proceeds in Fiscal Year 2014. It is expected that the principal amount of the various bond issues will be approximately $1.76 billion, including reserve account deposits, capitalized interest and costs of issuance.

Although approximately 96 percent of the estimated capital costs of the SR 520 Floating Bridge and Eastside Project are under construction or have been awarded for construction, there is no assurance that actual capital costs and other costs will not exceed the estimates. As described under "Project Risks," there are a number of factors that could cause actual costs to increase. The sources of funds listed above also are estimates and the revenue projections are based on various assumptions and other factors. The actual revenue from the various sources listed above are likely to change.

Future Motor Vehicle Fuel Tax collections will be affected by general economic conditions, the price of fuel, availability of fuel and the efficiency of motor vehicles, among other factors. Future toll revenue collections will be affected by general economic conditions, the price of fuel, availability of fuel, adverse weather, the level of toll rates, construction of competing facilities and/or increase in the availability of travel alternatives, among other factors.

Traffic and Revenue Studies

WSDOT commissioned two studies for the SR 520 Floating Bridge and Eastside Project.

Wilbur Smith Associates ("WSA") has prepared the "SR 520 Bridge Investment Grade Traffic and Revenue Study" dated August 29, 2011 (the "Traffic and Revenue Study"), which forecasted the toll traffic and gross revenue projections for the SR 520 Floating Bridge and Eastside Project. The study provides a 45-year projection for annual bridge traffic and gross toll revenues, from Fiscal Years 2012 through 2056. According to WSA, the study was conducted at a level sufficient for use in support of project financing.

The "SR 520 Bridge Net Toll Revenue Report" dated September 7, 2011 (the "Net Toll Revenue Report"), was prepared by Parsons Brinckerhoff in collaboration with the SR 520 General Engineering Consultant Team and WSDOT. That report used the data from the Traffic and Revenue Study to project net revenue from annual toll traffic and tolls charged after all operating expenses and deductions are paid.

The Traffic and Revenue Study and Net Toll Revenue Report are available on WSDOT's website *(www.wsdot.wa.gov/Projects/SR520Bridge/Library)*, which website is not incorporated herein by reference.

Traffic and Revenue Study. WSA conducted (1) a travel survey in September 2009 covering existing bridge users to determine trip purpose, time of travel, origins and destinations, vehicle occupancy and trip frequency and (2) a stated preference survey in November 2009 to help assess current bridge users' willingness to pay tolls and to estimate changes in travel behavior in response to tolls that would result in trip reductions such as forgoing trips or choosing a different destination, shifting to alternative modes including transit, using alternate routes, combining trips and/or changing the time of travel. The results show the significant use of the SR 520 bridge is for commuting in both directions; approximately 85 percent of a.m. peak and 62 percent of p.m. peak trips were for work commuting and about half of all peak trips were made five days a week. The survey sample results revealed respondents had a relatively high median household income of approximately $125,000. WSA examined multiple regional forecasts, detailed real estate and employment activity, and area growth plans to update the Puget Sound Regional Council's ("PSRC") socioeconomic forecast to account for the recent recession and current activity. These population and employment forecasts rely on independent economic forecasts.

WSA estimated traffic and revenue using the following major steps: (1) the regional travel demand model from PSRC is the starting point, (2) data from the travel survey, stated preference survey, truck counts and economic growth review were incorporated into the model, (3) parameters, algorithms, and equations were incorporated into the model for value of time, trip suppression, mode shift and traveling to avoid peak times in response to tolling, (4) average weekdays for key years were modeled in detail for the assumed toll rate structure, (5) average weekday daily traffic and revenue was calculated and converted to annual traffic for the key model years, (6) traffic and revenue stream estimates between Fiscal Years 2012 and 2056 were generated by interpolation between model years, and (7) the construction program was reviewed to identify impacts resulting in lane closures and adjustments were applied.

Among the major assumptions in the Traffic and Revenue Study are: (1) that the SR 520 Floating Bridge and Eastside Project will be constructed as planned and outlined under "Description of SR 520 Floating Bridge and Eastside Project," (2) economic growth will occur as forecast, (3) the facility will be well maintained and promoted to encourage maximum usage, (4) inflation will average 2.5 percent per year, (5) motor fuel will remain in adequate supply and no emergency will arise that would abnormally restrict the use of motor vehicles, (6) construction will result in no more than a set number of bridge closures, (7) tolls will be collected as set forth under "Initial Tolls" and "Paying Tolls" above and average toll rates will increase 2.5 percent annually beginning in Fiscal Year 2013 and approximately 15 percent in Fiscal Year 2017 and no rate escalation is assumed after Fiscal Year 2017, and (8) no new toll-free facilities or additional capacity will be

constructed other than those described in the Puget Sound Regional Council's current regional transportation plan, "Transportation 2040." WSA believes these assumptions are reasonable and consistent with industry practice.

The Traffic and Revenue Study projects toll transactions and toll revenue for Fiscal Years 2012 through 2056. Transactions are the number of tolled vehicles passing through the toll collection point. The estimated revenue is the gross revenue that would result if each vehicle passing through the toll collection point paid the published toll rate and does not include the effects of fees or discounts, underpayments, uncollectable tolls or toll evasion. Those adjustments are made in the Net Toll Revenue Report. Tolling on SR 520 is expected to result in significant diversion of traffic to I-90 and other alternative uses, especially during off-peak times.

The Traffic and Revenue Study also included various sensitivity tests to determine the possible impacts on gross revenue involving variations in regional growth, value of time, account-based vs. pay-by-mail market share, participation rate, motor fuel costs, mode shift to transit and trip suppression and tolling of the I-90 bridge across Lake Washington (the other east west bridge across the lake). The sensitivity tests showed, among other things, that long-term gross revenue is not materially dependent on future economic growth in the region; a 50 percent increase in motor fuel costs lowers gross revenue by approximately 4 to 5 percent; and a 20 percent reduction in the value of time lowers Fiscal Year 2012 gross revenue by approximately 11 percent.

Net Toll Revenue Report. The Net Toll Revenue Report adjusts the potential gross revenue stream from the Traffic and Revenue Study to account for: (1) projected fees, toll discounts, and leakages in collecting revenue attributed to toll evasion, collection errors or insufficient registration information, and (2) operations and maintenance costs for toll collections and for the facility. In the first year of operations, uncollectible accounts are projected to be 8.8 percent of potential gross toll revenues, dropping to 3.9 percent by Fiscal Year 2031 and averaging approximately 5.0 percent, with some of that collected as part of the civil penalty process. The report estimates operational expenditures, including credit card fees, toll collection and facility operation and maintenance costs, and insurance premiums that the state will pay after the new bridge is open.

Among the major assumptions in the Net Toll Revenue Report are: (1) tolls will be collected as outlined under "Paying Tolls" and "Initial Tolls," (2) the toll schedule is assumed to escalate annually through Fiscal Year 2017 with no increases after Fiscal Year 2017, (3) tolls will pay for 100 percent of SR 520's share of routine toll collection operations and maintenance and once the improvements are completed will fund 100 percent of the operation and maintenance costs associated with the entire SR 520 Floating Bridge and Eastside Project, and (4) tolls are assumed to pay for 100 percent of the toll collection system equipment periodic repair and replacement costs and 76 percent of the periodic facility repair and replacement costs. The Net Toll Revenue Report finds that the future cost projections are based on reasonable-to-conservative inputs and assumptions and concludes that the net revenue projections provided in the report are reasonable; among the key findings are (1) net toll revenues are projected to exhibit steady growth through the construction period when the adopted toll schedule is anticipated to increase annually, (2) after Fiscal Year 2017, projected growth in annual net toll revenue is driven solely by traffic volume, (3) net toll revenue projections during Fiscal Years 2012-2016 are expected to comprise about 79 percent of the adjusted gross toll revenues and 74 percent from Fiscal Year 2017 through Fiscal Year 2039, declining to 64 percent in Fiscal Year 2056, and (4) routine operation and maintenance costs are projected to require about 21 percent of adjusted gross revenues during construction, 26 percent in Fiscal Year 2017 and 36 percent by Fiscal Year 2056.

The Net Toll Revenue Report documents the anticipated operating expenditures, including credit card fees, toll collection operations and maintenance costs, facility operations and maintenance costs and insurance premiums. The report uses different escalation assumptions to account for inflation in these costs. Overall, the report notes that the average annual growth rate for the four cost elements combined is approximately 3.3 percent over the period from Fiscal Year 2013 through Fiscal Year 2056, and reflects growth in costs

related to general inflation, traffic increases and an anticipated step up in customer service center vendor contract costs.

The state also expects to defer sales tax on almost the entire construction program, totaling approximately $124 million in sales tax that will be deferred until five years after completion and then paid in 10 equal annual installments of $12.4 million.

The Net Toll Revenue Report projects net toll revenues to be $46.31 million in Fiscal Year 2013, the first full year of tolling operations, growing to a peak of $92.84 million in Fiscal Year 2039, followed by a gradual decline to $86.27 million by Fiscal Year 2056. Because tolls were not assumed to increase after Fiscal Year 2017, growth in gross and net revenues is driven by expected traffic growth. Once the traffic projections and gross revenues level out beyond 2030, operation and maintenance cost inflation eventually causes the level of net revenues to decline. During the pre-completion period from Fiscal Year 2012-16, the compound annual growth rate of projected net revenues equates to approximately 7 percent. Post-completion net revenues are projected to have approximately 2 percent compound annual growth rate through Fiscal Year 2039, declining at an average annual rate of -0.3 percent thereafter absent any toll increases.

Projected Transactions and Revenues. The following table shows the projected total transactions and gross revenue from the Traffic and Revenue Study and the projected net uncollectible accounts, adjustments, operation and maintenance related expenditures and net revenues from the Net Toll Revenue Report. The table also shows preliminary debt service on the Series 2012C Bonds and projected debt service coverage on the Series 2012C Bonds based on the projected Net Toll Revenue. As described under "SR 520 Floating Bridge and Eastside Project—Sources of Funds—*Bonds*," the state expects to issue approximately $248 million of additional Bonds secured by Toll Revenue, which will reduce the debt service coverage for the Series 2012C Bonds.

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SR 520 Summary of Projected Gross and Net Toll Revenues[1]

	Fiscal Year	Gross Toll Transactions (millions)[2]	Gross Toll Revenue ($ millions)[2]	Uncollectible Toll Revenue ($ millions) [3][4]	Adjustments to Gross Toll Revenue ($ millions) [3][5]	Subtotal: Adjusted Gross Toll Revenue ($ millions)[3]	Total Operations and Maintenance Expenditures ($ millions)[3][6]	Net Toll Revenue ($ millions) [3]	2012C Bonds Debt Service ($ millions)	2012C Bonds Debt Service Coverage [7]
Pre-Completion	2012	8.66	27.84	(2.45)	(0.96)	24.42	(10.43)	13.99	-	-
	2013	18.97	61.81	(4.57)	1.14	58.38	(12.07)	46.31	26.02	1.78x
	2014	20.97	69.39	(4.72)	1.19	65.86	(12.14)	53.72	26.02	2.06x
	2015	22.46	75.51	(4.73)	1.19	71.97	(16.41)	55.56	26.02	2.13x
	2016	23.96	81.92	(4.76)	1.17	78.33	(16.98)	61.35	26.02	2.36x
Post-Completion — Full Revenue Operations	2017	23.62	87.64	(5.06)	1.15	83.73	(21.53)	62.20	36.86	1.69x
	2018	24.48	89.83	(4.95)	1.17	86.04	(22.12)	63.92	36.86	1.73x
	2019	25.33	92.08	(4.87)	1.17	88.38	(22.84)	65.54	36.86	1.78x
	2020	26.19	94.39	(4.79)	1.16	90.76	(23.38)	67.38	36.86	1.83x
	2021	27.05	96.76	(4.72)	1.15	93.19	(23.91)	69.28	36.86	1.88x
	2022	27.91	99.18	(4.66)	1.14	95.66	(24.47)	71.19	36.86	1.93x
	2023	28.76	101.67	(4.60)	1.12	98.19	(25.03)	73.16	36.86	1.98x
	2024	29.62	104.21	(4.55)	1.09	100.76	(25.74)	75.02	36.85	2.04x
	2025	30.26	106.36	(4.51)	1.07	102.93	(26.27)	76.66	36.86	2.08x
	2026	30.91	108.55	(4.47)	1.05	105.13	(26.82)	78.31	36.86	2.12x
	2027	31.55	110.78	(4.44)	1.02	107.37	(27.38)	79.98	36.86	2.17x
	2028	32.19	113.06	(4.40)	1.00	109.65	(27.96)	81.69	36.86	2.22x
	2029	32.84	115.38	(4.37)	0.97	111.97	(28.55)	83.42	36.86	2.26x
	2030	33.48	117.74	(4.34)	0.93	114.33	(29.32)	85.01	36.86	2.31x
	2031	34.12	120.15	(4.32)	0.90	116.73	(29.94)	86.80	36.86	2.35x
	2032	34.80	122.52	(4.42)	0.91	119.01	(30.72)	88.29	36.86	2.40x
	2033	35.43	124.66	(4.52)	0.93	121.07	(31.47)	89.60	36.86	2.43x
	2034	35.99	126.57	(4.60)	0.94	122.91	(32.21)	90.70	36.86	2.46x
	2035	36.48	128.26	(4.68)	0.95	124.54	(32.93)	91.61	36.86	2.49x
	2036	36.91	129.71	(4.75)	0.96	125.93	(33.83)	92.10	36.86	2.50x
	2037	37.26	130.90	(4.81)	0.97	127.07	(34.51)	92.56	36.86	2.51x
	2038	37.55	131.86	(4.86)	0.98	127.98	(35.18)	92.80	36.86	2.52x
	2039	37.77	132.56	(4.90)	0.98	128.64	(35.81)	92.84	36.86	2.52x
	2040	37.91	133.00	(4.93)	0.99	129.05	(36.43)	92.63	36.86	2.51x
	2041	38.05	133.45	(4.97)	0.99	129.47	(37.05)	92.42	36.86	2.51x
	2042	38.19	133.90	(5.00)	0.99	129.89	(37.96)	91.93	-	-
	2043	38.34	134.35	(5.03)	0.99	130.31	(38.61)	91.70	-	-
	2044	38.48	134.80	(5.07)	0.99	130.73	(39.29)	91.43	-	-
	2045	38.63	135.25	(5.10)	1.00	131.14	(39.98)	91.16	-	-
	2046	38.77	135.71	(5.14)	1.00	131.57	(40.70)	90.87	-	-
	2047	38.92	136.17	(5.17)	1.00	132.00	(41.44)	90.56	-	-
	2048	39.06	136.62	(5.21)	1.00	132.41	(42.50)	89.91	-	-
	2049	39.21	137.09	(5.24)	1.01	132.85	(43.26)	89.59	-	-
	2050	39.36	137.55	(5.28)	1.01	133.28	(44.06)	89.22	-	-
	2051	39.51	138.02	(5.32)	1.01	133.71	(44.86)	88.86	-	-
	2052	39.66	138.49	(5.35)	1.01	134.15	(45.71)	88.44	-	-
	2053	39.81	138.95	(5.39)	1.01	134.57	(46.55)	88.02	-	-
	2054	39.96	139.43	(5.43)	1.02	135.02	(47.82)	87.20	-	-
	2055	40.11	139.90	(5.46)	1.02	135.45	(48.70)	86.75	-	-
	2056	40.27	140.38	(5.50)	1.02	135.90	(49.63)	86.27	-	-
Totals 2010-16		**95.02**	**316.47**	**(21.23)**	**3.73**	**298.97**	**(68.04)**	**230.93**	**104.10**	
Totals 2017-46		**998.84**	**3,525.28**	**(141.82)**	**30.67**	**3,414.12**	**(921.93)**	**2,492.19**	**921.44**	
Totals 2017-56		**1,394.71**	**4,907.88**	**(195.18)**	**40.77**	**4,753.47**	**(1,376.46)**	**3,377.02**	**921.44**	

(1) Tolling assumed to begin January 1, 2012; final date subject to change.
(2) Estimates prepared by Wilbur Smith Associates in the Traffic and Revenue Study.
(3) Estimates prepared by Parsons Brinckerhoff in the Net Toll Revenue Report.
(4) Net of toll revenues recovered through civil penalty process.
(5) Includes customer discounts/incentives plus revenues from "pay by plate" and late payment fees.
(6) Includes credit card fees, routine collection operation and maintenance ("O&M"), routine facility O&M, and bridge insurance premiums.
(7) Prepared by the Office of State Treasurer. Debt Service Coverage is projected and actual coverage may be materially different. The state expects to issue additional Bonds backed by Toll Revenue.

Source: Traffic and Revenue Study and Net Toll Revenue Report.

The two reports described in this section make various assumptions and projections. A number of factors could impact the amount of toll revenues collected, including overall traffic levels, toll levels, vehicle type (truck vs. car), time of travel (peak vs. off-peak), customer payment method and revenue leakage. In addition, actual toll collection and facility operation and maintenance costs will impact net toll revenue. Inevitably, some underlying assumptions and projections used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. The actual results achieved during the forecast period, therefore, will vary from the forecast, and such differences may be material.

FUTURE SALES OF OBLIGATIONS

Simultaneously with the sale of the Series 2012C Bonds, the state sold $461,380,000 in various purpose general obligation refunding bonds and $42,330,000 in motor vehicle fuel tax general obligation refunding bonds for debt service savings.

The state currently anticipates that it will issue approximately $514 million in GARVEE bonds for the SR 520 Floating Bridge and Eastside Project, approximately $450 million of various purpose general obligation bonds and approximately $470 million of motor vehicle fuel tax general obligation bonds in one or more sales by June 2012. Additionally, the state anticipates issuing bonds to fund a portion of the SR 520 Floating Bridge and Eastside Project in Fiscal Years 2013 and 2014. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT—Sources of Funds—Plan of Finance."

In addition, when and if market conditions allow, additional refunding of outstanding bonds will be considered.

FINANCIAL STATEMENTS

Audited basic financial statements for the state for the Fiscal Year ended June 30, 2010, 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 successfully released its Fiscal Year 2010 audited financial statements 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), June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released on or about November 17, 2011. 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 September 2011, 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. See Appendix A— "GENERAL FUND—General Fund-State Operating Budget" for a discussion of various actions and proposals to address the reduction in state revenue resulting from the continued economic downturn.

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 Series 2012C Bonds, or in any manner challenging the validity of the Series 2012C Bonds, the security for the Series 2012C Bonds or the proceedings or authority pursuant to which they are to be sold and issued or the collection of revenues pledged for the payment of the Series 2012C Bonds.

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 2010 AUDITED BASIC 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. See "GENERAL FUND–Revenue and Expenditure Limitations" in Appendix A.

Initiatives. The Constitution requires an initiative petition to contain a number of signatures at least equal to 8 percent of all votes cast for Governor in the most recent gubernatorial election in the state. For 2011, the required number of signatures is 241,153. There are two types of initiatives: (1) initiatives to the people and (2) initiatives to the Legislature. Petitions for initiatives to the people must be filed not less than four months prior to the next state general election; for the November 2011 election petitions were due for certification on July 8, 2011. If certified to have sufficient signatures, initiatives to the people are submitted for a vote of the people at the next state general election. Petitions for initiatives to the Legislature must be filed not less than 10 days before the regular session of the Legislature; December 30, 2011, for the January 2012 regular session. 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 either 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.

By statute, the Secretary of State is charged with verifying signatures and certifying whether sufficient signatures have been gathered to meet the constitutional requirement. Interpretation of initiatives is left to judicial court review.

The following three initiatives have been certified for the November 8, 2011 election:

1. Initiative 1125 ("I-1125") apparently is intended to amend various statutes to achieve the following purposes, among others: (1) prohibit the use of motor vehicle fuel taxes and tolls "for non-highway purposes;" (2) restrict the use of toll revenue to the facility on which those tolls are collected; (3) require that the Legislature serve as the tolling authority for the state; (4) require legislative action prior to the imposition of, increase in, or adjustment of tolls on most tolled facilities (including the SR 520 Corridor); (5) require that tolls be uniform and consistent, with no variable pricing; (6) require that tolls be removed "after the cost of the project is paid;" and (7) require that tolls imposed and collected on the I-90 floating bridge across Lake Washington be used exclusively for facilities and improvements to I-90, and for purposes "consistent with the eighteenth amendment to the Washington Constitution." (The Eighteenth Amendment to Washington's Constitution requires that motor vehicle fuel taxes and motor vehicle excise taxes "be used exclusively for highway purposes.") If enacted, I-1125 would become effective in early December 2011.

2. Initiative 1163 would reinstate background checks, training and other requirements for long-term care workers and providers and would provide independent audits, increase fraud investigation, and cap administrative expenses for the long-term in-home care program.

3. Initiative 1183 would close state liquor stores and sell their assets. The state would license private parties to distribute spirits and sell spirits in retail stores and establish licensing fees for sale and distribution of spirits based on the licensee's sales revenues.

Effect of New Legislation on Bonds. Under current state law, including Washington State Supreme Court decisions, later enacted legislation, including initiatives, cannot impair the state's obligation or ability to comply with bond covenants and other similar contractual obligations in force prior to the effective date of that later enacted legislation.

Referenda. The Constitution requires a petition for referendum to contain a number of signatures at least equal to 4 percent of all votes cast for Governor in the most recent gubernatorial election in the state. For 2011, the required number of signatures is 120,577. 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. See Appendix A—"GENERAL FUND—Budget Stabilization Account" for a description of a referendum on the November 2011 election.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 2012C Bonds by the state are subject to the approving legal opinion of Foster Pepper PLLC, Bond Counsel to the state. The proposed form of the opinion of such firm with respect to the Series 2012C Bonds is attached hereto as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Series 2012C Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion 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 Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinion and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Series 2012C Bonds.

Certain legal matters will be passed upon for the Underwriters of the Series 2012C Bonds by its counsel, Nixon Peabody LLP, New York, New York. Any opinion of Underwriters' counsel will be rendered solely to the Underwriters of the Series 2012C Bonds, will be limited in scope, and cannot be relied upon by investors.

TAX MATTERS

Tax Exemption of the Series 2012C Bonds

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Series 2012C Bonds, interest on the Series 2012C Bonds 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.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of issuance of the Series 2012C Bonds in order to maintain the exclusion of the interest on the from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Series 2012C Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Series 2012C Bonds. The state has covenanted in the Series 2012C Bond Resolution to comply with those requirements, but if the state fails to comply with those requirements, interest on the Series 2012C Bonds could become taxable retroactive to the date of issuance of the Series 2012C Bonds. Bond 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 Series 2012C Bonds 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 Series 2012C Bonds, 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% 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% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% 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 Series 2012C Bonds, 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% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Series 2012C Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Series 2012C Bonds 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 Series 2012C Bonds, 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. Bond Counsel cannot predict whether the IRS would commence an audit of the Series 2012C Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Series 2012C Bonds could adversely affect the market value and liquidity of the Series 2012C Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% 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% 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 Series 2012C Bonds as "qualified tax-exempt obligations" for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Series 2012C Bonds 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 on the Series 2012C Bonds 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 on the Series 2012C Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Series 2012C Bonds may have other federal tax consequences as to which prospective purchasers of the Series 2012C Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Series 2012C Bonds set forth above or adversely affect the market value of the Series 2012C Bonds. For example, on September 12, 2011, the President submitted to Congress a legislative proposal entitled the "American Jobs Act of 2011" (the "Jobs Act"), certain provisions of which, if enacted as proposed, would result in federal income tax being imposed on a portion of the interest on tax-exempt bonds (including the Series 2012C Bonds) received in taxable years beginning on or after January 1, 2013, by taxpayers with incomes above certain thresholds specified in the Jobs Act. It cannot be predicted whether the Jobs Act will be enacted as proposed or other future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Series 2012C Bonds. Prospective purchasers of the Series 2012C Bonds should consult with

their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Series 2012C Bonds, including the provisions of the Jobs Act.

Original Issue Premium. All of the Series 2012C Bonds as shown on page i have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

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 state has entered into a written undertaking to provide continuing disclosure for the benefit of the holders and Beneficial Owners of the Series 2012C Bonds (the "Undertaking").

Annual Disclosure Report. The state covenants and agrees that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning for the Fiscal Year ended June 30, 2011 (Fiscal Year ended June 30, 2012, in the case of (3) below), 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;

(3) the financial report of the results of the operation of the System; and

(4) 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.

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 identify clearly 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 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.

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 Series 2012C Bonds (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 respective Series of Bonds; (7) modifications to rights of owners of the Series 2012C Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing the repayment of the Series 2012C Bonds, 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 Series 2012C Bonds. The Undertaking, or any provision thereof, shall 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 Series 2012C Bonds; 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 Bond 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 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 Series 2012C Bonds.

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. The state has complied in all material respects with all prior written undertakings under the Rule.

BOND RATINGS

Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Ratings Services, a business unit within Standard & Poor's Financial Services LLC, have assigned ratings on the Series 2012C Bonds of AA+, Aa1 and AA+, respectively. The state furnished certain information and materials to the rating agencies regarding the Series 2012C Bonds and the state. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings will reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Series 2012C Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

There is no assurance that such ratings would be maintained for any given period of time or that they may not be raised, lowered, suspended, or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012C Bonds. The state undertakes no responsibility to oppose any such change or withdrawal.

FINANCIAL ADVISORS

Montague DeRose and Associates, LLC, and Seattle-Northwest Securities Corporation have served as financial advisors to the state relative to the preparation of the Series 2012C Bonds for sale and other matters relating to the Series 2012C Bonds. The financial advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information relative to the Series 2012C Bonds. The financial advisors make no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The financial advisors' compensation is not contingent upon the successful delivery of the Series 2012C Bonds.

UNDERWRITING

The Series 2012C Bonds are being purchased by J.P. Morgan Securities LLC and Citigroup Global Markets Inc. (collectively, the "Underwriters"). Subject to the provisions of a bond purchase contract for the Series 2012C Bonds between the Underwriters and the state, the Underwriters agree to purchase all of the Series 2012C Bonds at a price of $565,754,640.03, which represents the principal amount of the Series 2012C Bonds plus an original issue premium of $48,697,263.40 and less an Underwriters' discount of $1,717,623.37. The Series 2012C Bonds will be reoffered at a price of $567,472,263.40, as reflected by the prices and yields set forth on page i of this Official Statement.

J.P. Morgan Securities LLC ("JPMS") has informed the state that it has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2012C Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase the Series 2012C Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2012C Bonds that such firm sells.

Citigroup Global Markets Inc. has informed the state that Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc., an Underwriter of the Series 2012C Bonds, and Morgan Stanley & Co. LLC, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with its allocation of the Series 2012C Bonds.

The Underwriters may offer and sell the Series 2012C Bonds to certain dealers (including dealers depositing Bonds 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 Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

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: /s/ James L. McIntire
State Treasurer and Chairman,
State Finance Committee

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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 is 6,724,540 according to the 2010 U.S. Census, making the state the 13th most populous in the United States. The state's capital is Olympia at the southern end of Puget Sound, and the state's largest city, Seattle, 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 Amazon, Amgen, Boeing Commercial Airplanes, Costco, F5 Networks, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th in the United States in terms of real gross domestic product ("GDP") in 2010.

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 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. Direct access to midwest and east-coast markets by land is via four major interstate highways and two transcontinental rail service providers.

The state's ferry system, the largest ferry system in the United States and the third-largest ferry system in the world, is owned and operated by the Washington State Department of Transportation ("WSDOT") and connects 15 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 of 105 days (beginning the second Monday in January) in odd-numbered years and 60 days (beginning the second Monday in January) 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, 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 Bonds" 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–Revenue and Expenditure Limitations" below and "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 entitlement caseload forecasts and quarterly economic and revenue forecasts as described below. 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."

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 providing for the payment of bond principal and interest requirements on each series of bonds normally are included in an omnibus appropriation act.

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, and proceeds of state bonds have been the main source for 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 (other than forecasts of transportation revenues, which are prepared by the state's Transportation Revenue Forecast Council, and other than the state entitlement caseload forecasts, which are prepared by the state's Caseload Forecast Council, both described below). The Forecast Council is an independent state agency consisting of six members, two appointed by the Governor and one appointed by each of the two largest political caucuses of the Senate and House of Representatives. 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 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."

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. 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. 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 Auditor, an independent elected official, audits the state-wide combined financial statements for each Fiscal Year. See Appendix D–"THE STATE'S 2010 AUDITED BASIC 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. As described below and in Appendix D–"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS," the state also maintains a number of other funds and several hundred accounts.

General Fund Revenue

Most of the General Fund 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 revenue. See "–General Fund-State Operating Budget" and Table 4.

General Fund 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 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 Bonds" and "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt."

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 3.0	0.5 to 3.0

Source: Department of Revenue.

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 0.138 percent to 1.8 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, the Treasurer is required to deposit an amount equal to 6.1 percent into the Public Works Assistance Account and an amount equal to 1.6 percent to the City-County Assistance Account. 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 the assessed value of all taxable property, including all real and personal property located within the state, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Personal property includes machinery, supplies, certain utility property and items owned by businesses and farmers that are generally movable.

The assessed value of most real property is determined by the county assessors, with the goal being to determine the fair market value of the property according to its highest and best use (unless an exemption applies that would permit a lower use to be considered). Property taxes for local taxing districts are levied against this assessed value. The state property tax is levied against the assessed value determined by the county assessors but then is adjusted to the state equalized value (a rate that would be equal across the state) in accordance with a ratio fixed by the Department of Revenue. For property taxes payable in 2010, assessed value against which property taxes were levied averaged 88.1 percent of fair market value as determined by the county assessors.

The Constitution provides that the aggregate of all regular (nonvoted) tax levies upon real and personal taxable property by the state and local taxing districts may not exceed 1.0 percent of the true and fair value of such property unless for the purpose of preventing the impairment of the obligation of a contract

when ordered to do so by a court of last resort. Excess property tax levies are subject to voter approval and are not subject to this limitation.

Increases in assessed values of property are not limited; however, by statute, the state property tax levy is limited to the limit factor (the lesser of 101 percent, or 100 percent plus inflation) multiplied by the amount of property taxes levied by the state in the highest of the three most recent years, plus an additional amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The average state levy rate for taxes due in calendar year 2010 was $1.87 per $1,000 of true and fair property value.

By statute, all of the proceeds of the state's property tax levy are to be 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. Together, these other taxes represent approximately 2.0 percent of state tax revenue.

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 for a variety of different programs increased significantly in Fiscal Years 2009, 2010 and 2011 as a result of federal 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 state revenue." See "General Fund Expenditures–Payment of General Obligation Bonds" and "General Fund–State Operating Budget."

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 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 Control 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.

Education. The state's expenditures for public schools are mandated by the constitutional requirement that the state support the common schools, and as shown in Table 5, a significant portion of the General Fund budget is used for supporting public schools. The Supreme Court has interpreted the Constitution to require the state to ensure that each public school district receives the funds needed to provide a basic education.

In past legislative sessions, the Legislature enacted legislation intended to improve the stability and predictability of school funding, including legislation that (1) prescribes course offerings, teacher contract hours and core student/staff ratios; (2) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (3) limits local compensation increases to those authorized by the state; and (4) provides for state assistance to equalize tax rates for local levies, establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers and requires school districts to maintain minimum teacher/student ratios. In the past, state voters, through the initiative process, have also affected school expenditures and current litigation may affect expenditures in the future. See "BALLOT MEASURES" in the front portion of this Official Statement and "LITIGATION" in this Appendix A. The Legislature has again temporarily suspended two initiatives relating to school expenditures as part of the amended 2009-11 Biennium Budget and the 2011-13 Biennium Budget. See "General Fund–State Operating Budget."

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. Through this program, medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund, funding is received from the federal government for those people and for services covered under Medicaid. The Medical Assistance Program budget has grown significantly in recent years. Growth in the number of eligible recipient groups, rising health care costs and requirements to provide higher payments to hospitals have resulted in increased expenditures.

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.

Corrections. As of August 2011, the Department of Corrections ("DOC") had 12 correctional institutions and 15 work release facilities and leased 990 rental beds in-state. As of August 2011, the offender population was approximately 16,300 in the prison system and 662 at state work-release sites. In 2010, the state closed Ahtanum View Corrections Center in Yakima and the Pine Lodge Corrections Center for Women in Medical Lake. In 2011, the state closed McNeil Island Corrections Center in south Puget Sound.

Employees and Employee Benefits. The state budgeted for 112,545 full-time equivalents ("FTEs") in Fiscal Year 2009, including Higher Education employees. Compensation for approximately 40 percent of these FTEs constituted expenditures of the General Fund in Fiscal Year 2009. In Fiscal Year 2010, the

state budgeted amounts for 109,969 FTEs. The 2011-2013 Budget budgets for 107,000 FTEs, which lower level reflects the series of cuts made in the past several legislative sessions. Approximately 53 percent 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 31,000 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 self-pay for coverage beyond the state's contribution. The average benefit was $841 in 2010, with $755 paid by the state and $86 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 to liquidate unpaid compensated absences outstanding at June 30 with future resources. 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 Bonds. Statutes authorizing bonds and other general obligations of the state require the Committee to certify to the Treasurer on or before June 30 of each year the amount needed to provide for payment of debt service and require the Treasurer to deposit "general state revenues" in such amount into the Bond Retirement Accounts. 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). 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, tuition fees charged by institutions of higher education must be used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. Similar reimbursement requirements apply to hospital patient fees (for University of Washington hospital construction bonds) and to lease-rental proceeds (for Washington State University research center bonds). All of these required reimbursements have been made to date. 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."

Revenue and Expenditure Limitations

From time to time the Legislature or state voters limit (by initiative or referendum) the state's authority to increase revenues. Initiative 601, approved by the voters in 1993, as amended by the Legislature and restored by subsequent initiatives in 2007 and 2010, requires that any action by the Legislature to raise taxes be approved either by a two-thirds' vote of the members of each house of the Legislature or by the voters or, in certain cases, by both, and that a fee may only be imposed or increased if approved by a majority vote of each house.

In addition to limiting the state's authority to generate revenues, from time to time state voters (by initiative or referendum) limit the state's authority to make expenditures. Initiative 601 prohibits the state 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. In the event 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. See "BALLOT MEASURES" in the front portion of this Official Statement.

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. The Legislature may appropriate additional amounts to the Budget Stabilization Account. 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. The Legislature approved a measure to be submitted to the voters at the November 2011 election that if adopted will require 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.

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. This section describes the most recent economic forecast released on September 2, 2011 (the "September 2011 Forecast"), on which the latest revenue forecast (as of September 15, 2011) is based. The next revenue forecast is expected to be released on November 17, 2011.

September 2011 Forecast. The September 2011 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in September 2011, modified according to the Forecast Council's standard practice to reflect the Blue Chip GDP forecast published in the Blue Chip Economic Indicators and NYMEX oil futures prices. Because the state's forecast must be based on current law, Global Insight's assumption that the payroll tax cut will be extended into next year was removed.

In the September 2011 Forecast, the Forecast Council noted that the near term economic outlook for Washington has weakened since the June 2011 Forecast. Revenues are forecasted to grow 7.5 percent from the 2009-11 Biennium to $30.31 billion in the 2011-13 Biennium. However, this is $1.4 billion less than the June 2011 Forecast. General Fund State revenue collections for the June 10, 2011, to September 10, 2011, collection period were $40 million (1.2 percent) less than the Forecast Council's

June 2011 Forecast, with $14 million in the 2009-2011 Biennium and $26 million in the 2011-13 Biennium.

The Washington economic recovery has slowed along with the slowdown in the global and national economies. Economic growth in Washington is no longer expected to pick up momentum later in 2011 as predicted in June 2011. The job growth forecast for 2011 is 1.1 percent and the employment growth in 2012 and 2013 is forecast at 1.4 percent and 2.1 percent, respectively. Personal income growth is forecast at 4.9 percent, 3.0 percent, and 4.5 percent in 2011, 2012 and 2013, respectively.

The employment recovery in Washington remains weak; the state's economy added 8,300 net new jobs in June, July and August 2011. In June, July and August, the manufacturing sector contributed 4,200 jobs, including 3,500 new aerospace jobs; construction added 600 jobs; and private service-providing industries, which account for two out of three jobs in the state, added 3,800 jobs. Federal government employment increased by 1,300 during June, July and August, but this was more than offset by the loss of 1,600 state and local government jobs. Washington's unemployment rate held steady at 9.3 percent.

Washington export growth is strong and is expected to help the state outperform in the recovery. Total exports were up by 31.5 percent year-over-year in the second quarter of 2011. The outlook for the state's aerospace sector is positive: Boeing has approximately seven years of commercial orders on the books and aerospace jobs in the state increased 9.5 percent from August 2010 to August 2011. Employment in the software sector in the state grew 4.3 percent from August 2010 to August 2011. Both Washington employment and personal income growth is expected to recover faster than that of the U.S.

The single family housing sector in Washington remains weak. The 12,600 single-family permits in the second quarter of 2011 were the lowest since the second quarter of 2009. Multi-family permits were a relatively strong 13,400 units in the quarter. The outlook for single-family construction is flat to negative through 2012, due to the backlog of foreclosed homes. The trend is positive in multi-family housing due to rising rents and declining apartment vacancies. A significant upturn in housing construction is not expected until the first quarter of 2013. Washington's housing market is expected to recover quicker than most other states because the foreclosure pipeline in the state is drying up. As of the second quarter, Washington ranked 47 out of 50 states in the number of mortgages that were 30 days past due.

Core inflation (excluding food and energy) in Seattle averaged an annual rate of 1.0 percent in the second quarter of 2011. Overall prices rose at an average annual rate of 3.0 percent over the same period, driven by rising energy costs. With energy costs easing since April 2011, more moderate inflation is expected going forward.

Table 2 summarizes some of the historical values and forecasts of the primary economic drivers upon which the September 2011 Forecast was based.

Table 2
Summary of Economic Factors
(% Annual Change)

					Forecast		
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Personal Income	8.1	6.0	(2.7)	2.6	4.9	3.0	4.5
Nonfarm Payroll Employment	2.6	0.9	(4.6)	(1.4)	1.1	1.4	2.1
Housing Units[(1)]	(5.3)	(39.0)	(41.2)	21.6	(0.5)	3.3	29.6

(1) Reflects single-family and multi-family units authorized by permits.

Source: Washington Economic and Revenue Forecast Council Revenue Review: September 15, 2011.

Alternative September 2011 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; downside risks are still elevated and considerably higher than the upside risks.

Optimistic Scenario. In the optimistic scenario, underlying pent-up demand continues to drive the recovery, hiring picks up and the economy rebounds. In the optimistic scenario, 2011-13 Biennium revenues are more than $2.25 billion higher than the baseline forecast.

Pessimistic Scenario. In the pessimistic scenario, Congress fails to agree upon a deficit reduction plan, there is a sovereign debt default in Europe, and U.S. economic growth slows while rising wages in India and China boost inflationary pressures. In the pessimistic scenario, revenues for the 2011-13 Biennium fall $2.01 billion below the baseline forecast.

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, 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.

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.

Since the onset of the economic downturn in 2008, the Governor and Legislature have 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.

2009-11 Biennium Budget. The 2009-11 Biennium Budget was originally adopted in the spring of 2009. During the course of the 2009-2011 Biennium, quarterly forecast updates of revenues declined while expenses increased due to the cost of providing services such as education, medical assistance and public safety. 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 of 6.3 percent for General Fund agencies beginning on October 1, 2010.

The supplemental budgets and across-the-board cuts reduced state expenditures in areas including health care and human services, natural resources, higher education, early learning, state prisons and K-12 education (other than basic education). Since the original enacted 2009-11 budget, General Fund expenditures have been reduced by $1.059 billion. The supplemental budgets did not reduce required spending on basic education, debt service or federally-mandated Medicaid. 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. In addition to the expenditure reductions, the budget was balanced by raising new revenue through a combination of permanent and temporary tax increases and transfers from the Budget Stabilization Account and other accounts. The supplemental budget passed by the Legislature in May 2011 for the 2009-11 Biennium approved General Fund expenditures at a maximum of $29.9 billion and an ending General Fund balance of $104 million. As a result of the September 2011 Revenue Forecast and other actions, OFM now expects General Fund resources of approximately $29.75 billion, and a projected negative ending General Fund balance of $109 million (including the Budget Stabilization Account). If agencies spend less than this maximum, or if revenues come in better than projected, the ending fund balance will change accordingly.

Beginning with the 2009-11 Biennium, the Legislature broadened the composition of revenue sources deposited into the General Fund by merging the Health Services, Public Safety and Education, Equal Justice, Student Achievement, Water Quality, and Violence Reduction and Drug Enforcement Accounts into the General Fund as of July 1, 2009. Though merging these accounts into the General Fund makes it appear that projected General Fund revenues increased by 4.1 percent compared with the General Fund in the 2007-09 Biennium, no new revenue was raised in this action. Similarly, the expenditures from these accounts were also merged into the General Fund, so a similar pattern of apparent growth is seen on the expenditure side, but this does not represent an increase in state spending by this action.

2011-13 Budget. The Legislature adopted the budget for the 2011-13 Biennium that includes 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). The budget addresses the impact of increasing caseloads, rising costs, lower than expected state revenues, and substantially reduced federal stimulus funds.

The budget reflects extensive cuts in state spending of approximately $4.5 billion. The budget calls for a 3.0 percent reduction in compensation for state employees, increases to state employees' share for health insurance premiums, and increased pension contribution rates. In education, the budget reduces funds targeted to reduce class sizes, reduces K-12 teacher salaries by 1.9 percent and K-12 administrative staff salaries by 3.0 percent, and decreases state support of higher education through cuts in academic services and reductions in salary, although reductions are partially offset with tuition increases and financial aid. The budget again temporarily suspends two education initiatives that were approved by voters and that

allocated funds to reduce class sizes and extend programs and would have required an annual cost-of-living increase for school employees. The Legislature gave the state's universities the authority to raise tuition beyond the budgeted tuition increase. State funding for health and human services is cut back significantly, although the number of individuals who receive care is projected to increase. In particular, no new enrollment will be allowed in the state-subsidized Basic Health Plan and grants under the Disability Lifeline program will be eliminated. The budget eliminates automatic cost-of-living increases for retired workers in the PERS 1 and TRS 1 pension plans. The budget incorporates constitutionally-mandated contributions to the Budget Stabilization Account if approved at the November 2011 election, but also leaves a $281 million balance in the Budget Stabilization Account. The budget does not include tax increases; it does, however, include some fee increases and other transfers. The budget does not reduce required spending on basic education, debt service or federally-mandated Medicaid.

As a result of the September 2011 Revenue Forecast summarized under "Economic and Revenue Forecast," and other actions, OFM now expects General Fund revenues of approximately $30.2 billion for the 2011-13 Biennium. This produces a projected negative ending General Fund balance of $1.275 billion (including the Budget Stabilization Account) for the Biennium prior to any anticipated legislative action. If agencies spend less than this maximum, or if revenues come in better than projected, the ending fund balance will change accordingly. The Governor and the Legislature have begun planning for a possible early supplemental budget to reduce expenditures and bring the budget more in line with available resources. In August 2011, the Governor asked state agencies to prepare for additional cutbacks of 5 to 10 percent. The Governor has called a special legislative session commencing on November 28, 2011.

Table 3A and Table 3B summarize the actions taken by the Legislature and other adjustments made to develop a budget for the 2009-11 Biennium and the 2011-13 Biennium, respectively.

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Table 3A
2009-11 General Fund-State Adjustments
November 2009 through September 2011
($ in millions)

	Adjustments
Beginning Balance	189
Revenue	
November 2009 Forecast	28,843
February 2010 Forecast[1]	(118)
June 2010 Forecast	(203)
September 2010 Forecast	(770)
November 2010 Forecast – Not including results of Initiative 1107	(322)
November 2010 Forecast – Portion for Initiative 1107	(63)
March 2011 Forecast	(80)
June 2011 Forecast	25
September 2011 Forecast	(25)
Transfer to Budget Stabilization Account	(247)
2010 Revenue Legislation (Net Change)	761
2011 Revenue Legislation (Net Change)	146
Total Revenue	27,947
Other Resource Changes	
Enacted Fund Transfers and Other Adjustments	870
2009 Legislative Transfers from Budget Stabilization Account	45
2010 Legislative Transfers from Budget Stabilization Account	222
2010 Legislative Transfers to General Fund	436
2010 Legislative Transfers from General Fund	(108)
Governor's Vetoes of Fund Transfers	(21)
Legislative Special Session December 2010	98
Legislation Passed February 2011	126
Prior Period Adjustments	19
Legislation Passed May 2011	(74)
Total Other Resource Changes	1,613
Total Resources	29,749
Spending	
Enacted Budget	30,918
Legislative Supplemental Operating Budget	(45)
Legislative Maintenance Level Change[2]	652
Legislative 2010 Net Policy Level Changes[3]	(1,066)
Governor's Vetoes	6
Governor's Across-the-Board Cuts[4]	*
Legislative Special Session December 2010	(488)
Legislation Passed February 2011	(234)
Legislation Passed May 2011	116
Total Spending	29,859
Ending Balance and Reserves	
Unrestricted Ending Fund Balance[5]	(110)
Budget Stabilization Account Balance	1
Total Reserves	(109)

(1) Includes the effect of a decision by the Supreme Court in *DOT Foods, Inc. v. Department of Revenue*, which reinstated B&O tax exemptions for certain types of out-of-state companies.
(2) This change primarily reflects enrollment and caseload changes to the original budget, based upon the February 2010 Caseload Forecast.
(3) The 2010 supplemental budget cut existing programs and made some modest additions. This number reflects the netting of those changes.
(4) The Governor directed across-the-board cuts of 6.3 percent to the Fiscal Year 2011 budget beginning October 1, 2010. A portion of the Governor's 6.3 percent across-the-board cuts were included in the reductions adopted by the Legislature in the December, 2010, special session.
(5) The 2011 supplemental budget as passed by the Legislature and signed by the Governor in May 2011 left a positive fund balance for Fiscal Year 2011. Subsequently the September 2011 Revenue Forecast resulted in a negative ending fund balance for Fiscal Year 2011.

Totals may not add due to rounding.

Source: Office of Financial Management.

Table 3B
2011-13 General Fund-State Adjustments
February 2010 through September 2011
($ in millions)

	Adjustments
Beginning Balance	(110)
Revenue	
February 2010 Forecast	32,224
June 2010 Forecast	1,858
September 2010 Forecast	(668)
November 2010 Forecast	(809)
March 2011 Forecast	(698)
June 2011 Forecast	(387)
September 2011 Forecast	(1,413)
Transfer to Budget Stabilization Account	(280)
2011 Revenue Legislation (Net Change)	146
2011 Budget Driven Revenue	58
Total Revenue	30,031
Other Resource Changes	
Enacted Fund Transfers and Other Adjustments	245
Total Other Resource Changes	245
Total Resources	30,166
Spending	
May 2011 Enacted Budget	31,724
Governor's Vetoes	(3)
Total Spending	31,721
Ending Balance and Reserves	
Unrestricted Ending Fund Balance	(1,555)
Budget Stabilization Account Balance	280
Total Reserves	(1,275)

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 2006 through 2010, forecast revenues for the three Fiscal Years 2011 through 2013, and budgeted expenditures through Fiscal Year 2013. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2013 (other than federal and local and private revenues and fund transfers, which are estimated through Fiscal Year 2013). The information in Table 5 is extracted from the state's budget documents.

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Table 4
General Fund Revenues and Resources[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	Actuals					Forecast		
	2006	**2007**	**2008**	**2009**	**2010**	**2011[6]**	**2012[6]**	**2013[6]**
Beginning General Fund Balance	999	1,271	1,372	805	279	(561)	(110)	(1,069)
General Fund-State Revenues[1]								
State Tax Revenues								
Retail Sales Tax	6,846	7,388	7,705	6,870	6,417	6,620	6,745	7,058
Business and Occupation Taxes	2,478	2,714	2,874	2,640	2,574	3,010	3,167	3,382
Use Taxes (General Fund portion)	465	504	511	460	423	534	503	535
Property Taxes	1,611	1,670	1,721	1,770	1,822	1,857	1,870	1,914
Real Estate Excise Taxes	933	1,070	663	389	380	373	356	382
Other Excise Taxes[2]	26	24	25	23	17	18	17	17
Other Taxes[3]	1,556	1,596	1,590	1,582	1,535	1,787	1,741	1,765
Subtotal State Tax Revenues	13,915	14,966	15,089	13,734	13,168	14,199	14,399	15,053
State Non-Tax Revenues								
Licenses, permits and other fees	85	92	98	95	84	87	87	90
Liquor profits and fees	73	78	66	69	71	117	120	125
Investment income	68	110	125	63	2	(12)	(10)	(9)
Lottery transfers	2	8	-	11	13	9	-	-
Other Non-Tax Revenue	176	214	281	186	233	223	226	230
Subtotal State Non-Tax Revenues	404	502	570	424	403	424	423	436
Adjustments and Transfers								
Enacted Transfers/Prior Period Adjustments	596	229	(266)	1,043	699	556	120	125
Transfers from Budget Stabilization Account	-	-	-	-	45	223	-	-
Transfers to Emergency Reserve Account/Budget Stabilization Account[4]	-	(289)	-	(115)	(119)	(128)	(135)	(145)
Subtotal Adjustment and Transfers	596	(60)	(266)	928	625	651	(15)	(20)
Total General Fund-State Resources	15,914	16,679	16,765	15,891	14,475	14,713	14,697	14,400
General Fund-State Resources	15,914	16,679	16,765	15,891	14,475	14,713	14,697	14,400
General Fund-Federal Revenues[5]	5,468	5,577	5,898	6,498	8,115	8,468	7,221	7,485
General Fund-Private/Local Revenues	158	178	207	220	252	275	287	277
Total General Fund Resources	21,540	22,434	22,870	22,609	22,842	23,456	22,205	22,162

(1) Includes revenues that before July 1, 2009, were deposited to the Public Safety and Education, Equal Justice, Water Quality, Health Services, Violence Reduction and Drug Enforcement and Student Achievement Accounts.
(2) Includes liquor, beer and wine, tobacco, boat and timber excise taxes, among others.
(3) Includes estate and inheritance taxes, public utility taxes and insurance premium and other taxes.
(4) The Emergency Reserve Account was abolished, and the Budget Stabilization Account was created effective July 1, 2009. See "GENERAL FUND—Budget Stabilization Account."
(5) Includes ARRA funding in 2009, 2010 and 2011 of $1.0 billion, $2.1 billion, and $1.9 billion, respectively.
(6) Based on September 2011 Forecast, December 2010 Special Session, and 2011 legislation.
Totals may not add due to rounding.

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

Table 5
General Fund Expenditures and Ending Fund Balance[1]
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	Actuals					Forecast		
	2006	**2007**	**2008**	**2009**	**2010**	**2011[6]**	**2012[6]**	**2013[6]**
Education								
Public School	5,654	6,006	6,326	6,409	6,512	6,334	6,840	6,893
Higher Education	1,442	1,503	1,588	1,593	1,396	1,355	1,187	1,215
Other Education	58	64	85	93	82	39	43	43
Total Education	7,154	7,573	7,999	8,095	7,990	7,728	8,070	8,151
Human Services								
Dept. Social and Health Services[2]	4,224	4,471	4,796	4,433	4,303	4,425	2,853	2,878
Dept. Corrections	707	758	857	896	708	792	839	796
Other Human Services[2]	345	388	457	481	370	233	2,323	2,391
Total Human Services	5,276	5,617	6,110	5,810	5,381	5,450	6,015	6,065
Natural Resources Recreation	206	255	253	246	198	160	156	153
Government Operations	233	261	289	293	238	212	231	243
Transportation	41	39	43	38	40	34	40	38
Debt Service[3]	665	703	851	714	870	907	953	1,014
Other Expenditures[4]	1,067	860	416	416	319	332	301	291
Total General Fund-State Expenditures	14,642	15,308	15,961	15,612	15,036	14,823	15,766	15,955
Federal	5,468	5,577	5,898	6,498	8,115	8468	7,221	7,485
Private/Local[5]	158	178	207	220	252	275	287	277
Total General Fund Expenditures	20,268	21,063	22,066	22,330	23,403	23,566	23,274	23,717
Total General Fund Resources	21,540	22,434	22,870	22,609	22,842	23,456	22,205	22,162
Total General Fund Expenditures	(20,268)	(21,063)	(22,066)	(22,330)	(23,403)	(23,566)	(23,274)	(23,717)
Unrestricted General Fund Ending Balance	1,272	1,371	804	279	(561)	(110)	(1,069)	(1,555)
Emergency Reserve/Budget Stabilization Balance	4	293	303	21	95	1	135	280
Total Reserves	1,276	1,664	1,107	300	(466)	(109)	(934)	(1,275)

(1) Includes expenditures that before July 1, 2009, were made from the Public Safety and Education, Equal Justice, Water Quality, Health Services, Violence Reduction and Drug Enforcement and Student Achievement Accounts.
(2) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(3) Does not include debt service payments 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. See Tables 11 and 12.
(4) Includes legislative and judicial agencies and other special appropriations.
(5) Includes spending from grants, contracts and other agreements from private/local sources.
(6) Based on September 2011 Forecast, December 2010 Special Session, and 2011 legislation.

Totals may not add due to rounding.

Source: Office of Financial Management from forecast documents and 2010 and 2011 legislation.

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 budget for the 2007-09 Biennium, the enacted capital budget for the 2009-11 Biennium and capital budgets enacted as part of the 2010 and 2011 supplemental budgets for the 2009-2011 Biennium, and the enacted capital budget for the 2011-13 Biennium.

In November 2010, voters rejected a proposal by the Legislature to issue up to $505 million of additional general obligation bonds to finance the costs of grants for construction of energy cost-saving improvements to schools and other public facilities.

Table 6
Capital Budget
(Modified Accrual Basis)
($ in millions)

	2007-2009 Final Budget	2009-2011 Enacted Budget	2010 Supplemental Budget	2011 Supplemental Budget	2011-13 Legislative Budget
Education					
Public Schools	1,254	1,190	1,067	1,067	1,064
Higher Education	1,539	1,305	1,070	1,061	763
Other Education	45	30	34	33	19
Total Education	2,838	2,525	2,171	2,161	1,846
Human Services					
Department of Social and Health Services	85	44	44	44	30
Other Human Services	518	259	250	244	213
Total Human Services	603	303	294	288	243
Natural Resources and Recreation	1,721	1,568	1,771	1,762	1,799
General Government	1,952	1,270	1,318	1,292	1,092
Transportation(1)	17	10	10	7	-
Total Capital Budget Expenditures	7,131	5,676	5,564	5,510	4,980

(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

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).

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 are charged per gallon for diesel and alternative fuels.

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

Source: Washington State Department of Transportation.

Tolls. Currently the state is collecting tolls on two facilities, the Tacoma Narrows Bridge and State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project. The Tacoma Narrows Bridge tolls are being collected to pay the bonds issued for the new bridge construction. Tolling on SR 167 is "dynamic"; cars with two or more people use the HOT lane for free and single occupant drivers have the option to pay the posted toll and use the carpool lane. The Legislature recently extended the SR 167 HOT Lanes Pilot Project through June 2013. Tolling on the SR 520 Corridor is scheduled to begin in December 2011. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT-Sources of Funds" for a description of the proposed tolls and tolling on the SR 520 Corridor.

Transportation Revenue Forecast Council. The Transportation Revenue Forecast Council (the "Transportation Forecast Council"), comprised of technical staff of the Department of Licensing, WSDOT and the Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation forecast is based in part upon the separate economic and demographic forecasts and assumptions made by the Forecast Council. No increases in fuel tax rates are included in the forecast. Unlike the Forecast Council's quarterly forecasts, which generally extend over a three-year period, the Transportation Forecast Council forecasts are required to cover six years.

In its most recent forecast, released in September 2011, the Transportation Forecast Council projects that transportation revenues for the 2011-13 Biennium will total approximately $4.26 billion, an increase of 4.6 percent from the previous biennium's total revenue of $4.07 billion.

WSDOT hired Wilbur Smith Associates and Parsons Brinckerhoff to prepare traffic and toll revenue projections for the SR 520 Floating Bridge and Eastside Project. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT–Traffic and Revenue Studies" in the body of this Official Statement.

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 the 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 is 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 interest or bond 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.

As described under "THE SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT" in the body of this Official Statement, the state expects to finance the SR 520 Floating Bridge and Eastside Project with a combination of general obligation bonds of the state first payable from toll revenue and excise taxes on motor vehicle and special fuels ("Triple Pledge Bonds"), and toll revenue bonds that do not pledge state excise taxes on motor vehicle and special fuels or the full faith and credit of the state. The Series 2012C Bonds are Triple Pledge Bonds. See "SECURITY FOR THE SERIES 2012C BONDS" in the body of this Official Statement for a description of the security for the Series 2012C Bonds, the statutory framework, the definition of Toll Revenue, the types of bonds that may be issued, and Additional Eligible Toll Facilities.

Transportation Capital Program. The state's transportation capital plan includes several mega-projects, including the SR 520 Floating Bridge and Eastside Project, replacement of the Alaskan Way Viaduct (the "Viaduct Project"), and the Columbia River Crossing. 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. For ferry capital projects, one 64-auto ferry boat was delivered in 2010, one in 2011 and a final 64-auto ferry boat will be delivered in Fiscal Year 2012. Federal funds made available under ARRA will support expansion of inner-city high-speed rail.

The SR 520 Corridor Program. See "THE SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT" in the body of this Official Statement for a description of the SR 520 Floating Bridge and Eastside Project, the construction contracts and construction schedules, estimated project costs and plan of finance.

The Alaskan Way Viaduct. The Viaduct was built in the 1950s and includes an elevated 2.2-mile 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 project is estimated to be $3.1 billion, funded by state and federal investment totaling $2.4 billion and approximately $400 million in funding from tolls. An additional $300 million was committed from the Port of Seattle in an agreement with the state in April 2010. Road and bridge construction on a project to replace the southern end of the Viaduct with a side-by-side roadway started in July 2010. This part of the replacement is scheduled for completion in 2013. The Viaduct's downtown waterfront section will be replaced with a bored tunnel beneath downtown Seattle. Seattle Tunnel Partners – a joint venture between Tutor Perini and Dragados - was selected as the design-build contractor in December 2010. The tunnel project's record of decision and the notice to proceed for construction were issued in August 2011. The City of Seattle has approved the project through agreements between the city and state and a recent public vote. The SR 99 tunnel is scheduled to open in December 2015.

Columbia River Crossing. Columbia River Crossing is a comprehensive five-mile project to improve safety, reduce congestion and enhance mobility on I-5 between SR 500 in Vancouver, Washington, and Columbia Boulevard in Portland, Oregon. The project will replace the current I-5 bridge, extend light rail to Vancouver, improve closely-spaced interchanges and access to the ports of Portland and Vancouver, and enhance the pedestrian and bicycle path between the two cities.

In April 2011, the governors of Oregon and Washington identified the deck truss bridge design as the best replacement structure for the I-5 bridge. The final environmental impact statement was published in September 2011, and the federal record of decision is expected by the end of 2011. Funding has not been

secured, but likely funding sources include federal highway and transit sources, Washington and Oregon sources, and tolling. Once funding has been secured, project construction could begin as early as 2013. The new southbound bridge would open in 2018 and light rail service would begin in 2019. The cost estimate is between $3.1 and $3.5 billion (in year of expenditure dollars).

Transportation Revenues and Expenditures

Table 8 summarizes selected transportation-related revenues for the Fiscal Years 2007 through 2011 and selected forecast transportation-related revenues for the Fiscal Years 2012 and 2013. It includes forecast revenues and projected bond proceeds, based upon the current budget, and assumed federal and local funds. Not included in Table 8 are other, non-forecasted revenues, such as beginning balances, reserves, investment income, transfers, and other miscellaneous revenues. Table 9 summarizes transportation-related expenditures for Fiscal Years 2007 through 2011 and budgeted and projected expenditures for Fiscal Years 2012 and 2013.

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Table 8
Selected Transportation Forecast Revenues and Other Transportation-Related Funding[1]

Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

	Actuals					September 2011 Forecast	
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Forecast Transportation Revenues							
Gross Fuel Tax Collections include Non-Highway	1,161	1,244	1,247	1,234	1,255	1,256	1,265
Refunds for Non-Highway Use	(44)	(73)	(79)	(57)	(62)	(63)	(67)
Adjusted Gross Fuel Tax Collections	1,117	1,171	1,168	1,177	1,193	1,193	1,198
WSDOT Portion of Licenses, Permits and Fees	293	300	295	288	292	297	302
Ferry Fares	147	148	145	147	147	155	161
Tolls[2]	-	31	46	47	46	74	112
Other Revenues	77	106	107	58	65	64	67
Total Forecasted State Revenues	1,634	1,757	1,762	1,717	1,744	1,783	1,840
Other Transportation-Related Funding[3]							
Bond Proceeds (Bonds sold in Fiscal Year)	603	762	487	2,097	156	1,418	1,418
Federal Funds	516	505	453	582	537[4]	823[4]	823[4]
Local Funds	39	30	45	48	54	75	75

(1) Does not include other non-forecasted revenues available to support appropriations (e.g., beginning balances, reserves, investment income, transfers and other miscellaneous revenues).
(2) Includes gross toll revenue (actual and forecast) for the Tacoma Narrows Bridge, HOT lanes on SR 167, as well as estimates for gross toll revenue for the SR 520 Corridor Program. SR 520 toll revenue forecasts assume six months of tolling in Fiscal Year 2012 and 12 months of tolling in Fiscal Year 2013.
(3) Bond proceeds and federal and local funds in Fiscal Years 2012 and 2013 have been annualized from a projected biennial total.
(4) Includes federal stimulus money.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

Table 9
WSDOT Transportation-Related Expenditures
Fiscal Years ended June 30
(Modified Accrual Basis)
($ in millions)

				2009-11 Supplemental Budget		2011-13 Enacted Budget	
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Transfers and Distributions							
Debt Service Transfers[1]	208	278	314	350	418	450	566
Fuel Tax Distribution to Cities and Counties	245	245	233	235	238	237	238
Fuel Tax Distribution to Local Users[2]	135	134	127	128	130	129	130
Total Distributions and Transfers	588	657	675	713	786	817	935
WSDOT Operations							
Toll Maintenance and Operations	5	16	13	14	11	29	29
Highway Maintenance & Operations	183	209	232	198	214	220	220
Ferries Maintenance & Operations	205	228	215	209	225	234	234
Aviation, Public Transportation and Rail	73	60	74	73	82	75	75
Local Programs and Economic Partnerships	6	6	7	6	6	6	6
Support Services	149	155	156	149	149	157	157
Compensation Adjustment	-	-	-	-	-	(11)	(11)
Total Operations	620	673	696	648	687	710	709
WSDOT Capital							
Highway Construction	1,419	1,545	1,485	1,636	1,553	2,395	2,395
Traffic Operations and Facilities	11	7	10	6	8	9	9
Ferry Construction	91	65	91	131	158	142	142
Rail Program	41	30	59	59	35	213	213
Local Programs	26	37	30	50	34	47	47
Total Capital	1,589	1,684	1,675	1,882	1,788	2,805	2,805
Total WSDOT Transportation Expenditures	2,797	3,014	3,047	3,243	3,260	4,332	4,449

(1) Debt Service transfers to debt retirement accounts are done on a monthly basis assuring that enough money is set aside for future debt service payments. These transfers will not equal fiscal year debt service. Amounts shown here include estimates for the SR 520 Floating Bridge and Eastside Project debt service.

(2) Local Users include the following: The Rural Arterial Trust Account, the Urban Arterial Trust Account, the Transportation Improvement Board Account, the County Arterial Trust Account, and the Small City Pavement/Sidewalk Account.

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. As described below, 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

In December 2010, the Treasurer submitted the inaugural Debt Affordability Study to the Legislature as directed by the Legislature. The study was prepared to present 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.

2011 Legislation

Through 2011 legislation, the Legislature created the Commission on State Debt to examine trends in the use of debt and other long term liabilities, compare debt service to other operating budget expenditures for similar policy objectives, and compare the state's debt limits and policies to other states. By December 1, 2011, this commission is required to recommend improvements in debt limits and policies to stabilize bond capacity, reduce growth in debt service relative to the General Fund, and to maintain and enhance the state's credit ratings.

The legislation further directs the State Finance Committee to recommend a working debt limit for purposes of budget development for various purpose capital bond appropriations, which is lower than the state constitutional debt limit in order to reserve capacity under the constitutional limit for emergencies and economic uncertainties. See "General Obligation Debt-Constitutional General Obligation Debt Limitation" below. The same legislation requires the Committee to recommend a working debt limit that phases down from 8.75 percent in 2016 to 7.75 percent by 2022. The Committee may recommend modified working debt limits in response to extraordinary economic conditions. The Committee is authorized to reduce or delay the issuance of bonds if an issuance would result in exceeding the recommended working debt limit.

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, excise taxes on motor vehicle and special fuels always 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."

Bonds for SR 520 Corridor Program. The Legislature has authorized the issuance of $1.95 billion of bonds to provide the funds necessary for the location, design, right-of-way, and construction of the Floating Bridge and Eastside Project portion of the SR 520 Corridor Program. The Legislature has designated the SR 520 corridor as an eligible toll facility, and, as authorized by the Legislature, the State Transportation Commission has set tolls for travel on the floating bridge portion of the SR 520 corridor. Bonds authorized for the Floating Bridge and Eastside Project are expected to be issued as a combination of general obligation bonds of the state first payable from toll revenue and excise taxes on motor vehicle and special fuels and toll revenue bonds that do not pledge state excise taxes on motor vehicle and special fuels or the full faith, credit and taxing power of the state. The Series 2012C Bonds are the first series of bonds issued to finance the SR 520 Corridor Program. See "THE SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT" in the body of the Official Statement.

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 if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of general state revenues for the three 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) moneys received as gifts, grants, donations, aid, or assistance when the terms require the application of such moneys otherwise then for general purposes of the state; (3) retirement system moneys and performance bonds and deposits; (4) trust fund moneys, including moneys received from taxes levied for specific purposes; and (5) proceeds from sale of bonds or other indebtedness.

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.

In November 2010, the State's voters approved an amendment to the Constitution specifying that for the purpose of computing the amount required for payment of interest on outstanding debt subject to the constitutional limitation described above, "interest" is reduced by subtracting the amount scheduled to be received by the state as payments from the federal government in each year in respect of such debt.

Debt Service Within Constitutional Debt Limitation. The aggregate debt projected to be contracted by the state as of November 9, 2011, does not exceed that amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of its general state revenues for the three immediately preceding Fiscal Years. The arithmetic mean of general state revenues for Fiscal Years 2009, 2010 and 2011 is $12,080,764,474. The debt service limitation, 9.0 percent of this mean, is $1,087,268,803. The state's maximum annual debt service as of November 9, 2011, on debt service subject to the constitutional debt limitation is estimated to be $1,012,850,511 or $74,418,292 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 no certificates of indebtedness currently outstanding and does not anticipate any short-term borrowing during Fiscal Year 2012.

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
General Obligation Bonds – Total Debt Service Requirements by Pledge of Revenues
(in dollars)

	Outstanding 11/9/2011[1]				Series R-2012A Bonds[2]		Series R-2012B Bonds[2]		Series 2012C Bonds[2]		Total Debt Service Requirements [2][3][4][5]
	General State Revenues[3]		Motor Vehicle Fuel Tax Revenues		General State Revenues		Motor Vehicle Fuel Tax Revenues		Triple Pledge		
June 30	Principal	Interest[4]	Principal	Interest[5]	Principal	Interest	Principal	Interest	Principal	Interest	
2012[6]	264,625,000	259,442,858	97,578,614	149,954,004	5,085,000	3,067,859	645,000	283,628	-	15,253,527	795,935,490
2013	487,992,252	506,990,272	169,914,745	284,070,448	26,870,000	20,894,050	-	1,953,900	-	26,024,975	1,524,710,642
2014	503,083,999	480,902,828	220,742,541	280,875,824	33,720,000	19,950,950	-	1,953,900	-	26,024,975	1,567,255,018
2015	519,661,564	465,408,922	226,367,993	273,562,500	43,150,000	18,197,800	965,000	1,944,250	-	26,024,975	1,575,283,004
2016	526,027,077	441,887,785	238,244,493	269,488,598	45,425,000	15,983,425	1,005,000	1,919,525	-	26,024,975	1,566,005,878
2017	522,866,191	434,371,548	250,198,239	266,011,793	47,545,000	13,913,525	1,050,000	1,888,700	10,835,000	26,024,975	1,574,704,971
2018	506,539,950	406,268,146	254,389,188	258,071,822	49,960,000	11,730,250	1,095,000	1,851,050	11,375,000	25,483,225	1,526,763,630
2019	491,491,629	382,600,756	262,846,883	251,055,838	52,645,000	9,165,125	1,150,000	1,806,150	11,945,000	24,914,475	1,489,620,855
2020	498,758,868	362,637,937	268,918,119	242,587,201	36,685,000	6,931,875	1,205,000	1,759,050	12,540,000	24,317,225	1,456,340,275
2021	494,893,505	322,374,622	266,841,687	233,012,861	18,620,000	5,549,250	1,265,000	1,709,650	13,165,000	23,690,225	1,381,121,800
2022	486,880,000	274,449,938	272,642,106	226,040,912	19,575,000	4,594,375	1,315,000	1,658,050	13,825,000	23,031,975	1,324,012,356
2023	473,715,000	249,999,875	260,032,167	217,002,208	33,395,000	3,270,125	10,820,000	1,361,250	14,515,000	22,340,725	1,286,451,350
2024	483,585,000	226,852,250	264,784,322	209,505,074	23,740,000	1,841,750	11,390,000	806,000	15,240,000	21,614,975	1,259,359,371
2025	459,700,000	202,871,100	273,794,917	200,101,541	24,965,000	624,125	10,425,000	260,625	16,005,000	20,852,975	1,209,600,283
2026	471,695,000	178,965,350	293,340,654	188,444,865	-	-	-	-	16,805,000	20,052,725	1,169,303,594
2027	453,805,000	155,704,613	290,968,610	176,591,937	-	-	-	-	17,685,000	19,170,463	1,113,925,622
2028	435,855,000	134,463,175	280,041,468	166,572,160	-	-	-	-	18,615,000	18,242,000	1,053,788,803
2029	431,835,000	113,225,650	279,496,913	155,524,482	-	-	-	-	19,545,000	17,311,250	1,016,938,295
2030	404,700,000	91,880,475	272,025,835	143,487,108	-	-	-	-	20,525,000	16,334,000	948,952,419
2031	373,845,000	72,359,575	238,245,000	71,479,193	-	-	-	-	21,550,000	15,307,750	792,786,518
2032	355,195,000	54,059,025	216,785,000	59,807,173	-	-	-	-	22,625,000	14,230,250	722,701,448
2033	317,985,000	36,915,638	185,535,000	49,170,664	-	-	-	-	23,760,000	13,099,000	626,465,302
2034	235,725,000	22,324,350	140,290,000	40,270,493	-	-	-	-	24,945,000	11,911,000	475,465,843
2035	157,245,000	11,305,538	115,675,000	33,391,718	-	-	-	-	26,195,000	10,663,750	354,476,006
2036	88,345,000	4,307,513	91,535,000	28,000,518	-	-	-	-	27,505,000	9,354,000	249,047,031
2037	28,110,000	632,475	94,860,000	23,154,835	-	-	-	-	28,880,000	7,978,750	183,616,060
2038	-	-	98,265,000	18,163,500	-	-	-	-	30,325,000	6,534,750	153,288,250
2039	-	-	101,840,000	12,956,982	-	-	-	-	31,840,000	5,018,500	151,655,482
2040	-	-	105,585,000	7,528,756	-	-	-	-	33,430,000	3,426,500	149,970,256
2041	-	-	78,700,000	2,752,981	-	-	-	-	35,100,000	1,755,000	118,307,981
2042	-	-	14,805,000	370,125	-	-	-	-	-	-	15,175,125
Total	10,474,160,035	5,893,202,212	6,225,289,495	4,539,008,115	461,380,000	135,714,484	42,330,000	21,155,728	518,775,000	522,013,890	28,833,028,959

(1) Does not include the Series 2012C, Series R-2012A and Series R-2012B Bonds; does include the defeasance of the bonds refunded by the Series R-2012A and Series R-2012B Bonds.
(2) Offerings dated October 31, 2011 (Series 2012C, including capitalized interest,) and November 9, 2011 (Series R-2012A and R-2012B).
(3) The state may be reimbursed for some of these debt service payments from sources that are not general 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) Interest payments on certain variable rate bonds are only estimates and are subject to change from time to time as market conditions change; $117,800,000 in principal amount of variable rate bonds is outstanding as of November 9, 2011.
(5) Debt service does not take into account the receipts of the 35 percent federal credit payments applicable to bonds issued as Build America Bonds.
(6) Remaining debt service on outstanding bonds. Upon the issuance of the Series 2012C, Series R-2012A and Series R-2012B Bonds, debt service requirements for entire Fiscal Year 2012 are: principal $651,469,749; interest $835,180,320; total debt service $1,486,650,069.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 11
Summary of Outstanding General Obligation Bonds
(in dollars)

	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011
Outstanding					
General State Revenues and Other Sources [1]	8,304,968,946	9,003,114,410	9,831,964,833	10,410,327,277	10,763,996,170
Motor Vehicle Fuel Tax Revenues	3,368,311,634	4,004,259,674	4,285,988,810	6,189,623,828	6,004,454,495
Total – Outstanding	11,673,280,580	13,007,374,085	14,117,953,643	16,599,951,104	16,768,450,665
Annual Debt Service Requirements by Fiscal Year					
General State Revenues and Other Sources Debt Service[1]					
Payable from General State Revenues	704,171,887	747,270,056	816,725,594	866,032,566	904,457,910
Reimbursed from Other Sources [1]	93,587,241	95,960,521	91,360,751	91,743,874	88,239,461
	797,759,128	843,230,577	908,086,345	957,776,440	992,697,370
Motor Vehicle Fuel Tax Revenue Debt Service					
Payable from Excise Taxes on Motor Vehicle and Special Fuels	213,063,011	246,575,046	291,775,904	319,143,978	379,425,700
Reimbursed from Tolls on the Tacoma Narrows Bridge	2,580,419	14,388,752	26,915,419	34,925,419	42,200,419
	215,643,430	260,963,798	318,691,323	354,069,397	421,626,119
Total – Annual Debt Service by Fiscal Year	1,013,402,558	1,104,194,376	1,226,777,668	1,311,845,837	1,414,323,489

(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.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 12
General Obligations by Source of Payment[1]
(Outstanding as of November 9, 2011)
(in dollars)

Various Purpose General Obligation Bonds	
Payable from General State Revenues	10,033,303,121
Reimbursed from Other Sources[2]	902,236,914
Sub Total	10,935,540,035
Motor Vehicle Fuel Tax General Obligation Bonds	
Payable from Excise Taxes on Motor Vehicle and Special Fuels	5,673,760,000
Payable from Tolls on the SR-520 Corridor	518,775,000
Reimbursed from Tolls on the Tacoma Narrows Bridge	593,859,495
Sub Total	6,786,394,495
Total General Obligation Bonds	17,721,934,530

(1) Includes offerings dated October 31, 2011 (Series 2012C) and November 9, 2011 (Series R-2012A and R-2012B) (after defeasance of the refunded bonds).

(2) 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.

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. In 1989, the Legislature 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, 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"). The second lease, entered into in July 2009 with FYI Properties, is for a state data center and an office building in Olympia to be used by the Department of Information Services and several smaller agencies (the "Wheeler Building"). The state began making lease payments 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.

Financing Contracts for Local Agencies. In 1998, the Legislature 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 in State Financing Contracts for State and Local Agencies by Fiscal Year[1]
(Outstanding as of October 12, 2011)
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments[2]
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	11,801,409	8,005,735	15,908,252	2,138,857	1,853,349	777,454	4,984,906	744,860	46,214,821
2013	31,429,190	15,540,881	28,318,579	3,490,028	3,189,553	1,459,528	8,201,568	1,233,485	92,862,811
2014	31,781,083	14,402,669	21,377,649	2,552,268	3,150,364	1,346,221	6,785,349	940,918	82,336,521
2015	29,288,057	13,193,260	15,189,391	1,853,803	3,069,247	1,230,779	5,334,925	698,874	69,858,335
2016	30,404,795	12,008,266	9,270,163	1,319,314	3,144,867	1,114,050	3,707,689	516,504	61,485,648
2017	23,535,000	10,759,697	8,226,378	947,508	2,896,682	993,852	2,957,150	377,946	50,694,213
2018	22,680,000	9,831,432	3,767,881	696,074	2,197,758	887,621	2,530,096	264,220	42,855,083
2019	22,170,000	8,903,655	3,314,917	554,628	2,065,027	802,234	1,883,137	172,653	39,866,250
2020	21,600,000	8,009,559	2,795,395	433,706	1,965,013	721,244	1,467,239	105,418	37,097,574
2021	21,355,000	7,119,307	2,448,982	328,803	1,810,000	644,065	622,552	59,426	34,388,135
2022	20,410,000	6,240,913	1,085,000	241,250	1,565,000	572,208	175,000	39,400	30,328,770
2023	20,250,000	5,372,141	1,120,000	203,275	1,635,000	503,988	185,000	33,275	29,302,679
2024	18,635,000	4,515,599	1,175,000	152,875	1,695,000	432,475	190,000	24,950	26,820,900
2025	15,925,000	3,732,521	1,225,000	100,000	1,775,000	357,693	200,000	16,400	23,331,613
2026	15,680,000	3,032,013	1,275,000	51,000	1,860,000	276,278	210,000	8,400	22,392,690
2027	15,430,000	2,326,735	-	-	1,755,000	194,588	-	-	19,706,323
2028	11,880,000	1,671,974	-	-	1,800,000	113,441	-	-	15,465,415
2029	11,025,000	117,024	-	-	695,000	29,419	-	-	12,866,443
2030	11,210,000	561,183	-	-	90,000	3,293	-	-	11,864,475
2031	5,095,000	173,313	-	-	20,000	450	-	-	5,288,763
Total	391,584,533	136,517,874	116,497,585	15,063,390	38,231,860	12,460,878	39,434,612	5,236,729	755,027,461

(1) Excludes payments on state leases supporting "63-20" lease revenue bonds. See Table 14.
(2) Total payments for 2012 are $98,999,112.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Table 14
Payments Under "63-20" Lease Revenue Bonds by Fiscal Year
(Outstanding as of November 9, 2011)
(in dollars)

Fiscal Year	E.L. Goodrich Building		Wheeler Building		Total Lease Revenue Bonds
	Principal	Interest	Principal	Interest	
2012	-	1,351,344	1,300,000	16,233,375	18,884,719
2013	1,240,000	2,671,688	5,455,000	16,181,375	25,548,063
2014	1,360,000	2,606,688	5,725,000	15,908,625	25,600,313
2015	1,540,000	2,534,188	6,015,000	15,622,375	25,711,563
2016	1,740,000	2,450,013	6,310,000	15,321,625	25,821,638
2017	1,955,000	2,353,019	6,630,000	15,006,125	25,944,144
2018	2,180,000	2,244,475	6,965,000	14,674,625	26,064,100
2019	2,420,000	2,123,725	7,310,000	14,326,375	26,180,100
2020	2,685,000	1,989,719	7,675,000	13,960,875	26,310,594
2021	2,960,000	1,841,538	8,060,000	13,577,125	26,438,663
2022	3,260,000	1,678,263	8,460,000	13,174,125	26,572,388
2023	3,570,000	1,498,975	8,885,000	12,751,125	26,705,100
2024	3,905,000	1,302,756	9,350,000	12,284,663	26,842,419
2025	4,265,000	1,093,625	9,845,000	11,793,788	26,997,413
2026	4,640,000	871,000	10,360,000	11,276,925	27,147,925
2027	5,035,000	629,125	10,905,000	10,733,025	27,302,150
2028	5,480,000	366,250	11,450,000	10,187,775	27,484,025
2029	4,585,000	114,625	12,035,000	9,600,963	26,335,588
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	52,820,000	29,721,013	305,810,000	295,890,363	684,241,375

Totals may not add due to rounding.
Source: Office of the State Treasurer.

School Bond Guarantee Program

In 1999, the Legislature authorized a state school district credit enhancement program. The program's purpose is to provide 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. The proposed law was approved by a vote of the electorate as a constitutional amendment.

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 school debt.

As of September 1, 2011, the aggregate total principal amount outstanding on 494 voter-approved bond issues guaranteed under the program is $8.44 billion. The bonds were issued by 190 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 2010 Actuarial Valuation, the market value of program assets as of June 30, 2010, totaled $1.6 billion, or 86.2 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $1.85 billion. The 2011 Legislature transferred limited tuition-setting authority to some institutions of higher education ("new tuition-setting policy"). The new tuition-setting policy lowered the funded status, as of June 30, 2010, to 69.9 percent. However, the decrease in funded status due to the new tuition-setting policy will be partially offset by better than expected investment returns since the 2010 Actuarial Valuation. The June 30, 2011 Actuarial Valuation is expected to be issued in late September 2011 or early October 2011, and will include the full impact of the new tuition-setting policy and current assets. The market value of program assets as of June 30, 2009, totaled $1.26 billion, or 84.2 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $1.49 billion. The 2008 Actuarial Valuation showed the program to be fully funded, with an actuarial reserve of $104.5 million. The deterioration in the actuarially funded status of the program shown in the 2009 Actuarial Valuation primarily reflected Fiscal Year 2009 investment losses, an unexpected increase in tuition rates for the 2009-2010 academic year and an assumption of higher future tuition increases. The GET program has a goal to gradually rebuild a stabilization reserve, which as of June 30, 2010, had a deficit of $255.7 million or 13.8 percent of obligations.

There is no generally accepted standard of practice within the actuarial profession addressing prepaid tuition programs. This best estimate of the actuarial value of the obligations uses methodologies applicable to retirement systems and depends on certain assumptions regarding the rate of increase in tuition, investment returns and expense inflation. A 2010 report and a March 2011 solvency analysis completed by the Office of the Washington State Actuary ("OSA") concluded that under the status quo, the likelihood that the state will need to make required contributions to meet GET program tuition obligations over the next 50 years is low, but should it occur, the dollar amount would be high. OSA released a new analysis in August 2011 with the results of the new tuition-setting policy. Based on this analysis, the GET Committee approved a plan to recover from the unexpected past losses, which includes adopting a price that amortizes the unfunded liability over 30 years.

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 local governments.

Both the state funds and funds in the LGIP are managed by the Office of the State Treasurer pursuant to state laws that govern the permissible investments for each and to investment policies that provide further restrictions. For a description of permitted investments, see Note 3 in Appendix D–"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS." Historically, the Treasury and Treasurer's Trust

Funds and the LGIP have had sufficient liquidity to meet all cash flow demands. In keeping with state law, funds within the Treasury and Treasurer's Trust Funds are comingled for investment and cash management purposes.

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).

Treasury and Treasurer's Trust Funds

The Treasury and Treasurer's Trust Funds are separated into sub-portfolios, a Liquidity Portfolio and a Core Portfolio, each managed by a separate portfolio manager within the Office of the State Treasurer. Earnings on the two sub-portfolios are calculated and distributed to individual funds on an accrued basis. Objectives are set for each portfolio as described below.

Liquidity Portfolio. The objective of the Liquidity Portfolio is to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include state operating and capital accounts). Additionally, the Liquidity Portfolio serves as a short-term investment fund for any cash holdings of the Core Portfolio. Balances in the Liquidity Portfolio fluctuate within a wide range (from near zero to more than $1.0 billion), increasing sharply with the receipt of seasonal tax payments and bond proceeds and declining with the pace of operating and capital expenditures. Investment holdings of this portfolio are generally repurchase agreements, reverse repurchase agreements, U.S. agency discount notes and deposits with qualified depositaries. Performance of this portfolio is measured against benchmarks used for the LGIP described below.

Core Portfolio. Cash not anticipated to be needed to meet cash flow requirements for the foreseeable future is invested in the Core Portfolio. The maximum maturity for this portfolio is 10 years with a target duration of about 1.75 years. Investment holdings of this portfolio include obligations of the U.S. Government, U.S. agencies and bank notes guaranteed by the FDIC under the temporary liquidity guarantee program (the "TLGP"). Performance benchmarks of the Core Portfolio are the total return and accrued yield of the Bank of America/Merrill Lynch 1-3 Treasury/Agency Index and the accrued yield of a blended ladder of two- and five-year U.S. Treasuries.

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

	August 2011		September 2010-August 2011	
	$	**%**	**$**	**%**
Agency	1,239,325	38.4	1,166,345	41.1
Treasury	162,203	5.0	267,067	9.4
Repurchase Agreements	1,267,724	39.3	1,007,818	35.5
Reverse Repo	-	-	-	-
Bank Deposits	535,365	16.6	370,266	13.0
NOW Accounts	-	-	-	-
TLGP Bonds	19,987	0.6	26,021	0.9
	3,224,604	100.0	2,837,517	100.0
Weighted Average Maturity:	384 days			

Source: Office of the State Treasurer.

Local Government Investment Pool Funds

The LGIP, authorized by the Legislature in 1986, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. The LGIP also is intended to offer participants safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The more than 450 local governments that participate in the LGIP are allowed 100 percent liquidity on a daily basis. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP closely follows the SEC guidelines for Rule 2a-7 money market funds; for example, currently a maximum weighted average maturity ("WAM") of 60 days, 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. Typical investment holdings of the LGIP are repurchase agreements, U.S. Treasury bills and notes, U.S. agency discount notes, coupons, floating- and variable-rate notes, reverse repurchase agreements and bank deposits. 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)

	August 2011		September 2010-August 2011	
	$	**%**	**$**	**%**
Agency	5,410,215	60.9	5,071,800	56.1
Treasury	777,700	8.8	1,419,606	15.7
Repurchase Agreements	2,130,301	24.0	1,673,503	18.5
Reverse Repo	(254,838)	(2.9)	(44,366)	(0.5)
Bank Deposits	701,567	7.9	826,762	9.1
NOW Accounts	115,461	1.3	97,286	1.1
	8,880,406	100.0	9,044,591	100.0
Weighted Average Maturity:	43 days			

Source: Office of the State Treasurer.

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 these claims and insurance is available to pay all or a portion of most damages for most types of claims. There has been a trend in recent years of higher jury verdicts on 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. 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. No such ruling has yet to occur nor is such a court ruling currently anticipated. 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 ahead of time what state or federal legislative responses could be taken to mitigate such impacts. See "SR 520 FLOATING BRIDGE AND EASTSIDE PROJECT-Environmental Review" in the body of this Official Statement for a description of a lawsuit involving the environmental review for the SR 520 Floating Bridge and Eastside Project.

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

In *McCleary v. State of Washington*, judgment for petitioners was entered on February 24, 2010, by the King County Superior Court. The court found that the state is 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. The court set no deadlines or parameters for determining those costs and funding

sources, other than a mandate that the Legislature make "real and measurable progress," nor did the court order a deadline for the implementation of new or increased state funding. 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 court's decision leaves it to the Legislature to determine how to comply with its decision. That program of reform is scheduled to be fully implemented no later than 2018. The *McCleary* decision, by itself, does not translate into immediate or short-term impacts on the state budget. The 2009 legislation, though, could increase state funding for K-12 public education by billions of dollars. The state has appealed this decision to the Washington State Supreme Court and respondents filed their opposition on September 20, 2010, including a cross-appeal urging the Supreme Court to set a firm deadline (end of the school year following the Supreme Court's ultimate decision). If a deadline is set, that could conceivably accelerate the process of studying amounts of funding needed. However, it is not expected to interfere with the reforms initiated by the Legislature, still scheduled for full implementation by 2018. Oral argument was heard on June 28, 2011, and a decision is pending.

Solis 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 court entered judgment for DSHS on May 3, 2010, after granting DSHS's motion for summary judgment. The USDOL has appealed to the Ninth Circuit Court of Appeals. Oral argument before a three-judge panel of the Ninth Circuit took place on August 1, 2011. If the Ninth Circuit reverses the district court and remands for trial, the estimated potential liability for back wages as of May 25, 2010, if all issues were construed in plaintiff's favor, is $40 million. Liquidated damages would double this to approximately $80 million.

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 Thurston County Superior Court has ruled that the recipient class is entitled to "retroactive compensatory relief" and ruled that the recipient class can go back to April 2003 for any award of money damages. The state argued that the recipient class could only go back, at most, 90 days from the date the complaint was filed on May 4, 2007. The trial for the provider class breach of contract claims concluded on December 20, 2010. 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. The court has not ruled on the amount of interest that will be awarded, but plaintiffs will likely argue that it is $33 million, with post-judgment interest continuing to accrue on that amount. The court has provided the parties with a draft of the court's findings of fact and conclusions of law on the client class claims and it is anticipated that this pleading along with the final judgment will be entered soon. Following entry of the final judgment, any appeal will be due within 30 days and the plaintiffs will also need to file their motion for attorneys' fees and costs.

The matter of *Freeman v. DSHS* involves five plaintiffs who are adult recipients of Medicaid in-home personal care services from DSHS, together with their home care providers and "others similarly situated." The lawsuit challenges the reductions for in-home personal care services for adults required by the Legislature in 2009 and seeks a court order restoring those services and compensating plaintiffs for

services that were not provided. Plaintiffs claim that DSHS cannot reduce in-home personal care services that recipients have been assessed to need, and that in doing so DSHS violated Medicaid law and the supremacy clause of the U.S. Constitution. They claim that Medicaid law does not permit reductions for budgetary purposes, and that because there is an entitlement to needed services DSHS must provide notice and appeal rights prior to any reductions in services. They further claim that a 1978 consent decree in the *Mead v. Burdman* case obligates DSHS to provide all services that recipients are assessed to need, including in-home personal care services. Plaintiffs also claim that the reductions at issue constitute an impairment of contract for service providers in violation of the state Constitution. The case was originally filed in state court but removed to federal court by DSHS. In September 2010, the district court granted defendants' motion for summary judgment on all federal claims but declined to exercise supplemental jurisdiction over the remaining state claims, instead remanding them back to Thurston County Superior Court. A status conference was held on January 21, 2011. The case has been set for trial on December 19, 2011. Summary judgment motions have been filed by both parties and will be heard in October 2011.

MR v. Dreyfus was filed in federal district court in Seattle on December 21, 2010, challenging reductions in personal care services for adults scheduled for implementation on January 1, 2011. The plaintiffs include 14 individuals who receive in-home personal care services. The reductions at issue were implemented as a result of the Governor's September 2010 directive for an across-the-board budget reduction of 6.3 percent for all state agencies, and they are projected to save the General Fund-State almost $4 million per month or $117 million over the remainder of Fiscal Year 2011 and the next biennium. Plaintiffs allege violations of Medicaid law, the Americans with Disabilities Act, and due process requirements. They further claim that client notices were inadequate, that reduced services will lead to institutionalization, and that approval from the Centers for Medicare and Medicaid Services was necessary. Plaintiffs moved for a temporary restraining order ("TRO") to stop the reductions, which was denied by the trial court. Plaintiffs filed an emergency appeal with the Ninth Circuit seeking to overturn the denial of the TRO. On January 14, the Ninth Circuit panel issued an emergency order stopping the reductions pending the district court's ruling on plaintiffs' motion for preliminary injunction. As a result DSHS sent notices to all recipients and providers notifying them that hours reduced January 1 were being reauthorized pending further order of the court. On February 9, 2011, the U.S. District Court denied plaintiffs' motion for preliminary injunction. DSHS then reinstated the reductions effective March 1, 2011. Plaintiffs appealed the preliminary injunction denial to the Ninth Circuit and sought a second emergency injunction staying the reductions until the Ninth Circuit rules on the appeal. On February 18, 2011, the Ninth Circuit denied plaintiffs' request for the emergency stay. The Ninth Circuit heard oral argument on plaintiffs' appeal on June 9, 2011, and a decision is pending.

Braam v. State of Washington was filed as a class action lawsuit seeking damages for named-plaintiffs and injunctive relief on behalf of all foster children with three or more placements. Following settlement of damages claims, the case was tried to a jury, which rendered a verdict favoring plaintiffs. On appeal, the verdict was set aside and the case was remanded for a new trial. Following mediation, a settlement was reached that included an improvement plan and oversight by an expert panel. The expert panel was formed, and it developed an implementation plan for systemic improvements to the foster care system. The panel issues monitoring reports twice a year. The mediated settlement requires DSHS's Children's Administration to supplement its foster care system in six areas identified in plaintiffs' complaint, the implementation of which is to be monitored by the panel. Plaintiffs filed an enforcement motion in January 2008. The court found that DSHS had failed to comply with specific provisions of the settlement agreement. The deadline for DSHS to show significant progress towards implementing the new compliance plans by December 31, 2008, was met. DSHS and plaintiffs have settled the issue of plaintiffs' demands for attorneys' fees and costs for the enforcement motion. The original settlement agreement expires by its terms on July 31, 2011, unless there are enforcement actions pending at that time before a court or the panel. In June 2010, plaintiffs' counsel approached the Office of Attorney General

and DSHS to initiate discussions on extending (and possibly modifying) the settlement agreement. In July, the parties agreed to a short extension of the current agreement through the end of October to allow continued negotiations to occur.

TR v. Dreyfus is a class action lawsuit "to enforce the rights of Washington's Medicaid eligible children under the age of 21, with mental health needs, to receive the intensive home and community-based mental health services necessary to correct or ameliorate their mental health conditions." The suit claims violations of the (1) Medicaid Act-EPSDT/Comparability/Due Process provisions; (2) 14th Amendment due process under the U.S. Constitution; and (3) the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. Plaintiffs seek sweeping and extraordinarily expensive changes to the service delivery system for children's mental health care. The parties agreed to engage in a formal mediation process with the goal of developing a plan for improvements to the system or, at a minimum, narrowing the issues for trial. Formal mediation began on January 6, 2011. In April 2011, by mutual agreement, the parties began mediating directly without the assistance of a mediator. Mediation was initially set to continue through the summer of 2011 with the goal of finalizing a settlement agreement at the end of August 2011. The date to finalize the agreement has been extended by court order to October 31, 2011. Progress is being made toward settlement. If a settlement is not reached, the trial date will be March 11, 2013.

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 *Automotive United Trades Organization v. State of Washington*, a fuel distributor and a nonprofit corporation filed a lawsuit against the state and the Treasurer challenging the Hazardous Substance Tax under Article I, Section 40 of the Washington Constitution (Amendment 18). In April 2011, King County Superior Court granted summary judgment to the state and dismissed the lawsuit on two grounds: (1) the lawsuit was untimely filed and (2) the plaintiffs did not meet their burden of proving that the tax violates the state Constitution. The plaintiffs have appealed and seek direct review in the Supreme Court. On May 31, 2011, the state filed an answer opposing direct review. All briefing is expected to be filed by the middle of November 2011, after which time the Supreme Court will decide whether to take the case or whether to refer it to the Court of Appeals. If the appeal is successful, the revenue generated by this tax would be diverted to the Motor Vehicle Fund and its uses would be limited to highway purposes only.

In the matter of *Dot Foods, Inc. v. Dep't of Revenue*, Dot Foods challenges 2010 legislation that retroactively amended the direct seller's exemption, RCW 82.04.423, with respect to tax periods before May 1, 2010. The 2010 legislation also repealed the exemption effective May 1, 2010, but Dot Foods does not challenge the repeal. Dot Foods alleges the retroactive portion of the legislation violates the federal due process clause and the constitutional separation of powers doctrine. Dot Foods further alleges that, even if the retroactive portion of the 2010 legislation is valid with respect to other taxpayers, section 1706 of the legislation preserves the *res judicata* effect of Dot Food's judgment in *Dot Foods, Inc. v. Dep't of Revenue*, 166 Wn.2d 912, 215 P.3d 185 (2009) (Dot Foods I), through the effective date of the repeal of the exemption. In Dot Foods I, the Supreme Court expansively construed the direct seller's exemption to grant Dot Foods a business and operation ("B&O") tax refund for the period January 2000 through April 2006. This case is stayed pending the Washington Supreme Court's decision in *Tesoro v. Dep't of Revenue*.

In *Estate of Bracken*, personal representatives of the estate (petitioners) object to DOR findings that assert additional state estate tax is due. Petitioners seek relief under RCW 11.96A.080 and .090, claiming that the estate has paid all estate tax that is due under state law. This is one of a number of estate tax refund actions that have been filed against DOR in various superior courts. The petitioners in these actions argue that a Washington QTIP (qualified terminable interest property) election under RCW 83.100.047 was not made in the estates of the decedents' predeceased spouses and, therefore, DOR has erroneously included the marital trust assets left for the decedents' benefit in the decedents' taxable estates for purposes of Washington's estate tax. DOR estimates the potential refunds and lost revenues at risk based on the QTIP issue is approximately $25 million. Some of the petitioners also seek costs and attorneys' fees under RCW 11.96A.150. This case was consolidated with two other cases (*Estate of Toland* and *Estate of Nelson*) because each raises the same legal issue. On November 13, 2009, the Court granted summary judgment to DOR, holding that QTIP is not deductible and must be included in the decedents' Washington estates. On December 11, 2009, the *Estate of Nelson* filed an appeal in the Court of Appeals. On January 4, 2010, the *Estate of Bracken* filed a direct appeal in the Washington Supreme Court. The *Estate of Toland* did not file an appeal. Subsequently, the appeal in *Estate of Nelson* was transferred to the Washington Supreme Court and consolidated with *Estate of Bracken*. The Washington Supreme Court held oral arguments on May 19, 2011, and a decision is pending.

In *Tesoro Refining and Telemarketing Company*, Taxpayer contends that the manufacturing B&O tax does not apply on bunker fuel it sold for consumption outside the territorial waters of the United States by vessels used in foreign commerce, arguing that its manufacturing activity qualifies for a deduction provided by RCW 82.04.433(1) and WAC 458-20-175. DOR contends that the deduction is limited to selling B&O taxes, namely the wholesaling B&O tax and the retailing B&O tax. Taxpayer further contends that a retroactive amendment to RCW 82.04.433, enacted in 2009, that expressly limits the deduction to taxes imposed under RCW 82.04.250 (retailing B&O tax) and RCW 82.04.270 (wholesaling B&O tax), violates due process. DOR contends the 2009 amendment clarified the scope of the deduction and, moreover, the due process clause does not prevent retroactive tax legislation that either clarifies or changes a deduction as long as the legislation is rationally related to a legitimate state interest. In December 2010, the Court of Appeals issued a published decision in favor of the Taxpayer. DOR filed a petition for review in the Washington Supreme Court. The Court accepted review on April 26, 2011. Supplemental briefs in the Washington Supreme Court were filed in June 2011. Oral argument was heard on October 11, 2011, and a decision is expected in early to mid-2012.

In the matter of *Lamtec Corp.*, DOR assessed Lamtec (an out-of-state manufacturer) after concluding that its sales to Washington customers were subject to Washington's B&O tax and that it had sufficient nexus with Washington to be subject to Washington's B&O tax. Lamtec eventually paid the assessment and brought a refund action in Thurston County Superior Court. The superior court granted summary judgment to DOR. The Court of Appeals affirmed in a published decision. The Washington Supreme Court affirmed in a January 2011 opinion. Lamtec has filed a petition for certiorari to the U.S. Supreme Court, which remains pending. A decision of whether the court will accept the case is expected in late September 2011. Lamtec's refund claim is relatively small ($71,566.12 for the period 1997 through 2004). However, an adverse decision by the U.S. Supreme Court would potentially impact the economic nexus standards recently established by the Legislature during the 2010 legislative session through 2ESSB 6143. It also would potentially expose the state to significant refund claims filed by similarly-situated taxpayers.

In the matter of *Sprint Spectrum LLC v. Dep't of Revenue*, the Thurston County Superior Court issued a letter decision on May 16, 2011, that reversed a Board of Tax Appeal ("BTA") decision in favor of DOR. The BTA had upheld DOR's long-standing position that sales of cell phone service do not qualify for the sales tax exemption provided by RCW 82.08.0289 for service "provided to an individual subscribing to a residential class of telephone service." The superior court concluded that the exemption applies to both

wireline and wireless telephone service provided to non-business customers. An adverse ruling could result in potentially substantial refunds and loss of revenues. DOR has appealed and its opening brief was filed in October 2011.

Employment and Pension

In *WEA, et al. v. Department of Retirement Services and State of Washington*, a King County Superior Court was asked to overturn the Legislature's repeal of "gain sharing" benefits for various retirement system plans based on alleged constitutional impairment of contracts, due process, and estoppel theories. Four separate lawsuits were filed, which were consolidated under one case; one of those lawsuits was voluntarily dismissed in June 2009 leaving only three cases in the consolidated case. Summary judgment arguments were heard in July 2010. The plaintiff's motion for summary judgment was granted on the contract and estoppel claims, and the state's cross-motion was denied. There is a second phase of the case to be litigated before the end of 2011, which addresses benefits provided in replacement of gainsharing. If plaintiffs ultimately prevail on all issues before the court, there could be a significant fiscal impact potentially requiring the Legislature to pursue additional funding of the plans or other remedies. See "RETIREMENT SYSTEMS."

The matter of *Moore v. Washington Health Care Authority* is a class action lawsuit 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 has ruled against the state on most liability issues. Currently, trial is set for September 2012.

Washington Federation of State Employees v. State of WA/Dept of Retirement Systems and *Washington Education Association v. State of WA/Dept of Retirement Systems* were filed in Thurston County Superior Court on October 11 and 12, 2011. Both plaintiff groups challenge the 2011 Legislature's repeal of what is termed the Uniform Cost of Living Adjustment ("COLA") as described under "RETIREMENT SYSTEMS–Actuarial Valuation and Funding–2011 Legislation." This COLA was provided to retirees of Public Employees Retirement System (PERS) Plan 1 and Teachers Retirement System (TRS) Plan 1 on an annual basis by increasing the retirees' monthly retirement benefit in July of every year. Plaintiffs ask for declaratory and injunctive relief seeking, inter alia, the restoration of the COLA.

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. The state is awaiting the court's decision and is assessing potential issues for appeal in anticipation of the court's decision.

Washington State Hospital Association v. State was filed in King County Superior Court on July 18, 2011. The plaintiff is seeking to prevent the Health Care Authority from implementing House Bill ("HB") 2069, which the Legislature enacted in 2011. The plaintiff asserts that HB 2069 establishes a tax in violation of Article VII, Section 5 of the Washington Constitution by failing to set forth the purpose of the revenues generated from the Hospital Safety Net Assessment fund. HB 2069 reduces the state's payment rates to hospitals for the services they provide to Medicaid recipients, although the rates still would exceed the levels that existed before the Safety Net Assessment was enacted, and increases the amounts from the Safety Net Assessment fund that can be used to support Medicaid payments to hospitals. The state filed its answer to the complaint on August 4, 2011. The plaintiff filed a motion for summary judgment on September 2, 2011, which the court considered at a hearing on September 30, 2011.

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 $40 million. The current SIR is $10 million for all agencies except DSHS and DOC, each of which has an $18 million SIR. Insurance is procured annually, and the SIR may change. The SILP is administered by OFM with money available in a statutorily-based Liability Account. 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 five 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 OFM, 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 OFM from the Liability Account.

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), 10 and 13(B) in Appendix D–"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS."

The Ferries Division of WSDOT does not participate in the SILP, so the state purchases a marine policy that covers the vessels and operations of the Washington State Ferry System and several small vessels owned by DOC to transport individuals to the McNeil Island Corrections Center. The policy combines general liability, pollution liability, vessel hull and machinery and property in a master policy. It provides coverage up to $250 million annually for liability, $250 million for pollution, approximately 60 percent of the value of the ferries ($879 million) and all terminals, docks and shore-side facilities ($400 million). There is a single $1.0 million deductible per occurrence. The policy also has a special protection for war risk for selected vessels and routes, which provides the above coverage for losses as a result of foreign or domestic terrorism. This is needed because acts of war are excluded from the general marine policy.

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, as well as for the Tacoma Narrows Bridge, including all risk property coverage that covers the possible loss of toll revenues for the new span of the bridge.

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 these future payments for workers that were injured as of June 30, 2010, was estimated to be approximately $11.2 billion as of June 30, 2010, without any cost-of-living adjustments ("COLA"). The accrual of future payments for workers that were injured as of June 30, 2010, was estimated to be approximately $24 billion as of June 30, 2010, with COLA. There are $11.9 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits.

The supplemental pension plan supports 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. 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 the 2011 legislative session, 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, statewide 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) authorizes state fund employers to receive a wage subsidy and certain reimbursements for employing an injured worker at light duty or transitional work.

See Note 7(E) in Appendix D–"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS."

State Unemployment Compensation Fund

The Washington State Unemployment Insurance Program 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. Employers pay unemployment insurance through unemployment taxes to both the state and the federal government. Workers in Washington State do not pay unemployment taxes.

Federal unemployment tax revenues are used to finance specific purposes related to running the states' unemployment insurance programs, such as state employment security staff salaries, equipment, software, and supplies that are used in direct support of the Unemployment Insurance, Employment Services, and Labor Market Information programs. The federal tax also provides benefit reserve funds for possible extended benefits programs and provides a loan fund for states that deplete their benefit accounts.

State unemployment tax revenues are directed to the state's benefit trust fund, which can only be used to pay unemployment benefits. This trust fund is held in the national unemployment insurance trust fund of the U.S. Treasury. 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.

There are two major components of state unemployment taxes, an experience-rated tax based on a rolling four-year average of the employer's layoff history and a 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 for Fiscal Years 2005 to 2011 are shown in the following table.

Table 17
Average Combined Unemployment Tax Rates
(Fiscal Year ended June 30)

Year	Average Tax Rate[1]
2005	2.8%
2006	2.8
2007	2.38
2008	1.97
2009	1.66
2010	1.40
2011	2.25

(1) Average Tax Rate on taxable wages as of second quarter of the year.

Source: U.S. Department of Labor-Unemployment Insurance Data Summary.

The balance in the trust fund as of August 2011 is $2.7 billion, which is calculated to provide 15.2 months of benefits. The following table shows the unemployment compensation balances for Fiscal Years 2005 through 2011.

Table 18
Unemployment Compensation Fund Balance[1]
(Fiscal Year ended June 30)
($ in millions)

Year	Balance
2005	1,638
2006	2,528
2007	3,321
2008	4,000
2009	3,398
2010	2,316
2011	2,545

(1) The state trust fund is held in an account for the state in the national unemployment trust fund of the U.S. Treasury.

Source: TreasuryDirect®.

In August 2011, approximately 178,000 unemployed workers received benefits under the program. Beginning July 3, 2011, new claimants entering the program are entitled to up to 26 weeks of regular

unemployment insurance benefits from the state with a maximum state liability of $15,158 (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.

Beginning September 24, 2011, all workers who had applied or will apply for unemployment between March 6, 2011, and November 5, 2011, will receive an additional $25 per week. This will be in addition to the calculated weekly benefit amount, which will bring the maximum state liability to $15,808.

In December 2010, the federal government again extended the Emergency Unemployment Compensation program. This program potentially adds up to 53 weeks of unemployment insurance to unemployed workers. This program was initially effective through March 2009, and has since been extended six times, currently until the end of December 2011. The federal government pays for the total cost of these benefits.

In February 2009, the state qualified for the federal Extended Benefits Program that allowed up to an additional 20 weeks of benefits. The qualification triggers are based upon unemployment rates and those rates compared to prior years. The two levels available, one for up to 13 weeks of benefits and one for up to 20 weeks, depend upon the seasonally adjusted total unemployment rate - the higher number of weeks are available when the rate is high. Extended benefits are funded 100 percent by federal money until December 2011. Thereafter the funding for these benefits will return to 50 percent from the state trust fund and 50 percent from the federal government.

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 large 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; 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 and tsunamis, are possible. 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

Overview

The state administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2009, the plans covered approximately 500,070 eligible state and local government employees. These plans are administered through the Department of Retirement Systems and the Board for Volunteer Fire Fighters. See Table 19.

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.

Retirement funds are invested by the Washington State Investment Board, a 15-member board created by the Legislature in 1981. Additional information regarding retirement funds can be found in Note 11 of Appendix D–"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS."

The Office of the State Actuary ("OSA") is statutorily required to perform biennial actuarial valuations, although in practice actuarial valuations are performed annually. The final audited actuarial valuation report is typically released in the fall. OSA also is required to recommend contribution rates and to provide actuarial services to the Legislature, the Governor, and to certain boards and state agencies. OSA recommendations are non-binding.

See "LITIGATION" for a discussion of certain litigation concerning the state's retirement plans.

Rate-Setting Process

Contribution rates for the upcoming biennium are adopted during even-numbered years according to a statutory rate-setting process. The process begins with OSA's actuarial valuation of each plan and a determination of recommended contribution rates. OSA provides preliminary results to the Select Committee on Pension Policy ("SCPP") and the Pension Funding Council ("PFC"). The SCPP then recommends contribution rates to the PFC, which in turn is required to adopt contribution rates no later than the end of July in even-numbered years. The rates adopted by the PFC are subject to revision by the Legislature, and during the years 2001 through 2011 the rates adopted by the Legislature were lower than those that would have been required to produce actuarially required contributions to two closed plans, Plan 1 of the Public Employees Retirement System ("PERS 1") and Plan 1 of the Teachers Retirement System ("TRS 1") in those years.

The 20-member SCPP is made up of legislators, state agency representatives, and stakeholders. The six-member PFC consists 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 Law Enforcement Officers' and Fire Fighters' Retirement System 2 ("LEOFF 2") is the single exception to this process. OSA's preliminary valuation is presented to the LEOFF 2 Board, which is also required to adopt contribution rates no later than the end of July in even-numbered years.

Retirement Plans

A summary of each of the state retirement plans as of June 30, 2010, the period reported on in the last actuarial valuation dated September 2011, is provided below.

Table 19
Overview of Retirement Plans
(As of June 30, 2010)

Retirement System/Plan	Administered by	Benefit Type	Active & Terminated Vested Members	Members Receiving Benefits	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	10,986	53,742	1977
PERS 2/3		Defined Benefit/ Hybrid	174,400	23,157	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	5,291	36,015	1977
TRS 2/3		Defined Benefit/Hybrid	69,983	4,555	Open
School Employees' Retirement System ("SERS") was established in 2000 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	62,039	5,384	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	302	8,008	1977
LEOFF 2		Defined Benefit	17,556	1,639	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	872	851	2002
WSPRS 2		Defined Benefit	287	0	Open
Public Safety Employees' Retirement System ("PSERS") was established in 2006 and is a cost-sharing multiple-employer retirement system.					
PSERS 2	Dept of Retirement Systems	Defined Benefit	4,210	7	Open
Judicial Retirement System ("JRS") was established in 1971 and is an agent multiple-employer retirement system.					
JRS	Dept of Retirement Systems	Defined Benefit	5	125	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 an agent multiple-employer retirement system. Judges are now covered under PERS.					
Judges	Dept of Retirement Systems	Defined Benefit	0	13	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.					
VFFRPF	Board for Volunteer Fire Fighters	Defined Benefit	16,931	3,712	Open

Source: Department of Retirement Systems.

A table in Appendix D under Note 11 C. lists the contribution rates for employers and employees for the retirement plans at the close of Fiscal Year 2010 expressed as a percentage of current year covered payroll. The PFC adopted increased 2011 contribution rates for some plans; the Legislature did not revise the rates and, therefore, the rates adopted by the PFC were effective as of July 1, 2011, or September 1, 2011. The rates that increased from those shown in Appendix D are: (1) for PERS Plans 1 and 2, state agencies and local governments rates increased to 7.25 percent and to 10.8 percent for state elected officials and the employee rate for Plan 2 increased to 4.64 percent, (2) for SERS Plan 2, state agency and local government employer rates increased to 7.59 percent and the employee rate to 4.09 percent, (3) for WSPRS Plans 1 and 2, state agencies rates increased to 8.07 percent and the employee rate to 6.59 percent, (4) for PSERS Plan 2, state agency and local government rates increased to 8.86 percent and the employee rate to 6.36 percent and (5) for JRS, the employer and employee rate increased to 7.5 percent.

State Contributions

Table 20 summarizes the state's contributions to the retirement plans, as adopted by the Legislature.

Table 20
State's Contributions
($ in millions)

	2008	2009	2010
PERS Plan 1	115.5	169.0	78.2
PERS Plan 2/3	159.6	217.6	160.4
TRS Plan 1	4.3	8.0	5.6
TRS Plan 2/3	0.5	0.8	0.8
SERS Plan 2/3	-	-	-
PSERS Plan 2	5.9	7.7	7.8
LEOFF Plan 1	-	-	-
LEOFF Plan 2	46.8	52.0	52.2
VFFRPF	5.7	5.9	5.7
WSPRS Plan 1	5.2	5.2	4.2
WSPRS Plan 2	0.9	1.2	1.1
JRS	9.6	10.3	11.6
Judges	-	-	-
Total	354.0	477.7	327.6

Source: Department of Retirement Systems.

Contribution Ratios. In addition to the state's required contributions, employees and local government employers must meet their required contributions. Participating governmental employers include, but are not limited to, school districts, counties, municipalities, and political subdivisions.

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
PERS	19.9	28.4	51.7
TRS	66.3	0.0	33.7
SERS	44.6	0.0	55.4
PSERS	71.0	7.6	21.4
LEOFF 1[2]	0.0	0.0	0.0
LEOFF 2	40.0	0.0	60.0
WSPRS	8.0	92.0	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 notes. The reader should exercise caution when using numbers provided in this table for any other purpose. Note these splits are based upon the June 30, 2008, actuarial valuation.
(2) No contributions required when the plan is fully funded. The plan has been fully funded since 2000.
Source: Office of the State Actuary.

Actuarial Valuation and Funding

Actuarial Reporting. The State Actuary is required, pursuant to Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. In practice, valuations are provided annually but only valuations for odd-numbered years are used to determine contribution rates. The demographic assumptions were last updated in the 2007 Actuarial Valuation Report based upon the 2001-2006 Experience Study Report. The next review of the demographic assumptions is expected to be completed in 2014.

The results shown in Table 22 reflect the following assumptions, adopted by the PFC and the LEOFF 2 Board, respectively, which went into effect in 2009:

(1) Rate of investment return: 8.0 percent per annum;

(2) General salary increases: 4.0 percent per annum (4.5 percent in LEOFF 2); and

(3) Rate of Consumer Price Index increase: 3.5 percent (where applicable).

The State Actuary issued a report in August 2011 that recommends that the PFC adopt new long-term economic assumptions, including decreasing the inflation assumption from 3.5 percent to 3.0 percent, the annual investment return assumption from 8.0 percent to 7.5 percent, and the general salary growth assumption from 4.0 percent to 3.75 percent and to phase in the recommended change to the assumed rate of return over the next five biennia. The PFC is expected to consider the recommendations in the fall of 2011.

Valuation Method. The state uses two funded status measures. The first funded status measure compares the Actuarial Value of Assets ("AVA") to the Projected Unit Credit ("PUC") liabilities. The PUC cost method projects future benefits using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities. The asset valuation method smoothes the inherent volatility in the Market Value of Assets ("MVA") by deferring a portion of the annual investment gains or losses over a period of up to eight years. This method is consistent with governmental accounting standards. This smoothing method, which the state has followed in all actuarial

valuations since July 1, 2003, helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in MVA. For example, portions of investment gains in 2004 through 2007 were deferred for recognition in later years, and one-eighth of investment losses in 2008-2009 were recognized in that Fiscal Year, with the result that the remaining unrecognized losses will continue to put downward pressure on the funded status of all plans for seven more years as the remainder of 2008-2009 losses are recognized.

The state also uses a second measure, comparing the MVA to the PUC liabilities calculated using a short-term interest rate assumption. This measure is used for the closed plans, PERS 1, TRS 1, and LEOFF 1. Additional information on this measure is provided in the 2010 Actuarial Valuation Report.

Funded Status. The following table displays the funded status on an actuarial value basis for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans discussed above. The June 30, 2010, actuarial valuation showed that the funded status of all of the state-administered plans combined is 102 percent. Two funds – PERS 1 and TRS 1 – are underfunded with an unfunded liability of $4.7 billion as of June 30, 2010, approximately $2.4 billion of which is the responsibility of the state and the remainder a liability of local governments. Assets from one plan may not be used to fund benefits for another plan. However, all employers in PERS, PSERS and SERS are required to make contributions at a rate (percentage of payroll) determined by OSA every two years for the sole purpose of amortizing the PERS 1 Unfunded Actuarial Accrued Liability ("UAAL") within a rolling ten-year period. In addition, all employers in TRS are required to make contributions at a rate (percentage of payroll) determined by OSA every two years for the sole purpose of amortizing the TRS 1 UAAL within a rolling ten-year period. For this purpose, the Legislature has established certain maximum contribution rates that began in 2009 and will continue until 2015 and certain minimum contribution rates that are to become effective in 2015 and remain in effect until the actuarial value of assets in PERS 1 and TRS 1 equals 100 percent of the actuarial accrued liability of PERS 1 and TRS 1, respectively. Upon completion of each biennial actuarial valuation, OSA is to recommend to the PFC any adjustments in the minimum contribution rates that may be needed as a result of material changes in benefits or actuarial assumptions, methods or experience. Any changes adopted by the PFC are subject to revision by the Legislature.

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Table 22
Funded Status on an Actuarial Value Basis[1]

	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total[2]
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2	Plan 1/2	
PUC Liability[3]	12,531	17,272	9,231	5,708	2,368	80	4,381	4,863	782	57,216
Valuation Assets[3]	9,293	19,474	7,791	6,593	2,664	103	5,561	6,043	920	58,442
Unfunded Liability[3]	3,238	(2,202)	1,439	(886)	(296)	(23)	(1,180)	(1,179)	(137)	(1,226)
Funded Ratio (%)										
2000[4]	98	190	100	196	170	n/a	136	161	152	131
2001[4]	97	179	100	197	197	n/a	129	154	147	126
2002	92	158	98	182	169	n/a	119	137	135	118
2003	82	142	89	155	138	n/a	112	125	123	107
2004	81	134	88	153	137	n/a	109	117	118	105
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][6]	74	113	84	116	113	129	127	124	118	102

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 8.0 percent 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, 2010.
(4) Actuarial assumptions changed.
(5) Includes results of 2011-13 legislation that eliminated the annual adjustment increase for retirees in PERS 1 and TRS 1.
(6) 2010 Funded ratio for PERS 1 and TRS 1 would drop to 63 percent for PERS 1 and 70 percent for TRS 1 if both gainsharing and the annual adjustment were reinstated.
Totals may not add due to rounding.

Source: Office of the State Actuary.

Alternative Methodology. In August 2010, OSA released the "2010 Risk Assessment" of the state's pension plans to assist the Legislature in proactively addressing pension plan funding levels. This report 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. OSA expects to use both methodologies in future reports on the financial condition of the pension systems.

Using this alternative methodology, the funded status of two closed plans (PERS 1 and TRS 1) is expected to decline to the 50 percent range by 2016 (when asset value losses as of June 2009 will be fully realized) and then rise thereafter provided that the plans are fully funded going forward and benefits are not further improved. If, instead, contribution rates and decisions to improve benefits follow past practice, the funded status for these two plans is expected to decline to the 20-30 percent range by 2030 and then rise thereafter. Alternatively, the funded status of PERS 2/3, the largest open plan, is expected to be in or above the 90 percent range in the projected 50-year period assuming the plan is fully funded and benefits are not improved. If contribution rates are lower and benefits improve as seen in the past, the expected funded status for PERS 2/3 drops to the 80 percent range. The 2010 Risk Assessment also notes model outcomes for each pension plan in more optimistic and more pessimistic scenarios.

Additional Information. Additional information on the state's defined benefit plans, including information on the state's smoothing method used in the rate setting process, the UAAL as a percentage of covered payroll of each plan, and annual required contribution ("ARC"), as of the latest valuation date is presented in Note 11 and in the Required Supplemental Information – Pension Plan Information in Appendix D—"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS." Note 3 in Appendix D—"THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS" describes eligible investments for the state's pension plans.

2011 Legislation. Since 1995, there has been an automatic, annual, service-based adjustment paid every July 1 for eligible PERS and TRS Plans 1 retirees. The budget adopted by the Legislature for the 2011-13 Biennium ends the future automatic annual increase, which is a fixed dollar amount that increases by 3.0 percent each year and is multiplied by the member's total years of service, for most retirees in the PERS and TRS Plans 1 except for the minimum benefits. The basic minimum benefit amount for retirees in those plans will continue to be increased by the annual increase amount and the alternative minimum benefit is raised to $1,545 per month. The unfunded accrued actuarial liability ("UAAL") in PERS and TRS Plans 1 reduced from $6.884 billion in 2009 to $4.439 billion in 2010 due in large part to the elimination of the annual increase. In addition, the minimum employer contribution rates for the PERS Plan 1 UAAL will be reduced from 5.75 percent to 3.5 percent and from 8.0 percent to 5.75 percent for TRS Plan 1.

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 "STATE GENERAL FUND—Employees" 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 Governments 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 2010 AUDITED BASIC 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, WSPRS, and Higher Education retirement systems. See "RETIREMENT SYSTEMS—Retirement Plans." The following table shows PEBB Plan membership.

Table 23
Membership in PEBB Plan
(As of June 30, 2010)

	Active Employees	Retirees[1]	Total
State	111,374	26,181	137,555
K-12 Schools and ESDs[2]	2,198	27,378	29,576
Political Subdivision	11,554	1,116	12,670
Total	125,126	54,675	179,801

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.

(2) In Fiscal Year 2010, there were 99,239 full-time equivalent active employees in the 244 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

Source: Washington State Comprehensive Annual Financial Report ("CAFR") for Fiscal Year Ended June 30, 2010.

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. For 2009 this amount was $182.89 monthly for each participant. This subsidy was reduced by the Legislature for the 2011-2013 Biennium to $150 monthly.

(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.

PEBB also provides subsidized basic life insurance coverage to retirees. This is an explicit life insurance subsidy and is set up by the PEBB Board and approved as part of the budget process. In 2009 and 2010

that subsidy was $5 per month per retiree. This explicit benefit will be discontinued January 1, 2012. Retirees may elect to continue life insurance through the PEBB plan, but will pay the entire premium.

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 January 2011, determined the plan's liabilities as of January 1, 2009 ("2009 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 2009 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2009 OPEB Report and summarized below. The actuarial method chosen to allocate costs and the AAL for the 2009 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; 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 (4.5 percent) was selected in consultation with the Office of the State Treasurer to represent a long-term average of short-term investment rates, and annual inflation is assumed to be 3.5%. Annual growth in membership is assumed to be at a rate of 1.25 percent (0.90 percent for K-12 School and Education Service Districts), and annual salary increases were assumed to be at a rate of 4.5%. Assumptions underlying the medical inflation trend rates (ranging from 7.0–8.0 percent in 2009 to 5.0 percent through 2067) 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 24 summarizes key GASB 45 funded status for Fiscal Year 2010, based upon the PEBB Plan AAL as of January 1, 2009. Table 25 shows annual OPEB costs and net OPEB obligations for Fiscal Years ended June 30, 2009, and June 30, 2010.

Table 24
Funded Status and Funding Progress of PEBB Plan
($ in thousands)

	1/1/2008	1/1/2009
Actuarial Accrued Liability (AAL) [1]	4,014,270	3,786,869
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL) [2]	4,014,270	3,786,869

(1) Actuarial Accrued Liability ("AAL"): Represents the portion of the present value of fully projected benefits attributable to service credit that has been accrued as of the valuation date.
(2) Unfunded Actuarial Accrued Liability (UAAL) is the excess, if any, of the actuarial accrued liability over the actuarial value of assets or the present value of benefits accrued to date not covered by plan assets.

Source: Washington State Comprehensive Annual Financial Report ("CAFR") for Fiscal Year Ended June 30, 2010.

Table 25
Annual OPEB Cost and Net OPEB Obligation
($ in thousands)

	2009	2010
Beginning Net OPEB Obligation (NOO)[1]	245,855	493,551
Annual Required Contribution (ARC)[2]	331,688	349,326
Interest on the Net OPEB Obligation	11,063	22,210
Amortization of the Net OPEB Obligation	(8,377)	(17,116)
Annual OPEB Cost[3]	334,374	354,420
Contributions for Fiscal Year[4]	(86,678)	(70,099)
Net OPEB Obligation (NOO)[1]	493,551	777,872

(1) Net OPEB Obligation ("NOO"). The GASB disclosure requirement on the balance sheet. It is the cumulative difference between the annual OPEB cost and the actual contributions.
(2) Annual Required Contribution ("ARC") is the annual contribution that will fund the current active and inactive members' subsidies by the end of their working lifetimes.
(3) Annual OPEB cost is the ARC less the amortization of the NOO plus the interest that would have been earned on the NOO if the state had funded the NOO.
(4) Contributions for Fiscal Year include the estimated explicit subsidies and implicit subsidies.

Source: Office of State Actuary.

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 Amazon, Amgen, Boeing Commercial Airplanes, Costco, F5 Network, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Key sectors in the state's economy include:

Table 26
Gross Business Income by Industry Sector (NAICS[1])
(Calendar Year 2010)
(in dollars)

	Gross Business Income	Percent of Total
Business, Personal and Other Services	122,015,096,483	20.8
Wholesale Trade	118,654,466,882	20.2
Retail Trade	115,723,136,869	19.7
Manufacturing–General	87,536,187,422	14.9
Manufacturing–Aerospace	35,638,654,845	6.1
Construction	33,378,030,430	5.7
Finance, Insurance, Real Estate	31,992,523,665	5.4
Information	16,553,387,959	2.8
Utilities	11,673,579,361	2.0
Transportation	10,424,434,762	1.8
Agriculture, Forestry, Fishing	3,000,873,169	0.5
Warehousing & Storage	642,425,082	0.1
Mining	541,496,964	0.1

(1) North American Industry Classification System.

Source: Washington State Department of Revenue, "Quarterly Business Review Calendar Year 2010" Table 1.

Table 27
Twenty-Five Largest Employers in Washington[1]
(as of August 2011)

		Full-Time Washington Employees[2]			Full-Time Washington Employees[2]
1	The Boeing Co.	76,452	14	Costco Wholesale Corp.	8,224
2	Joint Base Lewis-McChord	51,000	15	Group Health Cooperative	8,125
3	Navy Region Northwest[3]	41,300	16	Nordstrom Inc.	7,343
4	Microsoft Corp.	40,311	17	Swedish	7,069
5	University of Washington	27,920	18	Alaska Air Group Inc.	6,253
6	Providence Health & Services Washington	19,091	19	Fairchild Air Force Base	5,835
7	Wal-Mart Stores Inc.	17,975	20	United Parcel Service	5,554
8	Fred Meyer Stores	13,495	21	QFC – Quality Food Centers	5,479
9	King County Government	13,382	22	Washington State University	5,297
10	United States Postal Service	12,367	23	Virginia Mason Medical Center	5,177
11	City of Seattle	10,627	24	Seattle Public Schools	5,048[4]
12	MultiCare Health System	9,028	25	Pacific Northwest National Laboratory	4,900
13	Franciscan Health System	8,226			

(1) Amazon.com Inc. and Starbucks Corp. did not participate in the survey, but if they had participated, the Puget Sound Business Journal believes both companies would have been ranked in this list of 25 Largest Employers. The Book of Lists does not include total employment figure for state employees or federal employees.
(2) Employment totals are as of December 31, 2010.
(3) Includes Whidbey Naval Air Station and Everett Naval Air Station.
(4) Does not include substitutes.

Source: Puget Sound Business Journal, August 12-18, 2011.

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. In 2010, based on the 2010 U.S. Census, Washington was the fifth largest exporter in the United States with a total of $53.2 billion in goods exported.

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. The ports of Seattle and Tacoma nationally ranked 9th and 13th, respectively, in 2010 when measured by total dollar value of imports and exports, according to the U.S. Department of Commerce Bureau of Census, and when combined, rank as the second-largest port complex on the West Coast measured by cargo volume.

Airport. Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 18th busiest airport in the country in 2010 according to a preliminary survey by Airport Council International-North America. The airport also ranks as the 20th busiest cargo airport in the United States.

Aerospace

The aerospace industry represented approximately 7.5 percent of all taxable business income generated in the state in calendar year 2010 and accounted for approximately 43.5 percent of the total value of goods exported by the state in calendar year 2010. There are 153 aerospace companies in the state, with Boeing being the largest aerospace employer in the area, and more than 650 in the industry cluster (including machine shops, engineering and research firms, and other suppliers and supporting entities). Although Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state. Boeing expects to deliver its first 787 by the end of 2011 after experiencing production delays. Boeing has opened a second 787 production line in South Carolina, which may affect the state in the long-run.

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

In 2009 (the last year for which such data is available), the state's $35 billion food and agriculture industry employed approximately 160,000 people and contributed 11 percent to the state's economy. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2009 the state's top 10 agricultural commodities (in value of production for 2009) were apples, milk, wheat, potatoes, cattle, hay, nursery/greenhouses, cherries, hops and grapes. Washington ranked first in United States production of apples, sweet cherries, pears, red raspberries and hops and second in United States production of potatoes and grapes. In 2009, Washington was the second-largest wine-producer in the nation, with more than 600 wineries.

In 2010, food processing was an $11.7 billion dollar industry employing 40,531 people supporting approximately 1,119 companies that take advantage of the state's production of crops, access to low-cost energy, inter-modal access and ability to ship products.

The agricultural and food processing sector is export-oriented. In 2010, nearly $10.9 billion in food and agricultural products were exported through Washington ports. Close to 90 percent of the state's agricultural exports is directed to Asia.

Several locally-based manufacturers of specialty food processing equipment and packaging support the food-processing sector in the state. Locally-based companies design and manufacture food processing equipment, such as sorters, scanners, conveyors, packaging and bottling technology, and freezing and refrigeration equipment for both ship- and land-based facilities.

Information and Communications Technology

The state's approximately 4,200 software companies make the state the largest employer of software publishing workers in the nation, according to the U.S. Departments of Employment Security and Commerce. The state ranks first in the nation in the creation of new software companies. The state also is a global center for gaming design and development, with approximately 55 companies involved in game development. California-based companies Adobe, Google, Hewlett Packard, Intel, Oracle and Yahoo! all 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 25,000 workers were directly employed in the life sciences sector in the state in 2009, and the life sciences industry in the state generated an estimated $6.4 billion in revenues in 2008. 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.

The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.0 billion in external funds for research each year, and is second nationally in National Institutes of Health research funding.

Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center.

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 and baseball stadiums, 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 cruiseship lines, primarily cruising 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. There are approximately 65,500 military personnel in Washington. Washington's military installations spent nearly $8 billion in 2009.

Construction

Table 28 provides information on housing permits for the state and the United States. The number of housing units authorized by building permits started to increase in the second half of 2009 after falling to record lows earlier in that year. The collapse in housing resulted in permits falling over 60 percent from the peak in 2005.

Table 28
Housing Units Authorized by Building Permits
in Washington and United States

	Washington			
Year	**Single Family**	**Multi-Family**	**Total**	**United States**
2002	30,239	9,961	40,200	1,747,678
2003	33,091	9,734	42,825	1,889,214
2004	36,489	13,600	50,089	2,070,077
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

Source: U.S. Bureau of the Census.

Federal Spending

Federal spending in Washington totaled approximately $66.5 billion in federal fiscal year ("FFY") ended September 30, 2009 (the last year for which such information is available). In addition to making grants to the state (approximately $15.3 billion in FFY 2009), the federal government paid salaries to military and other federal employees in Washington ($9.2 billion), retirement and disability payments ($19.7 billion), payments for equipment and other procurement ($9.2 billion) and other direct payments ($13.1 billion) in FFY 2009.

Other Employment Information

Table 29
Resident Civilian Labor Force and Employment in Washington State
(Employment Numbers in Thousands)[1]

	2007	2008	2009	2010
Resident Civilian Labor Force	3,390.4	3,476.4	3,528.7	3,536.2
Unemployment	154.5	186.3	314.2	325.8
WA Unemployment Rate (Percent)[2]	4.6	5.4	8.9	9.2
U.S. Unemployment Rate (Percent)	4.6	5.8	9.3	9.6
Nonagricultural Wage and Salary Workers Employed in Washington				
Nonfarm Employment	2,933.6	2,958.9	2,821.4	2,777.4
Durable Manufacturing	211.9	211.3	190.5	184.2
Aerospace	80.1	83.0	82.9	80.8
Computer and Electronic Products	22.7	22.5	20.1	19.0
Nondurable Manufacturing	81.4	79.9	74.9	73.6
Natural Resources and Mining	8.2	7.5	6.0	5.9
Construction	208.2	200.5	159.4	141.1
Trade, Transportation, Communication, Utilities	553.4	553.4	522.5	516.5
Information	102.5	105.6	103.9	102.9
Software	47.6	50.9	51.5	51.0
Financial	155.5	152.4	141.7	135.1
Professional and Business Services	344.6	348.6	324.4	326.0
Education and Health Services	348.3	362.1	372.4	375.2
Leisure and Hospitality	280.6	283.7	269.6	265.8
Other Services	105.3	107.7	106.3	104.5
Government	533.8	546.3	549.8	546.7

(1) Averages of monthly data.
(2) Not seasonally adjusted. As reported by Washington Department of Employment Security in August 2011, the July 2011 unemployment rate (seasonally adjusted) in Washington was 9.3 percent as compared with 9.1 percent in the U.S. as a whole.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics.

Table 30
Composition of Employment by Industry Sector[1]
(percents)

	State of Washington		United States	
	2000	**2010**	**2000**	**2010**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.4	1.2	1.2	1.1
Pulp and Paper	0.5	0.3	0.5	0.3
Other	1.6	1.1	3.2	2.0
Subtotal	3.5	2.7	4.8	3.4
Durable Manufacturing				
Lumber and Wood	0.8	0.5	0.5	0.3
Primary and Fabricated Metals	1.1	0.8	1.8	1.3
Machinery	0.7	0.6	1.6	1.0
Computers	1.3	0.7	1.4	0.8
Transportation Equipment	3.7	3.2	1.6	1.0
Other	1.1	0.9	1.5	1.0
Subtotal	8.7	6.6	5.3	5.4
Total Manufacturing	12.2	9.3	13.1	8.9
Nonmanufacturing				
Natural Resources and Mining	0.4	0.2	0.5	0.5
Construction	5.9	5.1	5.2	4.3
Trade, Transportation and Utilities	19.6	18.6	19.9	19.0
Information	3.6	3.7	2.8	2.1
Financial	5.2	4.9	5.8	5.9
Professional and Business Services	11.2	11.7	12.6	12.8
Education and Health Services	10.8	13.5	11.5	15.1
Leisure and Hospitality	9.3	9.6	9.0	10.0
Other Services	3.9	3.8	3.9	4.1
Government	17.8	19.7	15.8	17.3
Total Nonmanufacturing	87.8	90.7	86.9	91.1
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 14.1 percent since 2000. Based upon the 2010 Census, the state is the thirteenth most populous in the nation. The following table summarizes the state's population for 2000-2010.

Table 31
State of Washington Population

April 1	Population
2000	5,894,143
2001	5,974,910
2002	6,041,710
2003	6,098,300
2004	6,167,800
2005	6,256,400
2006	6,375,600
2007	6,488,000
2008	6,587,600
2009	6,668,200
2010	6,724,540

Source: Office of Financial Management; 2000 and 2010 from U.S. Census.

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Income Characteristics

The state's per capita income consistently has exceeded the national level and has increased approximately 24 percent since 2001. Table 32, 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 ($40,312 in 2010) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($36,808 in 2010).

Table 32
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
2001	197.3	--	8,878.8	--	32,954	31,145
2002	200.5	1.6	9,054.8	1.9	33,105	31,461
2003	206.9	3.1	9,369.1	3.4	33,858	32,271
2004	222.4	7.0	9,928.8	5.6	35,966	33,881
2005	230.1	3.3	10,476.7	5.2	36,743	35,424
2006	252.1	8.7	11,256.5	6.9	39,561	37,698
2007	272.6	7.5	11,900.6	5.4	42,169	39,461
2008	287.0	5.0	12,380.2	3.9	43,711	40,674
2009	285.7	(0.5)	12,168.2	(1.7)	42,870	39,635
2010	293.1	2.5	12,527.2	2.9	43,564	40,584
2011[1]	304.1	3.7	12,915.0	3.0	N/A	N/A

(1) Through 1st quarter only.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2001-2009 as of April 21, 2011; 2010 and 2011 statistics as of June 22, 2011.

APPENDIX B

BONDS OUTSTANDING

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Debt Authorization and Outstanding Debt
General State Revenue and/or Other Sources
As of November 9, 2011
(in dollars)

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued [2]
Ch. 138 -- Laws of 1965 (R-93B).....	230,950,000	230,950,000	41,905,000	-
Ch. 138 -- Laws of 1965 (R-2001T).....	12,050,000	12,050,000	875,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	257,105,000	257,105,000	27,785,000	-
Ch. 138 -- Laws of 1965 (R-2003C).....	76,960,000	76,960,000	8,380,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	123,140,000	123,140,000	81,090,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	119,015,000	119,015,000	86,280,000	-
Ch. 138 -- Laws of 1965 (R-2005A).....	343,600,000	343,600,000	293,390,000	-
Ch. 138 -- Laws of 1965 (R-2006A).....	461,170,000	461,170,000	406,910,000	-
Ch. 138 -- Laws of 1965 (R-2007A).....	321,050,000	321,050,000	226,915,000	-
Ch. 138 -- Laws of 1965 (R-2007C).....	375,895,000	375,895,000	294,380,000	-
Ch. 138 -- Laws of 1965 (R-2010A).....	386,380,000	386,380,000	359,775,000	-
Ch. 138 -- Laws of 1965 (R-2010B).....	215,500,000	215,500,000	215,500,000	-
Ch. 138 -- Laws of 1965 (R-2011A).....	365,605,000	365,605,000	365,605,000	-
Ch. 138 -- Laws of 1965 (R-2011B).....	401,435,000	401,435,000	397,480,000	-
Ch. 138 -- Laws of 1965 (R-2012A).....	461,380,000	461,380,000	461,380,000	-
Ch. 34 -- Laws of 1982 as amended.....	19,771,750	19,771,750	-	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	589,434,431	557,130,000	132,525,000	32,304,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	612,950,000	609,087,302	135,237,196	3,862,698
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	420,544,716	420,544,716	135,647,071	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	424,401,667	424,401,667	148,306,050	-
Ch. 456 -- Laws of 1997, Regular Sess.....	18,340,000	18,340,000	5,805,000	-
Ch. 380 -- Laws of 1999, Regular Sess.....	264,717,000	247,467,000	8,712,000	17,250,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	414,363,000	408,303,000	241,218,000	6,060,000
Ch. 240 -- Laws of 2002, Regular Sess.....	51,245,000	51,245,000	38,880,000	-
Ch. 3 -- Laws of 2003, 1st Sp. Sess.....	1,106,750,000	1,106,750,000	950,805,000	-
Ch. 18 -- Laws of 2003, 1st Sp. Sess.....	743,135,000	680,555,000	637,610,000	62,580,000
Ch. 147 -- Laws of 2003, Regular Sess.....	242,195,000	168,565,000	157,675,000	73,630,000
Ch. 487 -- Laws of 2005, Regular Sess.....	1,332,740,000	1,332,740,000	1,180,200,000	-
Ch. 167 -- Laws of 2006, Regular Sess.....	273,595,000	105,770,000	102,830,000	167,825,000
Ch. 521 -- Laws of 2007, Regular Sess.....	1,968,235,000	1,830,525,000	1,698,865,000	137,710,000
Ch. 179 -- Laws of 2008, Regular Sess.....	50,000,000	5,405,000	5,210,000	44,595,000
Ch. 6 -- Laws of 2009, Regular Sess.....	133,000,000	124,325,000	117,590,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess.....	2,219,000,000	1,711,665,000	1,677,000,000	507,335,000
Ch. 49 -- Laws of 2011, 1st Sp. Sess.....	1,122,000,000	-	-	1,122,000,000
Subtotal.....	16,157,652,563	13,973,825,434	10,641,765,317	2,183,827,129

(1) Includes offering dated November 9, 2011 (R-2012A) -- after defeasance of the refunded bonds.

(2) Does not include bonds authorized under a bond act which are unissuable because all required deposits or transfers under that act have been completed.

Excluded From Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued [1]
Ch. 220 -- Laws of 1997, Regular Sess.....	300,000,000	294,944,718	198,814,718	5,055,282
Ch. 179 -- Laws of 2008, Regular Sess.....	100,000,000	95,370,000	94,960,000	4,630,000
Subtotal.....	400,000,000	390,314,718	293,774,718	9,685,282
Total.....	16,557,652,563	14,364,140,151	10,935,540,035	2,193,512,412

(1) Does not include bonds authorized under a bond act which are unissuable because all required deposits or transfers under that act have been completed.

Debt Authorization and Outstanding Debt
Motor Vehicle Fuel Tax Revenue
As of November 9, 2011
(in dollars)

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-2003B).....	67,760,000	67,760,000	38,825,000	-
Ch. 138 -- Laws of 1965 (R-2004B).....	57,045,000	57,045,000	37,835,000	-
Ch. 138 -- Laws of 1965 (R-2004D).....	156,475,000	156,475,000	115,540,000	-
Ch. 138 -- Laws of 1965 (R-2005B).....	95,800,000	95,800,000	76,630,000	-
Ch. 138 -- Laws of 1965 (R-2007B).....	63,810,000	63,810,000	44,285,000	-
Ch. 138 -- Laws of 1965 (R-2007D).....	73,030,000	73,030,000	58,920,000	-
Ch. 138 -- Laws of 1965 (R-2010C).....	121,235,000	121,235,000	121,235,000	-
Ch. 138 -- Laws of 1965 (R-2011C).....	393,950,000	393,950,000	391,265,000	-
Ch. 138 -- Laws of 1965 (R-2012B).....	42,330,000	42,330,000	42,330,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23)..... as amended by Ch 11, Laws of 1993.....	8,605,000	8,605,000	2,660,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess.....	103,890,000	61,320,000	7,115,000	42,570,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess.....	28,480,000	28,480,000	1,680,000	-
Ch. 315 -- Laws of 1981.....	36,860,000	36,860,000	4,365,000	-
Ch. 316 -- Laws of 1981.....	148,375,000	148,375,000	4,630,000	-
Ch. 293 -- Laws of 1990.....	15,000,000	13,400,000	5,265,000	1,600,000
Ch. 431 -- Laws of 1993, as amended.....	382,850,000	157,017,709	72,947,709	225,832,291
Ch. 432 -- Laws of 1993.....	81,280,000	6,085,000	-	75,195,000
Ch. 440 -- Laws of 1993.....	39,370,000	31,860,000	9,685,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.....	11,200,000	4,990,000	-	6,210,000
Ch. 321 -- Laws of 1998.....	1,433,485,000	1,288,506,712	1,012,104,573	144,978,288
Ch. 147 -- Laws of 2003.....	3,161,980,000	2,313,228,877	2,129,578,877	848,751,123
Ch. 315 -- Laws of 2005.....	5,300,000,000	2,165,753,336	2,090,723,336	3,134,246,664
Ch. 498 -- Laws of 2009 (2).....	1,950,000,000	518,775,000	518,775,000	1,431,225,000
Total.....	13,772,810,000	7,854,691,634	6,786,394,495	5,918,118,366

(1) Includes offerings dated October 31, 2011 (2012C) and November 9, 2011 (R-2012B) -- after defeasance of the refunded bonds.

(2) Pursuant to the Chaper 498, Laws of 2009, the Legislature authorized the issuance and sale of $1,950,000,000 of general obligation bonds of the state first payable from toll revenue and then state excise taxes on motor vehicle and special fuels. Chaper 498, Laws of 2009 also authorizes the State Finance Commit to issue the authorized bonds as toll revenue bonds payable solely from toll revenue and not as general obligation bonds.

Grand Total.....	30,330,462,563	22,218,831,785	17,721,934,530	8,111,630,778

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APPENDIX C

PROPOSED FORM OF LEGAL OPINION

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[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

We have served as bond counsel in connection with the issuance by the State of Washington (the "State") of the bonds described below (the "Series 1012C Bonds"):

$518,775,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS
(SR 520 CORRIDOR PROGRAM-TOLL REVENUE), SERIES 2012C
DATED OCTOBER 31, 2011

The Series 2012C Bonds are issued pursuant to Ch. 498, Laws of 2009, as amended by Ch. 377, Laws of 2011 (RCW 47.10.870-.888) (the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1117 of the State Finance Committee (the "Committee") of the State adopted on September 29, 2011 (the "Master Resolution"), and Resolution No. 1118 of the Committee acting by and through the State Treasurer adopted on October 13, 2011 (together with the Master Resolution, the "Series 2012C Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Series 2012C Bonds are issued for the purpose of providing funds with which to pay and reimburse State expenditures for a portion of the costs of the SR 520 Corridor Program, to fund capitalized interest on the Series 2012C Bonds and to pay costs of issuing the Series 2012C Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Master Resolution.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Series 2012C Bond Resolution and in the certified proceedings and other certifications of public officials and others 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 is required to comply with certain requirements after the date of issuance of the Series 2012C Bonds in order to maintain the exclusion of the interest on the Series 2012C Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Series 2012C Bond proceeds and the facilities financed or refinanced with Series 2012C Bond proceeds, limitations on investing gross proceeds of the Series 2012C Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Series 2012C Bonds. The State has covenanted in the Series 2012C Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Series 2012C Bonds could become taxable retroactive to the date of issuance of the Series 2012C Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Series 2012C Bonds to the purchasers thereof and full payment therefor, it is our opinion that under existing law:

1. The Series 2012C Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and statutes of the State, including the Bond Act.

2. The Series 2012C Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Series 2012C Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The State has lawfully and unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Series 2012C Bonds.

4. The Series 2012C Bonds are first payable from Toll Revenue and then from Motor Vehicle Fuel Taxes and are secured by a pledge of such Tolls and Motor Vehicle Fuel Taxes as set forth in the Series 2012C Bonds and the Series 2012C Bond Resolution. The State has covenanted that it will continue to impose such Tolls and Motor Vehicle Fuel Taxes in amounts sufficient to pay when due the principal of and interest on the Series 2012C Bonds.

5. Assuming compliance by the State after the date of issuance of the Series 2012C Bonds with applicable requirements of the Code, the interest on the Series 2012C Bonds 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; however, while interest on the Series 2012C Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Series 2012C Bonds 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 on the Series 2012C Bonds received by certain S corporations may be subject to tax, and interest on the Series 2012C Bonds 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, state or local tax consequences of receipt of interest on the Series 2012C Bonds.

The State has not designated the Series 2012C Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b)(3) of the Code.

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,

APPENDIX D

THE STATE'S 2010 AUDITED BASIC FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 30, 2010

The Honorable Christine Gregoire
Governor, State of Washington

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, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. 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, Washington's Lottery, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, 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 Assets	Percent of Total Revenues/ Additions
Governmental Activities	11.8%	21.2%	12.8%
Business-Type Activities	78.3%	100%	17.4%
Higher Education Special Revenue Fund	39.2%	30.7%	48.9%
Higher Education Endowment Fund	91.2%	96.7%	90.4%
Higher Education Student Services Fund	73.3%	82.5%	80.2%
Workers' Compensation Fund	99.0%	100%	44.8%
Aggregate Discretely Presented Component Units and Remaining Fund Information	90.2%	95.5%	83.7%

Those financial 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 are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

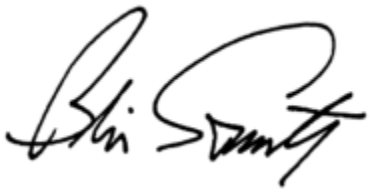
As explained in Note 1.D.1, the financial statements include pension trust fund investments valued at $21.7 billion which comprise 25.4% of total assets and 30.5% of net assets of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have 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.

As described in Note 2, during the year ended June 30, 2010, the State implemented Governmental Accounting Standards Board Statement No. 51 - Accounting and Financial Reporting for Intangible Assets and Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The information listed in the table of contents as combining and individual fund financial statements and schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, 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 not a required part of the basic financial statements but is supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.



BRIAN SONNTAG, CGFM
STATE AUDITOR

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, 2010. 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 of the state of Washington exceeded its liabilities by $16.2 billion (reported as net assets). Of this amount, $(11.1) billion was reported as "unrestricted (deficit) net assets." 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 $10.5 billion, an increase of 10 percent compared with the prior year.

- The General Fund reported an unreserved fund balance (deficit) of $(561) million, at the end of Fiscal Year 2010, or 2.4 percent of total General Fund expenditures.

- The state's capital assets increased by $1.8 billion while total bond debt increased by $2.7 billion during the current fiscal year. Of the total bond debt issued, $1.1 billion was unspent at year end largely related to a June 2010 bond issuance.

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 Assets. The *Statement of Net Assets* presents information on all of the state of Washington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, liquor control, and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 37-39 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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 four 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, the Motor Vehicle 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, and the Higher Education Student Services 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 46-51 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 52-53 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 one major component unit, the Washington State Public Stadium Authority, and four nonmajor component units.

Refer to Note 1 on pages 59-60 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 54-55 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 57-152 of this report.

OTHER REQUIRED INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plans and other post-employment benefits, funding progress, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 153-179 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 181-231 of this report.

STATE OF WASHINGTON
Statement of Net Assets
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and other assets	$ 16,915	$ 15,611	$ 22,080	$ 21,027	$ 38,995	$ 36,638
Capital assets	31,247	29,558	2,254	2,099	33,501	31,657
Total assets	48,162	45,169	24,334	23,126	72,496	68,295
LIABILITIES						
Current and other liabilities	3,730	3,593	3,421	2,653	7,151	6,246
Long-term liabilities outstanding	21,234	17,721	27,934	25,689	49,168	43,410
Total liabilities	24,964	21,314	31,355	28,342	56,319	49,656
NET ASSETS						
Invested in capital assets, net of related debt	18,201	17,551	913	721	19,114	18,272
Restricted	5,214	4,887	2,930	3,800	8,144	8,687
Unrestricted (deficit)	(217)	1,417	(10,864)	(9,737)	(11,081)	(8,320)
Total net assets	$ 23,198	$ 23,855	$ (7,021)	$ (5,216)	$ 16,177	$ 18,639

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets exceed liabilities by $16.2 billion at June 30, 2010 as compared to $18.6 billion as reported at June 30, 2009.

The largest portion of the state's net assets (118.2 percent for Fiscal Year 2010 as compared to 98.0 percent for Fiscal Year 2009) reflects its 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 assets (50.3 percent for Fiscal Year 2010 as compared to 46.6 percent for Fiscal Year 2009) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(11.1) billion represents unrestricted (deficit) net assets. The state's overall negative balance is caused by deficits in both governmental and business-type activities.

In governmental activities, the deficit is largely related to decreased tax revenues in Fiscal Year 2010. The decline in tax revenues reflects the continued weak economy and the lack of consumer confidence.

In business-type activities, the majority of 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 Assets

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
REVENUES						
Program revenues:						
Charges for services	$ 4,584	$ 4,398	$ 5,987	$ 5,640	$ 10,571	$ 10,038
Operating grants and contributions	12,193	10,565	2,468	572	14,661	11,137
Capital grants and contributions	939	706	-	-	939	706
General revenues:						
Taxes	14,982	16,001	160	113	15,142	16,114
Interest and investment earnings (loss)	449	(212)	1,743	291	2,192	79
Total Revenues	33,147	31,458	10,358	6,616	43,505	38,074
EXPENSES						
General government	(1,738)	(1,815)	-	-	(1,738)	(1,815)
Education - K-12	(8,468)	(8,549)	-	-	(8,468)	(8,549)
Education - Higher education	(6,051)	(6,044)	-	-	(6,051)	(6,044)
Human services	(12,946)	(12,436)	-	-	(12,946)	(12,436)
Adult corrections	(938)	(1,044)	-	-	(938)	(1,044)
Natural resources and recreation	(1,084)	(1,062)	-	-	(1,084)	(1,062)
Transportation	(2,073)	(1,883)	-	-	(2,073)	(1,883)
Interest on long-term debt	(810)	(728)	-	-	(810)	(728)
Workers' compensation	-	-	(4,268)	(2,544)	(4,268)	(2,544)
Unemployment compensation	-	-	(4,729)	(2,360)	(4,729)	(2,360)
Higher education student services	-	-	(1,628)	(1,502)	(1,628)	(1,502)
Liquor control	-	-	(552)	(540)	(552)	(540)
Washington's lottery	-	-	(389)	(401)	(389)	(401)
Other business-type activities	-	-	(345)	(391)	(345)	(391)
Total Expenses	(34,108)	(33,561)	(11,911)	(7,738)	(46,019)	(41,299)
Excess (deficiency) of revenues over expenses before contributions to endowments and transfers	(961)	(2,103)	(1,553)	(1,122)	(2,514)	(3,225)
Contributions to endowments	52	57	-	-	52	57
Transfers	252	(190)	(252)	190	-	-
Increase (decrease) in net assets	(657)	(2,236)	(1,805)	(932)	(2,462)	(3,168)
Net assets - July 1	23,855	26,091	(5,216)	(4,284)	18,639	21,807
Net assets - June 30	$ 23,198	$ 23,855	$ (7,021)	$ (5,216)	$ 16,177	$ 18,639

Governmental Activities. Governmental activities resulted in a decrease in the state of Washington's net assets of $657 million. A number of factors contributed to the decrease:

- Tax revenues decreased $1.0 billion in Fiscal Year 2010 as compared to Fiscal Year 2009 reflecting the negative impact of the slowing economy and slumping housing markets. While certain tax sources showed moderate increases, sales and use taxes reported a decrease of $435 million. Sales and use taxes are the main tax revenue for governmental activities. Taxable sales have declined due to reductions in consumer spending power as a result of job losses as well as weak consumer confidence. Real estate excise taxes also declined by $20 million reflecting the continued decline in real estate throughout Fiscal Year 2010 in spite of record low mortgage rates, declining home prices and the federal government's home-buyers tax credit program.

- Operating and capital grants and contributions increased $1.9 billion in Fiscal Year 2010 as compared to Fiscal Year 2009. American Recovery and Reinvestment Act grants made up $1.3 billion of the increase funding expenses in the areas of education, transportation, public health and the environment.

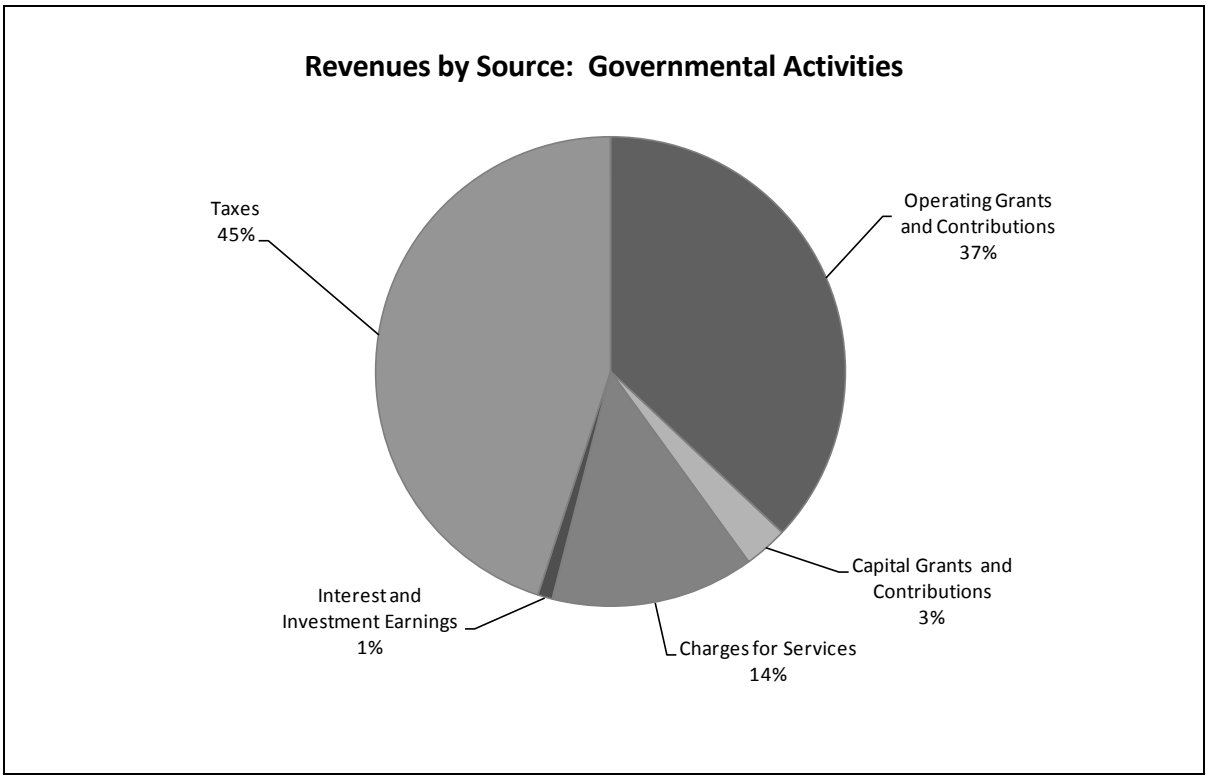
- Expenses grew slightly in spite of the drop in revenues. The expenses for human services and education comprised 80.5 percent of the total expenses for governmental activities which is consistent with the 80.5 percent in Fiscal Year 2009. Human services accounted for the majority of the growth in expenses increasing by $510 million or 4.1 percent in Fiscal Year 2010 over Fiscal Year 2009 reflecting the increased number of citizens seeking assistance from state programs and services due to the economic recession.

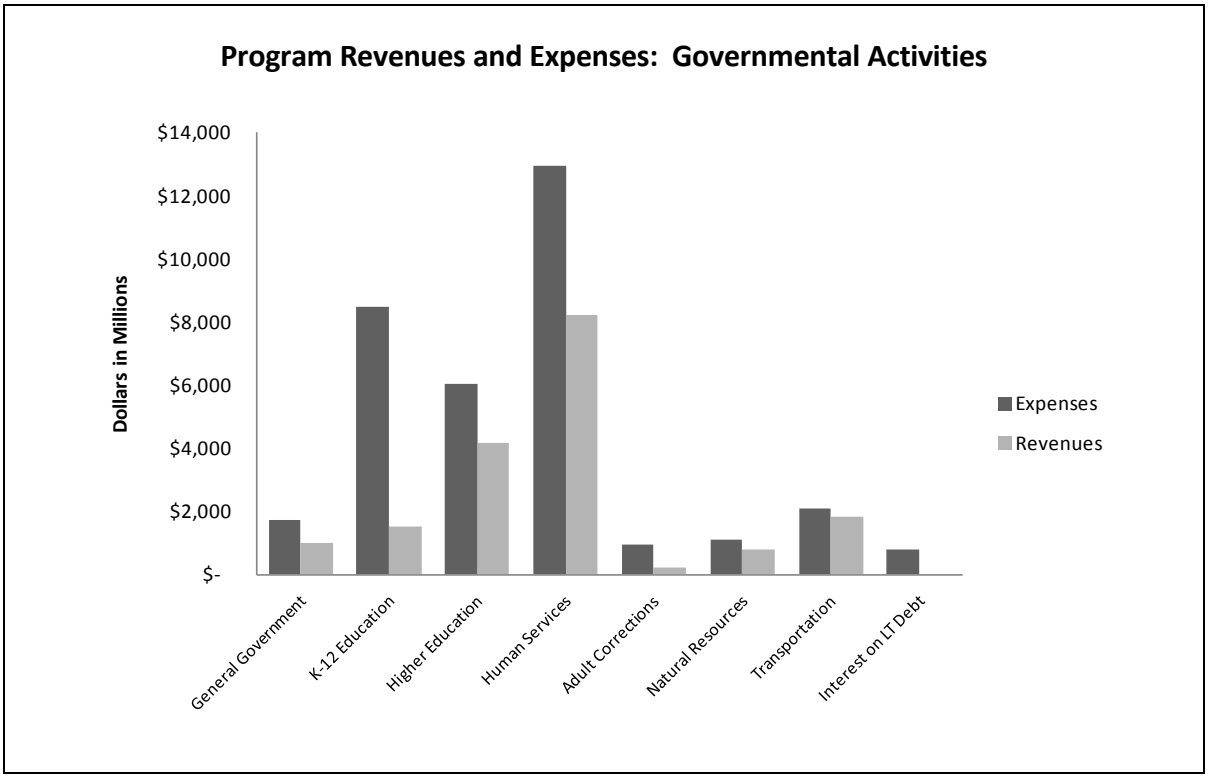
Business-Type Activities. Business-type activities decreased the state of Washington's net assets by $1.8 billion which included losses in both the workers' compensation and unemployment compensation activities. Key factors contributing to the operating results of business-type activities are:

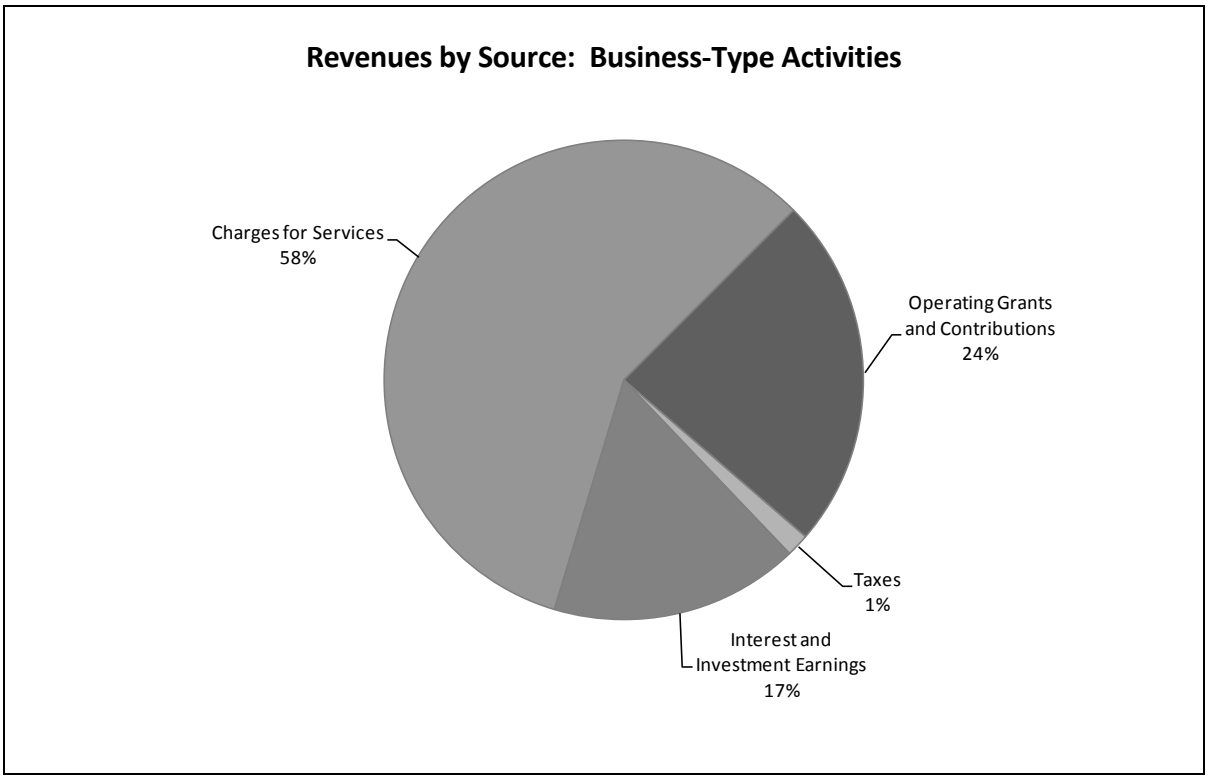
- The decrease in net assets in the workers' compensation activity in Fiscal Year 2010 was $598 million more than the decrease in Fiscal Year 2009. A number of factors contributed to the increased loss including a decrease in premium revenue of $97 million which resulted from a 5.2 percent decline in the number of reported hours worked reflecting the current recessionary stress on the job market. Claims costs increased by $1.8 billion or 82.1 percent in Fiscal Year 2010 compared with Fiscal Year 2009. The increase in claims costs is attributable to increases in forecasted future wage inflation, an increase in the number of pensions granted for permanent disability, and increases in the duration of time-loss claims affecting both current and prior year claims. Nonoperating investment income increased by $1.2 billion due to improvements in the financial markets.

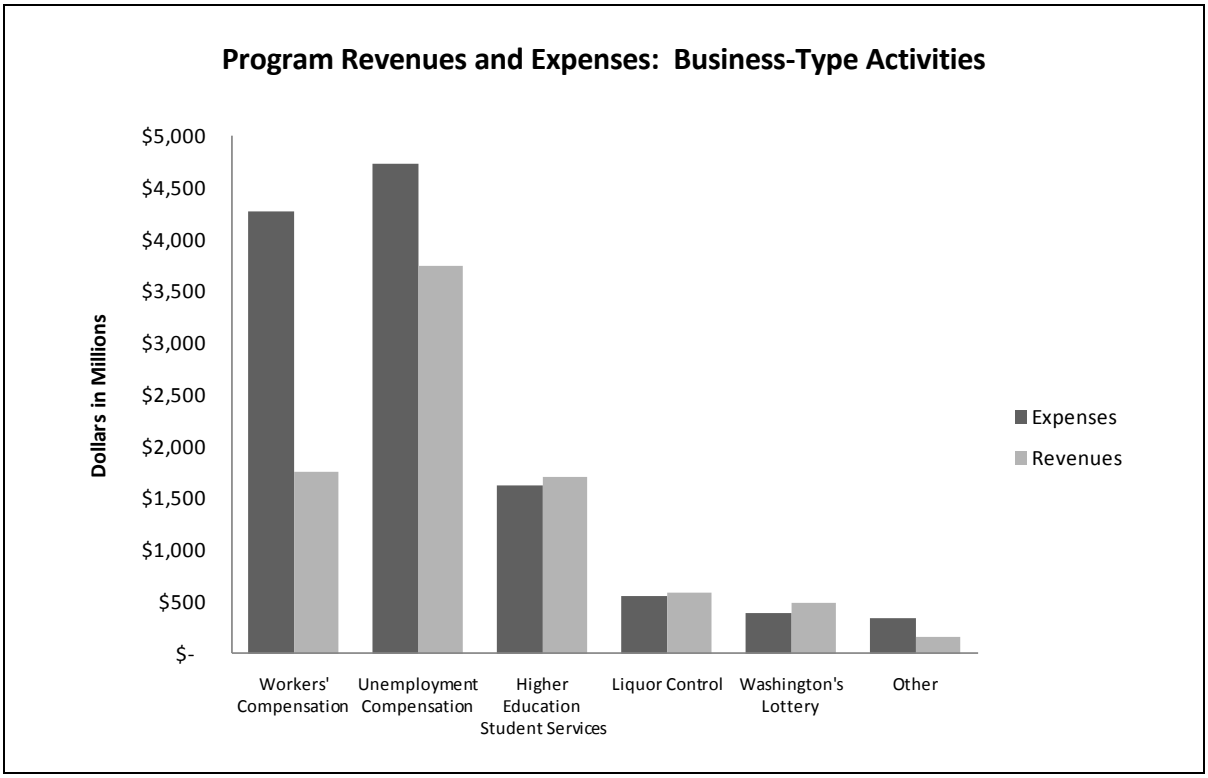
- The unemployment compensation activity reported a Fiscal Year 2010 operating loss of $985 million, compared to a $789 million operating loss in Fiscal Year 2009. Washington's unemployment insurance program is an experience-based system. Since Washington had relatively low unemployment until Fiscal Year 2009, unemployment premium revenue had been declining. Fiscal Year 2010 premium revenues reflected the first increase since Fiscal Year 2005. This increase combined with an increase in federal aid of $1.9 billion, which included American Recovery and Reinvestment Act funding, fell short of covering the increase in unemployment insurance benefits which rose by $2.4 billion over Fiscal Year 2009. The increase in benefit costs was the result of increases in the number of claims and the duration of claims. The annualized unemployment rate for the state was 9.2 percent in Fiscal Year 2010, up from 7.3 percent in Fiscal Year 2009, a 26 percent increase.

- The higher education student services activity reported relatively proportional increases in both expenses and charges for services when compared to the prior year. Additionally, both liquor control and Washington's lottery activities reported operating revenues and expenses consistent with the prior year.


Revenues by Source: Governmental Activities
Taxes
45%
Operating Grants
and Contributions
37%
Capital Grants and
Contributions
3%
Charges for Services
14%
Interest and
Investment Earnings
1%


Program Revenues and Expenses: Governmental Activities
Dollars in Millions
$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
Charges for Services 58%
Operating Grants and Contributions 24%
Taxes 1%
Interest and Investment Earnings 17%


Program Revenues and Expenses: Business-Type Activities
Dollars in Millions
$5,000
$4,500
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
Workers' Compensation
Unemployment Compensation
Higher Education Student Services
Liquor Control
Washington's Lottery
Other
Expenses
Revenues

Financial Analysis of the Government'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 balances of spendable resources. Such information is useful in assessing the state of Washington's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the state of Washington. Due to statutory changes, several related accounts were added to the General Fund during Fiscal Year 2010 to improve budget transparency.

At the end of Fiscal Year 2010, total fund balance for the General Fund equaled $379 million, a decrease of $783 million from Fiscal Year 2009. Unreserved fund balance included $864 million designated for working capital purposes. This amount relates to certain accrued revenues and is not considered by management to be available to spend.

The remaining unreserved fund balance deficit of $(561) million indicates that the state has overspent funds available for discretionary purposes. The deficit fund balance reflects the Fiscal Year 2010 decrease of $783 million which followed the $757 million decrease in Fiscal Year 2009. The back to back decreases are due to the recessionary economic conditions.

The increase in General Fund revenues and expenditures is largely attributable to the consolidation of the related accounts. Consistent with Fiscal Year 2009, revenues did not keep pace with the demand for services.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year 2010	Fiscal Year 2009	Difference Increase (Decrease)
REVENUES			
Taxes	$13,169	$12,791	$ 378
Federal grants	9,648	8,311	1,337
Investment revenue (loss)	(9)	64	(73)
Other	567	421	146
Total	23,375	21,587	1,788
EXPENDITURES			
Human services	13,209	11,912	1,297
Education	9,243	9,044	199
Other	1,331	1,223	108
Total	23,783	22,179	1,604
Net transfers in (out)	(379)	(192)	(187)
Other financing sources	4	27	(23)
Net increase (decrease) in fund balance	$ (783)	$ (757)	$ (26)

Expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education. In Fiscal Year 2010, the General Fund received $1.7 billion in American Recovery and Reinvestment Act funding predominately for human services and public education programs up from $927 million in Fiscal Year 2009.

In addition to the General Fund, the state reports the Higher Education Special Revenue, the Motor Vehicle Special Revenue and the Higher Education Endowment Funds as major governmental funds.

The fund balance of the Higher Education Special Revenue Fund increased by $114 million in Fiscal Year 2010. Increases in tuition and federal grant revenues offset the increased costs of higher education activities.

The fund balance of the Motor Vehicle Special Revenue Fund increased by $1.2 billion. The majority of this

increase is due to June bond sale proceeds intended for expenditure on construction projects during the summer months. The state issued $1.7 billion in federal Build America Bond bonds in Fiscal Year 2010 accelerating a portion of the planned Fiscal Year 2011 borrowings to take advantage of exceptionally low interest rates.

The fund balance for the Higher Education Endowment Fund increased by $251 million. While support from donors was consistent with the prior year, investment earnings of $270 million in Fiscal Year 2010 compared with investment losses of $474 million in Fiscal Year 2009 reflected improvement in the financial markets. The increase in investment earnings supported the increased use of funds to support donor specified activities.

The fund balance for nonmajor governmental funds increased by $186 million. The largest factor contributing to the increase is bond sale proceeds on hand at year end to cover construction projects in progress.

Proprietary Funds. The state of Washington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- The Workers' Compensation Fund reported a loss of $1.0 billion in Fiscal Year 2010. Operating revenues decreased by $101 million and operating expenses increased by $1.7 billion as compared to Fiscal Year 2009. As noted previously, operating revenues were down due to a reduction in reported worker hours reflecting the sluggish job market and claims were up due to increases in forecasted future wage inflation, an increase in the number of pensions granted for permanent disability, and increases in the duration of time-loss claims affecting both current and prior year claims. The negative changes were partially offset by an increase in investment income of $1.2 billion.

- Washington's average unemployment rate increased markedly in Fiscal Year 2010, as the continued slow national economy and weak housing markets took their toll on the labor markets. Despite an increase in federal aid of $1.9 billion, which included American Recovery and Reinvestment Act funding, the Unemployment Compensation Fund incurred a loss of $870 million.

- Activity for the various nonmajor proprietary funds resulted in a net increase to net assets of $18 million. The overall increase was reduced by the $20 million loss reported by the state's guaranteed college tuition (GET) program which is included in the Other Activities Fund. This GET loss was smaller than the $340 million loss reported in Fiscal Year 2009. The losses are primarily due to lower than projected investment earnings combined with higher than projected tuition increases. The GET program is continuing to proceed cautiously.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the year ended June 30, 2010. While there were no significant increases or decreases, changes to estimates are summarized as follows:

- Estimated resources increased by $950 million over the course of the first fiscal year. A decrease of $911 million was reported for taxes in recognition of the continued sluggish economy. The decrease in estimated tax revenue was offset by increases to federal grants-in-aid of $1.3 billion.

- Appropriated expenditure authority increased by $1.2 billion over the course of the Fiscal Year ended June 30, 2010. Increases were recorded in human services, natural resources and recreation, education and capital outlays of $1.2 billion, $90 million, $57 million, and $29 million, respectively. The largest decrease was in transfers to other funds of $171 million.

The state did not overspend its legal spending authority for the Fiscal Year 2010, the first year of the 2009-2011 Biennium. Actual General Fund revenues and expenditures were 48 and 49 percent of final budgeted revenues and appropriations, respectively, for the 2009-2011 Biennium.

Capital Assets, Infrastructure, Bond Debt Administration, and Economic Factors

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounted to $33.5 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangibles, as well as construction in progress.

Washington's Fiscal Year 2010 investment in capital assets, net of current year depreciation, was $1.8 billion, including increases to the state's transportation infrastructure of $1.4 billion and buildings of $558 million. The state's construction in progress includes both new construction and major improvements to state and common school capital facilities, transportation projects and assistance to local governments for public works capital projects.

Remaining commitments on these construction projects total $5.3 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 96 of this report.

Infrastructure. The state of Washington first reported infrastructure under the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34 in Fiscal Year 2002. Transportation infrastructure reported includes the state highway system, emergency airports, and two short rail lines. While the rail lines are reported net of depreciation, the state highway system and emergency airports are reported using the modified approach. Under the modified approach, rather than recording depreciation, asset condition is reported.

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$ 1,179	$ 1,130	$ 143	$ 142	$ 1,322	$ 1,272
Transportation infrastructure and other assets not depreciated	19,758	18,328	-	-	19,758	18,328
Buildings	6,926	6,473	1,671	1,566	8,597	8,039
Furnishings, equipment and intangible assets	1,362	1,377	142	150	1,504	1,527
Other improvements and infrastructure	1,157	1,065	87	88	1,244	1,153
Construction in progress	865	1,185	211	153	1,076	1,338
Total	$ 31,247	$ 29,558	$ 2,254	$ 2,099	$ 33,501	$ 31,657

The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and airports, and additional detail comparing planned-to-actual preservation and maintenance spending are available in the required supplementary information beginning on page 171.

The state highway system capital investment in Fiscal Year 2010 was a net of $1.4 billion to add additional lane miles, replace and build new bridges and highway structures, improve highway safety, increase mobility and preservation activities that extend the life of the system. Of this investment, $150.5 million was funded by the federal American Recovery and Reinvestment Act. The Washington State Department of Transportation (WSDOT) accomplished a net addition of 106 lane miles and 23 bridges and other highway structures in Fiscal Year 2010. Amounts spent during Fiscal Year 2010 to maintain and preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget.

The state highway system and emergency airports continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges. Detailed information about targeted and actual condition levels for roads, bridges, rest areas, and airports can be found in the required supplementary information section of this report.

The safety of bridge structures is ensured through meticulous inspections and rating of the primary components of bridges by the WSDOT Bridge Preservation Office or local agency staff. The condition of all bridge decks, superstructures and substructures are rated based on these inspections.

The WSDOT's planned highway infrastructure projects for the next four years, Fiscal Years 2011 through 2014, would commit approximately $3.7 billion for 448 projects. These projects are either already in progress or are expected to commence within the next four years.

Bond Debt. At the end of Fiscal Year 2010, the state of Washington had general obligation bond debt outstanding of $16.6 billion, an increase of 18 percent over Fiscal Year 2009. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $9.5 billion general obligation debt that remains unissued.

During Fiscal Year 2010, the state issued general obligation debt, totaling $3.9 billion, for various capital and transportation projects. The state took advantage of historically low interest rates and the federal Build America Bonds program to lock in long-term borrowing costs at unprecedented lows. Two Build America Bonds sales during Fiscal Year 2010 provided $1.6 billion to finance transportation projects at the lowest net effective true

interest cost in state history. Washington also capitalized on strong demand for Washington debt to refund outstanding bonds for a savings of $70.4 million in debt service costs.

General obligation debt is subject to the constitutional limitation as prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2010, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years. The arithmetic mean of its general state revenues for Fiscal Years 2007, 2008, and 2009 is $12.5 billion. The debt service limitation, 9 percent of this mean, is $1.1 billion. The state's maximum annual debt service as of June 30, 2010 subject to the constitutional debt limitation is $971.3 million, or $155.4 million less than the 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 or at: http://www.tre.wa.gov/documents/debt_cdl2010.pdf.

STATE OF WASHINGTON
Bond Debt
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation (GO) bonds	$ 16,540	$ 14,049	$ 60	$ 69	$ 16,600	$ 14,118
Accreted interest on zero interest rate GO bonds	367	328	42	38	409	366
Revenue bonds	743	616	1,084	1,074	1,827	1,690
Total	$ 17,650	$ 14,993	$ 1,186	$ 1,181	$ 18,836	$ 16,174

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, 2010, 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.

The state had revenue debt outstanding at June 30, 2010, of $1.8 billion, an increase of $137 million over Fiscal Year 2009. This increase is primarily related to 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 who issues general revenue bonds that are payable from general revenues of the university.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 100 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 266 of this report.

Conditions with Expected Future Impact

Economic Factors. The forecast for Washington for Fiscal Year 2011 is for a slow to moderate recovery from the recession. That said, in the coming year, legislative leaders and management will be facing a number of challenges.

- Employment is projected to begin rebounding in Fiscal Year 2011, although construction employment is not expected to show signs of recovery until the second half of Fiscal Year 2011.
- The economic recovery is expected to be slow by historical standards.
- Following September 2011 forecast projections of reduced state revenues, Governor Gregoire called for across the board cuts in the General Fund of 6.3 percent effective October 1, 2011.

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, 2010, $119 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. Also during Fiscal Year 2010, Engrossed Substitute House Bill 6444 authorized the transfer of $45 million from the BSA to the General Fund.

The BSA has a fund balance of $95 million as of June 30, 2010.

November 2, 2010 General Election. There were measures on the state's November 2, 2010 general election ballot that addressed state laws related to state operations, state imposed taxes and fees, and the calculation of the state debt limitation. These measures, if passed, could fiscally impact the state. Election results are not final or official until certified. By law, December 2, 2010 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.

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 43113, Olympia, WA 98504-3113.

Basic Financial Statements

Governmental-wide Financial Statements

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Statement of Net Assets

June 30, 2010

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 3,341,544	$ 6,509,507	$ 9,851,051	$ 65,266
Taxes receivable (net of allowance)	2,837,375	9,790	2,847,165	-
Other receivables (net of allowance)	1,299,050	1,297,022	2,596,072	2,154
Internal balances (net)	192,382	(192,382)	-	-
Due from other governments	4,007,386	200,093	4,207,479	-
Inventories	90,610	98,132	188,742	-
Investments, noncurrent	3,863,824	13,749,971	17,613,795	18,469
Other assets	96,330	311,325	407,655	76,116
Restricted assets:				
Cash and cash equivalents	1,105,586	76,398	1,181,984	-
Investments	8,678	-	8,678	-
Receivables	72,127	20,315	92,442	-
Capital assets (Note 6):				
Non-depreciable assets	21,801,797	353,768	22,155,565	34,677
Depreciable assets, net of depreciation	9,445,126	1,900,472	11,345,598	338,377
Total capital assets, net of depreciation	31,246,923	2,254,240	33,501,163	373,054
Total Assets	$ 48,161,815	$ 24,334,411	$ 72,496,226	$ 535,059
LIABILITIES				
Accounts payable	$ 1,676,691	$ 95,144	$ 1,771,835	$ 37,450
Contracts and retainage payable	177,774	22,038	199,812	2,566
Accrued liabilities	610,115	263,251	873,366	3,930
Obligations under security lending agreements	203,150	2,867,466	3,070,616	-
Due to other governments	781,463	130,902	912,365	-
Unearned revenue	279,835	42,334	322,169	5,429
Long-term liabilities (Note 7):				
Due within one year	1,435,286	2,537,739	3,973,025	-
Due in more than one year	19,799,142	25,397,061	45,196,203	25,587
Total Liabilities	24,963,456	31,355,935	56,319,391	74,962
NET ASSETS				
Invested in capital assets, net of related debt	18,200,533	913,094	19,113,627	343,524
Restricted for:				
Unemployment compensation	-	2,929,842	2,929,842	-
Other purposes	2,298,123	-	2,298,123	20,990
Expendable permanent fund principal	1,413,326	-	1,413,326	-
Nonexpendable permanent endowments	1,503,472	-	1,503,472	-
Unrestricted (deficit)	(217,095)	(10,864,460)	(11,081,555)	95,583
Total Net Assets (Deficit)	$ 23,198,359	$ (7,021,524)	$ 16,176,835	$ 460,097

The notes to the financial statements are an integral part of this statement.

Statement of Activities

For the Fiscal Year Ended June 30, 2010

(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	$ 1,738,451	$ 534,461	$ 433,204	$ 1,124
Education - elementary and secondary (K-12)	8,467,649	11,725	1,510,920	-
Education - higher education	6,051,421	2,210,357	1,945,904	16,009
Human services	12,946,115	345,415	7,885,895	6,922
Adult corrections	937,473	17,815	184,738	-
Natural resources and recreation	1,083,430	564,345	168,456	55,253
Transportation	2,073,086	899,445	64,002	859,519
Interest on long-term debt	810,156	-	-	-
Total Governmental Activities	34,107,781	4,583,563	12,193,119	938,827
Business-Type Activities:				
Workers' compensation	4,267,927	1,755,015	7,805	-
Unemployment compensation	4,728,805	1,287,803	2,455,706	-
Higher education student services	1,627,819	1,698,098	4,474	-
Liquor control	552,363	592,638	10	-
Washington's lottery	388,715	491,076	-	-
Other	345,704	162,393	8	15
Total Business-Type Activities	11,911,333	5,987,023	2,468,003	15
Total Primary Government	$ 46,019,114	$ 10,570,586	$ 14,661,122	$ 938,842
COMPONENT UNITS	$ 68,184	$ 16,446	$ 43,771	$ 903
Total Component Units	$ 68,184	$ 16,446	$ 43,771	$ 903

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 Assets

Net assets - Beginning

Net assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (769,662)	$ -	$ (769,662)	
(6,945,004)	-	(6,945,004)	
(1,879,151)	-	(1,879,151)	
(4,707,883)	-	(4,707,883)	
(734,920)	-	(734,920)	
(295,376)	-	(295,376)	
(250,120)	-	(250,120)	
(810,156)	-	(810,156)	
(16,392,272)	-	(16,392,272)	
-	(2,505,107)	(2,505,107)	
-	(985,296)	(985,296)	
-	74,753	74,753	
-	40,285	40,285	
-	102,361	102,361	
-	(183,288)	(183,288)	
-	(3,456,292)	(3,456,292)	
(16,392,272)	(3,456,292)	(19,848,564)	
			$ (7,064)
			(7,064)
6,870,776	-	6,870,776	-
2,596,668	-	2,596,668	-
1,822,278	-	1,822,278	-
1,218,877	-	1,218,877	-
466,557	50,766	517,323	-
426,265	-	426,265	-
411,584	-	411,584	-
405,922	-	405,922	-
763,337	109,462	872,799	-
449,090	1,742,003	2,191,093	2,708
15,431,354	1,902,231	17,333,585	2,708
(960,918)	(1,554,061)	(2,514,979)	(4,356)
52,230	-	52,230	-
251,914	(251,914)	-	-
(656,774)	(1,805,975)	(2,462,749)	(4,356)
23,855,133	(5,215,549)	18,639,584	464,453
$ 23,198,359	$ (7,021,524)	$ 16,176,835	$ 460,097

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2010
(expressed in thousands)

	General	Special Revenue: Higher Education	Special Revenue: Motor Vehicle	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS						
Cash and pooled investments	$ -	$ 144,803	$ 695,659	$ 316,393	$ 1,631,669	$ 2,788,524
Investments	44,080	1,066,639	31,739	2,592,731	272,336	4,007,525
Taxes receivable (net of allowance)	2,703,247	21,169	110,536	-	2,423	2,837,375
Other receivables (net of allowance)	288,191	338,675	63,560	23,083	653,570	1,367,079
Due from other funds	76,085	155,172	11,432	28	1,012,920	1,255,637
Due from other governments	1,435,081	139,661	74,134	1	2,268,626	3,917,503
Inventories and prepaids	14,507	14,985	40,682	-	4,830	75,004
Restricted assets:						
Cash and pooled investments	-	-	960,036	-	145,550	1,105,586
Investments	-	-	-	-	8,678	8,678
Receivables	885	65,628	-	-	4	66,517
Total Assets	$ 4,562,076	$ 1,946,732	$ 1,987,778	$ 2,932,236	$ 6,000,606	$ 17,429,428
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 1,186,220	$ 69,216	$ 155,251	$ 2,501	$ 203,276	$ 1,616,464
Contracts and retainages payable	38,688	3,477	54,668	1,994	42,140	140,967
Accrued liabilities	206,723	243,891	87,974	29,634	78,216	646,438
Obligations under security lending agreements	-	-	-	158,231	44,919	203,150
Due to other funds	877,992	92,968	15,860	2,151	165,585	1,154,556
Due to other governments	490,557	604	68,137	-	118,851	678,149
Deferred revenue	1,361,542	216,874	24,974	8,999	808,872	2,421,261
Claims and judgments payable	21,605	-	-	-	5,626	27,231
Total Liabilities	4,183,327	627,030	406,864	203,510	1,467,485	6,888,216
Fund Balances:						
Reserved for:						
Encumbrances	-	226,759	3,946	-	782,222	1,012,927
Inventories	13,871	12,629	40,682	-	612	67,794
Debt service	-	-	-	-	93,149	93,149
Permanent funds	-	-	-	2,728,726	188,072	2,916,798
Other specific purposes	62,293	210,978	853	-	2,009,812	2,283,936
Unreserved, designated for, reported in:						
Working capital	863,652	-	-	-	-	863,652
Higher education	-	107,624	-	-	-	107,624
Special revenue funds	-	-	-	-	157	157
Debt service funds	-	-	-	-	170,200	170,200
Unreserved, undesignated	(561,067)	761,712	1,535,433	-	-	1,736,078
Unreserved, undesignated reported in:						
Special revenue funds	-	-	-	-	1,219,705	1,219,705
Capital project funds	-	-	-	-	69,192	69,192
Total Fund Balances	378,749	1,319,702	1,580,914	2,728,726	4,533,121	10,541,212
Total Liabilities and Fund Balances	$ 4,562,076	$ 1,946,732	$ 1,987,778	$ 2,932,236	$ 6,000,606	$ 17,429,428

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet to the Statement of Net Assets GOVERNMENTAL FUNDS

June 30, 2010

(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 10,541,212
Amounts reported for governmental activities in the Statement of Net Assets 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	$ 21,785,333	
Depreciable assets	15,390,036	
Less: Accumulated depreciation	(6,372,746)	
Total capital assets		30,802,623
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 deferred in the funds.		2,142,153
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.		12,500
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(337,791)
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 Assets.		(257,912)
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	$ (17,553,730)	
Accreted interest on bonds	(366,515)	
Compensated absences	(512,553)	
Other postemployment benefits obligations	(697,213)	
Unfunded pension obligations	(191,389)	
Pollution remediation obligations	(174,353)	
Claims and judgments	(33,661)	
Other obligations	(175,012)	
Total long-term liabilities		(19,704,426)
Net Assets of Governmental Activities		$ 23,198,359

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, 2010

(expressed in thousands)

	General	Special Revenue: Higher Education	Special Revenue: Motor Vehicle	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES						
Retail sales and use taxes	$ 6,801,220	$ -	$ -	$ -	$ 69,556	$ 6,870,776
Business and occupation taxes	2,592,710	-	-	-	3,958	2,596,668
Property taxes	1,822,278	-	-	-	-	1,822,278
Excise taxes	417,845	-	-	-	53,642	471,487
Motor vehicle and fuel taxes	-	-	1,203,870	-	15,007	1,218,877
Other taxes	1,535,293	158,736	26	-	276,634	1,970,689
Licenses, permits, and fees	85,637	617	375,492	-	525,164	986,910
Timber sales	4,855	-	27	20,321	122,448	147,651
Other contracts and grants	177,250	686,292	1,710	-	12,119	877,371
Federal grants-in-aid	9,647,711	1,389,004	546,918	-	804,202	12,387,835
Charges for services	55,660	1,787,298	242,283	1,107	316,972	2,403,320
Investment income (loss)	(9,485)	82,152	18,843	269,839	87,741	449,090
Miscellaneous revenue	182,827	207,821	27,803	1,852	498,482	918,785
Unclaimed property	60,853	-	-	-	-	60,853
Contributions and donations	-	-	-	52,230	-	52,230
Total Revenues	23,374,654	4,311,920	2,416,972	345,349	2,785,925	33,234,820
EXPENDITURES						
Current:						
General government	821,978	-	14,240	102	637,501	1,473,821
Human services	13,209,253	362	-	-	526,309	13,735,924
Natural resources and recreation	359,862	-	1,032	2	527,773	888,669
Transportation	43,930	1,991	1,246,463	-	583,563	1,875,947
Education	9,242,798	4,210,304	-	482	535,469	13,989,053
Intergovernmental	30,316	-	237,201	-	114,566	382,083
Capital outlays	53,796	187,844	1,468,215	129	550,111	2,260,095
Debt service:						
Principal	20,268	21,545	469	-	629,035	671,317
Interest	570	6,537	302	-	732,102	739,511
Total Expenditures	23,782,771	4,428,583	2,967,922	715	4,836,429	36,016,420
Excess of Revenues Over (Under) Expenditures	(408,117)	(116,663)	(550,950)	344,634	(2,050,504)	(2,781,600)
OTHER FINANCING SOURCES (USES)						
Bonds issued	-	41,466	2,060,820	-	1,193,290	3,295,576
Refunding bonds issued	-	-	-	-	723,115	723,115
Payments to escrow agents for refunded bond debt	-	-	-	-	(792,468)	(792,468)
Bond issue premiums	-	690	32,569	-	156,463	189,722
Bond issue discounts	-	-	-	-	(69)	(69)
Other debt issued	4,186	107,991	-	-	203	112,380
Refunding other debt issued	-	11,960	1,710	-	2,150	15,820
Payments to escrow agents for refunded other debt	-	(12,517)	(1,800)	-	(2,262)	(16,579)
Transfers in	1,187,128	217,859	24,228	6,734	2,262,876	3,698,825
Transfers out	(1,566,398)	(136,535)	(341,733)	(100,848)	(1,306,378)	(3,451,892)
Total Other Financing Sources (Uses)	(375,084)	230,914	1,775,794	(94,114)	2,236,920	3,774,430
Net Change in Fund Balances	(783,201)	114,251	1,224,844	250,520	186,416	992,830
Fund Balances - Beginning, as restated	1,161,950	1,205,451	356,070	2,478,206	4,346,705	9,548,382
Fund Balances - Ending	$ 378,749	$ 1,319,702	$ 1,580,914	$ 2,728,726	$ 4,533,121	$ 10,541,212

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, 2010
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 992,830
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	$ 2,206,643	
Less: Depreciation expense	(508,267)	1,698,376
Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are deferred 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.		62,746
Pension trust funding in excess of annual required contributions uses current financial resources, but does not qualify as an expense.		(2,300)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		(70,715)
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 assets. In the current period, these amounts consist of:		
Bonds and other financing contracts issued	$ (4,800,227)	
Principal payments on bonds and other financing contracts	2,109,660	
Accreted interest on bonds	(38,898)	(2,729,465)
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	$ 6,414	
Other postemployment benefits obligations	(253,559)	
Unfunded pension obligations	(37,259)	
Pollution remediation obligations	(139,348)	
Claims and judgments	(56)	
Accrued interest	(31,838)	
Unclaimed property	(93,158)	
Other obligations	(59,442)	(608,246)
Change in Net Assets of Governmental Activities		$ (656,774)

The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Assets
PROPRIETARY FUNDS
June 30, 2010
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS						
Current Assets:						
Cash and pooled investments	$ 47,007	$ 2,321,418	$ 871,501	$ 347,259	$ 3,587,185	$ 335,349
Investments	2,377,679	-	4,353	540,290	2,922,322	2,702
Taxes receivable (net of allowance)	-	-	-	9,790	9,790	-
Other receivables (net of allowance)	588,631	521,125	159,153	28,113	1,297,022	6,973
Due from other funds	528	6,339	26,438	8,816	42,121	171,376
Due from other governments	1,207	104,828	53,325	3,767	163,127	8,396
Inventories	120	-	42,102	55,910	98,132	17,962
Prepaid expenses	-	-	19,397	1,343	20,740	5,102
Restricted assets:						
Cash and pooled investments	-	-	76,398	-	76,398	-
Receivables	-	-	-	20,315	20,315	5,610
Total Current Assets	3,015,172	2,953,710	1,252,667	1,015,603	8,237,152	553,470
Noncurrent Assets:						
Investments, noncurrent	11,894,481	-	223,455	1,632,035	13,749,971	71,268
Other noncurrent assets	-	-	67,806	222,778	290,584	29
Capital assets:						
Land and other non-depreciable assets	3,240	-	60,439	79,072	142,751	3,836
Buildings	62,705	-	1,920,425	420,691	2,403,821	168,506
Other improvements	1,661	-	74,401	21,751	97,813	18,796
Furnishings, equipment and intangible assets	69,688	-	394,769	70,169	534,626	766,227
Infrastructure	-	-	30,110	-	30,110	1,818
Accumulated depreciation	(81,377)	-	(914,115)	(170,406)	(1,165,898)	(527,511)
Construction in progress	7,443	-	153,540	50,034	211,017	12,628
Total Noncurrent Assets	11,957,841	-	2,010,830	2,326,124	16,294,795	515,597
Total Assets	14,973,013	2,953,710	3,263,497	3,341,727	24,531,947	1,069,067
LIABILITIES						
Current Liabilities:						
Accounts payable	2,882	-	61,591	30,671	95,144	60,226
Contracts and retainages payable	7,306	-	11,937	93,094	112,337	36,779
Accrued liabilities	161,014	2,613	156,726	128,644	448,997	32,524
Obligations under security lending agreements	2,377,679	-	-	489,787	2,867,466	-
Bonds and notes payable	4,030	-	47,017	74,062	125,109	23,775
Due to other funds	5,334	1,120	175,640	28,490	210,584	102,469
Due to other governments	-	20,135	6	97,716	117,857	41
Unearned revenue	7,996	-	34,286	52	42,334	726
Claims and judgments payable	2,132,081	-	-	4,501	2,136,582	237,626
Total Current Liabilities	4,698,322	23,868	487,203	947,017	6,156,410	494,166
Noncurrent Liabilities:						
Claims and judgments payable	21,893,751	-	-	7,989	21,901,740	635,530
Bonds and notes payable	18,080	-	1,092,441	251,481	1,362,002	171,843
Other long-term liabilities	29,914	-	90,983	2,012,422	2,133,319	25,440
Total Noncurrent Liabilities	21,941,745	-	1,183,424	2,271,892	25,397,061	832,813
Total Liabilities	26,640,067	23,868	1,670,627	3,218,909	31,553,471	1,326,979
NET ASSETS						
Invested in capital assets, net of related debt	41,251	-	656,509	215,334	913,094	254,293
Restricted for:						
Unemployment compensation	-	2,929,842	-	-	2,929,842	-
Unrestricted	(11,708,305)	-	936,361	(92,516)	(10,864,460)	(512,205)
Total Net Assets (Deficit)	$ (11,667,054)	$ 2,929,842	$ 1,592,870	$ 122,818	$ (7,021,524)	$ (257,912)

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES						
Sales	$ -	$ -	$ 145,636	$ 637,350	$ 782,986	$ 101,884
Less: Cost of goods sold	-	-	91,390	424,824	516,214	87,524
Gross profit	-	-	54,246	212,526	266,772	14,360
Charges for services	25	-	1,339,785	80,082	1,419,892	606,664
Premiums and assessments	1,727,722	1,241,121	-	-	2,968,843	1,300,093
Federal aid for unemployment insurance benefits	-	2,455,706	-	-	2,455,706	-
Lottery ticket proceeds	-	-	-	491,021	491,021	-
Miscellaneous revenue	27,195	46,682	209,960	7,090	290,927	111,189
Total Operating Revenues	1,754,942	3,743,509	1,603,991	790,719	7,893,161	2,032,306
OPERATING EXPENSES						
Salaries and wages	137,086	-	577,094	99,495	813,675	296,368
Employee benefits	48,557	-	154,896	41,630	245,083	83,609
Personal services	4,521	-	15,196	22,052	41,769	19,541
Goods and services	67,817	-	594,709	125,952	788,478	294,955
Travel	3,339	-	18,086	2,463	23,888	3,531
Premiums and claims	3,971,059	4,728,804	-	-	8,699,863	1,333,761
Lottery prize payments	-	-	-	291,828	291,828	-
Depreciation and amortization	7,991	-	101,021	16,325	125,337	69,208
Guaranteed education tuition expense	-	-	-	181,664	181,664	-
Miscellaneous expenses	26,287	-	16,113	578	42,978	2,223
Total Operating Expenses	4,266,657	4,728,804	1,477,115	781,987	11,254,563	2,103,196
Operating Income (Loss)	(2,511,715)	(985,295)	126,876	8,732	(3,361,402)	(70,890)
NONOPERATING REVENUES (EXPENSES)						
Earnings (loss) on investments	1,454,440	115,416	24,802	147,345	1,742,003	5,195
Interest expense	(1,271)	-	(59,313)	(34,917)	(95,501)	(8,207)
Distributions to other governments	-	-	-	(45,053)	(45,053)	-
Tax revenue	-	-	-	160,228	160,228	-
Other revenues (expenses)	7,878	-	7,191	30,581	45,650	(626)
Total Nonoperating Revenues (Expenses)	1,461,047	115,416	(27,320)	258,184	1,807,327	(3,638)
Income (Loss) Before Contributions and Transfers	(1,050,668)	(869,879)	99,556	266,916	(1,554,075)	(74,528)
Capital contributions	-	-	-	15	15	1,809
Transfers in	840	-	19,869	27,136	47,845	25,310
Transfers out	-	-	(23,570)	(276,190)	(299,760)	(23,306)
Net Contributions and Transfers	840	-	(3,701)	(249,039)	(251,900)	3,813
Change in Net Assets	(1,049,828)	(869,879)	95,855	17,877	(1,805,975)	(70,715)
Net Assets (Deficit) - Beginning, as restated	(10,617,226)	3,799,721	1,497,015	104,941	(5,215,549)	(187,197)
Net Assets (Deficit) - Ending	$ (11,667,054)	$ 2,929,842	$ 1,592,870	$ 122,818	$ (7,021,524)	$ (257,912)

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 1,952,915	$ 1,074,166	$ 1,477,391	$ 1,436,342
Payments to suppliers	(2,282,720)	(4,721,068)	(602,589)	(970,861)
Payments to employees	(178,887)	-	(708,190)	(135,136)
Other receipts (payments)	27,196	2,453,363	209,960	7,090
Net Cash Provided (Used) by Operating Activities	(481,496)	(1,193,539)	376,572	337,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	840	-	19,869	27,136
Transfers out	-	-	(23,570)	(276,190)
Operating grants and donations received	7,604	-	4,755	18
Taxes and license fees collected	113	-	-	186,208
Distributions to other governments	-	-	-	(45,053)
Other noncapital financing sources (uses)	-	-	-	4,384
Net Cash Provided (Used) by Noncapital Financing Activities	8,557	-	1,054	(103,497)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(1,346)	-	(60,307)	(13,602)
Capital contributions	-	-	-	15
Principal payments on long-term capital financing	(3,820)	-	(54,364)	(24,185)
Proceeds from long-term capital financing	-	-	143,779	-
Proceeds from sale of capital assets	39	-	14,094	989
Acquisitions of capital assets	(8,086)	-	(351,400)	(25,057)
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,213)	-	(308,198)	(61,840)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	523,356	115,416	18,350	18,929
Proceeds from sale of investment securities	5,021,292	-	30,688	433,527
Purchases of investment securities	(5,082,205)	-	(27,254)	(584,049)
Net Cash Provided (Used) by Investing Activities	462,443	115,416	21,784	(131,593)
Net Increase (Decrease) in Cash and Pooled Investments	(23,709)	(1,078,123)	91,212	40,505
Cash and Pooled Investments, July 1, as restated	70,716	3,399,541	856,687	306,754
Cash and Pooled Investments, June 30	$ 47,007	$ 2,321,418	$ 947,899	$ 347,259
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (2,511,715)	$ (985,295)	$ 126,876	$ 8,732
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	7,991	-	101,021	16,325
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	251,649	(215,981)	(5,103)	(16,047)
Inventories	22	-	(1,838)	(6,124)
Prepaid expenses	38	-	13,616	(979)
Change in Liabilities: Increase (Decrease)				
Payables	1,770,519	7,737	142,000	335,528
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (481,496)	$ (1,193,539)	$ 376,572	$ 337,435

The notes to the financial statements are an integral part of this statement.

Continued

Total	Governmental Activities Internal Service Funds
$ 5,940,814	$ 2,036,236
(8,577,238)	(1,692,577)
(1,022,213)	(379,904)
2,697,609	111,188
(961,028)	74,943
47,845	25,310
(299,760)	(23,306)
12,377	520
186,321	-
(45,053)	-
4,384	(1)
(93,886)	2,523
(75,255)	(8,299)
15	-
(82,369)	(46,987)
143,779	33,148
15,122	6,967
(384,543)	(66,109)
(383,251)	(81,280)
676,051	5,737
5,485,507	35,573
(5,693,508)	(39,501)
468,050	1,809
(970,115)	(2,005)
4,633,698	337,354
$ 3,663,583	$ 335,349
$ (3,361,402)	$ (70,890)
125,337	69,208
14,518	28,226
(7,940)	211
12,675	478
2,255,784	47,710
$ (961,028)	$ 74,943

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	$ -	$ -	$ -	$ -
Acquisition of capital assets through capital leases	-	-	71	-
Refunding Certificates of Participation issued	-	-	6,725	-
Refunding Certificates of Participation redeemed	-	-	7,005	-
Amortization of annuity prize liability	-	-	-	17,352
Increase (decrease) in fair value of investments	928,502	-	39	127,586
Refunding bonds issued	-	-	53,470	-
Refunding bonds redeemed	-	-	56,295	-
Amortization of debt premium (issue costs/discount)	-	-	(383)	(110)
Accretion of interest on zero coupon bonds	-	-	-	(3,709)
Increase in ownership of joint venture	-	-	6,963	-

The notes to the financial statements are an integral part of this statement.

Concluded

Total	Governmental Activities Internal Service Funds
$ -	$ 1,809
71	15
6,725	15,075
7,005	15,490
17,352	-
1,056,127	(528)
53,470	-
56,295	-
(493)	-
(3,709)	-
6,963	-

Statement of Fiduciary Net Assets
FIDUCIARY FUNDS
June 30, 2010
(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	$ 8,155	$ 3,535,387	$ 317,199	$ 262,259
Investments	-	3,852,658	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	111,752	-
Members (net of allowance)	-	-	2,560	-
Interest and dividends	-	-	168,917	-
Investment trades pending	-	-	3,599,468	-
Due from other pension and other employee benefit funds	-	-	1,626	-
Other receivables, all other funds	-	1,542	-	10,613
Due from other funds	-	-	79	215
Due from other governments	-	-	-	18,135
Total Current Assets	8,155	7,389,587	4,201,601	291,222
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	22,686,332	-
Fixed income	-	-	11,758,745	-
Private equity	-	-	13,560,126	-
Real estate	-	-	7,483,584	-
Security lending	-	-	3,667,614	-
Liquidity	-	-	1,645,221	-
Tangible asset	-	-	610,388	-
Investments, noncurrent, all other funds	18,128	939,909	-	17,858
Other noncurrent assets	-	-	-	32,175
Capital assets:				
Furnishings, equipment and intangible assets	32	-	-	-
Accumulated depreciation	(15)	-	-	-
Total Noncurrent Assets	18,145	939,909	61,412,010	50,033
Total Assets	26,300	8,329,496	65,613,611	$ 341,255
LIABILITIES				
Accounts payable	286	-	-	$ 9,048
Contracts and retainages payable	-	-	-	37,133
Accrued liabilities	111	57	4,177,204	53,616
Obligations under security lending agreements	-	-	3,667,614	-
Due to other funds	-	-	1,763	56
Due to other pension and other employee benefit funds	-	-	1,626	-
Due to other governments	-	-	-	209,228
Unearned revenue	-	-	1,087	-
Other long-term liabilities	-	-	-	32,174
Total Liabilities	397	57	7,849,294	$ 341,255
NET ASSETS				
Net assets held in trust for:				
Pension benefits	-	-	55,315,440	
Deferred compensation participants	-	-	2,448,877	
Local government pool participants	-	8,329,439	-	
Individuals, organizations & other governments	25,903	-	-	
Total Net Assets	$ 25,903	$ 8,329,439	$ 57,764,317	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 920,043
Members	-	-	941,664
State	-	-	68,631
Participants	-	17,193,607	185,120
Total Contributions	-	17,193,607	2,115,458
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	5,306,164
Interest and dividends	-	32,586	1,586,364
Less: Investment expenses	-	-	(226,686)
Net Investment Income (Loss)	-	32,586	6,665,842
Other Additions:			
Unclaimed property	48,422	-	-
Transfers from other pension plans	-	-	19,905
Other contracts, grants and miscellaneous	1	-	1,148
Total Other Additions	48,423	-	21,053
Total Additions	48,423	17,226,193	8,802,353
DEDUCTIONS			
Pension benefits	-	-	2,754,169
Pension refunds	-	-	202,207
Transfers to other pension plans	-	-	19,905
Administrative expenses	3,482	657	2,666
Distributions to participants	-	16,922,279	108,578
Payments to or on behalf of individuals, organizations and other governments in accordance with state unclaimed property laws	40,739	-	-
Total Deductions	44,221	16,922,936	3,087,525
Net Increase (Decrease)	4,202	303,257	5,714,828
Net Assets - Beginning	21,701	8,026,182	52,049,489
Net Assets - Ending	$ 25,903	$ 8,329,439	$ 57,764,317

The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Assets
COMPONENT UNITS
June 30, 2010
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
ASSETS			
Current Assets:			
Cash and pooled investments	$ 6,738	$ 14,925	$ 21,663
Investments	3,784	39,819	43,603
Other receivables (net of allowance)	442	1,712	2,154
Prepaid expenses	24	175	199
Total Current Assets	10,988	56,631	67,619
Noncurrent Assets:			
Investments, noncurrent	18,469	-	18,469
Other noncurrent assets	-	75,917	75,917
Capital assets:			
Land	34,677	-	34,677
Buildings	460,025	-	460,025
Furnishings, equipment and intangible assets	23,129	1,655	24,784
Accumulated depreciation	(145,112)	(1,320)	(146,432)
Total Noncurrent Assets	391,188	76,252	467,440
Total Assets	402,176	132,883	535,059
LIABILITIES			
Current Liabilities:			
Accounts payable	18	37,432	37,450
Contracts and retainages payable	2,566	-	2,566
Accrued liabilities	3,860	70	3,930
Unearned revenue	86	5,343	5,429
Total Current Liabilities	6,530	42,845	49,375
Noncurrent Liabilities:			
Other long-term liabilities	25,587	-	25,587
Total Noncurrent Liabilities	25,587	-	25,587
Total Liabilities	32,117	42,845	74,962
NET ASSETS			
Invested in capital assets, net of related debt	343,189	335	343,524
Restricted for deferred sales tax	20,490	-	20,490
Restricted for other purposes	-	500	500
Unrestricted	6,380	89,203	95,583
Total Net Assets (Deficit)	$ 370,059	$ 90,038	$ 460,097

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
COMPONENT UNITS
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
OPERATING REVENUES			
Charges for services	$ 1,031	$ 15,415	$ 16,446
Total Operating Revenues	1,031	15,415	16,446
OPERATING EXPENSES			
Salaries and wages	404	4,573	4,977
Employee benefits	74	1,247	1,321
Personal services	183	1,576	1,759
Goods and services	827	2,132	2,959
Travel	2	33	35
Depreciation and amortization	15,558	161	15,719
Miscellaneous expenses	-	173	173
Total Operating Expenses	17,048	9,895	26,943
Operating Income (Loss)	(16,017)	5,520	(10,497)
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	1,130	1,578	2,708
Operating grants and contributions	-	41,810	41,810
Distributions of operating grants	-	(41,256)	(41,256)
Naming rights	1,961	-	1,961
Other	15	-	15
Total Nonoperating Revenues (Expenses)	3,106	2,132	5,238
Income (Loss)	(12,911)	7,652	(5,259)
Capital grants and contributions	903	-	903
Total Contributions and Transfers	903	-	903
Change in Net Assets	(12,008)	7,652	(4,356)
Net Assets - Beginning	382,067	82,386	464,453
Net Assets - Ending	$ 370,059	$ 90,038	$ 460,097

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2010

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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 the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. 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); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either able to impose its will on that organization or 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 may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or 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.

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, and 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 state 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. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, 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 are authorized to issue revenue bonds. The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. The remainder of the college revenue bonds 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 assets reside with the state. Colleges 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 are legally part of the state, their financial operations, including their blended component units, are reported in the primary government 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 two 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 Board for Volunteer Fire Fighters, 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 state 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 ten 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. The following entities are blended in the state's financial statements:

Tobacco Settlement Authority (TSA). The TSA was created by the Washington State 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 for additional information.

Financial reports for the TSA may be obtained from the authority at the following address:

Tobacco Settlement Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

Other Blended Component Units. Tumwater Office Properties, the University of Washington (UW) Alumni Association, UW Physicians, UW Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, Washington Biomedical Research Properties I and II, and Washington Biomedical Research Facilities 3 are blended component units in the state's financial statements. All the aforementioned blended component units provide services entirely or almost entirely to the state. Financial information for these blended component units may be obtained from their respective administrative offices.

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 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 state 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 state 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 $373 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 defined 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
Qwest Field & Event Center
800 Occidental Avenue South, #700
Seattle, WA 98134

The state's component units each have a year-end of June 30 with the exception of the Washington Economic Development Finance Authority which has a December 31 year-end.

Joint Venture. 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 $7.4 million was recorded in Fiscal Year 2010, bringing the total equity investment to $63 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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Assets 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 Assets. The Statement of Net Assets presents the state's non-fiduciary assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories:

- Invested in capital assets, net of related debt 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.

- Restricted net assets result when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

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 663 accounts that are combined into 54 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 grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.

- **Motor Vehicle Special Revenue Fund** accounts for highway activities of the Washington State Patrol, operations of the state ferry system, maintenance of non-interstate highways and bridges, completion and preservation of the interstate system, and other transportation improvements. Motor Vehicle Fund revenues are generated from vehicle fuel taxes, vehicle licenses, tolling, and federal transportation agencies.

- **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 funds.

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.

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 legally restricted 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; driver licensing and non-highway transportation improvements; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for the acquisition, construction, or improvement of major capital facilities including higher education facilities.

- **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; state liquor stores; the guaranteed college tuition program; and the convention and trade center.

- **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 and defined contribution pension plans, and other employee benefit plans.

- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool (LGIP), 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.

Application of Restricted/Unrestricted Resources. 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.

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 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 is 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 deferred 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 debt is recognized when due, and certain compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available expendable financial resources.

The state reports deferred revenues on its governmental fund balance sheet under certain conditions. Deferred revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Deferred revenues also 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 and liabilities associated with the operations of these funds are included on their respective statements of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Net assets in proprietary funds are segregated into three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Net assets for trust funds are held in trust for external individuals and organizations.

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, AND NET ASSETS OR EQUITY

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, 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 (SEC) Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. 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, phone number (360) 902-9000 or TTY (360) 902-8963.

Certain pension trust fund investments, including real estate and private equity, are reported at fair values based on appraisals or estimates in the absence of readily ascertainable fair values. At June 30, 2010, these investments are valued at $21.7 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 Assets, 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.

Noncurrent receivables are recorded in the Workers' Compensation Fund representing estimated recoveries from third parties for a certain portion of claims expenses that are recorded as noncurrent claims payable. The accrued recoveries are computed using a variety of actuarial and statistical techniques and are discounted at assumed interest rates to arrive at the recorded value.

Disclosures related to the Workers' Compensation Fund activities and claims payable are provided in Notes 1.E.1 and 7.E.

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 within an agency is estimated to be $25,000 or more. Consumable inventories are generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value.

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally 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 $4.9 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

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

Unspent proceeds of state bond issues and other debt financing programs are classified as restricted assets because their use is limited by applicable bond and other debt covenants. These are reflected on the balance sheets and statements of net assets.

5. Capital Assets

Except as noted below, it is the state's policy to capitalize:

- All land;
- All additions and improvements to the state highway system;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or more;
- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or more that are identifiable by meeting one of the following conditions:
    - The asset is capable of being separate or divided and sold, transferred, licensed, rented, exchanged; or
    - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable;
- All other capital assets with a unit cost of $5,000 or greater, or collections with a total cost of $5,000 or greater, unless otherwise noted; and
- All capital assets acquired with Certificates of Participation, a debt financing program administered by the Office of the State Treasurer.

Assets acquired by capital leases are capitalized if the asset's fair market value meets the state's capitalization threshold 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.

State agencies have the option 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 Assets. 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. 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 unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable 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 Assets.

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.

7. 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 Assets. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums, discounts, and issue costs 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.

8. Fund Equity

In the fund financial statements, governmental funds report the difference between fund assets and fund liabilities as "fund balance." Reserved fund balance represents that portion of fund balance that is (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

In proprietary funds, fund equity is called net assets. Net assets are comprised of three components: invested in capital assets, net of related debt; restricted; and unrestricted.

E. OTHER INFORMATION

1. Insurance Activities

Workers' Compensation. Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all applicable employers to secure coverage for job-related injuries and diseases 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 the Supplemental Pension Fund premiums 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 liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent paid losses, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Changes to claims liabilities from prior periods are charged or credited to expense in the periods in which they are made.

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 eight 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 the Employee Insurance Fund, an internal service 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 and the Aetna Public Health Plan.

The Uniform Medical and Aetna Public Health Plans enrolled 63.1 percent of the eligible subscribers in Fiscal Year 2010. 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.

Prior to Fiscal Year 2009, the institutions generally used a 5 percent spending rate policy for authorizing and spending investment income. However, in light of the 2008-2009 financial crisis and subsequent drop in endowment values, the institutions adopted interim spending policies that decreased distributions to campus programs during Fiscal Years 2009 and 2010. Thereafter, distributions will remain at reduced levels until market conditions warrant a return to normal spending.

The net appreciation available for authorization for expenditure by governing boards totaled $151 million. This amount is reported as Restricted for Permanent Funds – Expendable on the government-wide Statement of Net Assets.

Note 2
Accounting and Reporting Changes

Reporting Changes. Effective for Fiscal Year 2010 reporting, the state implemented the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable.

Retroactive reporting of the provisions of the statement is generally required with the exception of intangible assets considered to have indefinite useful lives and those considered to be internally generated. The state did not have any intangibles assets at June 30, 2010 that were subject to retroactive reporting.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Statement No. 53 requires the state to report derivative instruments at fair value as assets or liabilities in the financial statements and to disclose a summary of derivative instrument activity as well as the objectives, significant terms, and risks associated with derivative instruments.

Fund Reclassification. During Fiscal Year 2010, it was determined that an activity being reported in the Central Administrative and Regulatory Fund, a Nonmajor Governmental Fund, would be more appropriately reported in the Health Insurance Internal Service Fund. To correct this situation, beginning fund balances were restated to effect the proper fund classification of the activity.

Fund equity at July 1, 2009, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2009, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2009
Governmental Funds:				
General	$ 1,161,950	$ -	$ -	$ 1,161,950
Higher Education Special Revenue	1,205,451	-	-	1,205,451
Motor Vehicle Special Revenue *	356,070	-	-	356,070
Higher Education Endowment	2,478,206	-	-	2,478,206
Nonmajor Governmental *	4,347,186	(481)	-	4,346,705
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(10,617,226)	-	-	(10,617,226)
Unemployment Compensation	3,799,721	-	-	3,799,721
Higher Education Student Services	1,497,015	-	-	1,497,015
Nonmajor Enterprise	104,941	-	-	104,941
Internal Service Funds	(187,678)	481	-	(187,197)
Fiduciary Funds:				
Private Purpose Trust	21,701	-	-	21,701
Local Government Investment Pool	8,026,182	-	-	8,026,182
Pension and Other Employee Benefit Plans	52,049,489	-	-	52,049,489
Component Units:				
Public Stadium	382,067	-	-	382,067
Nonmajor Component Units	82,386	-	-	82,386

* The Motor Vehicle Special Revenue was reported as a nonmajor governmental fund in Fiscal Year 2009, but became a major fund for reporting purposes in Fiscal Year 2010.

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 restrict the State Treasurer 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, 2010, $829.8 million of the state's deposits with financial institutions were either insured or collateralized, with the remaining $23.9 million uninsured/ uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

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, as it makes its investment decisions and seeks to meet its investment objectives.

The WSIB manages the self-directed investments of the Public Employees' Retirement System (PERS) Plan 3, Teachers' Retirement System (TRS) Plan 3, School Employees' Retirement System (SERS) Plan 3 or Deferred Compensation. Administration of these plans and program rests with the Department of Retirement Systems (DRS). Members of the plans and program select and manage their asset allocation among the various investment options offered.

The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy. The WSIB is authorized to invest 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 2010.

The WSIB manages pension fund assets to maximize return at a prudent level of risk (RCW 43.33A.110). 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. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is comprised of public market equities, fixed income securities, private equity investments, real estate and tangible assets. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every four years. The allocation policy will be reviewed more frequently if the WSIB believes 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.

In October 2007, the public equity program adopted a global benchmark, the Dow Jones Global Total Stock Markets Index, reflecting the globalization of capital markets. The CTF also reduced its asset allocation to public equity from 46 percent to 37 percent to facilitate increased allocations to alternative investments (private equity, real estate, and tangible assets).

Even though the fund moved to a global benchmark, the program was not substantially restructured and, thus, the public equity portfolio remains a combination of separate U.S. and international components. Because U.S. equity markets are generally efficient, all of the WSIB's investments in this segment are in a low-cost, broad-based passive index fund. In keeping with the belief that international equity markets are less efficient while acknowledging that international efficiency is increasing, the WSIB's developed markets international equity program has increased its use of passive strategies to 35 percent, but kept the majority of the program in active mandates. The entire emerging markets equity program is actively managed.

The 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 holdings of below investment grade credit bonds shall not exceed 15 percent of total bond holdings. 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 20 percent of the duration of the Barclays Capital Universal Index.

In addition, the major sector allocations are limited to the following ranges: U.S treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 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 include venture capital investments, corporate finance, distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles.

The portfolio is managed to meet or exceed the returns of the Russell 3000 (lagged by one quarter) plus 300 basis points. 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 are primarily targeted to be tangible asset operating companies providing the WSIB with governance provisions related to acquisition, dispositions, 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 combination of 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 to 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. Secondly, real estate capital is diversified among a host of partners with varying investment styles. Thirdly, 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 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 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, all innovation portfolio investment managers are investing in publicly traded common stock.

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, 2010, the retirement funds had unfunded commitments of $7.6 billion, $7.4 billion and $482 million in private equity, real estate and tangible assets, 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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The pension trust funds report securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets.

Securities received as collateral are reported as assets if the pension trust funds have the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Statement of Net Assets. Securities lending transactions collateralized by securities that the pension trust funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities were loaned (consisting of fixed income and equities) and collateralized by the pension trust funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2010, were $4.0 billion and $3.9 billion respectively. At year-end, the amounts the pension trust funds owed the borrowers exceeded the amounts the borrowers owed pension trust funds, resulting in no credit risk exposure.

During Fiscal Year 2010, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of loans for 2010 was 2.2 days.

Cash collateral was invested by the WSIB's agents in securities in the WSIB's separately managed short-term investment pool (average final maturity of 30 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $304 million has not been included in the Statement of Net Assets. 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. JPMorgan indemnified the WSIB 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. JPMorgan'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 2010, there were no significant violations of legal or contractual provisions, or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the pension trust funds incurred no losses during Fiscal Year 2010 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. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of future cash flows, weighted for those flows as a percentage of the investment's full price.

Increases in prevailing interest rates generally translate into decreases in fair values of those investments, and decreases in interest rates result in increases in valuations.

The WSIB does not have a formal policy specifically for interest rate risk. The pension trust funds' fixed income investments are actively managed to exceed the return of the Barclays Capital Universal Index, with a duration that is not 20 percent higher or lower than the duration of the index.

As of June 30, 2010, the pension trust funds' duration was within the duration target of this index.

The following schedule provides information about the interest rate risks associated with the pension trust funds' investments as of June 30, 2010. The schedule displays various asset classes held by maturity in years and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date. Foreign corporate bonds and corporate equities are reported in U.S. dollar (USD) and non U.S. dollar (Non USD) denominations.

Pension Trust Funds
June 30, 2010
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Credit Rating**
Asset backed securities	$ 188,397	$ 19,141	$ 155,122	$ 7,499	$ 6,635	Multiple
Residential mortgage backed securities	2,875,074	360,808	2,502,015	12,251	-	Multiple
Commercial mortgage backed securities	478,293	60,363	416,905	1,025	-	Multiple
Corporate bonds - domestic	1,624,171	15,092	450,788	982,961	175,330	Multiple
Corporate bonds - foreign (USD)	4,405,322	103,819	979,626	2,639,195	682,682	Multiple
Corporate bonds - foreign (Non USD)	666,549	-	242,745	307,068	116,736	Multiple
U.S. government treasuries	673,678	-	673,678	-	-	Aaa
Treasury inflation protected securities	847,259	-	847,259	-	-	Aaa
	11,758,743	$ 559,223	$ 6,268,138	$ 3,949,999	$ 981,383	
Corporate stock (USD)	659,330					
Corporate stock (Non USD)	7,504,394					
Commingled equity index funds	10,204,806					
Alternative investments	21,654,099					
Liquidity	1,061,657					
Securities lending collateral	3,667,615					
Total	$ 56,510,644					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

Pension Trust Funds
Investments with Multiple Credit Ratings
June 30, 2010
(expressed in thousands)

	Investment Type						
Moody's Equivalent Credit Rating	**Asset-Backed Securities**	**Residential Mortgage Backed Securities**	**Commercial Mortgage Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds -Foreign (USD)**	**Corporate Bonds - Foreign (Non USD)**	**Total**
Aaa	$ 146,601	$ 2,816,711	$ 385,755	$ 102,049	$ 27,344	$ 511,086	$ 3,989,546
Aa1	-	3,997	-	-	-	-	3,997
Aa2	531	8,077	52,032	-	186,560	-	247,200
Aa3	6,978	3,535	40,506	143,150	252,738	-	446,907
A1	-	2,864	-	112,531	492,134	-	607,529
A2	-	-	-	226,212	163,997	788	390,997
A3	-	-	-	71,017	364,398	29,214	464,629
Baa1	3,116	4,582	-	389,580	419,845	-	817,123
Baa2	-	2,733	-	367,526	851,575	26,834	1,248,668
Baa3 and lower	31,171	32,575	-	212,106	1,646,731	98,627	2,021,210
Total	$ 188,397	$ 2,875,074	$ 478,293	$ 1,624,171	$ 4,405,322	$ 666,549	$ 10,237,806

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Rated debt investments of the pension trust funds as of June 30, 2010, 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 WSIB policy states no corporate fixed income issue 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, 2010.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the pension trust funds would not be able to recover the value of investments that are in the possession of an outside party. The WSIB does not have a policy specifically for custodial credit risk. The WSIB mitigates custodial risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the WSIB for the benefit of the pension trust funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

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 WSIB does 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 pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars.

Pension Trust Funds
Foreign Currency Risk
June 30, 2010
(expressed in thousands)

	Investment Type					
Foreign Currency Denomination	**Currency**	**Fixed Income**	**Equity**	**Private Equity**	**Real Estate**	**Total**
Australia-Dollar	$ 4,378	$ 373,361	$ 365,690	$ -	$ 18,282	$ 761,711
Brazil-Real	399	134,079	100,424	-	-	234,902
Canada-Dollar	1,858	-	453,623	-	-	455,481
Denmark-Krone	348	-	81,982	-	-	82,330
E.M.U.-Euro	41,010	-	2,006,480	1,575,005	120,529	3,743,024
Hong Kong-Dollar	1,165	-	332,591	-	-	333,756
India-Rupee	1,148	-	81,184	-	-	82,332
Indonesia-Rupiah	4	26,068	36,854	-	-	62,926
Japan-Yen	11,054	-	1,302,333	-	-	1,313,387
Mexico-Peso	338	29,214	36,480	-	-	66,032
Norway-Krone	1,169	43,247	72,110	-	-	116,526
Poland-Zloty	504	-	18,298	-	-	18,802
Singapore-Dollar	413	-	111,556	-	-	111,969
South Africa-Rand	113	-	97,343	-	-	97,456
South Korea-Won	392	-	116,472	-	-	116,864
Sweden-Krona	849	-	184,503	694	-	186,046
Switzerland-Franc	3,182	-	505,957	-	-	509,139
Taiwan-Dollar	11,533	-	106,170	-	-	117,703
Turkey-Lira	265	49,028	94,903	-	-	144,196
United Kingdom-Pound	3,556	788	1,274,108	9,486	-	1,287,938
Other-Miscellaneous	1,422	10,764	125,333	-	-	137,519
Total	$ 85,100	$ 666,549	$ 7,504,394	$ 1,585,185	$ 138,811	$ 9,980,039

7. Derivatives

Pension trust funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the international and domestic active equity strategy, at June 30, 2010, the pension trust funds held investments in financial futures, forward currency contracts and other derivative securities that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Assets in the period of change.

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 and to be announced (TBA) securities. 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, 2010, the pension trust funds counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net asset positions on contracts with each counterparty.

Mortgage TBA's are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date. TBA's carry future settlement risk due to the possibility of not receiving the asset or associated gains specified in the contract and such loss upon failure by counterparties to deliver under the contracts is not material at June 30, 2010.

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 generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or 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 credit risk due to the possible nonperformance by one of the counterparties. 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, 2010, the pension trust funds had outstanding forward currency contracts to purchase foreign currencies with a fair value of $1.6 billion and outstanding contracts to sell foreign currencies with a fair value of $1.6 billion. The net unrealized loss of $1.8 million is included in the Statement of Changes in Net Assets. The contracts have varying maturity dates ranging from July 1, 2010, to November 10, 2010.

At June 30, 2010, the pension trust funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $1.1 billion. 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 maximum loss that would be recognized at June 30, 2010, if all counterparties fail to perform as contracted is $1.8 million of unrealized gain on TBA securities. This maximum exposure is reduced by $1.8 million of unrealized losses on forward currency contracts, resulting in de minimus exposure to credit risk.

At June 30, 2010, the counterparties' credit ratings for forward currency contracts that are subject to credit risk had a credit rating of no less than A2 using the Moody's rating scale.

The following schedule presents the significant terms for derivatives held as investments by the WSIB.

Pension Trust Funds
Derivative Investments
June 30, 2010
(expressed in thousands)

	Changes in Fair Value - Included in Investment Income (Loss) Amount	Fair Value - Investment Derivative Amount	Notional
Futures Contracts:			
Bond index futures	$ 4,952	$ 4,952	4
Equity index futures	19,262	(1,990)	3
Total	$ 24,214	$ 2,962	7
To Be Announced (TBA) Securities:			
Total	$ 1,810	$ 257,135	242,000
Forward Currency Contracts:			
Australia-Dollar	$ 2,177	$ 1,791	61,633
Canada-Dollar	5,355	(1,027)	133,531
Czech Republic-Koruna	361	(29)	(179,503)
Denmark-Krone	(56)	(44)	(35,714)
E.M.U.-Euro	(2,612)	(2,304)	(70,243)
Hong Kong-Dollar	(53)	(54)	(294,796)
Hungary-Forint	675	409	(920,416)
Israel-Shekel	-	-	1,281
Japan-Yen	(478)	2,813	6,747,048
Mexico-Peso	-	-	(2,323)
New Zealand-Dollar	117	(1)	(2)
Norway-Krone	21	20	(87,285)
Poland-Zloty	2,242	479	(17,930)
Singapore-Dollar	4	1	(2,189)
South Africa-Rand	(94)	(89)	(16,362)
Sweden-Krona	(3,090)	(2,606)	(442,845)
Switzerland-Franc	34	(150)	(3,234)
United Kingdom-Pound	(555)	(1,003)	19,899
United States-Dollar	-	-	(60,699)
Total	$ 4,048	$ (1,794)	4,829,851

8. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2010.

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship over the investment of the workers' compensation fund investments is vested in the voting members of the WSIB. The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, as it makes investment decisions and seeks to meet its investment objectives.

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 those 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 RCW 43.33A.110. 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 workers' compensation funds 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.
- 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.
- 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.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones U.S. Total Stock Market Index. The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long-term position.
- 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 fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.
- 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 70 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 as soon as it is practical to the target allocations.

- Total holdings of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) should not exceed 5 percent of total fixed income holdings.

2. Securities Lending

State law and Board policy permit the workers' compensation fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JPMorgan to act as agent for the workers' compensation fund in securities lending transactions. As JPMorgan is the custodian bank for the workers' compensation fund, it is counterparty to securities lending transactions.

The workers' compensation fund reports securities lent (the underlying securities) as assets in the Statement of Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the workers' compensation fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Statement of Net Assets. Securities lending transactions collateralized by securities that the workers' compensation fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2010 was $2.6 billion and $2.5 billion, respectively. As of June 30, 2010, the amounts the workers' compensation fund owed the borrowers exceeded the amounts the borrowers owed the workers' compensation fund resulting in no credit risk exposure to borrowers.

During Fiscal Year 2010, securities lending transactions could be terminated on demand by either the workers' compensation fund or the borrower. The weighted average maturity of loans was 2.2 days.

Cash collateral was invested by the workers' compensation fund in the WSIB's short-term investment pool (average final maturity of 30 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. Accordingly, non-cash collateral held under securities lending contracts with a value of $197 million have not been included in the Statement of Net Assets. 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. JPMorgan 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. JPMorgan'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 2010, 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 2010 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. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The WSIB does not have a formal policy specifically for interest rate risk.

The workers' compensation fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2010, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

The workers' compensation fund investments include both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently re-price to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following schedule provides information about the interest rate risks associated with the workers' compensation fund investments as of June 30, 2010. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on the schedule are reported using the stated maturity date.

Workers' Compensation Fund
June 30, 2010
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**More than 10 Years**	**Credit Rating**
Residential mortgage backed securities	$ 1,747,601	$ 23,935	$ 889,862	$ 732,074	$ 101,730	Aaa
Commercial mortgage backed securities	554,452	56,490	351,054	146,125	783	Multiple
Corporate bonds-domestic	3,081,812	125,039	680,589	1,016,490	1,259,694	Multiple
Corporate bonds-foreign (USD)	2,753,892	118,326	824,662	1,029,889	781,015	Multiple
Government securities-domestic:						
U.S. government treasuries	605,292	-	605,292	-	-	Aaa
U.S. treasury inflation protected securities	1,606,498	89,365	246,323	704,527	566,283	Aaa
	10,349,547	$ 413,155	$ 3,597,782	$ 3,629,105	$ 2,709,505	
Commingled index funds-domestic	775,728					
Commingled index funds-foreign	548,241					
Money market funds	220,860					
Securities lending collateral	2,377,679					
Total	$ 14,272,055					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2010
(expressed in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	**Commercial Mortgage Backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds-Foreign (USD)**	**Total**
Aaa	$ 485,785	$ 116,121	$ 375,071	$ 976,977
Aa2	28,161	-	245,091	273,252
Aa3	40,506	364,886	316,124	721,516
A1	-	307,416	329,248	636,664
A2	-	786,111	84,836	870,947
A3	-	290,627	240,360	530,987
Baa1	-	510,699	288,580	799,279
Baa2	-	513,004	522,373	1,035,377
Baa3 and lower	-	169,785	300,244	470,029
Other	-	23,163	51,965	75,128
Total	$ 554,452	$ 3,081,812	$ 2,753,892	$ 6,390,156

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The rated debt investments of the workers' compensation fund as of June 30, 2010, 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 no corporate fixed income issue's 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, 2010.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the workers' compensation fund would not be able to recover the value of investments that are in the possession of an outside party. The workers' compensation fund does not have a policy specifically for custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the WSIB for the benefit of the workers' compensation fund, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

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. The workers' compensation funds had $548 million invested in an international commingled equity index fund. As such, no currency denomination risk is presented.

6. Derivatives

The workers' compensation fund is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. 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, and 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.

Consistent with the workers' compensation fund's authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2010.

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, 2010, the only derivative securities held directly by the workers' compensation fund were collateralized mortgage obligations (CMOs) of $1.7 billion.

7. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2010 and there were no liabilities outstanding as of June 30, 2010.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

1. Summary of Investment Policies

The 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 OST is responsible for establishing the investment policy for the pool and reviews it 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 LGIP is comparable to a Rule 2a-7 money market fund 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. As such, investments are reported at amortized cost (which approximates fair value).

Investment Objectives. The objectives of the LGIP investment policy, in priority order, are safety, liquidity, and return on investment. To provide for the safety and liquidity of 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 the policy.
- Limit the purchase of investments in securities so that the weighted average maturity of the portfolio, as defined in Section VI of the policy, does not exceed 90 days.
- Limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in section VI of the policy.
- Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies.
- Prepare regular reports of portfolio activity.

The primary objective of safety will be measured in cash, as opposed to accounting terms, where different, and in terms of the portfolio, as a whole, as opposed to the terms of any individual transaction. This means, for example, that a single transaction that generated an accounting loss but actually increased the amount of cash received in the portfolio would be considered to have increased capital, and not decreased it. Within the restrictions necessary to ensure the safety and liquidity of funds, the investment portfolio of the LGIP will be structured to attain a market rate of return throughout an economic cycle.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (Chapters 39.58, 39.59, 43.84.080 and 43.250 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 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 WSIB regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political sub-divisions.

Investment Restrictions. To provide for the safety and liquidity of LGIP Funds, the investment portfolio will be subject to the following restrictions:

- All money market securities are required to be rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc.
- Investments are restricted to fixed rate securities that mature in 397 days or less, and floating and variable rate securities that mature in 762 days or less.
- The weighted average maturity of the portfolio may not exceed 90 days.
- 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

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 2010, 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, the contract requires the lending agent to indemnify the LGIP if the borrowers fail to return the 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 neither violations of legal or contractual provisions nor any losses resulting from a default of a borrower or lending agent during the year.

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, which has contracted with a lending agent to lend securities in the LGIP, earns a fee for 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 fair 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 repurchase agreements or money market instruments, 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. There were no securities on loan as of June 30, 2010.

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 portfolio is managed in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. Much of the Rule 2a-7 investment guidelines are directed towards limiting interest rate risk, in order to maintain a stable net asset value.

The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except securities utilized in repurchase agreements and U.S.

Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost.

As of June 30, 2010, the LGIP had a weighted average maturity of 49 days.

The following schedule presents the LGIP investments by type and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2010.

Local Government Investment Pool (LGIP)
June 30, 2010
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. government obligations	$ 449,640	$ 449,640	$ -
U.S. agency obligations	5,082,699	4,142,790	939,909
Repurchase agreements	2,600,000	2,600,000	-
Certificates of deposit	38,000	38,000	-
Interest bearing bank accounts	826,328	826,328	-
Total	$ 8,996,667	$ 8,056,758	$ 939,909

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, or 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 Nationally Recognized Statistical Rating Organizations (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 of a failure of the counter party, the LGIP will not be able to recover the value of the investment 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. 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 percentage of the portfolio invested with any one issuer.

With the exception of U.S. Treasury and U.S. Agency securities, the OST mitigates concentration of credit risk by limiting the purchase of securities of any one issuer to no more than 5 percent of the portfolio. As of June 30, 2010, U.S. Treasury securities comprised 5.0 percent of the total portfolio. U.S. Agency securities comprised 56.5 percent of the total portfolio, including Federal Home Loan Mortgage Corporation (11.7 percent), Federal Home Loan Bank (8.3 percent), Federal National Mortgage Association (20.2 percent), and Federal Farm Credit Bank (16.3 percent).

5. Foreign Currency Risk. None.

6. Derivatives

A derivative is a futures, forward, swap, or option contract, or other financial instrument with similar characteristics. The LGIP did not own, buy, or sell derivatives during the fiscal year.

7. Reverse Repurchase Agreements

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 fair 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 fair 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 fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the fiscal year there was no credit risk for the LGIP due to the fair value plus accrued interest of the underlying securities being less than the fair value plus accrued interest of the reinvested cash. On June 30, 2010, there were no obligations under 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 securities utilized in all other 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 (CMO) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) 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, 2010, repurchase agreements totaled $2.6 billion.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT 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 and Endowment 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 (UWINCO) 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 lent securities, mutual funds, venture capital, private equity, distressed, marketable alternatives, mortgages, real estate, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2010, the Invested Funds Pool totaled $1.1 billion. The fund also owns units in the Consolidated Endowment Fund valued at $354.9 million on June 30, 2010.

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 2010. Endowment operating and gift accounts received 3 percent in Fiscal Year 2010. 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.

During Fiscal Year 2009, in light of the 2008-2009 financial crises and the decline in the CEF market value, the Board of Regents implemented an interim spending policy. Under the interim policy, year-over-year CEF distributions decreased from the Fiscal Year 2008 level by 25 percent in Fiscal Years 2009 and 2010.

At their October 21, 2010 meeting, the Board of Regents adopted a new spending policy for the CEF replacing the interim spending policy. Under the new policy, quarterly distributions to programs will equal 4 percent of a five-year rolling average. The new policy is effective with the December 2010 quarterly distributions with the five year averaging period implemented incrementally. The administrative fee of 1 percent supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets continues but will now be based on a five year average value consistent with the basis for program distributions.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Assets category. Of the total $1.1 billion permanent endowment funds (at fair value) as of June 30, 2010, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is $53.3 million at June 30, 2010.

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 $45.6 million at June 30, 2010. Income received from these trusts which is included in investment income, was $2.2 million for the year ended June 30, 2010.

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 $138 million in 2010 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 (depreciation) appreciation in the fair value of investments during the year ended June 30, 2010 was $223.8 million.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2010:

University of Washington
June 30, 2010
(expressed in thousands)

Investment Type	Fair Value
Cash equivalents	$ 337,842
Domestic fixed income	1,105,961
Foreign fixed income	18,909
Domestic equity	421,489
Foreign equity	479,014
Non-marketable alternatives	407,847
Absolute return	376,730
Real estate	9,737
Miscellaneous	4,471
Total	$ 3,162,000

2. Funding Commitments

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2010, the University had outstanding commitments to fund alternative investments in the amount of $215.3 million.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University terminated this program in September 2008, and as of June 30, 2010 the University has no securities on loan.

4. Interest Rate Risk

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. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on a calculation entitled Macaulay duration.

Macaulay is an accepted calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price. Modified duration is calculated using the following formula: Macaulay duration divided by (one plus yield-to-maturity divided by the number of coupon payments per year).

The Interest Rate Risk Schedule presents the modified duration of the University's investments for which duration is measured. Duration figures at June 30, 2010, exclude $60.4 million of fixed-income securities held outside the CEF and the Invested Funds Pool. These amounts, which in total makeup 1.9 percent of the University's investments, are not included in the duration figures below.

University of Washington
Interest Rate Risk
Duration as of June 30, 2010
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset backed securities	$ 28,716	2.11	$ 33,336	1.87
Cash equivalents	54,932	1.59	252,486	0.02
Corporate bonds	84,748	2.84	37,797	1.55
Government and agencies	143,467	1.99	692,698	3.26
Mortgage related	16,052	2.53	45,230	2.91
Subtotal Domestic Fixed Income	327,915	2.18	1,061,547	2.37
International Fixed Income				
Cash equivalents	3	-	-	-
International fixed	5,620	3.89	7,215	2.21
Subtotal International Fixed Income	5,623	3.89	7,215	2.21
Total	$ 333,538	2.14	$ 1,068,762	2.36

5. Credit Risk

Credit risk is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or negative perceptions of the issuer's ability to make these payments will cause prices to decline.

The University investment policies limit fixed income exposure to investment grade assets. The investment policy for the University's invested funds cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The invested funds liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 50 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 assets are held in the name of the University of Washington 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 University mitigates concentration of credit risk by maintaining a portfolio of investment grade assets and by the due diligence of each manager.

The following schedule provides information on investments subject to credit risk.

University of Washington
Investments Credit Rating
As of June 30, 2010
(expressed in thousands)

Credit Rating	Consolidated Endowment Fund Asset Value	Invested Funds Asset Value
AAA	$ 81,363	$ 179,212
AA	38,473	20,504
A	30,979	5,062
BBB	8,384	2,930
BB	188	1,514
B	449	1,564
CCC	485	7,936
CC	203	1,612
Not rated	13,254	9,419
Total	$ 173,778	$ 229,753

6. Foreign Currency Risk

The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure. The University also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure.

At June 30, 2010, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $4.7 million, which equals 0.15 percent of the total portfolio.

The following schedule details the market value of foreign denominated securities by currency type in the CEF.

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2010
(expressed in thousands)

Foreign Currency	Foreign Fixed Income	Foreign Equity	Alternatives and Other Investments
Australia-Dollar	$ -	$ 7,159	$ 4,436
Brazil-Real	-	43,553	306
Britain-Pound	4,134	34,199	16,970
Canada-Dollar	1,224	9,023	15,353
China-Renminbi	-	43,613	7,511
E.M.U.-Euro	1,681	52,258	59,432
India-Rupee	-	30,865	22,170
Hong Kong-Dollar	-	31,300	4,804
Japan-Yen	-	40,845	13,273
Russia-Ruble	-	27,717	2,070
Singapore-Dollar	-	10,641	1,946
South Korea-Won	-	18,897	867
Switzerland-Franc	1,600	18,971	3,431
Taiwan-Dollar	3	19,845	2,648
Other (less than 2% total exposure)	-	77,545	20,999
Total	$ 8,642	$ 466,431	$ 176,216

7. Derivatives

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Under the University's investment policies and guidelines derivatives may be used to manage the aggregate portfolio risk/return profile. This includes the use of swaps, options, futures and other derivative products to adjust exposures, to equitize cash, or to rebalance across asset classes.

The University's participation in investment derivative activity in total return swaps during Fiscal Year 2010 is summarized in the following schedule. The values are based on quoted market prices.

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, 2010.

The University did not invest in derivatives for hedging purposes during Fiscal Year 2010. Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

University of Washington
Derivative Investments
June 30, 2010
(expressed in thousands)

	Change in Fair Value		Fair Value			
Derivative Instrument	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**	**Counterparty Credit Rating**
Equity swap	Investment revenue (loss)	$ (5,110)	Investment	$ (5,110)	$ 92,940	A-1

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.

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, 43.84.080 and 43.250 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 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 State Investment Board regarding commercial paper (RCW 43.84.080(7).
- Deposits with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool, for proceeds of bonds or other debt obligations, when the investments are made in order to comply with the Internal Revenue Code of 1986, as amended.
- Obligations of the state of Washington or its political sub-divisions.

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 (CMO) requires prior approval from the treasurer or assistant treasurer; CMO securities must pass the Federal Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.
- The allocation to investments subject to high 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, which has contracted with a lending agent to lend securities, earns a fee for this activity.

The OST lending agent lends U.S. government and U.S. agency 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 fair 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 repurchase agreements or money market instruments, 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.

The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the 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, 2010, there were no securities on loan.

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 2010, 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 will adversely affect the value of the 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 fair value of the OST's investments by type at June 30, 2010.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2010
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**
U.S. agency obligations	$ 1,047,761	$ 141,034	$ 906,727
U.S. government obligations	248,657	-	248,657
Repurchase agreements	2,400,000	2,400,000	-
Certificates of deposit	187,177	187,177	-
Interest bearing bank accounts	231,296	231,296	-
Total	$ 4,114,891	$ 2,959,507	$ 1,155,384

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 to 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 2010, the non-governmental securities of a single issuer held by the Cash Management Account did not exceed 5 percent of the total portfolio.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

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 fair 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 fair 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 fair 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.

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 securities utilized in all other 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 Treasury/Trust custodian in the state's name. Collateralized Mortgage Obligations (CMOs) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency. There were no reverse repurchase agreements as of June 30, 2010.

Note 4
Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2010, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 965,191	$ -	$ -	$ -	$ 221	$ 965,412
Sales	1,293,167	3,534	-	-	2,090	1,298,791
Business and occupation	490,627	-	-	-	-	490,627
Estate	4,574	17,635	-	-	-	22,209
Fuel	-	-	111,238	-	2	111,240
Other	2,925	-	-	-	132	3,057
Subtotals	2,756,484	21,169	111,238	-	2,445	2,891,336
Less: Allowance for uncollectible receivables	53,237	-	702	-	22	53,961
Total Taxes Receivable	$ 2,703,247	$ 21,169	$ 110,536	$ -	$ 2,423	$ 2,837,375

Other Receivables

Other receivables at June 30, 2010, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 1,132,069	$ -	$ -	$ -	$ -	$ 1,132,069
Accounts receivable	63,603	175,815	25,119	860	43,053	308,450
Interest	-	6,744	-	4,160	3,956	14,860
Loans (2)	2,887	132,964	-	-	374,497	510,348
Long-term contracts (3)	1,449	-	-	8,639	53,633	63,721
Miscellaneous	30,045	44,368	46,858	9,437	192,631	323,339
Subtotals	1,230,053	359,891	71,977	23,096	667,770	2,352,787
Less: Allowance for uncollectible receivables	941,862	21,216	8,417	13	14,200	985,708
Total Other Receivables	$ 288,191	$ 338,675	$ 63,560	$ 23,083	$ 653,570	$ 1,367,079

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 $108 million in the Higher Education Special Revenue Fund for student loans and $364 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.

Deferred Revenue

Deferred revenues at June 30, 2010, consisted of the following (expressed in thousands):

Deferred Revenue	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 946,756	$ -	$ -	$ -	$ 78	$ 946,834
Other taxes	334,959	14,638	-	-	106	349,703
Timber sales	1,448	-	-	8,640	53,633	63,721
Charges for services	17,457	196,087	13,629	359	35,593	263,125
Donable goods	636	-	-	-	4,218	4,854
Grants and donations	27,927	759	137	-	16,963	45,786
Loan program	1,694	-	-	-	677,336	679,030
Miscellaneous	30,665	5,390	11,208	-	20,945	68,208
Total Deferred Revenue	$ 1,361,542	$ 216,874	$ 24,974	$ 8,999	$ 808,872	$ 2,421,261

B. PROPRIETARY FUNDS

Taxes Receivable

Taxes receivable at June 30, 2010, consisted of $9.8 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2010, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Other Receivables	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Accounts receivable	$ 110,950	$ -	$ 228,926	$ 22,420	$ 362,296	$ 4,167
Interest	102,318	-	530	4,434	107,282	14
Loans	-	-	5	-	5	-
Miscellaneous	484,946	651,415	17,273	1,423	1,155,057	3,021
Subtotals	698,214	651,415	246,734	28,277	1,624,640	7,202
Less: Allowance for uncollectible receivables	109,583	130,290	87,581	164	327,618	229
Total Other Receivables	$ 588,631	$ 521,125	$ 159,153	$ 28,113	$ 1,297,022	$ 6,973

Unearned Revenue

Unearned revenue at June 30, 2010, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Unearned Revenue	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Charges for services	$ 3	$ -	$ 33,563	$ 9	$ 33,575	$ 726
Other taxes	87	-	-	43	130	-
Miscellaneous	7,906	-	723	-	8,629	-
Total Unearned Revenue	$ 7,996	$ -	$ 34,286	$ 52	$ 42,334	$ 726

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2010, consisted of the following (expressed in thousands):

Other Receivables	Local Government Investment Pool	Agency Funds
Interest	$ 1,542	$ 10,423
Other	-	2,109
Subtotals	1,542	12,532
Less: Allowance for uncollectible receivables	-	1,919
Total Other Receivables	$ 1,542	$ 10,613

Unearned Revenue

Unearned revenue at June 30, 2010, consisted of $1.1 million for service credit restorations reported in Pension and Other Employee Benefit Funds.

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2010, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds
General	$ -	$ 25,495	$ 2,462	$ -	$ 31,402
Higher Educ. Special Revenue	45,313	-	608	12	15,335
Motor Vehicle Special Revenue	947	5	-	-	8,742
Higher Education Endowment	-	-	-	-	-
Nonmajor Governmental Funds	792,139	1,192	2,790	2,139	91,085
Workers' Compensation	72	41	-	-	1
Unemployment Compensation	2,421	1,861	359	-	572
Higher Educ. Student Services	10,407	8,718	52	-	6,704
Nonmajor Enterprise Funds	5,383	86	706	-	533
Internal Service Funds	21,301	55,570	8,883	-	11,211
Fiduciary Funds	9	-	-	-	-
Totals	$ 877,992	$ 92,968	$ 15,860	$ 2,151	$ 165,585

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.

In addition to the interfund balances noted in the schedule above, there are interfund balances of $1.6 million within the state's Pension Trust Funds.

Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ 196	$ -	$ 1	$ 14,967	$ 1,562	$ -	$ 76,085
318	-	65,054	2	28,530	-	155,172
2	-	-	3	1,733	-	11,432
-	-	-	-	-	28	28
106	1,120	110,352	10,791	1,185	21	1,012,920
-	-	-	-	400	14	528
607	-	64	182	273	-	6,339
226	-	-	-	3	328	26,438
31	-	116	1,090	868	3	8,816
3,828	-	53	1,202	67,903	1,425	171,376
20	-	-	253	12	-	294
$ 5,334	$ 1,120	$ 175,640	$ 28,490	$ 102,469	$ 1,819	$ 1,469,428

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2010, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	**General**	**Higher Education Special Revenue**	**Motor Vehicle Special Revenue**	**Higher Education Endowment**	**Nonmajor Governmental Funds**
General	$ -	$ 203,231	$ -	$ 499	$ 1,344,063
Higher Educ. Special Revenue	55,936	-	-	3,511	60,717
Motor Vehicle Special Revenue	-	-	-	-	341,733
Higher Education Endowment	-	103	-	-	100,718
Nonmajor Governmental Funds	1,000,061	-	24,228	2,177	278,568
Workers' Compensation	-	-	-	-	-
Higher Educ. Student Services	-	1,423	-	-	18,731
Nonmajor Enterprise Funds	125,499	13,100	-	-	118,346
Internal Service Funds	5,632	2	-	547	-
Totals	$ 1,187,128	$ 217,859	$ 24,228	$ 6,734	$ 2,262,876

* Transfers of $3 million of capital assets were made from Proprietary Funds to Governmental Funds.

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 Liquor Fund and the Lottery Fund as required by law, and 5) transfer amounts to and from the General Fund as required by law.

Pursuant to Engrossed Substitute Senate Bill 5073, effective July 1, 2009, six accounts, previously reported within Nonmajor Governmental funds were consolidated into the General Fund. Because of the close relationship between these accounts and the General Fund, they were consolidated to improve budget transparency. The consolidation resulted in an $89 million transfer into the General Fund.

On June 30, 2010, $119 million was transferred to the Budget Stabilization Account (BSA) in accordance with the provisions of the Constitution. The BSA is reported within Nonmajor Governmental Funds. 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. During Fiscal Year 2010, Engrossed Substitute House Bill 6444 authorized the transfer of $45 million from the BSA to the General Fund.

Engrossed Substitute House Bill 6444 also required transfer of $829 million from other funds to the General Fund to address revenue shortfalls.

In addition to the transfers noted in the schedule above, there were transfers of $20 million within the state's Pension Trust Funds.

Workers' Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Capital Asset Transfers *	Totals
$ -	$ -	$ 7,750	$ 10,855	$ -	$ 1,566,398
-	11,561	-	4,810	-	136,535
-	-	-	-	-	341,733
-	27	-	-	-	100,848
-	1,329	15	-	-	1,306,378
-	-	-	-	-	-
-	-	-	459	2,957	23,570
-	-	19,224	-	21	276,190
840	6,952	147	9,186	-	23,306
$ 840	$ 19,869	$ 27,136	$ 25,310	$ 2,978	$ 3,774,958

Note 6
Capital Assets

Capital assets at June 30, 2010, 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, 2010 (expressed in thousands):

Capital Assets	Balances July 1, 2009	Additions	Deletions	Balances June 30, 2010
Capital assets, not being depreciated:				
Land	$ 1,130,220	$ 125,548	$ (77,004)	$ 1,178,764
Transportation infrastructure	18,214,619	1,430,009	(18)	19,644,610
Intangible assets- indefinite lives	-	2,552	-	2,552
Art collections, library reserves, and museum and historical collections	113,899	2,107	(5,523)	110,483
Construction in progress	1,184,622	537,752	(856,986)	865,388
Total capital assets, not being depreciated	20,643,360			21,801,797
Capital assets, being depreciated:				
Buildings	9,704,545	709,337	(12,559)	10,401,323
Accumulated depreciation	(3,231,393)	(251,880)	7,825	(3,475,448)
Net buildings	6,473,152			6,925,875
Other improvements	1,141,720	97,236	(4,027)	1,234,929
Accumulated depreciation	(472,828)	(43,370)	2,011	(514,187)
Net other improvements	668,892			720,742
Furnishings, equipment and intangible assets	3,790,589	242,377	(130,301)	3,902,665
Accumulated depreciation	(2,413,843)	(251,292)	124,730	(2,540,405)
Net furnishings, equipment and intangible assets	1,376,746			1,362,260
Infrastructure	735,070	71,395	-	806,465
Accumulated depreciation	(339,283)	(30,933)	-	(370,216)
Net infrastructure	395,787			436,249
Total capital assets, being depreciated, net	8,914,577			9,445,126
Governmental Activities Capital Assets, Net	$ 29,557,937			$ 31,246,923

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2010 (expressed in thousands):

Capital Assets	Balances July 1, 2009	Additions	Deletions	Balances June 30, 2010
Capital assets, not being depreciated:				
Land	$ 142,347	$ 369	$ -	$ 142,716
Art collections	35	-	-	35
Construction in progress	153,466	184,484	(126,933)	211,017
Total capital assets, not being depreciated	295,848			353,768
Capital assets, being depreciated:				
Buildings	2,226,911	185,160	(8,250)	2,403,821
Accumulated depreciation	(660,759)	(73,539)	1,863	(732,435)
Net buildings	1,566,152			1,671,386
Other improvements	91,290	6,523	-	97,813
Accumulated depreciation	(23,747)	(3,419)	-	(27,166)
Net other improvements	67,543			70,647
Furnishings, equipment and intangible assets	507,256	40,393	(13,023)	534,626
Accumulated depreciation	(357,499)	(47,115)	12,150	(392,464)
Net furnishings, equipment and intangible assets	149,757			142,162
Infrastructure	34,995	1,234	(6,119)	30,110
Accumulated depreciation	(15,364)	(1,264)	2,795	(13,833)
Net infrastructure	19,631			16,277
Total capital assets, being depreciated, net	1,803,083			1,900,472
Business-Type Activities Capital Assets, Net	$ 2,098,931			$ 2,254,240

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2010, was charged by the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	$ 61,189
Education - elementary and secondary (K-12)	3,335
Education - higher education	319,554
Human services	22,875
Adult corrections	39,616
Natural resources and recreation	39,734
Transportation	91,172
Total Depreciation Expense - Governmental Activities*	$ 577,475
Business-Type Activities:	
Workers' compensation	$ 7,991
Unemployment compensation	-
Higher education student services	101,021
Other	16,325
Total Depreciation Expense - Business-Type Activities	$ 125,337

*Includes $69 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2010, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2010	Remaining Project Commitments
Department of General Administration:		
O'Brien building improvement, Transportation building improvements and other projects	$ 33,510	$ 44,179
Department of Labor and Industries:		
Early Claims Solution software and Detecting Unregistered Employers software	7,443	13,405
Department of Social and Health Services:		
State hospital and juvenile rehab construction and renovations, and other projects	48,755	4,641
Department of Veterans Affairs:		
Veterans Cemetery and other facility rehabilitation projects	8,519	1,438
Department of Corrections:		
Correctional centers construction, improvements, and other projects	68,846	380,464
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	216,480	189,213
Transportation infrastructure	-	3,654,122
Parks and Recreation Commission:		
Cama Beach dining hall and Rasar Group camp development	3,722	1,946
Department of Fish and Wildlife:		
Skookumchuck Hatchery renovation, Deschutes Watershed center, and other projects	12,340	13,151
Employment Security Department:		
Next Generation Taxis Systemp project	14,848	43,610
State Convention and Trade Center:		
MOHAI property	50,034	7,966
Higher Education Facilities:		
University of Washington	280,521	263,779
Washington State University	29,585	277,147
Eastern Washington University	7,417	2,694
Central Washington University	11,773	58,410
The Evergreen State College	17,051	4,880
Western Washington University	42,880	43,886
Community and Technical Colleges	218,504	333,859
Other agencies miscellaneous projects	4,177	7,497
Total Construction in Progress	$ 1,076,405	$ 5,346,287

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2010, 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 State 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. More specifically, the constitutional debt limitation prohibits the issuance of new debt if it would cause the maximum annual debt service on all thereafter outstanding debt to exceed 9 percent of the arithmetic mean of general state revenues for the preceding three 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.

The State Constitution and current statues require 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 2010 is $1.1 billion.

This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $16.6 billion general obligation bond debt outstanding at June 30, 2010, $10.2 billion is subject to the limitation.

Based on the debt limitation calculation, the debt service requirements as of June 30, 2010, 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_cdl2010.pdf, or to the Statistical Section of this report.

Authorized But Unissued

The state had a total of $9.5 billion in general obligation bonds authorized but unissued as of June 30, 2010, for the purpose of capital construction and transportation projects throughout the state.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 1.15 to 7.25 percent. Variable rate demand obligations (VRDO) of $131.4 million as of June 30, 2010, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.50 to 7.40 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 obligations bonds are presented in the Washington State Treasurer's Annual Report for 2010. 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, 2010, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2011	$ 622,283	$ 786,377	$ 8,196	$ 4,140	$ 630,479	$ 790,517
2012	619,785	780,244	7,484	3,767	627,269	784,011
2013	648,907	748,645	7,081	3,480	655,988	752,125
2014	683,842	719,232	3,805	553	687,647	719,785
2015	715,165	696,972	4,030	341	719,195	697,313
2016-2020	3,895,221	3,087,521	29,297	56,404	3,924,518	3,143,925
2021-2025	3,664,484	2,126,573	-	-	3,664,484	2,126,573
2026-2030	3,287,523	1,307,698	-	-	3,287,523	1,307,698
2031-2035	1,907,150	341,308	-	-	1,907,150	341,308
2036-2045	495,698	76,581	-	-	495,698	76,581
Total Debt Service Requirements	$ 16,540,058	$ 10,671,151	$ 59,893	$ 68,685	$ 16,599,951	$ 10,739,836

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.

The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2010, include $141.7 million in governmental activities and $631.6 million in business-type activities.

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, 2010, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2011	$ 24,132	$ 40,519	$ 40,106	$ 49,672	$ 64,238	$ 90,191
2012	22,145	39,417	30,221	48,517	52,366	87,934
2013	8,210	38,321	31,960	47,183	40,170	85,504
2014	20,961	37,949	33,023	45,689	53,984	83,638
2015	17,330	36,757	35,535	44,585	52,865	81,342
2016-2020	131,688	164,030	188,102	196,490	319,790	360,520
2021-2025	154,204	124,779	189,131	152,451	343,335	277,230
2026-2030	190,138	77,508	161,029	107,885	351,167	185,393
2031-2035	87,274	23,545	125,397	65,869	212,671	89,414
2036-2040	86,916	8,410	249,441	24,664	336,357	33,074
Total Debt Service Requirements	$ 742,998	$ 591,235	$ 1,083,945	$ 783,005	$ 1,826,943	$ 1,374,240

Governmental activities include revenue bonds outstanding at June 30, 2010, of $422.9 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517 million in bonds and transferred $450 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 $800.6 million, payable through 2032. For the current year, pledged revenue and debt service were $44.1 million and $46.6 million, respectively.

Governmental activities include revenue bonds outstanding at June 30, 2010, of $111.7 million issued by Washington State University. The bonds were issued to fund various capital construction projects.

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. Total principal and interest remaining on the bonds is $176.5 million, payable through 2034. For the current year, pledged revenue and debt service were $24.6 million and $1.5 million, respectively.

Governmental activities also include revenue bonds outstanding at June 30, 2010, of $54.9 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 $90.4 million, payable through 2028. For the current year, pledged revenue and debt service were $3.6 million and $3.6 million, respectively.

Additionally, governmental activities include revenue bonds outstanding at June 30, 2010, of $11.8 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 $14.5 million, payable through 2022. For the current year, pledged revenue and debt service were $1.6 million and $1.6 million, respectively.

The state's colleges and universities 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, 2010, 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	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues
Current revenue pledged	$ 47,289	$ 47,153	$ 10,889	$ 543
Current year debt service	17,367	24,887	1,318	228
Total future revenues pledged *	366,253	647,742	37,631	5,481
Description of debt	Housing and dining bonds, issued in 1998-2010	Student facilities bonds, issued in 1996-2009 and refunding revenue bonds, issued in 2002-2006	Parking system and refunding revenue bonds, issued in 2004-2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing and dining projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2013-2038	2019-2038	2024-2030	2034
Percentage of debt service to pledged revenues (current year)	36.7%	52.8%	12.1%	42.1%

* Total future principal and interest payments.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2010, 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, 2010, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2011	$ 54,711	$ 25,990	$ 74,503	$ 16,940	$ 129,214	$ 42,930
2012	46,097	15,794	30,046	10,294	76,143	26,088
2013	43,688	14,006	28,476	9,129	72,164	23,135
2014	44,179	12,327	28,796	8,035	72,975	20,362
2015	40,838	10,493	26,618	6,840	67,456	17,333
2016-2020	125,033	32,643	42,666	21,276	167,699	53,919
2021-2025	61,333	15,643	39,977	10,196	101,310	25,839
2026-2030	33,457	3,927	21,808	2,560	55,265	6,487
Total Debt Service Requirements	$ 449,336	$ 130,823	$ 292,890	$ 85,270	$ 742,226	$ 216,093

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 assets.

Current Year Defeasances

Bonds

Governmental Activities.
On July 8, 2009, the state issued $386.4 million of various purpose general obligation refunding bonds with an average interest rate of 4.89 percent to refund $419.9 million of various purpose general obligation bonds with an average interest rate of 4.99 percent. The refunding resulted in a $40.9 million gross debt service savings over the next 14 years and a net present value savings of $34.1 million.

On October 14, 2009, the state issued $215.5 million of various purpose general obligation refunding bonds with an average interest rate of 5.24 percent to refund $222 million of various purpose general obligation bonds with an average interest rate of 5 percent. The refunding resulted in a $19.2 million gross debt service savings over the next 16 years and a net present value savings of $15.3 million.

On October 14, 2009, the state issued $121.2 million of motor vehicle fuel tax refunding bonds with an average interest rate of 5.24 percent to refund $124.5 million of motor vehicle fuel tax bonds with an average interest rate of 5 percent. The refunding resulted in a $10.4 million gross debt service savings over the next 16 years and a net present value savings of $8.3 million.

Business-Type Activities.
On October 28, 2009, Washington State University issued $38.4 million of student recreation center refunding revenue bonds with an average interest rate of 4.42 percent to refund $40.5 million of student recreation center revenue bonds with an average interest rate of 5 percent. The refunding resulted in a $5.8 million gross debt service savings over the next 22 years and an economic gain of $3.9 million.

On June 29, 2010, Washington State University issued $15 million of housing and dining refunding revenue bonds with an average interest rate of 3.83 percent to refund $15.8 million of housing and dining revenue bonds with an average interest rate of 4.95 percent. The refunding resulted in a $2.1 million gross debt service savings over the next 14 years and an economic gain of $1.7 million.

Certificates of Participation (COPs)

On October 8, 2009, the state issued $33.1 million in refunding certificates of participation with an average interest rate of 3.97 percent to refund $34.1 million of certificates of participation with an average interest rate of 5.18 percent. The refunding resulted in a $3.6 million gross debt service savings over the next 12 years and a net present value savings of $3.6 million.

On June 15, 2010, the state issued $4.5 million in refunding certificates of participation with an average interest rate of 3.09 percent to refund $4.5 million of certificates of participation with an average interest rate of 5.27 percent. The refunding resulted in a $0.8 million gross debt service savings over the next 11 years and a net present value savings of $0.6 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, 2010, $615.9 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2010, $68.8 million of revenue bonded debt outstanding is considered defeased.

Certificates of Participation Debt

On June 30, 2010, $138.5 million of certificates of participation debt outstanding is considered defeased.

D. LEASES

Leases at June 30, 2010, 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 State 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, 2010, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 52	$ -
Buildings	14,435	6,271
Equipment	17,198	17,499
Less: Accumulated depreciation	(22,183)	(20,161)
Totals	$ 9,502	$ 3,609

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2010 (expressed in thousands):

Capital and Operating Leases	Capital Leases		Operating Leases	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2011	$ 4,705	$ 2,559	$ 98,477	$ 29,830
2012	3,075	1,002	83,187	28,758
2013	2,143	404	71,739	29,113
2014	744	400	62,454	28,704
2015-2019	338	392	51,539	27,737
2020-2024	1,667	1,925	133,770	50,928
2025-2029	1,275	818	70,388	-
2030-2034	1,143	-	57,918	-
2035-2039	1,143	-	57,720	-
2040-2044	1,257	-	57,288	-
Total Future Minimum Payments	17,490	7,500	744,480	195,070
Less: Executory Costs and Interest Costs	(3,204)	(1,409)	-	-
Net Present Value of Future Minimum Lease Payments	$ 14,286	$ 6,091	$ 744,480	$ 195,070

The total operating lease rental expense for Fiscal Year 2010 for governmental activities was $178.1 million, of which $365 thousand was for contingent rentals. The total operating lease rental expense for Fiscal Year 2010 for business-type activities was $45.1 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, 2010, $40.0 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $24.0 billion. These claims are discounted at assumed interest rates of 2.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $24.0 billion as of June 30, 2010, include $12.8 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 $11.2 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 2009 and 2010 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
2009	$ 21,887,148	2,334,749	(2,057,829)	$ 22,164,068
2010	$ 22,164,068	3,943,217	(2,081,453)	$ 24,025,832

Risk Management

Risk management reports tort liabilities 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, 2010, outstanding and actuarially determined claims against the state and its agencies including actuarially projected defense costs were $727.1 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, 2010, the Risk Management Fund held $115.8 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 2009 and 2010 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
2009	$ 649,761	142,517	(52,963)	(19,118)	$ 720,197
2010	$ 720,197	82,387	(47,425)	(28,023)	$ 727,136

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, 2010, health insurance claims liabilities totaling $88.4 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of health insurance claim liabilities during Fiscal Years 2009 and 2010 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
2009	$ 69,934	779,143	(765,636)	$ 83,441
2010	$ 83,441	879,324	(874,370)	$ 88,395

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 19 projects in progress for which the state has recorded a liability of $28.8 million which includes an estimated recovery amount of $283 thousand that is not yet realized or realizable.

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. In Fiscal Year 2010, the state received funding of $148 million from third parties for these remediation activities. At June 30, 2010, the state has recorded a liability of $145.5 million for remaining project commitments.

Overall, the state has recorded a pollution remediation liability of $174.3 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: and, 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, 2010, is reported by the state of Washington within governmental activities and business-type activities, as applicable. Long-term liability activity for governmental activities for the Fiscal Year 2010 is as follows (expressed in thousands):

Governmental Activities:	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 13,310,430	$ 3,865,560	$ 1,339,770	$ 15,836,220	$ 584,640
GO - zero coupon bonds (principal)	738,719	-	34,881	703,838	37,643
Subtotal - GO bonds payable	14,049,149	3,865,560	1,374,651	16,540,058	622,283
Accreted interest - GO - zero coupon bonds	327,617	38,898	-	366,515	-
Revenue bonds payable	616,071	164,221	37,294	742,998	24,132
Less: Deferred amounts for issuance discounts	(8,729)	-	(779)	(7,950)	-
Total Bonds Payable	14,984,108	4,068,679	1,411,166	17,641,621	646,415
Other Liabilities:					
Certificates of participation	395,092	146,395	92,151	449,336	54,711
Claims and judgments	924,541	54,025	44,518	934,048	272,189
Installment contracts	2,775	-	105	2,670	-
Leases	9,631	9,923	5,268	14,286	4,276
Compensated absences	552,974	333,410	338,632	547,752	59,944
Unfunded pension obligations	154,130	41,976	4,717	191,389	-
Other postemployment benefits obligations	443,655	253,558	-	697,213	-
Pollution remediation obligations	35,005	144,255	4,907	174,353	-
Unclaimed property refunds	2	93,197	-	93,199	41
Other	218,982	1,180,324	910,745	488,561	397,710
Total Other Liabilities	2,736,787	2,257,063	1,401,043	3,592,807	788,871
Total Long-Term Debt	$ 17,720,895	$ 6,325,742	$ 2,812,209	$ 21,234,428	$ 1,435,286

For governmental activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 50 percent by the General Fund, 27 percent by the Higher Education Special Revenue Fund, 10 percent by the Motor Vehicle Fund, and the balance by various other governmental funds. The claims and judgments liability will be liquidated approximately 78 percent by the Risk Management Fund (an internal service fund), 9 percent by the Health Insurance Fund (an internal service fund), and the balance by various other governmental funds. The pollution remediation liability will be liquidated approximately 85 percent by the Central Administrative and Regulatory Fund, a nonmajor governmental fund, and the balance by various other governmental funds. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for the Fiscal Year 2010 (expressed in thousands) is as follows:

Business-Type Activities	Beginning Balance July 1, 2009	Additions	Reductions	Ending Balance June 30, 2010	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 40,520	$ -	$ 8,010	$ 32,510	$ 7,355
GO - zero coupon bonds (principal)	28,284	-	901	27,383	841
Subtotal - GO bonds payable	68,804	-	8,911	59,893	8,196
Accreted interest - GO - zero coupon bonds	38,051	3,709	-	41,760	-
Revenue bonds payable	1,073,807	89,714	79,576	1,083,945	40,106
Plus: Unamortized amounts issuance premiums	11,296	2,786	1,140	12,942	-
Less: Deferred amounts for issuance discounts	(1,601)	-	(1,118)	(483)	-
Less: Deferred gain/loss on bond refunding	(7,747)	(2,693)	(1,532)	(8,908)	-
Total Bonds Payable	1,182,610	93,516	86,977	1,189,149	48,302
Other Liabilities:					
Certificates of participation	310,040	58,067	75,217	292,890	74,503
Less: Deferred amounts for issuance discounts	(1,167)	-	(148)	(1,019)	-
Claims and judgments	22,175,347	2,044,518	181,543	24,038,322	2,136,582
Lottery prize annuities payable	309,964	73,354	107,407	275,911	50,127
Tuition benefits payable	1,492,100	447,832	86,528	1,853,404	90,300
Leases	9,670	71	3,650	6,091	2,304
Compensated absences	55,684	27,339	23,823	59,200	26,040
Other postemployment benefits obligation	49,896	30,763	-	80,659	-
Other	105,049	575,435	540,291	140,193	109,581
Total Other Liabilities	24,506,583	3,257,379	1,018,311	26,745,651	2,489,437
Total Long-Term Debt	$ 25,689,193	$ 3,350,895	$ 1,105,288	$ 27,934,800	$ 2,537,739

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 state 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 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, 2010, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,910,818
Washington Higher Education Facilities Authority	689,283
Washington Health Care Facilities Authority	4,800,000
Washington Economic Development Finance Authority	715,678
Total No Commitment Debt	$ 10,115,779

Note 9
Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2010, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Motor Vehicle Special Revenue	Higer Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:						
Long-term receivables	$ 61,011	$ 2,921	$ 284	$ -	$ 1,759,682	$ 1,823,898
Long-term investments	-	105,135	-	-	946	106,081
Long-term student loans	-	99,880	-	-	-	99,880
Budget stabilization (Rainy Day)	-	-	-	-	95,050	95,050
Petty cash	599	3,042	569	-	228	4,438
Pollution remediation	-	-	-	-	153,391	153,391
Investments with trustees	683	-	-	-	515	1,198
Total Reserved for Other Specific Purposes	$ 62,293	$ 210,978	$ 853	$ -	$ 2,009,812	$ 2,283,936

Note 10
Deficit Net Assets

Guaranteed Education Tuition

The Guaranteed Education Tuition (GET) program within the Other Activities Fund, an enterprise fund, had deficit net assets of $254.6 million at June 30, 2010.

The Higher Education Coordinating Board administers the GET program which is Washington's Internal Revenue Service Code 529 prepaid college tuition plan. It was established to help make higher education more affordable and accessible to all citizens of the state by offering a savings incentive to protect purchasers and beneficiaries from rising tuition costs.

The Committee on Advance Tuition Payment establishes the policies of the program and sets the price of a tuition unit. Since GET began in 1998, families have opened more than 119,000 accounts.

In recent years, the GET program has experienced losses primarily due to reduced investment earnings and higher than projected tuition increases.

The following schedule details the changes in net assets for the GET program during the fiscal year ended June 30, 2010 (expressed in thousands):

Guaranteed Education Tuition Program	Net Assets (Deficit)
Balance, July 1, 2009	$ (234,322)
Fiscal Year 2010 activity	(20,297)
Balance, June 30, 2010	$ (254,619)

Risk Management Fund

The Risk Management Fund, an internal service fund, had deficit net assets of $616.1 million at June 30, 2010. The Risk Management Fund is used to administer the Self-Insurance Liability Program. This program investigates, processes, and adjudicates all tort and sundry claims filed against Washington state agencies. The Self Insurance Liability Program, initiated in 1990, is intended to provide funds for the payment of all tort claims and defense expenses.

The Risk Management Fund is supported by premium assessments to state agencies. 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 claims. As a consequence, when outstanding and incurred but not reported claims are actuarially determined and accrued, the result is deficit net assets.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2010 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2009	$ (617,748)
Fiscal Year 2010 activity	1,633
Balance, June 30, 2010	$ (616,115)

Health Insurance Fund

The Health Insurance Fund, an internal service fund, had deficit net assets of $41 million at June 30, 2010. The Health Insurance Fund is used to account for premiums and costs associated with employees' insurance benefits.

The state of Washington, through the Public Employees Benefits Board (PEBB) 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 deficit net assets at June 30, 2010 resulted from higher than expected costs to provide health care benefits.

The following schedule details the changes in net assets for the Health Insurance Fund during the fiscal year ended June 30, 2010 (expressed in thousands):

Health Insurance Fund	Net Assets (Deficit)
Balance, July 1, 2009, as restated	$ 28,830
Fiscal Year 2010 activity	(69,851)
Balance, June 30, 2010	$ (41,021)

Note 11
Retirement Plans

A. GENERAL

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrative Office of the Courts, administers 13 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments.

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.

Investments

Pension plan investments are presented 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. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent of each plan's net assets. Additional disclosure describing investments is provided in Note 3.

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 comprising 12 defined benefit pension plans and three combination 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
- Washington State Patrol Retirement System (WSPRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
- Public Safety Employees' Retirement System (PSERS)
  - 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, WSPRS, and PSERS systems and plans was funded by an employer rate of 0.16 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or by visiting their website at: http:\\www.drs.wa.gov.

Board for Volunteer Fire Fighters. As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' 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. In addition to the retirement plans administered by the state of Washington, eligible higher education state employees may participate in privately administered Higher Education Retirement defined contribution plans.

Plan descriptions, funding policies, a table of employer contributions required and paid for defined benefit plans, schedules of funded status and funding progress, defined benefit pension plans valuations, annual pension cost, and three year trend information follow in Note 11.B through G, respectively. Information related to changes in actuarial assumptions and methods, and changes in benefit provisions are provided in Note 11.H and I. For information related to defined contribution plans, refer to Note 11.J. Details on plan net assets and changes in plan net assets of pension plans and other employee benefit funds administered by the state are presented in Note 11.K.

Membership of each state administered plan consisted of the following at June 30, 2009, the date of the latest actuarial valuation for all plans:

Number of Participating Members

Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,147	2,125	9,630	724	66,626
PERS 2	19,790	22,824	85,965	35,835	164,414
PERS 3	920	3,125	9,744	17,337	31,126
TRS 1	36,032	843	5,129	75	42,079
TRS 2	2,104	2,472	6,153	3,021	13,750
TRS 3	1,791	5,345	29,585	23,425	60,146
SERS 2	2,870	4,644	14,899	5,298	27,711
SERS 3	1,759	4,549	16,590	15,687	38,585
LEOFF 1	8,087	2	356	-	8,445
LEOFF 2	1,367	672	13,007	3,944	18,990
WSPRS 1	834	122	829	1	1,786
WSPRS 2	-	4	101	163	268
PSERS 2	2	-	-	4,340	4,342
JRS	124	-	9	-	133
Judges	13	-	-	-	13
JRA	1	185	11	-	197
VFFRPF	3,612	6,059	4,174	6,584	20,429
Total	133,453	52,971	196,182	116,434	499,040

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2010:

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	146	229	166	193
PERS 2	178	-	270	485
PERS 3	163	-	209	287
TRS 1	54	271	-	-
TRS 2	23	283	-	-
TRS 3	31	302	-	-
SERS 2	-	298	-	-
SERS 3	1	300	-	-
LEOFF 1	-	-	54	15
LEOFF 2	8	-	215	149
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	10	-	63	-
JRS	2	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	671

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System (PERS)

The Legislature established PERS in 1947. 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.

The Higher Education Retirement Plans are not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature.

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.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. 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 exercise an option to transfer their membership to 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. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill with less than five years to live.

PERS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

PERS Plan 1 retirement benefits are vested after an employee completes 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. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Benefits are also actuarially reduced when a Plan 1 member chooses a survivor option.

The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount (based on the Consumer Price Index), capped at 3 percent annually. Plan 1 retirees, after being retired one year, will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given. Plan 1 members may also elect to receive an additional 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 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance

amount is $350 a month, or two-thirds of the monthly AFC, whichever is less.

The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service 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 and is actuarially reduced to reflect the choice of a survivor option. A COLA is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the costs of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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.

Refunds provided to survivors of PERS Plan 2 members that leave eligible employment after earning ten years of service credit and are subsequently killed in uniformed service to the United States while participating in Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom is increased from 100 to 200 percent of the accumulated contributions in the member's account.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component.

The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, PERS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same COLA as Plan 2. Refer to section J of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service.

Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted (indexed to the Seattle Consumer Price Index) capped at 3 percent annually. PERS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PERS Plan 2 or 3 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

PERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupts employment.

Additionally, PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury. PERS Plan 2 and Plan 3 members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

A $150,000 death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally or by a duty related illness, and proximately out of their covered employment, if found eligible by the Director of the Department of Labor and Industries.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Portability of retirement benefits allows for PERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for PERS Plan 1 and Plan 3 members was discontinued.

Additional COLAs were provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for PERS Plan 2 and Plan 3 members.

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006.

Justices or judges in PERS Plans 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC.

Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75 percent of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e. 1 percent, 2 percent, or 3 percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM program.
- Continue to pay contributions at the regular PERS rate.

Newly elected justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM program.

Members required to join the JBM program would:

- Return to prior PERS Plan if membership had previously been established.
- Be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Judges and justices who are members of PERS may purchase prior judicial service credit at a higher multiplier at retirement.

During the period of January 1, 2009 through June 30, 2009, active and inactive PERS members who were not then serving as justices or judges, but who have served as such in the past, may request an increase in their benefit multiplier for past periods of judicial service and pay a cost that is the actuarial equivalent of the increase.

Material changes in PERS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Teachers' Retirement System (TRS)

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the state Legislature.

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 combination defined benefit/defined contribution plan.

TRS participants who joined the system by September 30, 1977, are Plan 1 members. 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 participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made.

Employees who fail to choose within 90 days default to TRS Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings.

Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS Plan 1 retirement benefits are vested after an employee completes 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 annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

A COLA is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 retirees will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given. Plan 1 members may also elect to receive an additional 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 1 provides death and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members- $400 (if retired with ten years of full-time membership), $400 (if inactive with ten years of membership), active members $600 (if employed full-time at time of death).

Members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a COLA is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, TRS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same COLA as Plan 2. Refer to section J of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 2 and Plan 3 members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period receive six months of service credit.

Plan 2 and Plan 3 members need have only two years of service credit in order to be eligible to purchase up to seven years of service credit for public education experience earned in another state or with the federal government.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Beneficiaries of a TRS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

TRS members can purchase service credit for military service that interrupts employment. Additionally, TRS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

TRS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

TRS members may purchase up to five years of additional service credit once eligible for retirement.

This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Active TRS Plan 2 and Plan 3 members may also make a one-time purchase of up to seven years of service credit for education experience earned in a state or federal public school outside the state of Washington. Completion of at least five years of service under TRS is required.

A $150,000 death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment or duty related illness, if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for TRS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Effective after the January 2008 distribution, gain sharing for TRS Plan 1 and Plan 3 members was discontinued. Additional COLAs were provided to TRS Plan 1 retirees in July 2009 and new alternative early retirement provisions were created for TRS Plan 2 and Plan 3 members.

Beginning January 1, 2007 through December 31, 2007, judicial members of TRS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006.

Justices or judges in TRS Plan 1 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75 percent of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e. 2 percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM program.
- Continue to pay contributions at the regular TRS rate.

Newly elected justices and judges who chose to become TRS members on or after January 1, 2007, or who had not previously opted into TRS membership, were required to participate in the JBM program. Members required to join the JBM program would:

- Return to prior TRS Plan if membership had previously been established.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Material changes in TRS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

School Employees' Retirement System (SERS)

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW and may be amended only by the state Legislature.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan.

As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to SERS Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

SERS is comprised of and reported as two separate plans: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

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.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly.

Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings.

Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a COLA is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 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 September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at the age of 65. SERS Plan 3 members who retire prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same COLA as Plan 2. Refer to section J of this note for a description of the defined contribution component of SERS Plan 3.

Effective after the January 2008 distribution, gain sharing for SERS Plan 3 members was discontinued and new alternative early retirement provisions were created for SERS Plan 2 and Plan 3 members.

SERS members can purchase service credit for military service that interrupts employment. Additionally, SERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase service credit on behalf of the deceased member. SERS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

SERS provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Beneficiaries of a SERS member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

SERS members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

SERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

SERS members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period receive six months of service credit.

A $150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for SERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and

removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes in SERS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership.

LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the state Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. 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 for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit 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 state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF Plan 1 retirement benefits are vested after an employee completes 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:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A COLA is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits.

Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. 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.

LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement. LEOFF Plan 2 members can also purchase service credit for military service that interrupts employment.

Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option.

If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Plan 2 members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

For Emergency Medical Technicians who joined LEOFF Plan 2 as a result of 2003 and 2005 legislation, the five year waiting period is waived when they retire due to disability or die.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax.

Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of the FAS and 2 percent per year of service beyond five years. The first 10 percent of FAS is not subject to federal income tax.

LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit from LEOFF Plan 2 equal to 70 percent of their FAS subject to offsets for workers' compensation and Social Security disability benefits received.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

Beneficiaries of a LEOFF Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death.

This provision applied to any member killed in the course of employment, or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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.

Eligible survivors of LEOFF Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage.

A $150,000 death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for LEOFF Plan 2 members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process.

Material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Washington State Patrol Retirement System (WSPRS)

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in chapter 43.43 RCW and may be amended only by the state Legislature.

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. 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.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.364 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. Employers will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2010.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service.

The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. The WSPRS mandatory retirement age is 65, but does not apply to the member serving as chief of the Washington State Patrol.

WSPRS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability.

A $150,000 death benefit is provided to the estate (or duly designated nominee) of a WSPRS member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

The spouse and dependent children of a WSPRS member who is killed in the course of employment will be reimbursed for any payments of medical premiums to the Washington State Health Care Authority.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime.

Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits.

Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option. WSPRS Plan 2 members can purchase service credit for military service that interrupts employment.

Additionally, WSPRS Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

Beneficiaries of a WSPRS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not of normal retirement age at death.

This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

Material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Public Safety Employees' Retirement System (PSERS)

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS pension benefit provisions have been established by chapter 41.37 RCW and may be only amended by the state Legislature. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and,
- Full-time employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, Liquor Control Board, and Department of Natural Resources;
- Washington state counties; and,
- Washington cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PSERS defined benefit plans accrue interest at a rate specified by DRS.

During Fiscal Year 2010, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PSERS can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS benefits are vested after an employee completes five years of eligible service. PSERS members may retire at the age 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service.

The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PSERS members can purchase service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

PSERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

PSERS provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for

continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service.

AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability.

Beneficiaries of a PSERS member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A $150,000 death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, or duty related illness if found eligible by the Director of the Department of Labor and Industries.

Portability of retirement benefits allows for PSERS members' compensation that is reportable in all dual members' systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan.

Material changes to PSERS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Judicial Retirement System (JRS)

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in chapter 2.10 RCW and may be amended only by the state Legislature.

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

During Fiscal Year 2010, the DRS established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination.

However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state Legislature.

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 benefit per year of service calculated as a percent of average final compensation (AFC) is the table below. This benefit is capped at 75 percent of AFC, exclusive of cost of living increases.

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired.

If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

Material changes in JRS benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund was created by the Legislature on March 22, 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington.

Subsequent legislation required that all judges, first appointed or elected to office on or after August 1, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in chapter 2.12 RCW and may be amended only by the state Legislature.

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan.

Retirement benefits were financed on a pay-as-you-go basis from a combination of past employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

Material changes in benefit provisions for Judges for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system 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.

Retirement benefits are established in chapter 41.24 RCW and may be amended only by the state Legislature.

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

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.

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 $152,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500.

Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110.

Effective July 22, 2007, vocational rehabilitation may be paid for disabled members who are unable to return to their previous employment. Members that qualify are subject to a $4,000 maximum limit and are required to follow certain conditions established by the board and authorized by chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the Consumer Price Index.

Material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2010, are listed in the table at the end of this section.

Material Legislative Changes to Pension Plans
For the Fiscal Year Ended June 30, 2010

System/Plan Affected	Effective Date	Description of the changes
LEOFF 1, PERS, PSERS, SERS, TRS, and WSPRS	7/1/09	The actuarial method of funding the unfunded liability of PERS 1 and TRS 1 is restructured. Changes are also made to the demographic assumptions for, and pension contribution rates of, the state retirement systems/plans (with the exception of LEOFF 2). Additionally, the implementation of minimum contribution rats for WSPRS and the Plans 2 and 3 (except for LEOFF 2) is delayed until the 2011-13 biennium (Chapter 561, Laws of 2009).
LEOFF 2	7/26/09	Eligible service and disability retirements are now classified as Occupational Disability retirements for the purpose of allowing affected retirees to take advantage of favorable tax treatment on their pension befit based on the first 10 percent of the members salary (Chapter 95, Laws of 2009).
PERS 1	7/26/09	The survivor of any PERS 1 member who qualifies for retirement but has not applied, or who has 10 years of service credit, now has the option of either a monthly survivor benefit or the lump sum of contributions plus interest, upon the member's death (Chapter 111, Laws of 2009).
LEOFF 2	7/26/09	Department of Fish and Wildlife Enforcement Officers can transfer service credit earned as an enforcement officer in PERS 2 or 3 to LEOFF 2. Member, employer and state contributions will increase to the extent necessary to fund the difference in the value of the service credit transferred between the plans and the member contributions transferred into LEOFF 2 (Chapter 157, Laws of 2009).
LEOFF 2, PERS 2/3, SERS 2/3, TRS 2/3, and WSPRS	7/26/09	Up to five years of no-cost service credit is available for members who can provide proof to DRS that their public employment was interrupted by military service that occurred during a period of war (as defined in statute), and that they initiated the process for re-employment with the same employer no later than 90 days from the date of their honorable discharge. Members who previously purchased military service credit are eligible to receive a refund of their contributions (Chapter 205, Laws of 2009).
PERS 2 and SERS 2	7/26/09	The automatic transfer of prior PERS 2 service to SERS 2 service when the member becomes employed in an eligible SERS position on or after August 1, 2009 is ended. Current and inactive SERS 2 members who had prior PERS service credit transferred to SERS 2 can request beginning September 1, 2009 through November 30, 2009, that their service credit be moved back to PERS 2 (Chapter 209, Laws of 2009).
LEOFF, PERS, PSERS, SERS, TRS and WSPRS	7/26/09	The eligibility for an unreduced benefit to survivors of members who leave an employer and die while honorably serving in the National Guard or military reserves during a period of war (as defined in statute) is extended (Chapter 226, Laws of 2009).
All Systems and Plans	7/26/09 – 1/1/14	Domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws (Chapter 521, Laws of 2009).
WSPRS 2	7/26/09	State-registered domestic partners of WSPRS members are granted the ability to receive the survivor and death benefits available to spouses (Chapter 522, Laws of 2009).
LEOFF 2	7/26/09	Domestic partners of LEOFF 2 members are granted the same rights and options as spouses (Chapter 523, Laws of 2009).
LEOFF 2	3/17/10	The Director of Fire Protection, who was previously a member of LEOFF 2, now has the choice to continue membership in LEOFF 2 while employed in this role. This position is otherwise covered by PERS (Chapter 80, Laws of 2010).
PERS System	6/10/10	Eligible employees of the Higher Education Coordinating Board now have the ability to participate in the Higher Education Retirement Plan instead of the Public Employees' Retirement System (Chapter 21, Laws of 2010).

Material Legislative Changes to Pension Plans (concluded)
For the Fiscal Year Ended June 30, 2010

System/Plan Affected	Effective Date	Description of the changes
LEOFF 2	6/10/10	Shared leave can now be treated as reportable compensation for LEOFF 2 members. Earnings can be used in the calculation of a member's benefit, and service credit will be earned according to the hours reported (Chapter 50, Laws of 2010).
PERS 2/3, SERS 2/3	6/10/10	Half-time service credit is now granted to qualifying members who worked for an educational employer in school years prior to January 1, 1987 (Chapter 103, Laws of 2010).
LEOFF 2 and WSPRS	6/10/10	The payment of medical insurance premiums for qualifying LEOFF 2 and WSPRS members who are catastrophically disabled in the line of duty, and their spouses and dependent children will now be made by the LEOFF 2 pension fund for LEOFF 2 members and by the Washington State Patrol for WSPRS members (Chapter 259, Laws of 2010).
LEOFF 1 and PERS 1	6/10/10	PERS 1 members who retired on or after January 1, 1998, can use any service transferred from LEOFF 1 to qualify for military service credit at no cost (Chapter 260, Laws of 2010).
LEOFF and WSPRS	6/10/10	Additional benefits are provided to survivors of police officers, fire fighters and State Patrol officers killed in the line of duty (Chapter 261, Laws of 2010).
PERS 3, SERS 3, and TRS 3	6/30/10 – 6/30/11	The Employee Retirement Benefits Board is abolished and its former duties are transferred to the DRS Director. Said duties include providing recommendations to the WSIB on self-directed investment options for defined contribution plans, determining the payment options for plan 3 members, ratifying administrative charges assessed to members who participate in self-directed investment options and providing recommendations on investment options for the Deferred Compensation Plan (Chapter 7, Laws of 2010).

C. FUNDING POLICIES

With the exception of LEOFF Plan 2, the Legislature provided for minimum contribution rates for all retirement plans (Chapter 561, Laws of 2009). The LEOFF 2 Board provided for minimum contribution rates for the LEOFF Plan 2. These minimum rates will go into effect beginning with the 2011-13 biennium.

The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2010.

Public Employees' Retirement System (PERS)

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. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Teachers' Retirement System (TRS)

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.

Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Director of DRS sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees are not required to contribute as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board.

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. For Fiscal Year 2010, the state contributed $51.4 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan.

State statute also requires employees to contribute at a rate of at least 2 percent. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers 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. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2010, the state contributed $ 11.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2010, however, no appropriations or contributions were made.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW.

VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans at the close of Fiscal Year 2010 were as follows:

Actual Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
PERS						
Members Not Participating in JBM						
State agencies*	5.31%	5.31%	5.31%**	6.00%	3.90%	***
Local governmental units*	5.31%	5.31%	5.31%	6.00%	3.90%	***
State gov't elected officials*	7.89%	5.31%	5.31%**	7.50%	3.90%	***
Members Participating in JBM						
State agencies*	7.81%	7.81%	7.81%**	9.76%	7.25%	7.50%****
Local governmental units*	5.31%	5.31%	5.31%**	12.26%	9.75%	7.50%****
TRS						
Members Not Participating in JBM						
State agencies*	6.14%	6.14%	6.14%**	6.00%	3.36%	***
Local governmental units*	6.14%	6.14%	6.14%**	6.00%	3.36%	***
State gov't elected officials*	6.14%	6.14%	6.14%**	7.50%	3.36%	***
Members Participating in JBM						
State agencies*	6.14%	n/a	n/a	9.76%	n/a	n/a
SERS						
State agencies*	n/a	5.44%	5.44%**	n/a	3.14%	***
Local governmental units*	n/a	5.44%	5.44%**	n/a	3.14%	***
LEOFF						
Ports and universities*	n/a	8.62%	n/a	n/a	8.46%	n/a
Local governmental units*	0.16%	5.24%	n/a	n/a	8.46%	n/a
State of Washington	n/a	3.38%	n/a	n/a	n/a	n/a
WSPRS						
State agencies*	6.56%	6.56%	n/a	5.08%	5.08%	n/a
PSERS						
State agencies*	n/a	7.85%	n/a	n/a	6.55%	n/a
Local governmental units*	n/a	7.85%	n/a	n/a	6.55%	n/a

* Includes and administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

*** Variable from 5% to 15% based on rate selected by the member.

**** Minimum Rate.

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2010	2009	2008
PERS Plan 1	$78.2	$169.0	$115.5
PERS Plan 2/3	160.4	217.6	159.6
TRS Plan 1	5.6	8.0	4.3
TRS Plan 2/3	0.8	0.8	0.5
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	7.8	7.7	5.9
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	52.2	52.0	45.9
VFFRPF	5.7	5.2	5.0

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 9,775.6	$ 13,984.5	$ 4,208.9	70%	$ 580.0	726%
PERS Plan 2/3*	18,260.4	18,397.9	137.5	99%	8,132.2	2%
TRS Plan 1	8,146.2	10,820.0	2,673.8	75%	388.8	688%
TRS Plan 2/3*	6,160.0	6,048.4	(111.6)	102%	3,957.3	0%
SERS Plan 2/3*	2,503.2	2,493.2	(10.0)	100%	1,466.5	0%
LEOFF Plan 1	5,612.1	4,491.7	(1,120.4)	125%	33.3	0%
LEOFF Plan 2*	5,564.2	4,629.0	(935.2)	120%	1,442.5	0%
WSPRS 1/2*	900.4	789.3	(111.1)	114%	83.0	0%
PSERS 2*	69.2	63.8	(5.4)	108%	223.4	0%
JRS	1.8	89.3	87.5	2%	0.9	9,722%
Judges	3.3	3.4	0.1	97%	N/A	N/A
VFFRPF	165.7	163.0	(2.7)	102%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits. Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following pages.

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2010

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2009	6/30/2009	6/30/2009	6/30/2009
Actuarial cost method	Entry Age Normal[1]	Aggregate[3]	Entry Age Normal[1]	Aggregate[3]
Amortization method				
Funding	Level %[5]	N/A	Level %[5]	N/A
GASB	Level $	N/A	Level $	N/A
Remaining amortization period (closed)	10-year rolling	N/A	10-year rolling	N/A
Asset valuation method	8-year graded smoothed fair value[9]	8-year graded smoothed fair value[9]	8-year graded smoothed fair value[9]	8-year graded smoothed fair value[9]
Actuarial assumptions				
Investment rate of return[10]	8.00%	8.00%	8.00%	8.00%
Projected salary increases				
Salary inflation at 4.5%, plus the merit increases described below[6]:				
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA[7]	CPI increase, maximum 3%	Uniform COLA[7]	CPI increase, maximum 3%

N/A indicates data not applicable.

[1] Based on a variation of the Entry Age Normal (EAN) cost method

[2] Based on a variation of the Frozen Initial Liability (FIL) cost method.

[3] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[4] Pay-As-You-Go basis for funding.

[5] Level percent of payroll, including system growth.

[6] LEOFF Plan 2 assumes 4.5% of salary inflation

[7] The Uniform COLA - Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year. The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny. These are some historical monthly COLA amounts per year of service:

Date	Uniform COLA
7/1/2003	$1.18
7/1/2004	$1.21
7/1/2005	$1.25
7/1/2006	$1.29
7/1/2007	$1.33
7/1/2008	$1.73
7/1/2009	$1.83
7/1/2010	$1.88

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF[8]
6/30/2009	6/30/2009	6/30/2009	6/30/2009	6/30/2009
Aggregate[3]	Frozen Initial Liability[2]	Aggregate[3]	Aggregate[3]	Entry Age[4]
N/A	Level %[5]	N/A	N/A	Level $
N/A	Level $	N/A	N/A	Level $
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15-year rolling
8-year graded smoothed fair value[9]	8-year graded smoothed fair value[9]	8-year graded smoothed fair value[9]	8-year graded smoothed fair value[9]	8-year smoothed fair value[9]
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
20 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50% CPI increase, maximum 3%	3.50% CPI increase	3.50% CPI increase maximum 3%	3.50% CPI increase, maximum 3%	N/A None

[8] VFFRPF uses the Entry Age Funding Method for pensions, and the Pay-As-You-Go Method for the relief costs.

[9] Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

[10] With the exception of the VFFRPF, the legislature prescribes the assumed rate of investment return for all plans. The VFFRPF Annual Gain/Loss is set at a 7% assumed rate of return.

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the state's single employer and agent multiple-employer defined benefit plans are as follows (dollars in millions):

	WSPRS***	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.6	$ 20.4	$ -
Interest on NPO	(1.1)	5.9	(0.1)
Adjustment to annual required contribution	1.6	(17.2)	0.3
Annual pension cost	7.1	9.1	0.2
Less: Contributions made	5.3	11.6	-
Increase (decrease) in NPO	1.8	(2.5)	0.2
NPO at beginning of year	(13.2)	74.3	(1.3)
NPO at end of year	$(11.4)	$71.8	$(1.1)
Actuarial assumptions:			
Valuation date	6/30/09	6/30/09	6/30/09
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization period (closed)	n/a	5-year rolling	5-year rolling
Asset valuation method	8 year graded smoothed fair value	Market	Market
Investment rate of return****	8%	8%	8%
Projected salary increases	4.0%**	4.0%	N/A
Includes inflation at	3.5%	3.5%	3.5%
Cost-of-living adjustments	CPI increase, maximum 3%	CPI increase, maximum 3%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

** WSPRS also assumes a variable salary merit increase for a merit period of 25 years.

*** Revised NPO at beginning of year for WSPRS (reported at end of prior year at $(13.5).

****The Legislature prescribes the assumed rate of investment return.

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information in millions for the plans listed:

	2010	2009	2008
WSPRS			
Annual pension cost	$ 7.1	$ 5.0	$ 7.5
% of APC contributed	74.2	127.4	89.2
NPO	$(11.4)	$(13.4)	$(12.7)
JRS			
Annual pension cost	$ 9.1	$ 9.8	$ 12.2
% of APC contributed	127.5	105.1	79.5
NPO	$ 71.8	$ 74.3	$ 74.8
Judges			
Annual pension cost	$ 0.2	$ 0.2	$ 0.5
% of APC contributed	0.0	0.0	0.0
NPO	$ (1.1)	$ (1.3)	$ (1.5)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The assumed ratio of survivors selecting annuities was increased to reflect changes accordance with Chapters 521, 522 and 523, Laws of 2009 related to domestic partnership benefits.

New benefits for survivors of PERS Plan 1 inactive deaths were implemented in accordance with Chapter 111, Laws of 2009.

The TRS Plan 1 supplemental death benefits were included in the valuation model. In prior valuations the liability was estimated outside the valuation process.

The TRS general salary increase assumption was changed to include the bonuses received by members who attain national board certification.

The assumed ratio of survivors of WSPRS Plan 2 duty-related deaths selecting annuities was changed to 60 percent, regardless of the member's age at death.

The cost reimbursement of medical premiums for LEOFF Plan 2 and WSPRS survivors of duty-related deaths was removed from the pension plan. This cost will be valued separately and future benefits paid from a 401 (h) account.

The LEOFF Plan 2 early retirement factors and joint and survivor factors were updated based on the results of the 2001-2006 demographic experience study adopted by the LEOFF Plan 2 Retirement Board.

A disability assumption experience study was performed for LEOFF Plan 2 based on recent experience data. Both the disability rates and the percent of disabilities assumed to be catastrophic changed.

The LEOFF Plan 2 inactive death benefit was refined in the model to include the survivor's option to select 150 percent of the member's savings in lieu of a monthly benefit.

I. CHANGES IN BENEFIT PROVISIONS

Legislation as adopted allowing employees of the Higher Education Coordinating Board to participate in the Higher Education Retirement Plan when certain conditions are met (Chapter 21, Laws of 2010).

Half time service credit is granted for members of PERS and SERS Plans 2 and 3 for educational employment prior to January 1, 1987 (Chapter 103, Laws of 2010).

The lump-sum death benefit for members of LEOFF Plan 2 and WSPRS Plan 2 is increased to $214,000 and is automatically adjusted each year by an amount equal to CPI with a 3 percent per year maximum, this applies to all members of LEOFF Plan 2 and WSPRS Plan 2 killed in the course of employment since January 1, 2003 (Chapter 261, Laws of 2010).

The optional lump sum payment payable upon remarriage is increased for LEOFF Plan 2 and PSERS Plan 2 survivors of a member killed in the course of employment from 24 times the monthly allowance that the member was receiving at the time or remarriage to an amount equal to 36 times the monthly allowance (Chapter 261, Laws of 2010).

The disability allowance of a LEOFF Plan 2 member that is totally disabled in the line of duty includes reimbursement for any payments made for employer provided medical insurance after the relevant effective date. This includes medical insurance offered under the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and Medicare Parts A and B. For members of WSPRS, the compensation of an officer totally disabled during the line of duty includes reimbursement for any payments of premiums for employer-provided medical insurance. An officer is considered totally disabled for purposes of the reimbursement benefit is he or she is unable to perform any substantial gainful activity due to a condition expected to last at least 12 months. (Chapter 259, Laws of 2010).

LEOFF Plan 1 members who transferred service credit to PERS Plan 1 between July 1, 1997 and July 1, 1998,

are permitted to include the years of transferred service in meeting the 25 years of member service requirement to qualify for up to five years of prior, or non-interruptive, military service (Chapter 260, Laws of 2010).

Employer authorized shared leave received by LEOFF Plan 2 members from a non-state employer, must receive the same treatment in respect to service credit and FAS that a member would normally receive if using accrued annual leave or sick leave. This applies to directly and indirectly transferred leave, such as through a shared leave pool, and includes leave transferred prior to the effective date of the act providing that retirement contributions were made on the shared leave (Chapter 50, Laws of 2010).

The actuarial salary growth assumption used in the PERS, SERS, TRS, PSERS, WSPRS and LEOFF Plan 1 is reduced to 4 percent per year, and contribution rates to cover PERS Plan 1 and TRS Plan 1 UAAL were established to amortize the UAAL over a rolling 10 year period subject to minimum rates (Chapter 561, Laws of 2009).

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 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).

Eligible employees include: 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 participants 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 exercise an option to transfer their membership to Plan 3.

PERS participants who joined 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. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. 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 the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. 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 solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2010, employee contributions required and made were $92.7 million, and plan refunds paid out were $41.7 million.

Teachers' Retirement System Plan 3 (TRS 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).

Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants 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 participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. 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 the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. 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 solely dependent upon the results of investment

activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2010, employee contributions required and made were $254.2 million and plan refunds paid out were $71.7 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000.

Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2010, employee contributions required and made were $60.3 million and plan refunds paid out were $33.9 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account 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, 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. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. 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 State Legislature.

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM).

Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the JBM (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was $2.5 million for the Fiscal Year ended June 30, 2010. For Fiscal Year 2010, the contribution requirement for JRA was $86 thousand. Actual employer and employee contributions were $43 and $43 thousand respectively. Plan benefits paid out for Fiscal Year 2010 totaled $0.4 million.

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 shall be paid

to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions.

The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan.

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 28.B.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, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 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.

Effective July 29, 2009, domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal laws (Chapter 521, Laws of 2009).

For Fiscal Year 2010, covered payroll was $1.9 billion. Employer and employee contributions were $157.5 and $157.5 million respectively, for a total of $315 million. These contribution amounts represent approximately 8.4 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2009. The previous valuation was performed in 2007.

The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2009 and 2007 was $336.5 million and $127.8 million, respectively, and is amortized over a 14.5-year period.

The Annual Required Contribution (ARC) of $43.5 million consists of amortization of the UAL ($25.6 million) and normal cost (or current cost) ($16.8 million).

The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.8 billion and $1.4 billion of payroll were covered under these plans during 2009 and 2007, respectively.

The following table reflects the activity in the Net Pension Obligation (NPO) for the years ended June 30 (expressed in millions):

	2010	2009	2008
Annual required contribution	$43.5	$43.1	$16.6
Payments to beneficiaries	(3.7)	(1.9)	(1.9)
Increase (decrease) in NPO	39.8	41.2	14.6
NPO at beginning of year	79.8	38.6	24.0
NPO at end of year	$119.6	$79.8	$38.6

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2010
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ASSETS						
Cash and pooled investments	$ 40,303	$ 90,339	$ 142	$ 34,431	$ 44,989	$ 4,534
Receivables:						
Employer accounts receivable	3,603	34,456	4,260	2,952	16,782	21,842
Member accounts receivable (net of allowance)	789	161	-	434	4	-
Due from other funds	5	10	-	2	8	-
Due from other pension and other employee benefit funds	521	-	219	583	-	17
Interest and dividends	24,471	52,331	2,514	20,542	17,702	7,729
Investment trades pending	521,337	1,141,999	26,782	437,631	459,668	82,342
Total Receivables	550,726	1,228,957	33,775	462,144	494,164	111,930
Investments, Noncurrent:						
Public equity	2,660,448	5,691,087	273,348	2,233,284	1,925,537	2,418,949
Fixed income	1,703,105	3,643,190	174,985	1,429,653	1,232,646	537,992
Private equity	1,964,012	4,201,309	201,792	1,648,668	1,421,482	620,409
Real estate	1,083,902	2,318,625	111,365	909,870	784,490	342,392
Security lending	531,207	1,136,330	54,579	445,916	384,469	167,802
Liquidity	141,248	326,283	602,657	120,975	111,289	58,893
Tangible assets	88,407	189,116	9,083	74,212	63,986	27,927
Total Investments, Noncurrent	8,172,329	17,505,940	1,427,809	6,862,578	5,923,899	4,174,364
Total Assets	8,763,358	18,825,236	1,461,726	7,359,153	6,463,052	4,290,828
LIABILITIES						
Obligations under security lending agreements	531,207	1,136,330	54,579	445,916	384,469	167,802
Accrued liabilities	608,027	1,320,167	32,770	510,919	530,861	97,702
Due to other funds	102	726	-	90	414	-
Due to other pension and other employee benefit funds	-	597	5	-	583	16
Unearned revenues	148	399	-	438	1	-
Total Liabilities	1,139,484	2,458,219	87,354	957,363	916,328	265,520
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	7,623,874	16,367,017	1,374,372	6,401,790	5,546,724	4,025,308
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 7,623,874	$ 16,367,017	$ 1,374,372	$ 6,401,790	$ 5,546,724	$ 4,025,308

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2010
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ASSETS						
Cash and pooled investments	$ 17,684	$ 1,076	$ 24,268	$ 27,485	$ 4,679	$ 777
Receivables:						
Employer accounts receivable	6,438	5,192	3	14,276	415	1,528
Member accounts receivable (net of allowance)	2	-	44	61	-	-
Due from other funds	6	-	2	3	1	1
Due from other pension and other employee benefit funds	277	9	-	-	-	-
Interest and dividends	7,138	2,453	14,709	16,203	2,447	283
Investment trades pending	178,313	26,131	313,412	345,290	52,127	6,028
Total Receivables	192,174	33,785	328,170	375,833	54,990	7,840
Investments, Noncurrent:						
Public equity	776,602	548,110	1,599,381	1,762,056	266,007	30,763
Fixed income	497,147	170,731	1,023,855	1,127,993	170,287	19,693
Private equity	573,308	196,886	1,180,704	1,300,796	196,374	22,710
Real estate	316,398	108,658	651,609	717,885	108,375	12,533
Security lending	155,063	53,252	319,346	351,827	53,113	6,142
Liquidity	44,552	18,004	86,319	109,868	14,894	4,319
Tangible assets	25,807	8,863	53,147	58,553	8,839	1,022
Total Investments, Noncurrent	2,388,877	1,104,504	4,914,361	5,428,978	817,889	97,182
Total Assets	2,598,735	1,139,365	5,266,799	5,832,296	877,558	105,799
LIABILITIES						
Obligations under security lending agreements	155,063	53,252	319,346	351,827	53,113	6,142
Accrued liabilities	206,037	32,550	362,282	398,793	60,378	6,961
Due to other funds	173	5	34	164	15	18
Due to other pension and other employee benefit funds	115	277	-	-	-	33
Unearned revenues	2	-	-	99	-	-
Total Liabilities	361,390	86,084	681,662	750,883	113,506	13,154
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	2,237,345	1,053,281	4,585,137	5,081,413	764,052	92,645
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 2,237,345	$ 1,053,281	$ 4,585,137	$ 5,081,413	$ 764,052	$ 92,645

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2010
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	$ 294	$ 8	$ 2,811	$ 21,970	$ 1,409	$ 317,199
Receivables:						
Employer accounts receivable	5	-	-	-	-	111,752
Member accounts receivable (net of allowance)	-	-	-	-	1,065	2,560
Due from other funds	1	-	6	17	17	79
Due from other pension and other employee benefit funds	-	-	-	-	-	1,626
Interest and dividends	-	-	-	395	-	168,917
Investment trades pending	-	-	-	8,408	-	3,599,468
Total Receivables	6	-	6	8,820	1,082	3,884,402
Investments, Noncurrent:						
Public equity	-	11,433	-	42,909	2,446,418	22,686,332
Fixed income	-	-	-	27,468	-	11,758,745
Private equity	-	-	-	31,676	-	13,560,126
Real estate	-	-	-	17,482	-	7,483,584
Security lending	-	-	-	8,568	-	3,667,614
Liquidity	3,568	-	11	2,336	5	1,645,221
Tangible assets	-	-	-	1,426	-	610,388
Total Investments, Noncurrent	3,568	11,433	11	131,865	2,446,423	61,412,010
Total Assets	3,868	11,441	2,828	162,655	2,448,914	65,613,611
LIABILITIES						
Obligations under security lending agreements	-	-	-	8,568	-	3,667,614
Accrued liabilities	30	-	3	9,703	21	4,177,204
Due to other funds	-	-	3	3	16	1,763
Due to other pension and other employee benefit funds	-	-	-	-	-	1,626
Unearned revenues	-	-	-	-	-	1,087
Total Liabilities	30	-	6	18,274	37	7,849,294
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 161)	3,838	11,441	2,822	144,381	-	55,315,440
Deferred compensation participants	-	-	-	-	2,448,877	2,448,877
Total Net Assets	$ 3,838	$ 11,441	$ 2,822	$ 144,381	$ 2,448,877	$ 57,764,317

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ADDITIONS						
Contributions:						
Employers	$ 154,023	$ 327,460	$ -	$ 112,731	$ 164,959	$ -
Members	40,995	271,550	92,665	24,631	21,694	254,197
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	195,018	599,010	92,665	137,362	186,653	254,197
Investment Income:						
Net appreciation (depreciation) in fair value	779,778	1,468,001	115,690	646,234	494,914	366,324
Interest and dividends	232,804	467,351	23,316	194,268	157,322	70,415
Less: investment expenses	(32,244)	(67,251)	(3,980)	(27,017)	(22,867)	(11,927)
Net investment income (loss)	980,338	1,868,101	135,026	813,485	629,369	424,812
Transfers from other pension plans	1	11,611	4,926	5	724	598
Other additions	-	-	-	-	-	-
Total Additions	1,175,357	2,478,722	232,617	950,852	816,746	679,607
DEDUCTIONS						
Pension benefits	1,111,386	251,765	79	859,250	55,654	257
Pension refunds	4,946	31,425	41,724	1,505	2,868	71,665
Transfers to other pension plans	1	5,085	4,926	1	198	1,084
Administrative expenses	372	698	-	175	207	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,116,705	288,973	46,729	860,931	58,927	73,006
Net Increase (Decrease)	58,652	2,189,749	185,888	89,921	757,819	606,601
Net Assets - Beginning	7,565,222	14,177,268	1,188,484	6,311,869	4,788,905	3,418,707
Net Assets - Ending	$ 7,623,874	$ 16,367,017	$ 1,374,372	$ 6,401,790	$ 5,546,724	$ 4,025,308

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ADDITIONS						
Contributions:						
Employers	$ 62,090	$ -	$ 49	$ 76,998	$ 5,271	$ 15,237
Members	20,227	60,328	1,676	133,122	5,198	15,214
State	-	-	-	51,376	-	-
Participants	-	-	-	-	-	-
Total Contributions	82,317	60,328	1,725	261,496	10,469	30,451
Investment Income:						
Net appreciation (depreciation) in fair value	200,935	89,503	449,181	445,838	72,119	5,525
Interest and dividends	63,796	22,472	136,935	143,480	22,388	2,178
Less: investment expenses	(9,216)	(3,496)	(19,285)	(20,815)	(3,172)	(345)
Net investment income (loss)	255,515	108,479	566,831	568,503	91,335	7,358
Transfers from other pension plans	431	445	112	1,010	10	32
Other additions	-	-	-	-	-	-
Total Additions	338,263	169,252	568,668	831,009	101,814	37,841
DEDUCTIONS						
Pension benefits	34,449	91	338,231	46,158	36,116	18
Pension refunds	2,125	33,916	14	10,947	126	928
Transfers to other pension plans	8,082	416	-	112	-	-
Administrative expenses	74	-	34	1,078	12	7
Distributions to participants	-	-	-	-	-	-
Total Deductions	44,730	34,423	338,279	58,295	36,254	953
Net Increase (Decrease)	293,533	134,829	230,389	772,714	65,560	36,888
Net Assets - Beginning	1,943,812	918,452	4,354,748	4,308,699	698,492	55,757
Net Assets - Ending	$ 2,237,345	$ 1,053,281	$ 4,585,137	$ 5,081,413	$ 764,052	$ 92,645

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	$ 79	$ 43	$ -	$ 1,103	$ -	$ 920,043
Members	79	43	-	45	-	941,664
State	11,570	-	-	5,685	-	68,631
Participants	-	-	-	-	185,120	185,120
Total Contributions	11,728	86	-	6,833	185,120	2,115,458
Investment Income:						
Net appreciation (depreciation) in fair value	(2)	773	(14)	9,179	162,186	5,306,164
Interest and dividends	17	233	62	3,919	45,408	1,586,364
Less: investment expenses	(4)	(22)	-	(502)	(4,543)	(226,686)
Net investment income (loss)	11	984	48	12,596	203,051	6,665,842
Transfers from other pension plans	-	-	-	-	-	19,905
Other additions	-	3	-	-	1,145	1,148
Total Additions	11,739	1,073	48	19,429	389,316	8,802,353
DEDUCTIONS						
Pension benefits	9,722	389	500	10,104	-	2,754,169
Pension refunds	-	-	-	18	-	202,207
Transfers to other pension plans	-	-	-	-	-	19,905
Administrative expenses	1	-	-	8	-	2,666
Distributions to participants	-	-	-	-	108,578	108,578
Total Deductions	9,723	389	500	10,130	108,578	3,087,525
Net Increase (Decrease)	2,016	684	(452)	9,299	280,738	5,714,828
Net Assets - Beginning	1,822	10,757	3,274	135,082	2,168,139	52,049,489
Net Assets - Ending	$ 3,838	$ 11,441	$ 2,822	$ 144,381	$ 2,448,877	$ 57,764,317

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 57 of the state's K-12 schools and educational service districts (ESDs) and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 244 K-12 schools and ESDs. As of June 2010, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	111,374	26,181	137,555
K-12 schools and ESDs[2]	2,198	27,378	29,576
Political subdivisions	11,554	1,116	12,670
Total	125,126	54,675	179,801

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2010, there were 99,239 full-time equivalent active employees in the 244 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2010, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$758
Dental	76
Life	5
Long-term disability	2
Total	$841
Employer contribution	$755
Employee contribution	86
Total	$841

[3]Per 2010 Index Rate Model 3.3.

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.

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 PEBB plans 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 2009 the average weighted implicit subsidy was valued at $272 per member per month, and in Calendar Year 2010 the average weighted implicit subsidy is projected to be $273 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 Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2009, the explicit subsidy was $183 per member per month, and in Calendar Year 2010 the explicit subsidy is $183 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2009. The explicit subsidy is also $5 per member per month in Calendar Year 2010.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2010, the cost of the subsidies was approximately 6.7 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 employers individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

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.

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 2010, the amount actually contributed to the plan, and changes in the state's Net OPEB Obligation (NOO) (expressed in thousands):

Annual required contribution	$349,326
Interest on Net OPEB Obligation	22,210
Amortization of Net OPEB Obligation	(17,116)
Annual OPEB cost (expense)	354,420
Contributions made	(70,099)
Increase in Net OPEB Obligation	284,321
Net OPEB Obligation - beginning of year	493,551
Net OPEB Obligation - end of year*	$777,872
*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 2008, 2009 and 2010 were as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	$354,420	19.78%	$777,872
6/30/09	334,374	25.92%	493,551
6/30/08	313,970	21.69%	245,855

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009, the latest date for which information is available, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,786,869
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,786,869

Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$5,678,422
UAAL as a percentage of covered payroll	66.69%

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, 2009
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	7.0% initial rate, 5% ultimate rate in 2067
Inflation rate	3.5%

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $5.3 billion at June 30, 2010.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

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 both basic and special education; inadequate funding for care of the disabled and elderly; inadequate funding for the provision of mental health services to children. Collective claims in these programmatic and service cases exceed $350 million. Adverse rulings in these cases could result in significant future costs.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Claims for refunds are approximately $234 million. In addition, the state is defending cases challenging the constitutionality of certain taxes that fund discrete state programs.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. In addition, the Department of Natural Resources is defending contribution claims for clean-up costs connected to runoff from historic mining activity. While estimates are not available for all lawsuits, claims for damages will likely exceed $19 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of $62 million. Additionally, the state is being sued as a result of the legislative repeal of the gain sharing provision associated with select state pension plans. No reliable estimate of damage is currently available.

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 share of the settlement was approximately $116.8 million in Fiscal Year 2010 and is subject to various offsets, reductions, and adjustments.

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 base payment. The 2010 strategic contribution payment was approximately $40.7 million.

In 2006, 2007, 2008, and 2009, determinations were made under a process established by the MSA 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. Washington faces a potential "nonparticipating manufacturer (NPM) adjustment" of between $0 and $130 million for the year 2003, $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.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington.

The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. With the exception of Montana, all states will participate in a single national arbitration of the NPM Adjustment dispute.

The dispute will be presented to a three-member panel of retired Article III judges. The panel is in place and some preliminary hearings have been held. Hearings on individual state cases will begin in 2011, but no specific dates for any state hearings have been set.

The arbitration will comprise some presentations made by the states collectively, but each state will also have to respond to claims by the participating manufacturers that the state was not diligent in enforcing its Qualifying Statute and present its individual case for diligence in enforcing its Qualifying Statute. The panel will not issue its decision as to any individual state until the entire arbitration with all states has been completed.

C. 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 does estimate and recognize a claims and judgments liability 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.

D. 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. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program.

The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds

in the event a school district is unable to make a payment.

The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2010, the state had guaranteed 211 school districts' voter-approved general obligation debt with 193 districts having a total outstanding principal of $7.97 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

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. 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 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, 2010, outstanding certificates of participation notes totaled $83 million for 181 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Office Building Lease

The 2009 Legislature authorized the state to lease-develop an office building in Olympia, Washington. On June 29, 2009, the state entered into a ground lease and a lease agreement with FYI Properties (FYI), a Washington nonprofit corporation. The agreements call for FYI to design and construct an office building and to finance it with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service. The state is required to make monthly payments that equal the required debt service on the bonds upon substantial completion of the project estimated to be July 2011. Additional amounts may also be due per the terms of the lease agreement. The lease agreements provide the state with options to purchase the building during the term of the lease and transfer ownership of the building to the state at the end of the lease. The office building will be occupied starting in Fiscal Year 2012.

Note 14
Subsequent Events

A. BOND ISSUES

In July 2010, the state issued:

- $347.3 million in various purpose general obligation bonds to fund various state capital projects, including state, institutions of higher education, and public school facilities; multimodal transportation projects; state and local water supply projects; and conservation and outdoor recreation projects.
- $365.6 million to refund various purpose general obligation bonds.
- $118.2 million in taxable bonds to fund certain taxable projects including: low-income housing projects, and local government and economic development infrastructure projects.

In September 2010, the state refunded:

- $401.4 million in general obligation bonds, which were used for various purposes.
- $394 million in motor vehicle fuel tax general obligation bonds.

In October 2010, the University of Washington issued $165 million in general revenue and refunding bonds. This included $20.3 million in tax-exempt revenue and refunding bonds (Series 2010A), and $144.7 million in taxable Build America revenue bonds (Series 2010B). Part of the proceeds from Series 2010A were used to partially refund 2002 housing and dining revenue and refunding bonds. The remaining proceeds from Series 2010A, and all of the proceeds from Series 2010B were used to pay off $35 million in commercial paper and fund a variety of projects including renovation and expansion of education facilities.

In November 2010, Washington Biomedical Research Facilities 3 (a blended component unit of the University of Washington), expects to issue approximately $165 million in revenue bonds. The bond proceeds will fund the construction of a research facility that the University will occupy through a long-term lease arrangement.

In November 2010, Central Washington University issued $34.5 million in revenue bonds for the construction of a residence hall, which included $32 million in taxable Build America revenue bonds.

In December 2010, Washington State University expects to issue $38.8 million in revenue bonds for housing and dining projects.

B. CERTIFICATES OF PARTICIPATION

In August 2010, the state issued $9.3 million to refund Certificates of Participation.

In November 2010, the state issued $50 million in Certificates of Participation to fund various state and local government real estate and equipment purchases.

C. CONVENTION AND TRADE CENTER

The 2010 State Legislature enacted Substitute Senate Bill 6889 which authorized King County to create a public facilities district to acquire, own and operate a convention and trade center. The bill provides for the transfer of the state Convention and Trade Center, an enterprise fund of the state, to the public facilities district created in July 2010 by King County Ordinance 16883.

Section 8 of the Substitute Senate Bill 6889 sets forth a number of conditions that must be met prior to the transfer occurring including the redemption, prepayment or legal defeasance of all outstanding debt of the state related to the state Convention and Trade Center. The public facilities district plans to issue debt during November 2010 and use the proceeds to satisfy outstanding state bonds, certificates of participation and financing contracts related to the state convention and trade center. The bill provides that all conditions of the transfer must occur prior to June 30, 2011.

D. RESOLVED LITIGATION

Jim A. Tobin v. Department of Labor & Industries was settled by the Supreme Court on August 12, 2010 in favor of the plaintiff. This case is primarily about distribution of money recovered from third parties. Chapter 51.24 RCW allows workers injured by non-employer third parties to file personal injury claims against those responsible parties. "Any recovery" in such an action is subject to distribution under a complex statutory formula. The current distribution formula includes third party damages for pain and suffering. The plaintiff of this case argued that pain and suffering damages must be excluded from distribution. Upon notification of the Supreme Court decision in favor of Jim A. Tobin, an increase in the amount of $165.8 million was recorded in claims payable liabilities in the Workers' Compensation Fund.

E. GENERAL ELECTION

There were measures on the state's November 2, 2010 general election ballot that addressed state laws related to state operations, state imposed taxes and fees, and the calculation of the state debt limitation. These measures, if passed, could impact the state fiscally. Election results are not final or official until certified. By law December 2, 2010 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.

RSI
Required Supplementary Information

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BUDGETARY INFORMATION
Budgetary Comparison Schedule

General Fund
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	General Fund			
	Original Budget 2009-11 Biennium	Final Budget 2009-11 Biennium	Actual 2009-11 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1	$ 189,310	$ 189,310	$ 189,310	$ -
Resources				
Taxes	29,493,412	28,582,490	13,139,029	(15,443,461)
Licenses, permits, and fees	187,150	179,419	85,637	(93,782)
Other contracts and grants	359,489	421,747	177,250	(244,497)
Timber sales	5,698	6,990	4,855	(2,135)
Federal grants-in-aid	15,487,030	16,821,716	8,306,614	(8,515,102)
Charges for services	132,086	130,431	55,660	(74,771)
Investment income (loss)	10,407	(9,993)	327	10,320
Miscellaneous revenue	213,124	544,311	177,173	(367,138)
Unclaimed property	95,773	91,955	60,171	(31,784)
Transfers from other funds	1,743,577	1,908,951	1,255,073	(653,878)
Total Resources	47,917,056	48,867,327	23,451,099	(25,416,228)
Charges To Appropriations				
General government	3,529,346	3,506,382	1,706,150	1,800,232
Human services	23,393,416	24,569,701	11,955,459	12,614,242
Natural resources and recreation	592,619	682,981	333,844	349,137
Transportation	100,183	98,775	46,424	52,351
Education	18,860,255	18,917,212	9,455,796	9,461,416
Capital outlays	305,525	334,336	86,891	247,445
Transfers to other funds	709,891	538,449	456,702	81,747
Total Charges To Appropriations	47,491,235	48,647,836	24,041,266	24,606,570
Excess Available For Appropriation Over (Under) Charges To Appropriations	425,821	219,491	(590,167)	(809,658)
Reconciling Items				
Changes in reserves (net)	-	-	32,527	32,527
Entity adjustments (net)	-	-	(3,427)	(3,427)
Total Reconciling Items	-	-	29,100	29,100
Budgetary Fund Balance, June 30	$ 425,821	$ 219,491	$ (561,067)	$ (780,558)

BUDGETARY INFORMATION

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

General Fund
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	General Fund
Sources/Inflows of Resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 23,451,099
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(1,255,073)
Budgetary fund balance at the beginning of the biennium	(189,310)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	1,327,020
Unanticipated receipts	14,677
Noncash revenues	(4,610)
Revenues collected for other governments	30,851
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 23,374,654
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	$ 24,041,266
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing sources (uses) for financial reporting purposes.	(1,177,642)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:	
Transfers to other funds	(456,702)
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	1,327,020
Expenditures related to unanticipated receipts	14,677
Certificates of participation and capital lease acquisitions	3,301
Distributions to other governments	30,851
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 23,782,771

BUDGETARY INFORMATION
Budgetary Comparison Schedule

Motor Vehicle Fund
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Motor Vehicle			
	Original Budget 2009-11 Biennium	Final Budget 2009-11 Biennium	Actual 2009-11 Biennium	Variance with Final Budget
Budgetary Fund Balance, July 1	$ 314,526	$ 314,526	$ 314,526	$ -
Resources				
Taxes	2,025,279	1,887,778	966,695	(921,083)
Licenses, permits, and fees	778,724	752,123	374,857	(377,266)
Other contracts and grants	5,269	4,675	1,710	(2,965)
Timber sales	-	-	27	27
Federal grants-in-aid	1,061,784	1,256,255	541,398	(714,857)
Charges for services	546,092	556,678	242,283	(314,395)
Investment income (loss)	15,172	6,964	15,571	8,607
Miscellaneous revenue	52,097	56,810	26,110	(30,700)
Transfers from other funds	599,934	327,446	100,031	(227,415)
Total Resources	5,398,877	5,163,255	2,583,208	(2,580,047)
Charges To Appropriations				
General government	20,780	22,077	14,240	7,837
Natural resources and recreation	2,493	2,483	1,053	1,430
Transportation	1,661,389	1,678,156	782,294	895,862
Capital outlays	4,534,611	4,871,043	1,927,355	2,943,688
Transfers to other funds	1,393,562	1,112,515	417,537	694,978
Debt service	-	-	18	(18)
Total Charges To Appropriations	7,612,835	7,686,274	3,142,497	4,543,777
Excess Available For Appropriation Over (Under) Charges To Appropriations	(2,213,958)	(2,523,019)	(559,289)	1,963,730
Reconciling Items				
Bond sale proceeds	2,230,650	2,550,883	2,060,820	(490,063)
Bond issue premiums	-	-	32,569	32,569
Refunding other debt issued	-	-	1,710	1,710
Payments to escrow agents for refunded other debt	-	-	(1,800)	(1,800)
Changes in reserves (net)	-	-	10	10
Entity adjustments (net)	-	-	5,359	5,359
Total Reconciling Items	2,230,650	2,550,883	2,098,668	(452,215)
Budgetary Fund Balance, June 30	$ 16,692	$ 27,864	$ 1,539,379	$ 1,511,515

BUDGETARY INFORMATION

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Motor Vehicle Fund
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Motor Vehicle Fund
Sources/Inflows of Resources	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 2,583,208
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(100,031)
Budgetary fund balance at the beginning of the biennium	(314,526)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Revenues collected for other governments	237,201
Unanticipated receipts	5,761
Noncash revenues	4,706
Other	653
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 2,416,972
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule	$ 3,142,497
Differences - budget to GAAP:	
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes:	
Transfers to other funds	(417,537)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes:	
Distributions to other governments	237,201
Expenditures related to unanticipated receipts	5,761
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 2,967,922

BUDGETARY INFORMATION
Notes to Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the state 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 schedules are 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 schedules extremely cumbersome. Section 2400.121 of the GASB 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 2009-11 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in the Budget-to-Actual Detail Report for governmental funds. A copy of this report is available at the Office of Financial Management, 1110 Capitol Way SE, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund 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 make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

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 reservations of fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. 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 fixed 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.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

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. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	$ 9,776	$ 9,853	$ 9,715	$ 9,591	$ 9,707	$ 9,928
Actuarial accrued liability	13,984	13,901	13,740	13,129	13,704	12,855
Unfunded actuarial liability	4,208	4,048	4,025	3,538	3,997	2,927
Percentage funded	70%	71%	71%	73%	71%	77%
Covered payroll	580	638	676	725	786	863
Unfunded actuarial liability as a percentage of covered payroll	726%	634%	595%	488%	509%	339%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	$ 18,260	$ 16,693	$ 14,888	N/A	N/A	N/A
Actuarial accrued liability	18,398	16,508	14,661	N/A	N/A	N/A
Unfunded actuarial liability	138	(185)	(227)	N/A	N/A	N/A
Percentage funded	99%	101%	102%	N/A	N/A	N/A
Covered payroll	8,132	7,869	7,157	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	2%	0%	0%	N/A	N/A	N/A

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	$ 8,146	$ 8,262	$ 8,302	$ 8,275	$ 8,450	$ 8,728
Actuarial accrued liability	10,820	10,754	10,826	10,359	10,894	10,401
Unfunded actuarial liability	2,674	2,492	2,524	2,084	2,444	1,673
Percentage funded	75%	77%	77%	80%	78%	84%
Covered payroll	389	432	426	478	546	616
Unfunded actuarial liability as a percentage of covered payroll	687%	577%	592%	436%	448%	272%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	$ 6,160	$ 5,681	$ 5,277	N/A	N/A	N/A
Actuarial accrued liability	6,048	5,264	4,682	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(112)	(417)	(595)	N/A	N/A	N/A
Percentage funded	102%	108%	113%	N/A	N/A	N/A
Covered payroll	3,957	3,621	3,318	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	$ 2,503	$ 2,303	$ 2,133	N/A	N/A	N/A
Actuarial accrued liability	2,493	2,207	1,998	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(10)	(96)	(135)	N/A	N/A	N/A
Percentage funded	100%	104%	107%	N/A	N/A	N/A
Covered payroll	1,467	1,379	1,283	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	$ 5,612	$ 5,592	$ 5,298	$ 5,018	$ 4,800	$ 4,666
Actuarial accrued liability	4,492	4,368	4,340	4,309	4,243	4,266
Unfunded (assets in excess of) actuarial liability	(1,120)	(1,224)	(958)	(709)	(557)	(400)
Percentage funded	125%	128%	122%	116%	113%	109%
Covered payroll	33	37	43	48	56	64
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	$ 5,564	$ 5,053	$ 4,360	N/A	N/A	N/A
Actuarial accrued liability	4,641	3,998	3,626	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(923)	(1,055)	(734)	N/A	N/A	N/A
Percentage funded	120%	126%	120%	N/A	N/A	N/A
Covered payroll	1,442	1,345	1,234	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	$ 900	$ 870	$ 800	N/A	N/A	N/A
Actuarial accrued liability	790	745	702	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(110)	(125)	(98)	N/A	N/A	N/A
Percentage funded	114%	117%	114%	N/A	N/A	N/A
Covered payroll	83	79	72	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	N/A	N/A	N/A
Actuarial value of plan assets	$ 69	$ 39	$ 14	N/A	N/A	N/A
Actuarial accrued liability	64	37	19	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(5)	(2)	6	N/A	N/A	N/A
Percentage funded	108%	106%	74%	N/A	N/A	N/A
Covered payroll	223	200	134	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	0%	0%	N/A	N/A	N/A

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	$ 2	$ 1	$ 1	$ 0.3	$ 2	$ 4
Actuarial accrued liability	89	92	85	88	89	89
Unfunded actuarial liability	87	91	84	88	87	85
Percentage funded	2%	1%	1%	0%	2%	4%
Covered payroll	0.9	1.3	1.3	1.4	1.7	2.4
Unfunded actuarial liability as a percentage of covered payroll	9667%	7000%	6462%	6286%	5118%	3542%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	9/30/2006	9/30/2005	9/30/2004
Actuarial value of plan assets	$ 3.3	$ 3.6	$ 4.0	$ 4.1	$ 4.2	$ 4.4
Actuarial accrued liability	3.4	3.5	3.9	4.0	4.5	4.7
Unfunded (assets in excess of) actuarial liability	0.1	(0.1)	(0.1)	(0.1)	0.3	0.3
Percentage funded	97%	103%	103%	103%	93%	94%
Covered payroll	-	-	-	-	-	-
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2009 through 2004
(dollars in millions)

	2009	2008	2007	2006	2005	2004
Actuarial valuation date	6/30/2009	6/30/2008	6/30/2007	12/31/2006	12/31/2005	12/31/2004
Actuarial value of plan assets	$ 166	$ 161	$ 151	$ 140	$ 127	$ 120
Actuarial accrued liability	163	153	141	142	140	115
Unfunded (assets in excess of) actuarial liability	(3)	(8)	(10)	2	13	(5)
Percentage funded	102%	105%	107%	99%	91%	104%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 627.8	$ 620.2	$ 453.1	$ 397.3	$ 438.5	$ 340.3
Employers' actual contribution	154.0	325.2	221.8	118.7	29.6	22.4
Percentage contributed	25%	52%	49%	30%	7%	7%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 383.1	$ 369.7	$ 363.3	$ 331.3	$ 307.6	$ 227.7
Employers' actual contribution	327.5	439.7	318.7	242.5	149.6	74.7
Percentage contributed	85%	119%	88%	73%	49%	33%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 406.1	$ 391.0	$ 294.7	$ 249.8	$ 287.5	$ 224.3
Employers' actual contribution	112.7	178.9	113.1	60.5	15.1	8.8
Percentage contributed	28%	46%	38%	24%	5%	4%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 221.1	$ 186.9	$ 208.9	$ 167.7	$ 166.4	$ 117.4
Employers' actual contribution	165.0	160.8	109.5	102.2	75.4	33.8
Percentage contributed	75%	86%	52%	61%	45%	29%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 82.3	$ 71.5	$ 75.8	$ 71.5	$ 81.4	$ 64.0
Employers' actual contribution	62.1	63.5	52.1	45.9	30.4	10.2
Percentage contributed	75%	89%	69%	64%	37%	16%

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ -	$ -	$ 0.1	$ -	$ -
Employers' actual contribution	-	-	-	0.1	0.1	-
Percentage contributed	N/A	N/A	N/A	100%	N/A	N/A
State annual required contribution	-	-	-	-	-	-
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	$ 111.1	$ 105.3	$ 61.3	$ 56.9	$ 60.8	$ 48.5
Employers' actual contribution	77.0	77.8	73.4	58.2	48.5	32.8
Percentage contributed	69%	74%	120%	102%	80%	68%
State annual required contribution*	44.4	42.1	40.8	38.0	40.5	32.3
State actual contribution	51.4	51.1	45.9	37.9	31.7	21.3
Percentage contributed	116%	121%	113%	100%	78%	66%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 6.6	$ 5.0	$ 6.8	$ 5.3	$ 6.1	$ 3.4
Employers' actual contribution	5.3	6.4	6.1	3.3	3.1	-
Percentage contributed	80%	128%	90%	62%	51%	0%

N/A indicates data not available.

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure; the LEOFF Plan 2 Retirement Board has proposed a higher ARC of $113.5 million.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2010 through 2005
(dollars in millions)

	2010	2009	2008	2007	2006	2005
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 14.8	$ 14.3	$ 12.4	$ 7.1	N/A	N/A
Employers' actual contribution	15.2	14.5	11.7	6.6	N/A	N/A
Percentage contributed	103%	101%	94%	93%	N/A	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 20.4	$ 21.2	$ 26.6	$ 37.3	$ 27.7	$ 21.7
Employers' actual contribution	11.6	10.2	9.6	9.6	6.7	6.2
Percentage contributed	57%	48%	36%	26%	24%	29%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ -	$ -	$ -	$ -	$ 0.1	$ 0.1
Employers' actual contribution	-	-	-	0.3	0.3	0.5
Percentage contributed	N/A	N/A	N/A	N/A	300%	500%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 1.0	$ 1.1	$ 1.0	$ 1.0	$ 1.0	$ 0.7
Employers' actual contribution	1.0	1.0	1.0	1.0	1.0	0.7
Percentage contributed	100%	91%	100%	100%	100%	100%
State annual required contribution	1.8	1.4	0.9	2.0	3.6	1.8
State actual contribution	5.7	5.2	5.0	6.0	4.6	4.4
Percentage contributed	317%	371%	556%	300%	128%	244%

N/A indicates data not available.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2009 through 2007
(dollars in millions)

	2009	2008	2007
Actuarial valuation date	1/1/2009	1/1/2008	1/1/2007
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,787	4,014	3,800
Unfunded actuarial accrued liability (UAAL)	3,787	4,014	3,800
Funded ratio	0%	0%	0%
Covered payroll	5,678	5,170	5,427
UAAL as a percentage of covered payroll	66.69%	77.64%	70.01%

* 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's highway system is divided into three main categories: pavement, bridges, and rest areas. Condition information about each of these areas as well as state managed airports follows.

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 20,498 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,927 of the total lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

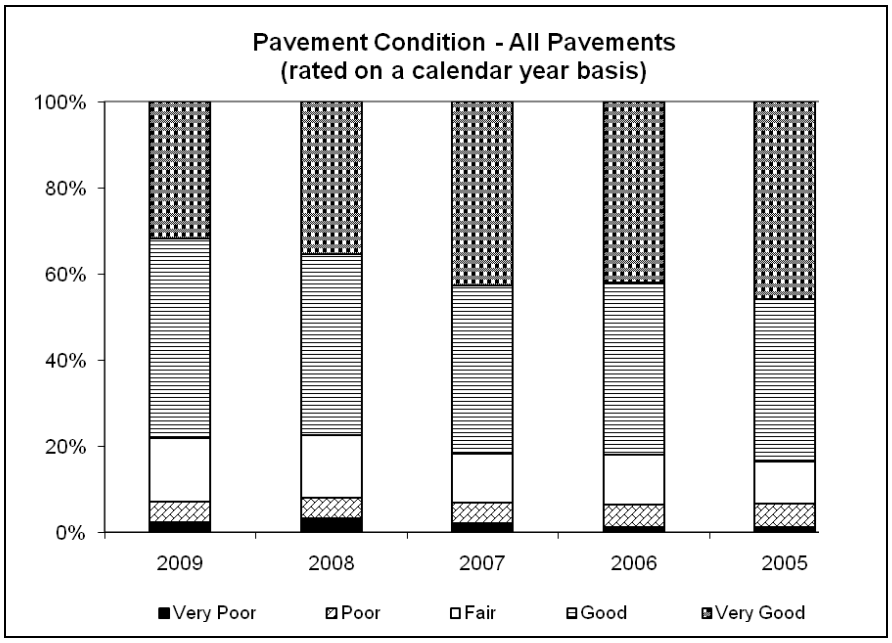
In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met.

The trend over the last five years has shown that the percent of pavements in poor or very poor condition was fairly stable at 7 to 10 percent. WSDOT uses LLCC analysis to manage its pavement preservation program.

The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike a balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.

WSDOT manages state highways targeting the LLCC per the Pavement Management System due date. While the Department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment, conducted in 2009, found that state highways were within the prescribed parameters with only 7 percent of all pavement types with a pavement condition index below 40.



WSDOT uses the following scale for Pavement Structural Condition (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 – 80	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 – 60	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 – 40	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 – 20	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 PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measure of greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in inches: a pavement with more than 0.58 inches of rutting is considered in poor condition.

The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings.

The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rutting
Very Good	100 – 80	< 95	< 0.23
Good	80 – 60	95 – 170	0.23 – 0.41
Fair	60 – 40	170 – 220	0.41 – 0.58
Poor	40 – 20	220 – 320	0.58 – 0.74
Very Poor	0 – 20	> 320	> 0.74

Since 1999, WSDOT has used an semi-automated pavement distress survey procedure. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. Use of the semi-automated procedure has resulted in a more detailed classification and recording of various distresses that are rated.

In 2009, WSDOT rated pavement condition on 16,966 of the 20,498 lane miles of highway. The following chart shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described on the preceding page.

Percentage of Pavement Lane Miles in Fair or Better Condition*					
	2009	2008	2007	2006	2005
Statewide - Chip seals	95%	95%	91%	91%	91%
Statewide - Asphalt	93%	92%	94%	94%	95%
Statewide - Concrete	90%	87%	93%	93%	91%
Statewide - All Pavements	93%	92%	93%	94%	93%

Percentage of Pavement Lane Miles in Poor or Very Poor Condition*					
	2009	2008	2007	2006	2005
Statewide - Chip seals	5%	5%	9%	9%	9%
Statewide - Asphalt	7%	8%	6%	6%	5%
Statewide - Concrete	10%	13%	7%	7%	9%
Statewide - All Pavements	7%	8%	7%	6%	7%

*Calendar year data. Assessments are typically physically conducted in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was conducted.

Note: The All Pavements percentages are calculated from total lane miles inspected and are not a statistical average of the three pavement type percentages. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at WSDOT may be obtained at:
http://www.wsdot.wa.gov/biz/mats/pavement/.

Bridge Condition

During Fiscal Year 2010, there were 3,184 state-owned vehicular structures over 20 feet in length with a total area of 45,695,870 square feet. In addition to bridges, the 3,184 structures include 97 culverts and 71 ferry terminal vehicle and pedestrian structures. (While ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.)

There was a net increase of 23 bridge and culvert structures in Fiscal Year 2010 due to new construction, additions of culvert structures not previously inventoried, and a sectional approach to inventory and inspection of large bridge structures such as those crossing Puget Sound and Lake Washington. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. All bridges are inspected every two years and underwater bridge components at least once every five years in accordance with Federal Highway Administration (FHWA) requirements.

Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the FHWA.

WSDOT's policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound.

The most recent assessments over the last two years found that state-owned bridges were within the prescribed parameters with 97.9 percent having a condition rating of fair or better and only 2.1 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. Bridges that are rated as poor are not necessarily unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. There is one bridge currently closed.

WSDOT's Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance.

The Seismic Retrofit Program includes 880 bridges that have been classified as needing retrofitting. WSDOT has fully or partially retrofitted 395 bridges. Of those, 256 are completely retrofitted, 139 are partially retrofitted. There are 13 bridges currently under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy.

Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	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.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

The following charts show the most recent condition rating of Washington State bridges:

Percentage of Bridges in Fair or Better Condition					
Bridge Type	**2010**	**2009**	**2008**	**2007**	**2006**
Reinforced concrete (1,286 bridges in FY 2010)	98.1%	98.0%	98.0%	98.3%	98.6%
Prestressed concrete (1,379 bridges in FY 2010)	99.3%	99.0%	98.9%	99.3%	99.3%
Steel (370 bridges* in FY 2010)	96.6%	95.0%	93.9%	94.7%	94.1%
Timber (81 bridges in FY 2010)	80.2%	80.4%	71.7%	66.3%	68.1%
Statewide - All bridges (3,116 out of 3,184 bridges in FY 2010)	97.9%	97.5%	97.0%	97.4%	97.5%

Percentage of Bridges in Poor Condition					
Bridge Type	**2010**	**2009**	**2008**	**2007**	**2006**
Reinforced concrete (25 bridges in FY 2010)	1.9%	2.0%	2.0%	1.7%	1.4%
Prestressed concrete (10 bridges in FY 2010)	0.7%	1.0%	1.1%	0.7%	0.7%
Steel (13 bridges* in FY 2010)	3.4%	5.0%	6.1%	5.3%	5.9%
Timber (20 bridges in FY 2010)	19.8%	19.6%	28.3%	33.7%	31.9%
Statewide - All bridges (68 out of 3,184 bridges in FY 2010)	2.1%	2.5%	3.0%	2.6%	2.5%

*The steel bridge ratings for Fiscal Year 2010 include 44 ferry terminal structures with 41 rated as fair or better and three ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has two posted bridges and 141 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. This is a decrease of nine posted bridges in 2010 as compared to 2009. The number of restricted bridges decreased by one.

Refer to http://www.wsdot.wa.gov/commercialVehicle/Restrictions/ for more information on overweight restrictions. Any bridges determined to be unsafe are closed to traffic.

Additional information regarding the WSDOT's bridge inspection program may be obtained at:
http://www.wsdot.wa.gov/eesc/bridge/index.cfm.

Safety Rest Area Condition

The WSDOT owns, operates, and maintains 47 developed safety rest area (SRA) facilities. Within these facilities, the Department manages the following assets: 94 buildings, 694 acres, 31 on-site public drinking water systems, 41 on-site sewage pre-treatment/treatment systems, and 20 recreational vehicle sanitary disposal facilities.

WSDOT performs SRA building and site condition assessments in odd-numbered calendar years, to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor).

In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of ten while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities. The SRA program goal is to have no more than 5 percent of the facilities rated poor.

The following charts show the most recent condition rating of Washington State safety rest areas:

Category	2009*	2007	2005
Percentage of facilities in fair or good condition	97.6%	95.2%	95.2%
Percentage of facilities in poor condition	2.4%	4.8%	4.8%

*2009 percentages are based on 43 inspected SRA sites.

Category	Description	Number of Safety Rest Areas in Category		
		2009	2007	2005
Good Condition	Facility is new construction and/or meets current standards.	8	8	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	7	6	2
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	11	6	9
Fair-Low Condition	Facility has multiple system deficiencies.	16	20	18
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	1	2	2
No Condition Assessment Data	No data in 2009 (Iron Goat, Dodge Junction, Keller Ferry, Dusty)	4	5	0
	Total	47	47	42

State Managed Airport Condition

The WSDOT Aviation Division is authorized by RCW 47.68.100 to acquire, manage and maintain airports.

Under this authority, WSDOT manages 17 airports, eight of which the Department owns. The airports are used primarily for access to small communities and emergency purposes such as fire fighting, search and rescue, and medical evacuation (one airport is used only for helicopter and search and rescue operations). The airports are also used for recreational flying activities. Most are located near or adjacent to state highways and their runways range in character from paved, to gravel or turf.

Three airports are in operational condition 12 months of the year, and the remaining 14 are operational from June to October each year. Opening and closing dates may vary depending on weather conditions. In accordance with WSDOT policy, maintenance is performed on each airport annually and inspections occur a minimum of three times per year. The use of state airports by all persons is solely at the risk of the user. Since these airports are maintained principally for emergency use, the state does not warrant the conditions at any state airport to be suitable for any other use.

The definitions below represent the classification category for state managed airports within the Washington Aviation System Plan (WASP). The system plan was adopted in 2009 as part of the Long-Term Air Transportation Study and represents the state-interest component of the statewide multimodal transportation plan. The system plan fulfills the statewide aviation planning requirements of federal government, coordinates statewide aviation planning, and identifies the program needs for public use of state airports.

Category	Definition
Local service airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Rural essential airport	An airport with a turf, gravel or sand (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.

The following chart shows the most recent condition rating of Washington State managed airports:

Washington Aviation System Plan (1)

Airport Classification	WSDOT Aviation Owned	WSDOT Aviation Managed
Local Airports (2)	2	-
Rural Essential Airports (3)	-	-
Paved runway	-	1
Turf runway	5	3
Gravel runway	-	4
Sand	-	1
Helicopter only	1	-
Total Airports	8	9

	2010	2009	2008	2007	2006
Percentage of airports acceptable for general recreational use or better	94%	94%	88%	88%	88%
Percentage of airports not acceptable for general recreational use or better	6%	6%	12%	12%	12%

(1) Eight airports are owned by WSDOT and nine are managed by WSDOT under various use/operating agreements.
(2) Local airports are acceptable for general use and serve small to medium-sized communities.
(3) Rural essential airports are acceptable for general recreation use and typically serve recreation communities and remote back country locations.

For more information about the airports which are acceptable for general recreational use or better, refer to WSDOT's website at: http://www.wsdot.wa.gov/aviation/Airports/.

INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Comparison of Planned-to-Actual Preservation and Maintenance

For the Fiscal Years Ended June 30, 2010 through 2006
(expressed in thousands)

	2010			2009		
PAVEMENT	**Planned**	**Actual**	**Variance**	**Planned**	**Actual**	**Variance**
Preservation	$ 147,424	$ 137,952	$ 9,472	$ 125,246	$ 109,279	$ 15,967
Maintenance	20,780	21,489	(709)	19,651	19,170	481
Total	$ 168,204	$ 159,441	$ 8,763	$ 144,897	$ 128,449	$ 16,448
BRIDGES						
Preservation	$ 40,958	$ 30,904	$ 10,054	$ 63,436	$ 16,586	$ 46,850
Maintenance	13,532	13,532	-	13,365	13,406	(41)
Total	$ 54,490	$ 44,436	$ 10,054	$ 76,801	$ 29,992	$ 46,809
REST AREAS						
Preservation	$ 162	$ 144	$ 18	$ 199	$ 193	$ 6
Maintenance	5,653	5,781	(128)	5,808	5,631	177
Total	$ 5,815	$ 5,925	$ (110)	$ 6,007	$ 5,824	$ 183
AIRPORTS						
Preservation & maintenance	$ 183	$ 159	$ 24	$ 146	$ 168	$ (22)

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, and vegetation control.

WSDOT uses outcome based performance measures for evaluating the effectiveness of the maintenance program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and the effects of those choices in communicating with the Legislature and other stakeholders. The MAP measures and communicates the outcomes of 32 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/accountability/default.htm.

WSDOT's legally authorized budgets are biennial with the even year being the first fiscal year of the biennium. Planned amounts in this schedule are not the legal legislative authorizations but are the planned expenditures for the year within the legal authorizations. Therefore, a negative variance is not an indication of overspending the WSDOT's legal authorization but indicates that more expenditure activity occurred than was initially planned. Actual expenditures may vary from the budgeted or planned amounts for a variety of reasons which include, but are not limited to, management's decision to accelerate or defer preservation or maintenance activity or reduce planned activity in response to economic forecasts.

2008			2007			2006		
Planned	Actual	Variance	Planned	Actual	Variance	Planned	Actual	Variance
$ 118,886	$ 130,375	$ (11,489)	$ 111,195	$ 99,416	$ 11,779	$ 108,409	$ 130,340	$ (21,931)
18,329	16,994	1,335	19,152	16,255	2,897	19,219	18,586	633
$ 137,215	$ 147,369	$ (10,154)	$ 130,347	$ 115,671	$ 14,676	$ 127,628	$ 148,926	$ (21,298)
$ 11,260	$ 23,407	$ (12,147)	$ 21,055	$ 20,138	$ 917	$ 8,434	$ 20,338	$ (11,904)
12,427	12,601	(174)	11,553	11,051	502	11,552	11,820	(268)
$ 23,687	$ 36,008	$ (12,321)	$ 32,608	$ 31,189	$,1419	$ 19,986	$ 32,158	$ (12,172)
$ 77	$ 77	$ -	$ 188	$ 173	$ 15	$ 188	$ 129	$ 59
5,590	5,778	(188)	5,056	5,359	(303)	5,021	5,187	(166)
$ 5,667	$ 5,855	$ (188)	$ 5,244	$ 5,532	$ (288)	$ 5,209	$ 5,316	$ (107)
$ 146	$ 134	$ 12	$ 83	$ 200	$ (117)	$ 83	$ 67	$ 16

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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 Series 2012C Bonds. The Series 2012C Bonds 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 Bond certificate will be issued for each maturity within a series of the Series 2012C Bonds in the principal amount of such maturity and will be deposited with DTC.

2. DTC, the world's largest 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 a 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 by reference).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012C Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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. Beneficial Owners are, however, 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 Series 2012C Bonds 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 Series 2012C Bonds, except in the event that use of the book-entry system for the Series 2012C Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are 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 Bonds 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 Series 2012C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bond Registrar 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. Redemption notices will be sent to DTC. If less than all of the Series 2012C Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012C Bonds 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 Series 2012C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments on the Series 2012C Bonds 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 Bond Registrar, on 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 will be the responsibility of such Participant and not of DTC, the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) are the responsibility of the state or the Bond Registrar, 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 Series 2012C Bonds at any time by giving reasonable notice to the state or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond 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, Bond certificates will be printed and delivered to DTC.

11. The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the state believes to be reliable, but the state takes no responsibility for the accuracy thereof.

APPENDIX F

THE MASTER RESOLUTION

The following is a copy of Resolution No. 1117 adopted by the State Finance Committee on September 29, 2011 (the "Master Resolution").

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STATE FINANCE COMMITTEE

OLYMPIA, WASHINGTON

RESOLUTION NO. 1117

A RESOLUTION OF THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON PROVIDING FOR THE ISSUANCE OF BONDS OF THE STATE FOR THE PURPOSE OF PROVIDING FUNDS TO PAY AND REIMBURSE STATE EXPENDITURES FOR ELIGIBLE TOLL FACILITIES IDENTIFIED IN THE BOND ACT; PROVIDING FOR CERTAIN TERMS AND COVENANTS OF THE BONDS; PROVIDING FOR CERTAIN OTHER PROVISIONS SAFEGUARDING THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS; AND AUTHORIZING AND DIRECTING THE SALE OF THE BONDS IN ONE OR MORE SALES.

ADOPTED: SEPTEMBER 29, 2011

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STATE FINANCE COMMITTEE

OLYMPIA, WASHINGTON

RESOLUTION NO. 1117

A RESOLUTION OF THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON PROVIDING FOR THE ISSUANCE OF BONDS OF THE STATE FOR THE PURPOSE OF PROVIDING FUNDS TO PAY AND REIMBURSE STATE EXPENDITURES FOR ELIGIBLE TOLL FACILITIES IDENTIFIED IN THE BOND ACT; PROVIDING FOR CERTAIN TERMS AND COVENANTS OF THE BONDS; PROVIDING FOR CERTAIN OTHER PROVISIONS SAFEGUARDING THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS; AND AUTHORIZING AND DIRECTING THE SALE OF THE BONDS IN ONE OR MORE SALES.

WHEREAS, the Legislature of the State of Washington (the "State"), pursuant to Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011, of the State (hereinafter further defined as the "Toll Facilities Act"), has delegated to the State Transportation Commission, the delegated tolling authority for the State (the "Tolling Authority"), the legal power to set, review and adjust toll rates on eligible toll facilities identified by the Legislature and on which the Legislature has authorized the imposition of tolls; and

WHEREAS, pursuant to the Toll Facilities Act, the Legislature has specifically identified and designated an eligible toll facility and authorized the issuance of bonds for the financing of the eligible toll facility that are payable from and secured by a pledge of toll revenue, and the Legislature agreed, for the benefit of the owners of outstanding bonds issued by the State for eligible toll facilities, to continue in effect and not to impair or withdraw the authorization of the Tolling Authority to fix and adjust tolls as provided in the Toll Facilities Act, and directed the State Finance Committee (the "Committee") to pledge the State's obligation to impose and maintain tolls, together with the application of toll revenue as described in the Toll Facilities Act, to owners of those bonds; and

WHEREAS, pursuant to the Toll Facilities Act, the Legislature designated that portion of State Route 520 between its junctions with Interstate 5 and State Route 202 (the "SR 520 Corridor") as an eligible toll facility and has authorized the imposition of tolls for travel on the floating bridge portion of the SR 520 Corridor; and

WHEREAS, the Tolling Authority has set tolls on the SR 520 Corridor as authorized by the Legislature; and

WHEREAS, pursuant to Chapter 498, Laws of 2009; and Chapter 377, Laws of 2011, of the State (hereinafter further defined as the "Bond Act"), the Legislature has authorized the

issuance by the Committee of certain bonds, to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor program; and

WHEREAS, the Committee is authorized by Chapter 39.42 RCW to provide for the issuance and sale of the Bonds; and

WHEREAS, by the adoption of this Master Resolution, the Committee intends to establish protective covenants for the benefit of owners of Bonds and to provide the financial framework required for the payment of and security for all Bonds issued and sold under this Master Resolution as authorized in the Toll Facilities Act and the Bond Act;

NOW, THEREFORE, BE IT RESOLVED BY THE STATE FINANCE COMMITTEE ACTING FOR AND ON BEHALF OF THE STATE OF WASHINGTON, as follows:

Article I
DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01 Definitions

Unless the context otherwise requires, the terms defined in this section shall, for all purposes of this Master Resolution and of any resolution supplemental hereto, have the meanings specified:

"Accounting Principles" means generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as the same shall be amended from time to time.

"Accreted Value" means (1) with respect to any Capital Appreciation Bonds or Convertible Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Bond Sale Resolution as the amount representing the initial principal amount of those Capital Appreciation Bonds or Convertible Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (2) with respect to any Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of those Original Issue Discount Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value shall be determined in accordance with the provisions of the Bond Sale Resolution authorizing the issuance of the applicable Capital Appreciation Bonds, Convertible Capital Appreciation Bonds or Original Issue Discount Bonds.

"Additional Eligible Toll Facilities" means any Eligible Toll Facilities other than the SR 520 Corridor that the Legislature authorizes to be added to, grouped with or otherwise constituted as a part of the System in accordance with this Master Resolution.

"Annual Debt Service" means for any Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in that Fiscal Year on all Bonds then Outstanding (by scheduled maturity, mandatory redemption or otherwise), less any amounts of that principal or interest to be paid during that Fiscal Year from (1) the proceeds of Bonds, or (2) money or Government Obligations (as defined in Article X) set

aside in a special fund and pledged irrevocably for the purpose of paying that principal or interest pursuant to Article X; provided that if a Hedge Facility has been entered into with respect to any Bond, interest on that Bond shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on those Bonds at the rate or rates stated in that Bond plus any Hedge Payments payable by the State in such Fiscal Year minus any Hedge Receipts receivable by the State in that Fiscal Year (provided that in no event shall the calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service); and further provided that for the purposes of calculating Annual Debt Service:

(a) In determining the amount of principal to be funded in each year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Bonds in accordance with any amortization schedule or amortization calculations established by the Bond Sale Resolution setting forth the terms of those Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Bonds, Convertible Capital Appreciation Bonds or Original Issue Discount Bonds maturing or scheduled for redemption in that year; and in determining the amount of interest to be funded in each year, interest payable at a fixed rate shall (except to the extent any other subsection of this definition applies) be assumed to be made at that fixed rate and on the required funding dates.

(b) If interest on Bonds is payable pursuant to a variable interest rate (or if Hedge Payments or Hedge Receipts are determined pursuant to a variable rate formula), the interest rate on those Bonds (or the variable rate formula for those Hedge Payments or Hedge Receipts) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (1) if those Bonds (or Hedge Facility) were Outstanding during the 12 calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (2) if those Bonds (or Hedge Facility) were not Outstanding during the 12 calendar months immediately preceding the date of calculation, (A) with respect to Tax-Exempt Bonds, an average of the SIFMA Index during the 12 calendar months immediately preceding the date of calculation, (B) with respect to Bonds that are not Tax-Exempt Bonds, an average of an index identified by the Treasurer Representative as being comparable to SIFMA for Bonds that are not Tax-Exempt Bonds during the 12 calendar months immediately preceding the date of calculation, (C) with respect to a Hedge Facility with an index-based rate formula, the rate produced by applying that rate formula to an average of such index during the 12 calendar months immediately preceding the date of calculation, or (D) with respect to a Hedge Facility that does not have an index-based rate, the rate described in (A) above if the related Bonds are Tax-Exempt Bonds or in (B) above if the related Bonds are taxable, all as specified in either, at the election of the State, a certificate of the Treasurer Representative or a written statement from a investment banking or financial advisory firm.

(c) With respect to any Assumed Amortization Maturity, at the option of the State, that Assumed Amortization Maturity may be treated as if it were to be amortized with substantially level debt service over a period of 30 years from the date of incurrence

of that Assumed Amortization Maturity at an interest rate equal to a fixed rate equal to the Revenue Bond Index most recently published in *The Bond Buyer* (or, if that index is no longer published, another similar index designated by the Treasurer Representative).

(d) In any computation relating to the issuance of Bonds required by Section 2.09 and any computation required by Section 5.02, Section 7.02 or Section 7.10, there shall be excluded from the computation of Annual Debt Service principal of and interest on Bonds for which funds are, or are reasonably expected to be, available for and which are irrevocably committed to make those payments, including without limitation (1) any such funds in an escrow account, (2) any such funds constituting capitalized interest held in any account created by this Master Resolution or (3) any Federal Credit Payments.

"Assumed Amortization Maturities" means Bonds of any Tier which are specifically designated by a Bond Sale Resolution as a "Assumed Amortization Maturity."

"Authorized Denomination" means, unless specified otherwise in the applicable Bond Sale Resolution, $5,000 or any integral multiple thereof within a maturity.

"Bankruptcy Related Event" means (a) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the State or any of its debts, or of a substantial part of the assets of the State, under any Insolvency Law, or (ii) the appointment of a receiver, trustee, liquidator, custodian, sequestrator, conservator or similar official for the State for a substantial part of the assets of the State, and, in any case referred to in the foregoing subclauses (i) and (ii), such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered; or (b) the State shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator, custodian, sequestrator, conservator or similar official for the State or for a substantial part of the assets of the State, or (ii) generally not be paying its debts as they become due unless such debts are the subject of a bona fide dispute, or become unable to pay its debts generally as they become due, or (iii) make a general assignment for the benefit of creditors, or (iv) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition with respect to it described in clause (a) of this definition, or (v) commence a voluntary proceeding under any Insolvency Law, or file a voluntary petition seeking liquidation, reorganization, an arrangement with creditors or an order for relief under any Insolvency Law, or (vi) file an answer admitting the material allegations of a petition filed against it in any proceeding referred to in the foregoing subclauses (i) through (v), inclusive, of this clause (b), or (vii) take any action for the purpose of effecting any of the foregoing.

"Beneficial Owner" means the owner of any beneficial interests in the Bonds.

"Biennium" means the fiscal period beginning on July 1 of an odd-numbered year and ending on June 30 of the next following odd-numbered year.

"Bond" or "***Bonds"*** means any bonds or any other evidences of the obligation to repay borrowed money, Hedge Payments or other obligations issued or incurred by the State from time to time pursuant to Article II of this Master Resolution and the terms of the Bond Sale

Resolutions. The term "***Bond***" or "***Bonds***" includes, without limitation, notes, bond anticipation notes, commercial paper, and other securities, contracts or obligations incurred through lease, installment purchase or other agreements, including any Reimbursement Agreements, or certificates of participation therein, in each case to the extent secured by this Master Resolution. The terms "***Bond***" and "***Bonds***" includes First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds and may, if provided in a Bond Sale Resolution, include Credit Provider Bonds.

"Bond Act" means Chapter 498, Laws of 2009; and Chapter 377, Laws of 2011, of the State, as codified in RCW 47.10.879-.888, and as these statutes may be amended or supplemented by additional legislation enacted by the Legislature to authorize the issuance and sale of Bonds under this Master Resolution to provide additional financing for the SR 520 Corridor Program and/or to finance Additional Eligible Toll Facilities.

"Bond Counsel" means an attorney or firm or firms of attorneys of national recognition, selected or employed by the State, experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Bond Interest Payment Date" means, with respect to each Series of Bonds, each date set forth in the applicable Bond Sale Resolution with respect to that Series of Bonds on which interest is payable.

"Bond Owners' Trustee" has the meaning assigned to such term in Section 9.02.

"Bond Payment Date" means any Bond Interest Payment Date or Bond Principal Payment Date.

"Bond Principal Payment Date" means, with respect to each Series of Bonds, each date set forth in the applicable Bond Sale Resolution with respect to that Series of Bonds on which principal is payable by reason of mandatory sinking fund redemption or maturity.

"Bond Purchase Contract" means the contract of purchase, with respect to a Series of Bonds, between the State and the Original Purchaser pertaining to the sale of that Series of Bonds.

"Bond Proceeds Subaccount" means the subaccount of that name created hereby in the Toll Facilities Account.

"Bond Register" means the registration books of the Bond Registrar on which are maintained the names and addresses of the Registered Owners of the Bonds.

"Bond Registrar" means the Fiscal Agent.

"Bond Sale Resolution" means a supplemental resolution hereafter adopted by the Committee, or by the State Treasurer on behalf of the Committee as provided in Section 11.02, that establishes, among other items, the Tier position, applicable Debt Service Reserve Requirement, if any, aggregate principal amount, principal amounts per maturity, maturity dates, interest rates or interest rate determination methods, redemption provisions, tender provisions

and other terms of a Series of the Bonds, and specifies the Debt Service Reserve Subaccount and Toll Facility Bond Retirement Account subaccount(s) for that Series of Bonds, as that resolution may be amended or supplemented from time to time. Wherever in this Master Resolution reference is made to the adoption of a Bond Sale Resolution by the Committee or to the establishment of any matter relating to the sale of the Bonds by the Committee pursuant to a Bond Sale Resolution, that reference includes, without limitation, adoption of a Bond Sale Resolution by the State Treasurer on behalf of the Committee as provided in this Master Resolution and shall authorize the establishment of matters relating to the sale of the Bonds by the State Treasurer pursuant to a Bond Sale Resolution adopted by the State Treasurer.

"Bond Year" means with respect to a Series of Bonds, the annual period with respect to that Series of Bonds set forth in the applicable Bond Sale Resolution, or, if no such annual period is set forth in the applicable Bond Sale Resolution, each annual period ending on the anniversary of the issue date of that Series of Bonds.

"Business Day" means, unless specified otherwise in the applicable Bond Sale Resolution, any day of the week other than Saturday, Sunday or a day on which commercial banks located in the State or in the jurisdiction in which the principal office of the Bond Registrar is located are required or authorized to remain closed or on which the New York Stock Exchange is closed.

"Capital Appreciation Bonds" means any Series of Bonds all the interest on which is compounded and accumulated at the rates and on the dates set forth in a Bond Sale Resolution and is payable only upon redemption or on the maturity date of those Bonds.

"Chair" means the Chair of the Committee.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, together with all applicable rulings and regulations promulgated thereunder.

"Committee" means the State Finance Committee of the State, or any successor thereof.

"Completion Bonds" means any Bonds of any Tier issued for the purpose of financing the completion of the acquisition, construction, renovation, rehabilitation or equipping of any Project for which Bonds have previously been issued in accordance with the provisions of this Master Resolution, to the extent necessary to provide a completed and fully equipped Project (which may include, but shall not be limited to, capitalized interest, required reserves, and/or costs of issuing those Completion Bonds) of the type and scope contemplated at the time those Bonds were issued, and in accordance with the general plans and specifications for that Project as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the documents pursuant to which the related financing was undertaken.

"Consulting Engineer" means an independent engineer or engineering firm, or an affiliate thereof, nationally recognized as being experienced with determining the costs of construction, operation, maintenance, repair, and/or replacement of facilities similar to the System.

"Convertible Capital Appreciation Bonds" means Bonds which initially are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically. Convertible Capital Appreciation Bonds shall be Capital Appreciation Bonds until the conversion date and from and after that conversion date shall no longer be Capital Appreciation Bonds but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

"Cost" means all costs and expenses paid or incurred or to be paid or incurred (including the reimbursement of the State for any costs and expenses originally paid or incurred by the State) in connection with any Project, including, without limitation:

(a) planning, designing, permitting, engineering, acquiring, installing, constructing, modifying, reconstructing and repairing the SR 520 Corridor Program, property related to the SR 520 Corridor Program and improvements to the SR 520 Corridor Program, including, but not limited to, amounts paid to other persons in consideration for the transfer to the State of right-of-way and other property included in the SR 520 Corridor Program;

(b) planning, designing, permitting, engineering, acquiring, installing, constructing, modifying, reconstructing and repairing any other Project, including, but not limited to, amounts paid to other persons in consideration for the transfer to the State or others of right-of-way and other property included in the Project;

(c) financing costs of the SR 520 Corridor Program and any other Project, including, but not limited to, costs and expenses that the State deems necessary or advantageous in connection with the sale of the Bonds and the administration of the Bonds, this Master Resolution and any Bond Sale Resolution, including, but not limited to, costs and expenses relating to the engagement of consultants, financial advisors, underwriters, credit and/or liquidity support providers, rating agencies, attorneys, trustees, paying agents, registrars, and other agents in connection with the issuance of the Bonds, this Master Resolution and any Bond Sale Resolution;

(d) payment of interest on the Bonds;

(e) costs and expenses relating to any Credit Facility entered into in accordance with this Master Resolution, including the reimbursement of any Credit Provider as described herein;

(f) costs and expenses relating to any Hedge Facility entered into in accordance with this Master Resolution; and

(g) other amounts that the State determines are required to carry out the SR 520 Corridor Program and any other Projects that are authorized by the Toll Facilities Act.

"Credit Facility" or "***Credit Facilities"*** means, with respect to a Series of Bonds, a letter of credit, line of credit, municipal bond insurance, surety policy, standby bond purchase agreement or other form of credit enhancement and/or liquidity support, which may include self

liquidity provided by the State, if any, for that Series of Bonds, provided for in the applicable Bond Sale Resolution, including any alternate Credit Facility with respect to that Series of Bonds delivered in accordance with provisions of the Bond Sale Resolution providing for the issuance of that Series of Bonds.

"Credit Provider" means, with respect to a Series of Bonds, the provider of a Credit Facility, which may be the State.

"Credit Provider Bonds" means any Bonds purchased with funds provided under a Credit Facility for so long as those Bonds are held by or for the account of, or are pledged to, the applicable Credit Provider in accordance with the applicable Bond Sale Resolution.

"Debt Service Reserve Requirement" or ***"Debt Service Reserve Requirements"*** means the amount or amounts, if any, required to be on deposit in the First Tier Common Debt Service Reserve Subaccount, the Second Tier Common Debt Service Reserve Subaccount, the Third Tier Common Debt Service Reserve Subaccount, the Fourth Tier Common Debt Service Reserve Subaccount, or any Series Debt Service Reserve Subaccount, as applicable, specified in the Bond Sale Resolutions governing the issuance of and securing the related Series of Bonds.

"Debt Service Reserve Subaccounts" means the First Tier Common Debt Service Reserve Subaccount, the Second Tier Common Debt Service Reserve Subaccount, the Third Tier Common Debt Service Reserve Subaccount and the Fourth Tier Common Debt Service Reserve Subaccount, and any Series Debt Service Reserve Subaccounts.

"Debt Service Subaccounts" means the First Tier Debt Service Subaccount, the Second Tier Debt Service Subaccount, the Third Tier Debt Service Subaccount and the Fourth Tier Debt Service Subaccount.

"Deferred Sales Tax Obligation" means the obligation of WSDOT to pay state and local sales and use taxes imposed on a Project for which the State Department of Revenue has granted a deferral certificate pursuant to RCW 47.01.412 in respect of the SR 520 Corridor Program and as provided in applicable law in respect of other Projects.

"Deferred Sales Tax Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account.

"Deputy State Treasurer" means the Deputy State Treasurer for Debt Management and Secretary of the Committee, or any other officer of an office that succeeds to substantially all of the relevant functions of the Deputy State Treasurer for Debt Management.

"DTC" means The Depository Trust Company, New York, New York, or such other custodian engaged by the State to operate a book-entry system for recording, through electronic or manual means, the beneficial ownership of any Bonds, in which system no physical certificates are issued to the Beneficial Owners, but in which a limited number of physical certificates are issued to and registered in the name of the custodian or its nominee, and delivered to the custodian.

"Eligible Toll Facilities" means any portion or portions of the state highway system and related facilities that the Legislature has specifically identified as an eligible toll facility, including, but not limited to, transportation corridors, bridges, crossings, interchanges, on-ramps, off-ramps, approaches, bistate facilities, interconnections between highways, and other facilities that provide for the operations of conveyances of people or goods.

"Emergency Repair Bonds" means any Bonds of any Tier issued for the purpose of financing Costs of repairs to any portion of the System if the WSDOT Representative has determined that an emergency exists or is threatened which makes those repairs necessary to restore that portion of the System to a safe operating condition due to damage as a result of fire, flood, earthquake, other disaster, or otherwise.

"Event of Default" means any one or more of those events set forth in Section 9.01.

"Federal Credit Payments" means amounts which the State is entitled to receive as a subsidy or tax credit payable by the United States Treasury to the State in respect of interest on any Bonds issued as Tax-Advantaged Bonds.

"First Tier Bonds" means Bonds payable from and secured by the First Tier Debt Service Subaccount.

"First Tier Common Debt Service Reserve Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account.

"First Tier Debt Service Reserve Subaccounts" means the First Tier Common Debt Service Reserve Subaccount and any Series Debt Service Reserve Subaccount securing the payment of First Tier Bonds.

"First Tier Debt Service Subaccount" means the subaccount of that name created in the Toll Facility Bond Retirement Account.

"Fiscal Agent" means the fiscal agency or fiscal agencies of the State as appointed from time to time by the Committee pursuant to chapter 43.80 RCW.

"Fiscal Year" means the fiscal year of the State, currently the period commencing on the first day of July and ending on the last day of June of the following calendar year.

"Fitch" means Fitch, Inc., and its successors, if any, and if that corporation shall no longer perform the functions of a securities rating agency, "***Fitch"*** means any other nationally recognized securities rating agency (other than Moody's and S&P) designated by the Treasurer Representative.

"Fourth Tier Bonds" means Bonds payable from and secured by the Fourth Tier Debt Service Subaccount and subordinate to the First Tier Bonds, the Second Tier Bonds and the Third Tier Bonds with respect to Toll Revenue.

"Fourth Tier Common Debt Service Reserve Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account.

"Fourth Tier Debt Service Reserve Subaccounts" means the Fourth Tier Common Debt Service Reserve Subaccount and any Series Debt Service Reserve Subaccount securing the payment of Fourth Tier Bonds.

"Fourth Tier Debt Service Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account.

"Hedge Facility" means any payment agreement entered into by the State pursuant to the provisions of Chapter 39.96 RCW to effect any rate swap transaction, basis swap transaction, cap transaction, floor transaction, collar transaction, or similar transaction, which is intended to convert or limit the interest rate payable with respect to any Bonds, and which (1) is designated as a Hedge Facility to relate to all or part of one or more Series of Bonds; (2) is with a Qualified Hedge Provider or an entity that has been a Qualified Hedge Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or Maximum Annual Debt Service is being made; and (3) has a term not greater than the term of the designated Bonds or a specified date for mandatory tender or redemption of the designated Bonds.

"Hedge Payments" means the regularly scheduled payments to be paid to a counterparty by the State under the terms of a Hedge Facility absent any termination, default or dispute in connection with that Hedge Facility.

"Hedge Receipts" means regularly scheduled payments required to be paid to the State by a counterparty under the terms of a Hedge Facility absent any termination, default or dispute in connection with that Hedge Facility.

"Hedge Termination Payment" means any payment required to be paid to a counterparty by the State under the terms of a Hedge Facility, in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by the State under a Hedge Facility, which payments are not Hedge Payments.

"Holder" or "***Bondholder"*** means the Registered Owner of any Bond; provided that a Bond Sale Resolution may provide that other persons may be deemed to be the holder or holders of all or a portion of the Series of Bonds authorized thereby, including but not limited to the providers of credit support for those Bonds. A Qualified Hedge Provider shall only be considered a Bondholder to the extent specified in a Bond Sale Resolution.

"Insolvency Laws" means the United States Bankruptcy Code, 11 U.S.C. §101 *et seq.*, as from time to time amended and in effect, and any state bankruptcy, insolvency, receivership or similar law now or hereafter in effect in the State.

"Legislature" means the Legislature of the State.

"Letter of Representations" means the Blanket Issuer Letter of Representations from the State to DTC, as it may be amended from time to time.

"Master Resolution" means this Master Resolution, as amended or supplemented from time to time in accordance with Article VIII.

"Maximum Annual Debt Service" means the maximum Annual Debt Service with respect to any Bonds for any Fiscal Year during the term of those Bonds.

"Moody's" means Moody's Investors Service, Inc., and its successors, if any, and if that corporation shall no longer perform the functions of a securities rating agency, "***Moody's"*** means any other nationally recognized securities rating agency (other than Fitch and S&P) designated by the Treasurer Representative.

"Motor Vehicle Fuel Taxes" means the state excise taxes on motor vehicle and special fuels imposed by Chapters 82.36 and 82.38 RCW.

"Motor Vehicle Fund" means the Motor Vehicle Fund of the State created in the State Treasury.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" means Toll Revenue less Operating and Maintenance Expenses.

"Operating and Maintenance Expenses" means the reasonable and necessary operating and maintenance expenses of the System, including, without limitation, (1) facility maintenance and operation expenses (including, without limitation, expenses of paving and patching repair; maintaining drainage systems, culverts and slopes; roadside and landscape maintenance; weed control; movable and floating bridge operations; snow and ice control; safety rest area operations; disaster maintenance including road closures, detours and emergency repair not involving major construction; maintenance of pavement striping and markings, guardrails, highway lighting systems, and traffic signs, (2) the reasonable and necessary operating and maintenance expenses of the Toll system, including expenses of Toll collection and enforcement, administrative and technical functions required for processing Toll transactions and collecting Tolls from customers (including, but not limited to management; accounting and finance, including credit card and banking fees; insurance premiums; marketing; fees and expenses of the Traffic Consultant and Consulting Engineer; and legal fees and expenses), and (3) the fees and expenses of the Bond Registrar and Bond Owners' Trustee, if any. Operating and Maintenance Expenses shall *not* include Repair and Replacement Expenses; any allowance for depreciation; any costs for the payment of which the Legislature has appropriated or otherwise committed funds other than Toll Revenue to the extent of the availability of such other funds; any costs for the payment of which the Legislature in the Toll Facilities Act has agreed for the benefit of owners of Bonds to appropriate funds other than Toll Revenue and has authorized the Committee to pledge that obligation to Bondholders; or operating and maintenance expenses of conveyances of people and goods.

"Operating and Maintenance Reserve Subaccount" means the subaccount of that name created hereby in the Toll Facilities Account.

"Original Issue Discount Bonds" means Bonds that are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Bonds by the Bond Sale Resolution under which those Bonds are issued.

"Original Purchaser" means the person or entity designated in each Bond Sale Resolution as the initial purchaser or purchasers of a Series of Bonds or, if so designated in a Bond Purchase Contract, the representatives or lead or managing underwriters of those initial purchasers.

"Outstanding" when used with reference to Bonds means, as of any date of determination, all Bonds that have been authenticated and delivered except: (1) Bonds that have been canceled by the Bond Registrar or delivered to the Bond Registrar for cancellation; (2) Bonds which are deemed paid and no longer Outstanding as provided in this Master Resolution; (3) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of this Master Resolution relating to Bonds destroyed, stolen or lost; (4) after any tender date as may be provided for in the applicable Bond Sale Resolution, any Bond held by a Bondholder who has given a tender notice or was required to tender that Bond in accordance with the provisions of the applicable Bond Sale Resolution and which was not so tendered and for which sufficient funds for the payment of the purchase price of which have been deposited with the Bond Registrar, or any tender agent appointed under the applicable Bond Sale Resolution; and (5) for purposes of any consent or other action to be taken under this Master Resolution by the Holders of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the State (unless all Bonds that would be "Outstanding" but for the provisions of this clause (5) are so held by or for the account of the State).

"Project" means any of the Eligible Toll Facilities that are part of the System financed or refinanced with the proceeds of Bonds, including without limitation the SR 520 Corridor Program.

"Projected Toll Rate Schedule" means the projection of future Tolls provided periodically to the Tolling Authority pursuant to this Master Resolution.

"Qualified Hedge Provider" means an entity that meets the applicable requirements of Chapter 39.96 RCW as necessary to be a party to a Hedge Facility with the State.

"Rate Covenant" means the covenant of the State to set and adjust Tolls to satisfy the requirements set forth in Section 7.02.

"Rating Agency" means Fitch, Moody's or S&P.

"RCW" means the Revised Code of Washington.

"Registered Owner" means the person named as the registered owner of a particular Bond in the Bond Register. For so long as the Bonds of a Series are held in book-entry only form, DTC shall be deemed to be the sole Registered Owner of the Bonds of that Series.

"Reimbursement Agreement" means, with respect to a Series of Bonds, any agreement or agreements in each case between a Credit Provider or Credit Providers and the State under or pursuant to which a Credit Facility for that Series of Bonds is issued that sets forth the obligations of the State to the Credit Provider or Credit Providers and the obligations of the Credit Provider or Credit Providers to the State, and any agreement that replaces a Reimbursement Agreement.

"Remarketing Agent" means, with respect to a Series of Bonds, the placement or remarketing agent or agents, if any, at the time serving in that role under a Remarketing Agreement and designated by the Committee as the Remarketing Agent with respect to a Series of Bonds, and any successor thereto.

"Remarketing Agreement" means the remarketing agreement, if any, with respect to a Series of Bonds, between the State and the Remarketing Agent as from time to time amended and supplemented, or if that remarketing agreement shall be terminated, then any other agreement which may from time to time be entered into with any Remarketing Agent with respect to the remarketing or placement of that Series of Bonds.

"Repair and Replacement Expenses" means expenses of the System incurred in connection with unusual or extraordinary maintenance or repairs, maintenance or repairs not recurring annually, expenses for major items of equipment, major construction, capital upgrades and/or improvements (including without limitation, expenses of structural bridge repair; rehabilitation and replacement of: pavements; bridge surface; anchor cables; expansion joints; ramp meters; cable and data stations; CCTV; variable message signs; periodic camera and computer system upgrades or replacement; and the repair or replacement of other similar capital structures or equipment). Repair and Replacement Expenses shall not include any expenses for the payment of which the Legislature has appropriated or otherwise committed funds other than Toll Revenue, or which are reasonably expected to be paid or financed from funds other than Toll Revenue.

"Repair and Replacement Reserve Subaccount" means the subaccount of that name created hereby in the Toll Facilities Account.

"Revenue Stabilization Subaccount" means the subaccount of that name created hereby in the Toll Facilities Account.

"Rule" means the SEC's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors, if any, and if that corporation shall no longer perform the functions of a securities rating agency, "***S&P"*** means 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.

"Second Tier Bonds" means Bonds payable from and secured by the Second Tier Debt Service Subaccount and subordinate to the First Tier Bonds with respect to Toll Revenue.

"Second Tier Common Debt Service Reserve Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account.

"Second Tier Debt Service Reserve Subaccounts" means the Second Tier Common Debt Service Reserve Subaccount and any Series Debt Service Reserve Subaccount securing the payment of Second Tier Bonds.

"Second Tier Debt Service Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account to secure payment of Second Tier Bonds.

"Series Debt Service Reserve Subaccount" means any subaccount created by a Bond Sale Resolution governing the issuance of and securing the related Series of Bonds.

"Series of Bonds" or "***Bonds of a Series"*** or "***Series"*** means a series of Bonds issued pursuant to this Master Resolution and the terms of a Bond Sale Resolution.

"SIFMA Index" means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association ("SIFMA") or any person acting in cooperation with or under the sponsorship of SIFMA, or if such index is no longer available "SIFMA Index" shall refer to a comparable index identified as being comparable by the Treasurer Representative.

"SR 520 Corridor" means that portion of State Route 520 between its junctions with Interstate 5 and State Route 202.

"SR 520 Corridor Program" means the State Route 520 bridge replacement and HOV program described in the Toll Facilities Act.

"State" means the State of Washington.

"State Treasurer" means the Treasurer of the State of Washington or any other officer of an office that succeeds to substantially all of the relevant functions of the Treasurer of the State of Washington.

"State Treasury" means the Treasury of the State.

"System Budget" means those components of the State's transportation budget, both capital and operating, for any Biennium, including any supplemental transportation budget, both capital and operating, for any Fiscal Year within a Biennium, pertaining to and making appropriations for the System.

"System of Eligible Toll Facilities" or "***System"*** means the SR 520 Corridor, together with any Additional Eligible Toll Facilities.

"Tax-Advantaged Bonds" means any Bonds that are designated by the State as Bonds with respect to which the State is eligible to receive Federal Credit Payments or the holders of which are eligible to receive a federal tax credit under any federal subsidy or credit program available under the Code.

"Tax-Exempt Bonds" means any Bond the interest on which is excludable from gross income of the Beneficial Owner for purposes of federal income tax.

"Term Bonds" means all Bonds that are identified as term bonds in the Bond Sale Resolutions, the payment of which will be made from mandatory sinking fund deposits into the related Debt Service Subaccount.

"Third Tier Bonds" means Bonds payable from and secured by the Third Tier Debt Service Subaccount and subordinate to the First Tier Bonds and Second Tier Bonds with respect to Toll Revenue.

"Third Tier Common Debt Service Reserve Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account.

"Third Tier Debt Service Reserve Subaccounts" means the Third Tier Common Debt Service Reserve Subaccount and any Series Debt Service Reserve Subaccount securing the payment of Third Tier Bonds.

"Third Tier Debt Service Subaccount" means the subaccount of that name created hereby in the Toll Facility Bond Retirement Account to secure payment of Third Tier Bonds.

"Tier" means the level of security and pledge preference with respect to Toll Revenue applicable to a Series of Bonds as provided in a Bond Sale Resolution.

"TIFIA" means the Transportation Infrastructure Finance and Innovation Act of 1998, as amended, or any other legislation pursuant to which the United States provides loans or other forms of credit assistance similar to that available under TIFIA.

"TIFIA Bondholder" means the United States Department of Transportation, acting by and through the Federal Highway Administrator.

"TIFIA Bond" means any Bond that may be issued pursuant to a Bond Sale Resolution to evidence a TIFIA Loan to the State. Except as otherwise provided in Section 9.07, any TIFIA Bond must be a Fourth Tier Bond.

"TIFIA Loan" means the loan or credit support provided pursuant to the TIFIA Loan Agreement.

"TIFIA Loan Agreement" means a loan or other agreement that shall be entered into by and between the TIFIA Bondholder and the State in the event the State issues a TIFIA Bond.

"Toll Facility Bond Retirement Account" means the account of that name created in the State Treasury.

"Toll Facilities Account" means that account created in the State Treasury by the Toll Facilities Act currently designated as the State Route Number 520 Corridor Account, as that account may be renamed, redesignated or supplemented in accordance with the Toll Facilities Act.

"Toll Facilities Act" means Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011, of the State, as codified within Chapter 47.56 RCW, and as those statutes may be amended or supplemented by the Legislature.

"Toll Rate Schedule" means the schedule of Tolls approved by the Tolling Authority as part of the regulatory process established for setting Tolls.

"Toll Revenue" means, for the purposes of this Master Resolution, all Tolls and all interest income derived from the investment of Toll receipts. The term ***"Toll Revenue"*** includes late charges, damages, liquidated or otherwise, collected under any agreement involving any Project (other than damages that the WSDOT Representative determines shall be applied to Costs of a Project), proceeds of business interruption insurance, and proceeds of the sale of surplus property acquired for any Project, but does not include (1) Motor Vehicle Fuel Taxes, (2) programmatic grants by the Federal Highway Administration or other sources for the benefit of transportation facilities in the State, or (3) Federal Credit Payments. Toll Revenue for any Fiscal Year does not include amounts that the WSDOT Representative, in consultation with the Treasurer Representative, determines within 120 days after the end of any Fiscal Year, shall be transferred from the Toll Facilities Account to the Revenue Stabilization Subaccount in that Fiscal Year, but shall, to the extent permitted by Section 6.04, include amounts which the WSDOT Representative, in consultation with the Treasurer Representative, determines within 120 days after the end of any Fiscal Year, shall be transferred in any Fiscal Year from the Revenue Stabilization Subaccount to the Toll Facilities Account in that Fiscal Year.

"Tolling Authority" means the governing body to which the Legislature has delegated the legal power to set, review and adjust toll rates on Eligible Toll Facilities.

"Tolls" means all toll receipts received by the State in respect of Eligible Toll Facilities that are part of the System.

"Traffic and Revenue Report" means a report of the Traffic Consultant setting forth the estimated Toll Revenue for the System or for any particular Eligible Toll Facilities comprising a portion of the System.

"Traffic Consultant" means any traffic and revenue consultant or firm of traffic and revenue consultants of national recognition with expertise and experience regarding the operation, management and financing of, and the collection of revenues from, toll roads, selected and employed by the State from time to time.

"Treasurer Representative" means the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer, and shall include any other natural person who at the time and from time to time may be designated by a certificate of the State Treasurer that contains the specimen signature of the designated person and is signed by the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer.

"Triple Pledge Bonds" means any Series of Bonds designated as such in the applicable Bond Sale Resolution, and to which the State has pledged Toll Revenue, Motor Vehicle Fuel Taxes and the State's full faith and credit to pay the principal thereof and premium, if any, and interest thereon.

"Undertaking" means the continuing disclosure undertaking described in Article XIV and more fully set forth in a Bond Sale Resolution.

"WSDOT" means the Washington State Department of Transportation.

"WSDOT Representative" means the Secretary of WSDOT or designee of the Secretary.

Section 1.02 Rules of Construction

Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Master Resolution:

Any reference herein to the Tolling Authority, WSDOT or the Committee, or any officer thereof, shall include any persons or entities succeeding to their functions, duties or responsibilities pursuant to or by operation of law or who are lawfully performing their functions.

The use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine and feminine gender.

Words importing the singular number shall include the plural number and vice versa.

Words importing the redemption or calling for redemption of Bonds shall not be deemed to refer to or connote the payment of Bonds at their stated maturity.

All references herein to particular articles or sections are references to articles or sections of this Master Resolution.

The headings and Table of Contents herein are solely for convenience of reference and shall not constitute a part of this Master Resolution nor shall they affect its meaning, construction or effect.

All references to terms such as herein, hereunder, hereto, etc. refer to this Master Resolution, as amended or supplemented.

All references herein to payment of Bonds are references to payment of principal of, purchase price of, if applicable, premium, if any, and interest on Bonds.

Section 1.03 Contents of Certificates and Opinions

Every certificate or opinion provided for in this Master Resolution may be based and given in reliance upon a certificate or opinion or representation given by counsel, a Consulting Engineer, a Traffic Consultant, a Treasurer Representative, or a WSDOT Representative, as applicable for the subject matter of the certificate or opinion or representation, unless such individual executing the certificate or opinion knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement is based is erroneous. The same Consulting Engineer, Traffic Consultant, Treasurer Representative or WSDOT Representative, as the case may be, need not

provide all of the certificates required under any provision of this Master Resolution, but different Consulting Engineers, Traffic Consultants, Treasurer Representatives or WSDOT Representatives may provide certificates as to different matters.

Section 1.04 Assumptions in Calculations of Toll Revenue and Operating and Maintenance Expenses

(a) For purposes of historical calculations of Toll Revenue or Operating and Maintenance Expenses provided for in this Master Resolution during (A) the most recent Fiscal Year for which audited financial statements are available, or (B) any 12 consecutive month period in the immediately prior 18 months, as applicable to the relevant calculation, if any change in the Toll Rate Schedule was implemented during the relevant calculation period, it may be assumed that the change in the Toll Rate Schedule had been in effect for the entire calculation period.

(b) If Additional Eligible Toll Facilities are added to the System, for purposes of historical calculations of Toll Revenue or Operating and Maintenance Expenses provided for in this Master Resolution during (A) the most recent Fiscal Year for which audited financial statements are available, or (B) any 12 consecutive month period in the immediately prior 18 months, as applicable to the relevant calculation, it may be assumed that the Additional Eligible Toll Facilities had been part of the System during the applicable calculation period (taking into account revenue, if any, generated by and expenses of the Additional Eligible Toll Facilities prior to their addition to the System that would have been treated as "Toll Revenue" and "Operating and Maintenance Expenses," respectively, under this Master Resolution.

(c) In calculating Toll Revenue generated by Additional Eligible Toll Facilities in accordance with (b) above, it may be assumed that any change in toll rates with respect to the Additional Eligible Toll Facilities during the relevant calculation period had been in effect for the entire calculation period.

Article II
AUTHORIZATION AND PURPOSE OF THE BONDS

Section 2.01 Authorization of Bonds

For the purpose of providing funds to finance or refinance Costs of Eligible Toll Facilities, the Committee hereby authorizes, on behalf of the State, the sale and issuance of the Bonds in the maximum principal amount authorized by the Bond Act in one or more sales and in one or more Series, all as provided in the Bond Act and Section 2.09 of this Master Resolution. The Bonds shall be named and bear an appropriate Series designation and be of a designated Tier, all as set forth in the applicable Bond Sale Resolution. The Committee reserves the right to authorize, pursuant to a resolution or resolutions separate from this Master Resolution, the sale and issuance of a portion or portions of the bonds authorized by the Bond Act as bonds that are not payable from or secured by the Toll Revenue that is pledged to pay and secure Bonds authorized to be sold and issued by this Master Resolution.

Section 2.02 Terms

Each Series of Bonds shall bear the terms provided herein and in the Bond Sale Resolution providing for the issuance thereof.

Section 2.03 Place, Manner and Medium of Payment

The principal of, premium, if any, and interest on a Series of Bonds shall be payable in lawful money of the United States of America and in the manner and at the place specified in the Bond Sale Resolution providing for the issuance of that Series of Bonds. Interest on the Bonds shall be calculated on the basis of a 360-day year of twelve 30-day months, or such other method as set forth in a Bond Sale Resolution.

If the Bonds of any Series are in fully immobilized form and held by DTC, payments of principal and interest on that Series shall be made as provided in the operational arrangements of DTC as referred to in the Letter of Representations.

If the Bonds of any Series are not in fully immobilized form, interest on those Bonds shall be paid by check or draft mailed (or by wire transfer to a Registered Owner of those Bonds (if agreed to by the Committee)) to the Registered Owners of the Bonds of that Series at the addresses for those Registered Owners appearing on the Bond Register on the 15th day of the month preceding the Bond Interest Payment Date, or such other record date as may be specified in the applicable Bond Sale Resolution. Principal and premium, if any, on any Bond shall be payable on or after the maturity date of that Bond or, if earlier, any applicable redemption date (which has not been voided or canceled as provided herein and provided notice of redemption has been duly given to the Registered Owner of that Bond) upon presentation and surrender of that Bond by the Registered Owner to the Bond Registrar at the designated corporate trust office or other location designated by Bond Registrar.

If any Bond shall be duly presented for payment and funds have not been duly provided by the State on that date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on that Bond until that Bond is paid in full.

Section 2.04 Form and Execution of Bonds

The Bonds shall be prepared in a form consistent with the provisions of this Master Resolution, the applicable Bond Sale Resolution and State law. The Bonds shall be executed on behalf of the State by the facsimile or manual signatures of the Governor and the State Treasurer. A facsimile of the official seal of the State shall be imprinted or otherwise reproduced on the Bonds, and the facsimile is adopted as the seal of the State for the Bonds. If any officer who shall have signed or whose facsimile signature appears on any Bond shall cease to be that officer before that Bond shall have been actually authenticated or issued, that Bond, nevertheless, may be authenticated and issued and, upon authentication and issue, shall be as binding upon the State as though that person had not ceased to be that officer. Any Bond may be executed on behalf of the State by an officer who, on the actual date of execution of the Bond, shall be the proper officer of the State, although on the date of the Bond that officer might not have held that office.

Section 2.05 Authentication and Delivery of Bonds by Bond Registrar

The Bond Registrar is authorized and directed, on behalf of the State, to authenticate and deliver the Bonds initially issued or transferred or exchanged in accordance with the provisions of the Bonds and this Master Resolution. Only those Bonds bearing a Certificate of Authentication in the following form, manually executed by an authorized representative of the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Master Resolution: "Certificate of Authentication. This Bond is one of the State of Washington [Name of Series], dated _____, 20__, described in the [Master Bond Resolution and Bond Sale Resolution]." The authorized signing of the Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered and are entitled to the benefits of this Master Resolution.

Section 2.06 Bond Registrar; Registration of Bonds

(a) ***Registration Covenant.*** The Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on the Bond Register. The State covenants that, until all Bonds have been surrendered and canceled, it will maintain or cause to be maintained a system of recording the ownership of each Bond that complies with the provisions of Section 149(a) of the Code.

(b) ***Bond Registrar.*** The Bond Registrar shall keep, or cause to be kept, the Bond Register at its principal corporate trust office, which shall be open to inspection by the State at all times during regular business hours. The Bond Register shall contain the name and mailing address of the Registered Owner of each Bond and the principal amount and number of each of the Bonds held by each Registered Owner.

The Bond Registrar is authorized, on behalf of the State, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this Master Resolution, to serve as the State's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this Master Resolution.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become either a Registered or Beneficial Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Beneficial Owners.

(c) ***Registered Ownership.*** The State and the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as provided in Article VIII and Article IX of this Master Resolution), and neither the State nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any Bond shall be made only as described in Section 2.03 of this Master Resolution, but the registration may be transferred as herein provided. All payments made as described in Section 2.03 shall be valid and shall satisfy and discharge the liability of the State upon the Bond to the extent of the amount or amounts so paid.

(d) ***DTC Acceptance/Letter of Representations.*** To induce DTC to accept each Series of Bonds as eligible for deposit at DTC, the State has executed and delivered to DTC the Letter of Representations.

Neither the State nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to each Series of Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on any Series of Bonds, any notice which is permitted or required to be given to Registered Owners under this Master Resolution or a Bond Sale Resolution (except notices as shall be required to be given by the State to the Bond Registrar or to DTC (or any successor depository), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner). For so long as any Series of Bonds are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner of that Series for all purposes hereunder and under the respective Bond Sale Resolution, and all reference herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in that Series of Bonds.

(e) ***Use of Depository.***

(i) Unless otherwise specified in a Bond Sale Resolution, the Bonds of each Series shall be registered initially in the name of "Cede & Co.," as nominee of DTC, with all Bonds maturing on the same maturity date and bearing the same interest rate in the form of a single certificate, or as otherwise required or requested by DTC. Registered ownership of immobilized Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by the Committee pursuant to subsection (ii) below or any substitute depository's successor; or (C) to any person as provided in subsection (iv) below.

(ii) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Committee to discontinue the system of book-entry transfers through DTC or its successor (or any substitute depository or its successor), the Committee may hereafter appoint a substitute depository. Any substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(iii) In the case of any transfer pursuant to clause (A) or (B) of subsection (i) above, the Bond Registrar shall, upon receipt of all outstanding Bonds of a Series, together with a written request on behalf of the Committee, issue a single new Bond for each maturity, and each interest rate within a maturity, of the Series of the immobilized Bonds then Outstanding, or as otherwise required or requested by the successor or substitute depository, registered in the name of the successor or substitute depository, or their nominees, as the case may be, all as specified in those written request of the Committee.

(iv) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Committee determines that it is in the best interest of the Beneficial Owners of any Series of Bonds that owners of Bonds of that Series be able to obtain those bonds in the form of Bond certificates, the ownership of that Series of Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. The Committee shall deliver a written request to the Bond Registrar, together with a supply of definitive Bonds for that Series to issue Bonds as herein provided in any Authorized Denomination. Upon receipt by the Bond Registrar of all then Outstanding Bonds of that Series together with a written request on behalf of the Committee to the Bond Registrar, new Bonds of the same Series shall be issued in the appropriate denominations and registered in the names of those persons as are identified in such written request.

Section 2.07 Provisions with Respect to Transfer of Ownership or Exchange; Change in Denominations

The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any Bond shall be valid unless that Bond is surrendered to the Bond Registrar, with the assignment form appearing on that Bond duly executed by the Registered Owner or its duly authorized agent in a manner satisfactory to the Bond Registrar. Upon surrender of a Bond for transfer or exchange, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee, a new Bond or Bonds (at the option of the new Registered Owner) of the same Series, date, maturity and interest rate and for the same aggregate principal amount of the surrendered Bond, in any Authorized Denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for the surrendered and canceled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds, as appropriate, of the same Series, date, maturity and interest rate, in any Authorized Denomination. The Bond Registrar shall not be obligated to transfer or exchange any Bond during the 15 days preceding any interest payment, principal payment or redemption date.

Section 2.08 Mutilated, Lost, Stolen or Destroyed Bonds

If any Bond becomes mutilated, lost, stolen or destroyed, the Bond Registrar shall, upon request of the State, authenticate and deliver a new Bond, as appropriate, of the same Series, date, interest rate and maturity and of like tenor and effect in substitution therefor, all in accordance with Law. If the lost, stolen or destroyed Bond has matured, the State, at its option, may pay the same without its surrender, in accordance with Law. However, no substitution or payment shall be made unless and until the applicant shall furnish (1) evidence satisfactory to the Bond Registrar of the destruction or loss of the original Bond and of its ownership and (2) such additional security, indemnity or evidence as may be required by the Committee or the Bond Registrar. No substitute Bond shall be furnished until the applicant shall reimburse the State and the Bond Registrar for their respective expenses in the furnishing thereof. Each substitute Bond shall be equally and proportionately entitled to the security of this Master Resolution with all other Bond or Bonds of the same Series, as appropriate, then outstanding. The State shall not be required to treat both the original Bond and any duplicate Bond as being outstanding for the

purpose of determining the principal amount of Bonds which may be issued and outstanding hereunder, but both the original and the duplicate Bond shall be treated as one and the same.

Section 2.09 Requirements for Issuance of Bonds

(a) ***General Requirements for Issuance of Bonds***. The State may issue one or more Series of Bonds to pay the Cost of the Eligible Toll Facilities that are part of the System, to refund all or a portion of a Series of Bonds, or for any combination of those purposes if the conditions set forth in (b) below are met and complied with at the time of the issuance of that Series of Bonds. Each Series of Bonds shall be issued pursuant to a Bond Sale Resolution. No Series of Bonds may be offered for sale without both a prior request by WSDOT for the sale and prior appropriation by the Legislature of the net proceeds of sale of the Bonds. As of the issue date of each Series of the Bonds, the aggregate principal amount of Bonds that the Committee shall have sold and issued will not exceed the total principal amount authorized by the Bond Act to be issued, and for this purpose the principal amount of any Bonds issued to refund other Bonds shall not be taken into account and the principal amount of any Capital Appreciation Bonds or Convertible Capital Appreciation Bonds shall be equal to their principal amount on their issue date.

(b) ***Conditions to the Issuance of Bonds***. Except for the issuance of the first Series of Bonds under this Master Resolution, the following conditions shall be met and complied with at the time of issuance of a Series of Bonds.

(i) There shall be on file with the State Treasurer a certificate of the Treasurer Representative stating that as of the date of issuance of the Series of Bonds, there is no deficiency in the Toll Facility Bond Retirement Account; and

(ii) Except for the issuance of refunding Bonds which satisfy the test in Section 2.09(b)(iii)(1), there shall be on file with the State Treasurer a certificate(s) or report(s) of the Traffic Consultant, Consulting Engineer, WSDOT Representative and/or Treasurer Representative, as applicable, evidencing that, based upon reasonable assumptions, after the issuance of the proposed Bonds, projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the proposed additional Bonds will be at least equal to 100% of the aggregate amount of the required payments described in subsections (b) through (m) of Section 6.12 in the applicable Fiscal Year; and

(iii) At least one of the following tests shall be satisfied with respect to the proposed Bonds:

(1) If Bonds are being issued for the purpose of refunding all or a portion of one or more Series of Bonds of the same Tier as the Bonds to be issued, or a senior Tier (*i.e.*, the number of the Tier of the refunding Bonds is equal to or greater than the number of the Tier of the Bonds to be refunded), evidence that the Annual Debt Service (taking into account the issuance of the proposed Bonds, but excluding the Bonds to be refunded with the proceeds of the

proposed Bonds) will not increase by more than $5,000 in any Fiscal Year through the last scheduled maturity of Outstanding Bonds following the issuance of the refunding Bonds.

(2) If the proposed Bonds are First Tier Bonds, there shall be on file with the State Treasurer:

(a) (A) a certificate of the WSDOT Representative stating the Net Revenues for (i) the most recent Fiscal Year for which audited financial statements are available or (ii) any 12 consecutive month period in the immediately prior 18 months, and (B) a certificate of the Treasurer Representative stating that the Net Revenues shown in the certificate of the WSDOT Representative described in (A) above, were at least equal to (i) 200% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, (ii) 150% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds and Second Tier Bonds, (iii) 130% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds and Third Tier Bonds, and (iv) 110% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds (taking into account the First Tier Bonds proposed to be issued and excluding any Bonds being refunded); or

(b) (A) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional First Tier Bonds, (B) a certificate of the Consulting Engineer stating, based upon reasonable assumptions, the projected Operating and Maintenance Expenses for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional First Tier Bonds, and (C) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in (A) and (B) above, the projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the proposed First Tier Bonds will be equal to or greater than (i) 200% of Annual Debt Service on First Tier Bonds, (ii) 150% of Annual Debt Service on First Tier Bonds and Second Tier Bonds,

(iii) 130% of Annual Debt Service on First Tier Bonds, Second Tier Bonds and Third Tier Bonds, and (iv) 110% of Annual Debt Service on First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds in each Fiscal Year (taking into account the First Tier Bonds proposed to be issued and excluding any Bonds being refunded).

(3) If the proposed Bonds are Second Tier Bonds, there shall be on file with the State Treasurer:

(a) (A) a certificate of the WSDOT Representative stating the Net Revenues for (i) the most recent Fiscal Year for which audited financial statements are available or (ii) any 12 consecutive month period in the immediately prior 18 months, and (B) a certificate of the Treasurer Representative stating that the Net Revenues shown in the certificate of the WSDOT Representative described in (A) above, were at least equal to (i) 150% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds and Second Tier Bonds, (ii) 130% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds and Third Tier Bonds, and (iii) 110% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds (taking into account the Second Tier Bonds proposed to be issued and excluding any Bonds being refunded); or

(b) (A) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional Second Tier Bonds, (B) a certificate of the Consulting Engineer stating, based upon reasonable assumptions, the projected Operating and Maintenance Expenses for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional Second Tier Bonds, and (C) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in (A) and (B) above, the projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the proposed Second Tier Bonds will be equal to or greater than (i) 150% of Annual

Debt Service on First Tier Bonds and Second Tier Bonds, (ii) 130% of Annual Debt Service on First Tier Bonds, Second Tier Bonds and Third Tier Bonds, and (iii) 110% of Annual Debt Service on First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds in each Fiscal Year (taking into account the Second Tier Bonds proposed to be issued and excluding any Bonds being refunded).

(4) If the proposed Bonds are Third Tier Bonds, there shall be on file with the State Treasurer:

(a) (A) a certificate of the WSDOT Representative stating the Net Revenues for (i) the most recent Fiscal Year for which audited financial statements are available or (ii) any 12 consecutive month period in the immediately prior 18 months, and (B) a certificate of the Treasurer Representative stating that the Net Revenues shown in the certificate of the WSDOT Representative described in (A) above, were at least equal to (i) 130% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds and Third Tier Bonds, and (ii) 110% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds (taking into account the Third Tier Bonds proposed to be issued and excluding any Bonds being refunded); or

(b) (A) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional Third Tier Bonds, (B) a certificate of the Consulting Engineer stating, based upon reasonable assumptions, the projected Operating and Maintenance Expenses for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional Third Tier Bonds, and (C) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in (A) and (B) above, the projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the proposed Third Tier Bonds will be equal to or greater than (i) 130% of Annual Debt Service on First Tier Bonds, Second Tier Bonds and

Third Tier Bonds, and (ii) 110% of Annual Debt Service on First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds in each Fiscal Year (taking into account the Third Tier Bonds proposed to be issued and excluding any Bonds being refunded).

(5) If the proposed Bonds are Fourth Tier Bonds, there shall be on file with the State Treasurer:

(a) (A) a certificate of the WSDOT Representative stating the Net Revenues for (i) the most recent Fiscal Year for which audited financial statements are available or (ii) any 12 consecutive month period in the immediately prior 18 months, and (B) a certificate of the Treasurer Representative stating that the Net Revenues shown in the certificate of the WSDOT Representative described in (A) above, were at least equal to 110% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds (taking into account the Fourth Tier Bonds proposed to be issued and excluding any Bonds being refunded); or

(b) (A) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional Fourth Tier Bonds, (B) a certificate of the Consulting Engineer stating, based upon reasonable assumptions, the projected Operating and Maintenance Expenses for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the additional Fourth Tier Bonds, and (C) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in (A) and (B) above, the projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the issuance of the proposed Fourth Tier Bonds will be equal to or greater than 110% of Annual Debt Service on First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds in each Fiscal Year (taking into account the Fourth Tier Bonds proposed to be issued and excluding any Bonds being refunded)..

(6) If the proposed Bonds are Completion Bonds, there shall be on file with the State Treasurer:

(a) a certificate of the Treasurer Representative stating that the principal amount of such Completion Bonds does not exceed 10% of the aggregate principal amount of Bonds originally issued to finance that Project;

(b) a certificate of the Consulting Engineer setting forth the amount estimated to be needed to complete the Project to be financed with the Completion Bonds; and

(c) a certificate of the WSDOT Representative stating that issuance of the Completion Bonds is necessary for the completion of the Project identified in the certificate delivered pursuant to (b) above, and that the proceeds of the Completion Bonds, together with other funds available therefor, will provide sufficient money for the completion of that Project.

(7) If the proposed Bonds are Emergency Repair Bonds, there shall be on file with the State Treasurer a certificate of the Consulting Engineer stating that (a) the Costs for which those Emergency Repair Bonds are to be issued are necessary to restore a portion of the System to a safe operating condition, and (b) the net proceeds of those Emergency Repair Bonds are not in excess of the amount necessary to pay the Costs of the emergent repairs.

Section 2.10 No Pledge Superior to First Tier Bonds; Subordinate Obligations; Pledge of Revenues of Toll Facilities Not Part of System

(a) The State shall not issue additional obligations payable from Toll Revenue with a pledge position prior and superior to the First Tier Bonds.

(b) Nothing contained herein shall prevent the State from issuing additional obligations with a pledge position with respect to Toll Revenue that is subordinate to the pledge position of the Fourth Tier Bonds.

(c) Nothing herein shall prevent the State from issuing obligations that are secured by a pledge of revenues of Eligible Toll Facilities other than the SR 520 Corridor that have not been designated as Additional Eligible Toll Facilities and are therefore not a part of the System.

Article III
REDEMPTION OF BONDS

Section 3.01 Optional and Mandatory Redemption

The Bond Sale Resolution for a Series shall designate which maturities of that Series, if any, are subject to optional and mandatory redemption, and shall further provide for the time, manner and price at which that Series of Bonds may be redeemed prior to their stated maturities.

Section 3.02 Partial Redemption

Portions of the principal amount of any Bond, in any Authorized Denomination, may be redeemed in accordance with the applicable Bond Sale Resolution. If a Bond to be redeemed is not held in book-entry only form, upon surrender of that Bond to the Bond Registrar, a new Bond or Bonds (at the option of the Registered Owner), of the same Series, date, maturity and interest rate and in the aggregate principal amount remaining unredeemed, in any Authorized Denomination, shall be authenticated and delivered, without charge, to the Registered Owner thereof.

Section 3.03 Purchase

The State hereby reserves the right to purchase any or all of the Bonds offered for sale to the State at any time, at any price.

Section 3.04 Selection of Bonds for Redemption

As long as the Bonds of a Series are held in book-entry only form, if fewer than all of the Outstanding Bonds within a maturity are to be redeemed prior to maturity, selection of Bonds to be redeemed shall be made in accordance with the operational arrangements in effect at DTC. If any Bonds are no longer held in uncertificated form, the selection of those Bonds to be redeemed shall be made in a random method determined by the Bond Registrar or as otherwise set forth in a Bond Sale Resolution.

Section 3.05 Effect of Optional Redemption/Purchase on Term Bonds

If the State redeems under the optional redemption provisions, purchases in the open market or defeases Term Bonds of a Series, the par amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The Treasurer Representative shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 60 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.

Section 3.06 Notice of Redemption

While the Bonds are held in book-entry only form, notice of redemption shall be given only in accordance with the operational arrangements then in effect at DTC, and the Bond

Registrar shall not be required to give any other notice of redemption. If the Bonds cease to be in book-entry only form, the State shall cause notice of any such intended redemption (which redemption shall be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption) to be given by the Bond Registrar not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of each Bond to be redeemed at the address appearing on the Bond Register on the day the notice is mailed, and the requirements of this sentence shall be deemed to be complied with when notice is mailed as herein provided, whether or not it is actually received by the Registered Owner.

Additional notice of redemption may be mailed or sent electronically within the same period to the MSRB, consistent with the Undertaking, to any Rating Agency which at the time maintains a rating on the Bonds at the request of the State, and to those persons and with such additional information as the Treasurer Representative shall deem appropriate, but such mailings shall not be a condition precedent to the redemption of the Bonds.

In the case of an optional redemption, the notice may state that the State retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been given shall remain outstanding.

Section 3.07 Effect of Redemption

If the State shall have set aside on the date fixed for redemption sufficient money for the payment of the Bonds called for redemption on the date fixed for redemption, the Bonds so called shall cease to accrue interest after that redemption date, and all those Bonds shall be deemed not to be outstanding hereunder for any purpose, except that the Registered Owners thereof shall be entitled to receive payment of the redemption price and accrued interest to the redemption date from the money set aside for that purpose.

Notwithstanding the foregoing, with respect to optional redemptions only, if the Bond Registrar does not have funds in its possession on the redemption date sufficient to pay the redemption price (including interest accruing to the redemption date) of all of the Bonds to be optionally redeemed for any reason (including, but not limited to, failure to issue any refunding obligations intended for that purpose on or prior to the redemption date), then the purported optional redemption and the notice of that purported redemption shall be void. Such event shall not constitute an Event of Default hereunder, and neither the Bond Registrar nor the State shall be subject to any liability to the Holders, the Beneficial Owners or any other person as a result of such failure to redeem Bonds.

Section 3.08 Cancellation of Bonds

All Bonds purchased or redeemed under this Article III shall be canceled, except for any Bonds purchased by the State in circumstances in which the State intends that the purchased Bonds shall remain Outstanding and the debt evidenced by the purchased Bonds is not treated as extinguished under the Code.

Article IV
SECURITY AND PLEDGE POSITION

Section 4.01 Parity as to Toll Revenue; Bonds Within a Tier and Series Equally and Ratably Secured

(a) Except as otherwise provided for in Section 9.07, all Bonds issued hereunder and at any time Outstanding shall be equally and ratably secured, with the same right, pledge and preference with respect to the Toll Revenue, with all other Outstanding Bonds of the same Tier, without preference, priority or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds of the same Tier. Bonds issued under this Master Resolution shall have a right, pledge and preference to payment from Toll Revenue in the following order of priority: (1) First Tier Bonds; (2) Second Tier Bonds; (3) Third Tier Bonds; and (4) Fourth Tier Bonds. Section 9.07 describes the circumstances under which TIFIA Bonds will be deemed to be and will automatically become First Tier Bonds. Hedge Termination Payments shall not be secured by this Master Resolution on a parity with any Series of Bonds. Hedge Termination Payments may be secured by a pledge of Toll Revenue that is subordinate to the pledge position of the Fourth Tier Bonds as described in Section 2.10(b). Nothing herein shall be construed to preclude the creation of separate reserve funds or the obtaining of separate surety bonds, insurance policies and other Credit Facilities for any Series of Bonds, which may or may not be pledged toward the payment of other Series of Bonds, and nothing herein shall be construed to preclude the designation of any Series of Bonds as Triple Pledge Bonds.

(b) All Bonds of a particular Series shall in all respects be equally and ratably secured and shall have the same right and pledge preference established for the benefit of that Series of Bonds, including, without limitation, rights to the Toll Facilities Account and rights to the Debt Service Subaccount and any Debt Service Reserve Subaccount securing payment of that Series in the Toll Facility Bond Retirement Account. Amounts drawn under a Credit Facility with respect to a particular Series and all other amounts held in accounts established with respect to that Series pursuant to the provisions of Article VI and the Bond Sale Resolution providing for the terms of that Series shall be applied solely to make payments on that Series of Bonds.

Section 4.02 Pledge of Toll Revenue and Obligation to Impose Tolls

(a) Toll Revenue is irrevocably pledged for the benefit of the Bonds authorized herein. The pledge hereby made shall be valid and binding from and after the time of the delivery of the first Bond authenticated and delivered under this Master Resolution. The Toll Revenue so pledged and then or thereafter received by the State shall immediately be subject to that pledge, and the obligation to perform the contractual provisions hereby made shall have priority over any or all other obligations and liabilities of the State with regard to the Toll Revenue, to the extent provided herein.

(b) As authorized and directed by the Legislature pursuant to the Toll Facilities Act and the Bond Act, the Committee on behalf of the State pledges for the benefit of the Holders of Outstanding Bonds, that the State will impose and maintain Tolls on the SR 520 Corridor and on any other Eligible Toll Facilities on which the Legislature has authorized the imposition of Tolls in respect of Bonds in amounts sufficient to pay, when due, the principal of and interest on the

Bonds, and consistent with the covenants in Section 7.01 and Section 7.02 of this Master Resolution. As further authorized and directed by the Legislature pursuant to the Toll Facilities Act and the Bond Act, the Committee on behalf of the State further pledges for the benefit of the Holders of Outstanding Bonds, that the State will not impair or withdraw the delegation to the Tolling Authority of the power to fix and adjust Tolls as provided in the Toll Facilities Act.

Section 4.03 Triple Pledge Bonds

(a) ***Designation***. Any Series of Bonds may be designated by the Committee as Triple Pledge Bonds in the applicable Bond Sale Resolution.

(b) ***General Obligations of the State***. Triple Pledge Bonds are general obligations of the State. The State, acting by and through the Committee, pledges its full faith and credit to the payment of the principal of and premium, if any, and interest on the Triple Pledge Bonds and unconditionally promises to pay that principal, premium and interest as the same shall become due.

(c) ***Pledge of Motor Vehicle Fuel Taxes***. On behalf of the State and as a part of the contract of sale of the Bonds, the proceeds of the Motor Vehicle Fuel Taxes are pledged to the payment of the principal of and premium, if any, and interest on the Triple Pledge Bonds.

(d) The principal of and premium, if any, and interest on the Triple Pledge Bonds shall be first payable from Toll Revenue and other funds held in any related Debt Service Subaccount and any Debt Service Reserve Subaccount in the Toll Facility Bond Retirement Account that are pledged to the payment of the applicable Series of Bonds, and from Toll Revenue and other funds held in the Revenue Stabilization Subaccount. If and to the extent the Toll Revenue and those other funds are not sufficient to pay the principal of and premium, if any, and interest on any Triple Pledge Bond as the same shall become due and payable, that unpaid principal of and premium, if any, and interest on the Triple Pledge Bonds shall be payable first from Motor Vehicle Fuel Taxes, and second from other money of the State legally available therefor. In the Bond Act the Legislature has agreed to continue to impose those Motor Vehicle Fuel Taxes in amounts sufficient to pay, when due, the principal and interest on all Series of Triple Pledge Bonds.

(e) Any Motor Vehicle Fuel Taxes required to pay the Triple Pledge Bonds, or the interest thereon when due, shall be taken from that portion of the Motor Vehicle Fund which results from the imposition of Motor Vehicle Fuel Taxes and which is appropriated to WSDOT for state highway purposes, and shall never constitute a charge against any allocations of motor vehicle and special fuels tax revenues to the State, counties, cities, and towns unless the amount arising from Motor Vehicle Fuel Taxes distributed to the State in the Motor Vehicle Fund proves insufficient to meet the requirements for bond retirement or interest on any Triple Pledge Bonds.

(f) The charge on Motor Vehicle Fuel Taxes for payment of Triple Pledge Bonds shall be equal to the charge on excise taxes for the payment of the principal of and interest on any other general obligation bonds of the State issued under authority of legislation authorized by the 45th Session of the Legislature (1979-1980) or thereafter and which pledged (on an equal basis) Motor Vehicle Fuel Taxes for the payment of the principal thereof and interest thereon.

Article V
THE SYSTEM

Section 5.01 The System.

The System initially shall consist of the SR 520 Corridor.

Section 5.02 Addition of Eligible Toll Facilities to the System.

The State may designate Additional Eligible Toll Facilities as a part of the System. Upon compliance with the following conditions, those Additional Eligible Toll Facilities shall become a part of the System:

(a) if and to the extent the Legislature has authorized the imposition of tolls on all or a portion of the Additional Eligible Toll Facilities, the Tolling Authority by official action of the Tolling Authority shall have set Tolls on the Additional Eligible Toll Facilities;

(b) if and to the extent the Cost of the Additional Eligible Toll Facilities is to be financed with Bonds issued under and pursuant to this Master Resolution, the Legislature by the enactment of amendments of or supplements to the Bond Act shall have authorized the issuance and sale of those Bonds;

(c) At least one of (i), (ii) or (iii) set forth below shall be satisfied:

(i) there shall be on file with the Committee and the Tolling Authority:

(1) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue with (including the additional Toll Revenue, if any, expected to be generated by those Additional Eligible Toll Facilities) and without the addition of the Additional Eligible Toll Facilities to the System for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System; and

(2) a certificate of the Consulting Engineer stating:

(a) based upon reasonable assumptions, the estimated Operating and Maintenance Expenses with (including the additional Operating and Maintenance Expenses, if any, expected to be required in connection with those Additional Eligible Toll Facilities) and without the addition of the Additional Eligible Toll Facilities to the System for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System; and

(b) based upon reasonable assumptions, a projected schedule of deposits to the Repair and Replacement Reserve Subaccount with (including the additional Repair and Replacement Expenses, if any, expected to be required in connection with those Additional Eligible Toll Facilities) and without the addition of the Additional Eligible Toll Facilities to the System for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System; and

(3) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in Section 5.02(c)(i)(1) and Section 5.02(c)(i)(2) above, the projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System will exceed the Net Revenues available or projected to be available for the respective Fiscal Year without the addition of the Additional Eligible Toll Facilities to the System; or

(ii) there shall be on file with the Committee and the Tolling Authority:

(1) a certificate of the WSDOT Representative stating the Net Revenues for (i) the most recent Fiscal Year for which audited financial statements are available or (ii) any 12 consecutive month period in the immediately prior 18 months (taking into account revenue generated by the Additional Eligible Toll Facilities, if any, and expenses associated with the Additional Eligible Toll Facilities, if any, that would be "Toll Revenue" or "Operating and Maintenance Expenses," respectively, if the Additional Toll Facilities had been part of the System during such period); and

(2) a certificate of the Treasurer Representative stating that the Net Revenues shown in the certificate of the WSDOT Representative described in (1) above, were at least equal to (i) 200% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, (ii) 150% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds and Second Tier Bonds, (iii) 130% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds and Third Tier Bonds, and (iv) 110% of the Maximum Annual Debt Service for all then-Outstanding First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier Bonds (taking into account any Bonds proposed to be issued and excluding any Bonds or other obligations being refunded in connection with the addition of the Additional Eligible Toll Facilities to the System); or

(iii) there shall be on file with the Committee and the Tolling Authority:

(1) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue following the addition of the Additional Eligible Toll Facilities to the System (including the additional Toll Revenue, if any, expected to be generated by those Additional Eligible Toll Facilities) for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System;

(2) a certificate of the Consulting Engineer stating:

(a) based upon reasonable assumptions, the estimated Operating and Maintenance Expenses following the addition of the Additional Eligible Toll Facilities to the System (including the additional Operating and Maintenance Expenses, if any, expected to be required in connection with those Additional Eligible Toll Facilities) for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System; and

(b) based upon reasonable assumptions, a projected schedule of deposits to the Repair and Replacement Reserve Subaccount following the addition of the Additional Eligible Toll Facilities to the System (including the additional Repair and Replacement Expenses, if any, expected to be required in connection with those Additional Eligible Toll Facilities) for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following the addition of the Additional Eligible Toll Facilities to the System; and

(3) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in Section 5.02(c)(iii)(1) and Section 5.02(c)(iii)(2) above, the projected Net Revenues for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds following addition of the Additional Eligible Toll Facilities to the System will be equal to or greater than (i) 200% of the Annual Debt Service on First Tier Bonds, (ii) 150% of Annual Debt Service on First Tier Bonds and Second Tier Bonds, (iii) 130% of Annual Debt Service on First Tier Bonds, Second Tier Bonds and Third Tier Bonds, (iv) 110% of Annual Debt Service on First Tier Bonds, Second Tier Bonds,

Third Tier Bonds and Fourth Tier Bonds in each Fiscal Year, and (v); 100% of the aggregate amount of the required payments described in subsections (b) through (m) of Section 6.12 in the applicable Fiscal Year;

(d) the Committee has been provided evidence that any outstanding indebtedness or other obligations for the repayment of borrowed money relating to those Additional Eligible Toll Facilities is not required to be paid from Toll Revenue or has been duly paid or defeased, unless the State has determined to issue Bonds for the purpose of refinancing all outstanding obligations relating to those Additional Eligible Toll Facilities upon compliance with the provisions of Section 2.09;

(e) the Committee has adopted a resolution approving the designation of the Additional Eligible Toll Facilities as part of the System; and

(f) so long as any Bonds that are Tax-Exempt Bonds or Tax-Advantaged are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed Additional Eligible Toll Facilities to the System will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds or the receipt of Federal Credit Payments by the State or tax credits by the Beneficial Owners in respect of the Tax-Advantaged Bonds.

Article VI
REVENUES AND ACCOUNTS; FLOW OF FUNDS

Section 6.01 Creation of Accounts

(a) ***Toll Facilities Account.*** The Toll Facilities Account has been created in the State Treasury, and there are hereby established within that Account the following Subaccounts:

(i) Operating and Maintenance Reserve Subaccount;

(ii) Revenue Stabilization Subaccount;

(iii) Repair and Replacement Reserve Subaccount;

(iv) Bond Proceeds Subaccount; and

(v) Deferred Sales Tax Subaccount.

(b) ***Toll Facility Bond Retirement Account.*** The Toll Facility Bond Retirement Account has been created in the State Treasury, and there are hereby established within that Account the following Subaccounts:

(i) First Tier Debt Service Subaccount;

(ii) First Tier Common Debt Service Reserve Subaccount;

(iii) Second Tier Debt Service Subaccount;

(iv) Second Tier Common Debt Service Reserve Subaccount;

(v) Third Tier Debt Service Subaccount;

(vi) Third Tier Common Debt Service Reserve Subaccount;

(vii) Fourth Tier Debt Service Subaccount; and

(viii) Fourth Tier Common Debt Service Reserve Subaccount.

(c) ***Additional Subaccounts.*** The State reserves the right to establish one or more additional subaccounts, and subdivisions within those subaccounts, as the State may deem necessary or useful, which shall include, but not be limited to, Series Debt Service Reserve Subaccounts created pursuant to Bond Sale Resolutions.

(d) ***Treatment of Subaccounts and Subdivisions.*** Subaccounts, and subdivisions within those subaccounts, created within the Toll Facilities Account or the Toll Facility Bond Retirement Account may be accounted for as separate restricted fund balances or in such other fashion as the State determines is consistent with applicable state law and accounting practices.

Section 6.02 Toll Facilities Account

All Toll Revenue shall be deposited in the Toll Facilities Account and used in accordance with the provisions of Section 6.12.

Section 6.03 Operating and Maintenance Reserve Subaccount

Amounts in the Operating and Maintenance Reserve Subaccount shall be used by the State solely to pay Operating and Maintenance Expenses in the event and to the extent that available Toll Revenue is insufficient to pay all Operating and Maintenance Expenses when due. The amount required to be maintained in the Operating and Maintenance Reserve Subaccount shall be an amount equal to six months of budgeted Operating and Maintenance Expenses of the System for the current Fiscal Year as reflected in the System Budget. For the SR 520 Corridor, this amount shall be accumulated in the Operating and Maintenance Reserve Subaccount over a period of twelve months commencing with the third calendar month following the month in which collection of Tolls on the SR 520 Corridor commences, and, for any Additional Eligible Toll Facilities that become part of the System, the additional amount required to be maintained in the Operating and Maintenance Reserve Subaccount as the result of those Additional Eligible Toll Facilities becoming part of the System shall be accumulated in the Operating and Maintenance Reserve Subaccount over a period of twelve months commencing with the third calendar month following the month in which collection of Tolls on the Additional Eligible Toll Facilities commences. The amounts deposited in the Operating and Maintenance Reserve Subaccount are not pledged to Bondholders.

Section 6.04 Revenue Stabilization Subaccount

Amounts in the Revenue Stabilization Subaccount shall be used by the State to fund costs relating to the System, provide for debt service on Bonds, or for any other System purpose. Within 120 days after the end of each Fiscal Year, the WSDOT Representative, in consultation with the Treasurer Representative, shall determine the amount, if any, that shall be transferred from the Toll Facilities Account to the Revenue Stabilization Subaccount in that Fiscal Year. Within 120 days after the end of each Fiscal Year, the WSDOT Representative, in consultation with the Treasurer Representative, shall determine the amount, if any, that shall be transferred from the Revenue Stabilization Subaccount to the Toll Facilities Account in that Fiscal Year. The State may withdraw any amount from the Revenue Stabilization Subaccount in any Fiscal Year, but any amount withdrawn in excess of 25 percent of Annual Debt Service in that year will not be treated as Toll Revenue received in that Fiscal Year for purposes of calculating Net Revenues. Amounts withdrawn from the Revenue Stabilization Subaccount and deposited in the Toll Facilities Account in any Fiscal Year shall not be treated as Toll Revenue received in that Fiscal Year for the purposes of meeting the tests set forth in Section 2.09, Section 5.02 or Section 7.10. The amounts deposited in the Revenue Stabilization Subaccount are pledged to Bondholders.

Section 6.05 Repair and Replacement Reserve Subaccount

(a) Amounts in the Repair and Replacement Reserve Subaccount shall be used exclusively for Repair and Replacement Expenses for the System in accordance with WSDOT's then-current capital improvement program and System Budget and any other Repair and Replacement Expenses that must be incurred to restore or maintain a portion of the System in a safe operating condition due to damage as a result of fire, flood, earthquake, other disaster, or otherwise. Amounts to be deposited in the Repair and Replacement Reserve Subaccount shall be determined by WSDOT based on its projected long-term Repair and Replacement Expense needs, in consultation with the Consulting Engineer, and shall be reflected in the System Budget annually. The amount required to be deposited, if any, as determined in accordance with this Section 6.05(a) and as shown in the then-current System Budget, shall be accumulated in the Repair and Replacement Reserve Subaccount over a period of twelve months. The amounts deposited in the Repair and Replacement Reserve Subaccount are not pledged to Bondholders.

(b) If the amount in the Repair and Replacement Reserve Subaccount exceeds the amount required to be deposited and maintained therein determined in accordance with Section 6.05(a), the WSDOT Representative may, at WSDOT's discretion, direct that any excess be applied in accordance with Section 6.12.

Section 6.06 Bond Proceeds Subaccount

All net proceeds of the sale of each Series of Bonds shall be paid to the State, against receipt therefor, at or prior to the delivery of that Series of Bonds and shall be deposited or delivered into the Bond Proceeds Subaccount.

Section 6.07 Deferred Sales Tax Subaccount.

Amounts in the Deferred Sales Tax Subaccount shall be used to pay Deferred Sales Tax Obligations in accordance with the applicable statute granting a deferral of state and local sales and use taxes for a Project. Deferred Sales Tax Obligations shall be payable not later than the times and in the amounts as provided in RCW 47.01.412 in respect of the SR 520 Corridor Program and as provided in applicable law in respect of other Projects. The amounts deposited in the Deferred Sales Tax Subaccount are not pledged to Bondholders.

Section 6.08 First Tier Subaccounts.

(a) ***First Tier Debt Service Subaccount***

(i) Amounts in the First Tier Debt Service Subaccount shall be used to pay the principal of and interest on the First Tier Bonds when due in accordance with the terms of the Bond Sale Resolution authorizing the issuance and sale of each Series of First Tier Bonds. However, if so provided in the Bond Sale Resolution creating a Series of First Tier Bonds, while there is a Credit Facility in effect with respect to that Series of First Tier Bonds, amounts in the First Tier Debt Service Subaccount may be used to reimburse the Credit Provider of that Credit Facility for interest, principal or redemption payments, respectively, made to Holders of those First Tier Bonds with funds provided by that Credit Provider to the extent that those reimbursement obligations of the State are secured as First Tier Bonds by this Master Resolution. Amounts in the First Tier Debt Service Subaccount shall be pledged to Holders of First Tier Bonds.

(ii) In the event that on the Business Day preceding any Bond Payment Date the amount in the First Tier Debt Service Subaccount shall be less than the amount required for payment of the interest on and the principal of the Outstanding First Tier Bonds due and payable on that Bond Payment Date, the State shall withdraw the amount necessary to increase the amount on deposit in the First Tier Debt Service Subaccount to the requirement therefor from, in the following order: (1) the First Tier Debt Service Reserve Subaccount, if any, that secures the applicable Series of Bonds; (2) the Revenue Stabilization Subaccount; (3) if the Bonds are Triple Pledge Bonds, the Motor Vehicle Fuel Taxes held in the Motor Vehicle Fund pledged for the payment of Triple Pledge Bonds, and (4) if the Bonds are Triple Pledge Bonds, any money of the State legally available therefor.

(iii) When First Tier Bonds are redeemed or purchased, the amount, if any, in the First Tier Debt Service Subaccount available to pay interest thereon shall be applied to the payment of accrued interest in connection with that redemption or purchase. Whenever the aggregate amount in the First Tier Debt Service Subaccount and the First Tier Debt Service Reserve Subaccounts is sufficient to redeem all of the Outstanding First Tier Bonds and to pay interest accrued to the redemption date, the State shall redeem all First Tier Bonds on the applicable redemption date. Any amounts remaining in the First Tier Debt Service Subaccount and the First Tier Debt Service Reserve Subaccounts after payment in full of the principal or redemption price, premium, if any, and interest on the First Tier Bonds (or provision for payment thereof) shall be paid to the Toll Facilities Account.

(b) ***First Tier Debt Service Reserve Subaccounts***

(i) Pursuant to any Bond Sale Resolution providing for the issuance of a Series of First Tier Bonds, the Committee may:

(1) provide that the Series will be secured by the First Tier Common Debt Service Reserve Subaccount,

(2) establish a Series Debt Service Reserve Subaccount, which shall have its own Debt Service Reserve Requirement, and provide that the Series will be secured by that Series Debt Service Reserve Subaccount, or

(3) provide that the Series will not be secured by any Debt Service Reserve Subaccount.

(ii) Subject to the provisions of Section 6.08(a), amounts in a First Tier Debt Service Reserve Subaccount shall be used to pay debt service on the First Tier Bonds secured by that First Tier Debt Service Reserve Subaccount on the date such debt service is due when sufficient funds for that purpose are not available in the First Tier Debt Service Subaccount. Amounts in a First Tier Debt Service Reserve Subaccount shall be pledged to Holders of First Tier Bonds in accordance with Section 6.08(b)(i) and as set forth in the applicable Bond Sale Resolution for each Series of First Tier Bonds.

(iii) In lieu of or in addition to cash or investments, at any time the State may cause to be deposited to the credit of a First Tier Debt Service Reserve Subaccount any form of Credit Facility, in an amount up to the related Debt Service Reserve Requirement, irrevocably payable to the State as beneficiary for the Holders of the First Tier Bonds secured by that First Tier Debt Service Reserve Subaccount, provided that the State Treasurer has received evidence satisfactory to it that (1) at the time of the initial delivery of the Credit Facility the Credit Provider has a credit rating in one of the two highest credit rating categories by two Rating Agencies, (2) the obligation of the State to pay the fees of and to reimburse the Credit Provider is subordinate to its obligation to pay debt service on the First Tier Bonds, (3) the term of the Credit Facility is at least 24 months, (4) except as provided in the next sentence of this subsection, the only condition to a drawing under the Credit Facility is insufficient amounts in the First Tier Debt Service Subaccount when needed to pay debt service on the First Tier Bonds secured by that First Tier Debt Service Reserve Subaccount or the expiration of the Credit Facility, and (5) the Credit Provider shall notify the State at least 18 months prior to expiration of the Credit Facility. If (A) the State receives an expiration notice with respect to the Credit Facility and the Credit Provider does not extend the expiration date of the Credit Facility or (B) the State receives notice of the termination of the Credit Facility, the State shall (X) provide a substitute Credit Facility that meets the requirements set forth in the foregoing sentences, (Y) deposit the applicable Debt Service Reserve Requirement to that First Tier Debt Service Reserve Subaccount (1) in the manner provided in the Bond Sale Resolution pursuant to which the relevant First Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, or (Z) draw on the Credit Facility in the amount of the related Debt Service Reserve Requirement (1) in the manner provided in the Bond Sale Resolution pursuant

to which the relevant First Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, and deposit those draw proceeds in the First Tier Debt Service Reserve Subaccount.

(iv) Amounts, if any, released from a First Tier Debt Service Reserve Subaccount upon deposit to the credit of that First Tier Debt Service Reserve Subaccount of a Credit Facility pursuant to subsection (iii) of this section shall, upon designation by the WSDOT Representative, accompanied by an Opinion of Bond Counsel that such use will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds secured by the relevant First Tier Debt Service Reserve Subaccount that are Tax-Exempt Bonds or the receipt of Federal Credit Payments by the State or federal tax credits by the Beneficial Owners in respect of any Bonds secured by the relevant First Tier Debt Service Reserve Subaccount that are Tax-Advantaged Bonds, be transferred (1) to the First Tier Debt Service Subaccount and used to pay principal of or to redeem those First Tier Bonds or (2) to the Bond Proceeds Subaccount with respect to the applicable Series of First Tier Bonds, and used for payment of Costs of the Project financed by that Series.

(v) In the event that the State has withdrawn money from, or drawn on a Credit Facility in, a First Tier Debt Service Reserve Subaccount for the purpose of paying principal and interest on the First Tier Bonds when due, the State shall replenish the amount on deposit, or reinstate the Credit Facility, in the applicable First Tier Debt Service Reserve Subaccount in accordance with Section 6.12 until the amount therein is equal to the Debt Service Reserve Requirement for First Tier Bonds to which that First Tier Debt Service Reserve Subaccount is pledged.

Section 6.09 Second Tier Subaccounts.

(a) ***Second Tier Debt Service Subaccount***

(i) Amounts in the Second Tier Debt Service Subaccount shall be used to pay the principal of and interest on the Second Tier Bonds when due in accordance with the terms of the Bond Sale Resolution creating each Series of Second Tier Bonds. However, if so provided in the Bond Sale Resolution creating a Series of Second Tier Bonds, while there is a Credit Facility in effect with respect to that Series of Second Tier Bonds, amounts in the Second Tier Debt Service Subaccount may be used to reimburse the Credit Provider of that Credit Facility for interest, principal or redemption payments, respectively, made to Holders of those Second Tier Bonds with funds provided by that Credit Provider to the extent that those reimbursement obligations of the State are secured as Second Tier Bonds by this Master Resolution. Amounts in the Second Tier Debt Service Subaccount shall be pledged to Holders of Second Tier Bonds.

(ii) In the event that on the Business Day preceding any Bond Payment Date the amount in the Second Tier Debt Service Subaccount shall be less than the amount required for payment of the interest on and the principal of the Outstanding Second Tier Bonds due and payable on that Bond Payment Date, the State shall withdraw the amount necessary to increase the amount on deposit in the Second Tier Debt Service Subaccount to the requirement therefor from, in the following order: (1) the Second Tier Debt Service Reserve Subaccount, if any, that secures the applicable Series of Bonds; (2) the Revenue Stabilization Subaccount; (3) if the

Bonds are Triple Pledge Bonds, the Motor Vehicle Fuel Taxes held in the Motor Vehicle Fund pledged for the payment of Triple Pledge Bonds, and (4) if the Bonds are Triple Pledge Bonds, any money of the State legally available therefor.

(iii) When Second Tier Bonds are redeemed or purchased, the amount, if any, in the Second Tier Debt Service Subaccount available to pay interest thereon shall be applied to the payment of accrued interest in connection with that redemption or purchase. Whenever the aggregate amount in the Second Tier Debt Service Subaccount and the Second Tier Debt Service Reserve Subaccounts is sufficient to redeem all of the Outstanding Second Tier Bonds and to pay interest accrued to the redemption date, the State shall redeem all Second Tier Bonds on the applicable redemption date. Any amounts remaining in the Second Tier Debt Service Subaccount and the Second Tier Debt Service Reserve Subaccounts after payment in full of the principal or redemption price, premium, if any, and interest on the Second Tier Bonds (or provision for payment thereof) and the fees, charges and expenses of the State, including all amounts owed to the Credit Providers, if any, and the Bond Registrar, shall be paid to the Toll Facilities Account.

(b) ***Second Tier Debt Service Reserve Subaccounts***

(i) Pursuant to any Bond Sale Resolution providing for the issuance of a Series of Second Tier Bonds, the Committee may:

(1) provide that the Series will be secured by the Second Tier Common Debt Service Reserve Subaccount,

(2) establish a Series Debt Service Reserve Subaccount, which shall have its own Debt Service Reserve Requirement, and provide that the Series will be secured by that Series Debt Service Reserve Subaccount, or

(3) provide that the Series will not be secured by any Debt Service Reserve Subaccount.

(ii) Subject to the provisions of Section 6.09(a), amounts in a Second Tier Debt Service Reserve Subaccount shall be used to pay debt service on the Second Tier Bonds secured by that Second Tier Debt Service Subaccount on the date such debt service is due when sufficient funds for that purpose are not available in the Second Tier Debt Service Subaccount. Amounts in a Second Tier Debt Service Reserve Subaccount shall be pledged to Holders of Second Tier Bonds in accordance with Section 6.09(b)(i) and as set forth in the applicable Bond Sale Resolution for each Series of Second Tier Bonds.

(iii) In lieu of or in addition to cash or investments, at any time the State may cause to be deposited to the credit of a Second Tier Debt Service Reserve Subaccount any form of Credit Facility, in an amount up to the related Debt Service Reserve Requirement, irrevocably payable to the State as beneficiary for the Holders of the Second Tier Bonds secured by that Second Tier Debt Service Reserve Subaccount, provided that the State Treasurer has received evidence satisfactory to it that (1) at the time of the initial delivery of the Credit Facility the Credit Provider has a credit rating in one of the two highest credit rating categories by two Rating Agencies, (2) the obligation of the State to pay the fees of and to reimburse the Credit

Provider is subordinate to its obligation to pay debt service on the Second Tier Bonds, (3) the term of the Credit Facility is at least 24 months, (4) except as provided in the next sentence of this subsection, the only condition to a drawing under the Credit Facility is insufficient amounts in the Second Tier Debt Service Subaccount when needed to pay debt service on the Second Tier Bonds secured by that Second Tier Debt Service Reserve Subaccount or the expiration of the Credit Facility, and (5) the Credit Provider shall notify the State at least 18 months prior to expiration of the Credit Facility. If (A) the State receives an expiration notice with respect to the Credit Facility and the Credit Provider does not extend the expiration date of the Credit Facility or (B) the State receives notice of the termination of the Credit Facility, the State shall (X) provide a substitute Credit Facility that meets the requirements set forth in the foregoing sentences, (Y) deposit the applicable Debt Service Reserve Requirement to that Second Tier Debt Service Reserve Subaccount (1) in the manner provided in the Bond Sale Resolution pursuant to which such Second Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, or (Z) draw on the Credit Facility in the amount of the related Debt Service Reserve Requirement (1) in the manner provided in the Bond Sale Resolution pursuant to which such Second Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, and deposit those draw proceeds in the Second Tier Debt Service Reserve Subaccount.

(iv) Amounts, if any, released from a Second Tier Debt Service Reserve Subaccount upon deposit to the credit of that Second Tier Debt Service Reserve Subaccount of a Credit Facility pursuant to subsection (iii) of this section shall, upon designation by the WSDOT Representative, accompanied by an Opinion of Bond Counsel that such use will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds secured by the relevant Second Tier Debt Service Reserve Subaccount that are Tax-Exempt Bonds or the receipt of Federal Credit Payments by the State or federal tax credits by the Beneficial Owners in respect of any Bonds secured by the relevant Second Tier Debt Service Reserve Subaccount that are Tax-Advantaged Bonds, be transferred (1) to the Second Tier Debt Service Subaccount and used to pay principal of or to redeem those Second Tier Bonds or (2) to the Bond Proceeds Subaccount with respect the applicable Series of Second Tier Bonds, and used for payment of Costs of the Project financed by that Series.

(v) In the event that the State has withdrawn money from, or drawn on a Credit Facility in, a Second Tier Debt Service Reserve Subaccount for the purpose of paying principal and interest on the Second Tier Bonds when due, the State shall replenish the amount on deposit, or reinstate the Credit Facility, in the applicable Second Tier Debt Service Reserve Subaccount in accordance with Section 6.12 until such amount is equal to the Debt Service Reserve Requirement for Second Tier Bonds to which that Second Tier Debt Service Reserve Subaccount is pledged.

Section 6.10 Third Tier Subaccounts

(a) ***Third Tier Debt Service Subaccount***

(i) Amounts in the Third Tier Debt Service Subaccount shall be used to pay the principal of and interest on the Third Tier Bonds when due in accordance with the terms of the Bond Sale Resolution creating each Series of Third Tier Bonds. However, if so provided in

the Bond Sale Resolution creating a Series of Third Tier Bonds, while there is a Credit Facility in effect with respect to that Series of Third Tier Bonds, amounts in the Third Tier Debt Service Subaccount may be used to reimburse the Credit Provider of that Credit Facility for interest, principal or redemption payments, respectively, made to Holders of those Third Tier Bonds with funds provided by that Credit Provider to the extent that those reimbursement obligations of the State are secured as Third Tier Bonds by this Master Resolution. Amounts in the Third Tier Debt Service Subaccount shall be pledged to Holders of Third Tier Bonds.

(ii) In the event that on the Business Day preceding any Bond Payment Date the amount in the Third Tier Debt Service Subaccount shall be less than the amount required for payment of the interest on and the principal of the Outstanding Third Tier Bonds due and payable on that Bond Payment Date, the State shall withdraw the amount necessary to increase the amount on deposit in the Third Tier Debt Service Subaccount to the requirement therefor from, in the following order: (1) the Third Tier Debt Service Reserve Subaccount, if any, that secures the applicable Series of Bonds; (2) the Revenue Stabilization Subaccount; (3) if the Bonds are Triple Pledge Bonds, the Motor Vehicle Fuel Taxes held in the Motor Vehicle Fund pledged for the payment of Triple Pledge Bonds, and (4) if the Bonds are Triple Pledge Bonds, any money of the State legally available therefor.

(iii) When Third Tier Bonds are redeemed or purchased, the amount, if any, in the Third Tier Debt Service Subaccount available to pay interest thereon shall be applied to the payment of accrued interest in connection with that redemption or purchase. Whenever the aggregate amount in the Third Tier Debt Service Subaccount and the Third Tier Debt Service Reserve Subaccounts is sufficient to redeem all of the Outstanding Third Tier Bonds and to pay interest accrued to the redemption date, the State shall redeem all Third Tier Bonds on the applicable redemption date. Any amounts remaining in the Third Tier Debt Service Subaccount and the Third Tier Debt Service Reserve Subaccounts after payment in full of the principal or redemption price, premium, if any, and interest on the Third Tier Bonds (or provision for payment thereof) and the fees, charges and expenses of the State, including all amounts owed to the Credit Providers, if any, and the Bond Registrar, shall be paid to the Toll Facilities Account.

(b) ***Third Tier Debt Service Reserve Subaccounts***

(i) Pursuant to any Bond Sale Resolution providing for the issuance of a Series of Third Tier Bonds, the Committee may:

(1) provide that the Series will be secured by the Third Tier Common Debt Service Reserve Subaccount,

(2) establish a Series Debt Service Reserve Subaccount, which shall have its own Debt Service Reserve Requirement, and provide that the Series will be secured by that Series Debt Service Reserve Subaccount, or

(3) provide that the Series will not be secured by any Debt Service Reserve Subaccount.

(ii) Subject to the provisions of Section 6.10(a), amounts in a Third Tier Debt Service Reserve Subaccount shall be used to pay debt service on the Third Tier Bonds secured by that Third Tier Debt Service Reserve Subaccount on the date such debt service is due when sufficient funds for that purpose are not available in the Third Tier Debt Service Subaccount. Amounts in a Third Tier Debt Service Reserve Subaccount shall be pledged to Holders of Third Tier Bonds in accordance with Section 6.10(a)(i) and as set forth in the applicable Bond Sale Resolution for each Series of Third Tier Bonds.

(iii) In lieu of or in addition to cash or investments, at any time the State may cause to be deposited to the credit of a Third Tier Debt Service Reserve Subaccount any form of Credit Facility, in an amount up to the related Debt Service Reserve Requirement, irrevocably payable to the State as beneficiary for the Holders of the Third Tier Bonds secured by that Third Tier Debt Service Reserve Subaccount, provided that the State Treasurer has received evidence satisfactory to it that (1) at the time of the initial delivery of the Credit Facility the Credit Provider has a credit rating in one of the two highest credit rating categories by two Rating Agencies, (2) the obligation of the State to pay the fees of and to reimburse the Credit Provider is subordinate to its obligation to pay debt service on the Third Tier Bonds, (3) the term of the Credit Facility is at least 24 months, (4) except as provided in the next sentence of this subsection, the only condition to a drawing under the Credit Facility is insufficient amounts in the Third Tier Debt Service Subaccount when needed to pay debt service on the Third Tier Bonds secured by that Third Tier Debt Service Reserve Subaccount or the expiration of the Credit Facility, and (5) the Credit Provider shall notify the State at least 18 months prior to expiration of the Credit Facility. If (A) the State receives an expiration notice with respect to the Credit Facility and the Credit Provider does not extend the expiration date of the Credit Facility or (B) the State receives notice of the termination of the Credit Facility, the State shall (X) provide a substitute Credit Facility that meets the requirements set forth in the foregoing sentences, (Y) deposit the applicable Debt Service Reserve Requirement to that Third Tier Debt Service Reserve Subaccount (1) in the manner provided in the Bond Sale Resolution pursuant to which such Third Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, or (Z) draw on the Credit Facility in the amount of the related Debt Service Reserve Requirement (1) in the manner provided in the Bond Sale Resolution pursuant to which such Third Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, and deposit those draw proceeds in the Third Tier Debt Service Reserve Subaccount.

(iv) Amounts, if any, released from a Third Tier Debt Service Reserve Subaccount upon deposit to the credit of that Third Tier Debt Service Reserve Subaccount of a Credit Facility pursuant to subsection (iii) of this section shall, upon designation by the WSDOT Representative, accompanied by an Opinion of Bond Counsel that such use will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds secured by the relevant Third Tier Debt Service Reserve Subaccount that are Tax-Exempt Bonds or the receipt of Federal Credit Payments by the State or federal tax credits by the Beneficial Owners in respect of any Bonds secured by the relevant Third Tier Debt Service Reserve Subaccount that are Tax-Advantaged Bonds, be transferred (1) to the Third Tier Debt Service Subaccount and used to pay principal of or to redeem those Third Tier Bonds or (2) to the Bond Proceeds Subaccount with respect to the applicable Series of Third Tier Bonds, and used for payment of Costs of the Project financed by that Series.

(v) In the event that the State has withdrawn money from, or drawn on a Credit Facility in, a Third Tier Debt Service Reserve Subaccount for the purpose of paying principal and interest on the Third Tier Bonds when due, the State shall replenish the amount on deposit, or reinstate the Credit Facility, in the applicable Third Tier Debt Service Reserve Subaccount in accordance with Section 6.12 until such amount is equal to the Debt Service Reserve Requirement for Third Tier Bonds to which that Third Tier Debt Service Reserve Subaccount is pledged.

Section 6.11 Fourth Tier Subaccounts

(a) ***Fourth Tier Debt Service Subaccount***

(i) Amounts in the Fourth Tier Debt Service Subaccount shall be used to pay the principal of and interest on the Fourth Tier Bonds when due in accordance with the terms of the Bond Sale Resolution creating each Series of Fourth Tier Bonds. However, if so provided in the Bond Sale Resolution creating a Series of Fourth Tier Bonds, while there is a Credit Facility in effect with respect to that Series of Fourth Tier Bonds, amounts in the Fourth Tier Debt Service Subaccount may be used to reimburse the Credit Provider of that Credit Facility for interest, principal or redemption payments, respectively, made to Holders of those Fourth Tier Bonds with funds provided by that Credit Provider to the extent that those reimbursement obligations of the State are secured as Fourth Tier Bonds by this Master Resolution. Amounts in the Fourth Tier Debt Service Subaccount shall be pledged to Holders of Fourth Tier Bonds.

(ii) In the event that on the Business Day preceding any Bond Payment Date the amount in the Fourth Tier Debt Service Subaccount shall be less than the amount required for payment of the interest on and the principal of the Outstanding Fourth Tier Bonds due and payable on that Bond Payment Date, the State shall withdraw the amount necessary to increase the amount on deposit in the Fourth Tier Debt Service Subaccount to the requirement therefor from, in the following order: (1) the Fourth Tier Debt Service Reserve Subaccount, if any, that secures the applicable Series of Bonds; (2) the Revenue Stabilization Subaccount; (3) if the Bonds are Triple Pledge Bonds, the Motor Vehicle Fuel Taxes held in the Motor Vehicle Fund pledged for the payment of Triple Pledge Bonds, and (4) if the Bonds are Triple Pledge Bonds, any money of the State legally available therefor.

(iii) When Fourth Tier Bonds are redeemed or purchased, the amount, if any, in the Fourth Tier Debt Service Subaccount available to pay interest thereon shall be applied to the payment of accrued interest in connection with that redemption or purchase. Whenever the aggregate amount in the Fourth Tier Debt Service Subaccount and the Fourth Tier Debt Service Reserve Subaccounts is sufficient to redeem all of the Outstanding Fourth Tier Bonds and to pay interest accrued to the redemption date, the State shall redeem all such Fourth Tier Bonds on the applicable redemption date. Any amounts remaining in the Fourth Tier Debt Service Subaccount and the Fourth Tier Debt Service Reserve Subaccounts after payment in full of the principal or redemption price, premium, if any, and interest on the Fourth Tier Bonds (or provision for payment thereof) and the fees, charges and expenses of the State, including all amounts owed to the Credit Providers, if any, and the Bond Registrar, shall be paid to the Toll Facilities Account.

(b) ***Fourth Tier Debt Service Reserve Subaccounts***

(i) Pursuant to any Bond Sale Resolution providing for the issuance of a Series of Fourth Tier Bonds, the Committee may:

(1) provide that the Series will be secured by the Fourth Tier Common Debt Service Reserve Subaccount,

(2) establish a Series Debt Service Reserve Subaccount, which shall have its own Debt Service Reserve Requirement, and provide that the Series will be secured by that Series Debt Service Reserve Subaccount, or

(3) provide that the Series will not be secured by any Debt Service Reserve Subaccount.

(ii) Subject to the provisions of Section 6.11(a), amounts in a Fourth Tier Debt Service Reserve Subaccount shall be used to pay debt service on the Fourth Tier Bonds secured by that Fourth Tier Debt Service Reserve Subaccount on the date such debt service is due when sufficient funds for that purpose are not available in the Fourth Tier Debt Service Subaccount. Amounts in the Fourth Tier Debt Service Reserve Subaccount shall be pledged to Holders of Fourth Tier Bonds in accordance with Section 6.11(b)(i) and as set forth in the applicable Bond Sale Resolution for each Series of Fourth Tier Bonds

(iii) In lieu of or in addition to cash or investments, at any time the State may cause to be deposited to the credit of a Fourth Tier Debt Service Reserve Subaccount any form of Credit Facility, in an amount up to the related Debt Service Reserve Requirement, irrevocably payable to the State as beneficiary for the Holders of the Fourth Tier Bonds secured by that Fourth Tier Debt Service Reserve Subaccount, provided that the State Treasurer has received evidence satisfactory to it that (1) at the time of the initial delivery of the Credit Facility the Credit Provider has a credit rating in one of the two highest credit rating categories by two Rating Agencies, (2) the obligation of the State to pay the fees of and to reimburse the Credit Provider is subordinate to its obligation to pay debt service on the Fourth Tier Bonds, (3) the term of the Credit Facility is at least 24 months, (4) except as provided in the next sentence of this subsection, the only condition to a drawing under the Credit Facility is insufficient amounts in the Fourth Tier Debt Service Subaccount when needed to pay debt service on the Fourth Tier Bonds secured by that Fourth Tier Debt Service Reserve Subaccount or the expiration of the Credit Facility, and (5) the Credit Provider shall notify the State at least 18 months prior to expiration of the Credit Facility. If (A) the State receives an expiration notice with respect to the Credit Facility and the Credit Provider does not extend the expiration date of the Credit Facility or (B) the State receives notice of the termination of the Credit Facility, the State shall (X) provide a substitute Credit Facility that meets the requirements set forth in the foregoing sentences, (Y) deposit the applicable Debt Service Reserve Requirement to that Fourth Tier Debt Service Reserve Subaccount (1) in the manner provided in the Bond Sale Resolution pursuant to which such Fourth Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, or (Z) draw on the Credit Facility in the amount of the related Debt Service Reserve Requirement (1) in the manner provided in the Bond Sale Resolution

pursuant to which such Fourth Tier Bonds are issued, or (2) prior to the termination date in the case of receipt of a termination notice, and deposit those draw proceeds in the Fourth Tier Debt Service Reserve Subaccount.

(iv) Amounts, if any, released from a Fourth Tier Debt Service Reserve Subaccount upon deposit to the credit of that Fourth Tier Debt Service Reserve Subaccount of a Credit Facility pursuant to subsection (iii) of this section shall, upon designation by the WSDOT Representative, accompanied by an Opinion of Bond Counsel that such use will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds secured by the relevant Fourth Tier Debt Service Reserve Subaccount that are Tax-Exempt Bonds or the receipt of Federal Credit Payments by the State or federal tax credits by the Beneficial Owners in respect of any Bonds secured by the relevant Fourth Tier Debt Service Reserve Subaccount that are Tax-Advantaged Bonds, be transferred (1) to the Fourth Tier Debt Service Subaccount and used to pay principal of or to redeem those Fourth Tier Bonds or (2) to the Bond Proceeds Subaccount with respect to the applicable Series of Fourth Tier Bonds, and used for payment of Costs of the Project financed by that Series.

(v) In the event that the State has withdrawn money from, or drawn on a Credit Facility in, a Fourth Tier Debt Service Reserve Subaccount for the purpose of paying principal and interest on the Fourth Tier Bonds when due, the State shall replenish the amount on deposit, or reinstate the Credit Facility, in the applicable the Fourth Tier Debt Service Reserve Subaccount in accordance with Section 6.12 until such amount is equal to the Debt Service Reserve Requirement for Fourth Tier Bonds to which that Fourth Tier Debt Service Reserve Subaccount is pledged.

Section 6.12 Flow of Funds

Amounts in the Toll Facilities Account shall be applied solely for the purposes, in the amounts, and at the times set forth in this Section 6.12. Each month, the State shall make payments and transfer or reserve funds, as applicable, in the order of priority set forth below, but as to each purpose, only within the limitations with respect thereto and only after payment has been brought current for every preceding purpose described in the following listing. To the extent that amounts available in the Toll Facilities Account are sufficient only to partially provide for one the purposes described in (b), (c), (d), (e), (f), (g), (h), or (i), the available amount shall be allocated on a pro rata basis among the Series of Bonds in the applicable Tier. For purposes of this Section 6.12, Accreted Value shall be treated as "principal."

(a) Each month, to pay the Operating and Maintenance Expenses.

(b) On or before the last Business Day of each calendar month, to the First Tier Debt Service Subaccount, the following amounts with respect to each Series of First Tier Bonds, taking into account amounts already on deposit therein:

(i) If interest (or Hedge Payments) on the Series of First Tier Bonds is payable monthly, an amount equal to the interest (or Hedge Payments) coming due on that Series of First Tier Bonds on the next succeeding Bond Interest Payment Date for that Series;

(ii) If interest (or Hedge Payments) on the Series of First Tier Bonds is payable semiannually, an amount equal to one-sixth of the amount of interest coming due on that Series of First Tier Bonds in the next succeeding six months; and

(iii) One-twelfth of the principal of the Series of First Tier Bonds coming due in the next succeeding twelve months by reason of mandatory sinking fund redemption or maturity.

Notwithstanding the foregoing, with respect to (ii) and (iii) above, installments of interest, Hedge Payments or principal, as applicable, with respect to the amounts due on the first Bond Interest Payment Date or Bond Principal Payment Date for a Series may be adjusted as set forth in the applicable Bond Sale Resolution.

(c) On or before the last Business Day of each calendar month, to the First Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s), or to reimburse a Credit Provider for the draw on a Credit Facility in the First Tier Debt Service Reserve Subaccount; provided that such amount shall be deposited in 12 equal, consecutive, monthly installments, the first such installment to be due in the calendar month next succeeding the month in which the applicable deficiency arose.

(d) On or before the last Business Day of each calendar month, to the Second Tier Debt Service Subaccount, the following amounts with respect to each Series of Second Tier Bonds, taking into account amounts already on deposit therein:

(i) If interest (or Hedge Payments) on the Series of Second Tier Bonds is payable monthly, an amount equal to the interest (or Hedge Payments) coming due on that Series of Second Tier Bonds on the next succeeding Bond Interest Payment Date for that Series;

(ii) If interest (or Hedge Payments) on the Series of Second Tier Bonds is payable semiannually, an amount equal to one-sixth of the amount of interest (or Hedge Payments) coming due on that Series in the next succeeding six months; and

(iii) One-twelfth of the principal of the Series of Second Tier Bonds coming due in the next succeeding twelve months by reason of mandatory sinking fund redemption or maturity.

Notwithstanding the foregoing, with respect to (ii) and (iii) above, installments of interest, Hedge Payments or principal, as applicable, with respect to the amounts due on the first Bond Interest Payment Date or Bond Principal Payment Date for a Series may be adjusted as set forth in the applicable Bond Sale Resolution.

(e) On or before the last Business Day of each calendar month, to the Second Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s) , or to reimburse a Credit Provider for the draw on a Credit Facility in the Second Tier Debt Service Reserve Subaccount; provided that such amount shall be deposited in 12 equal, consecutive, monthly installments, the

first such installment to be due in the calendar month next succeeding the month in which the applicable deficiency arose.

(f) On or before the last Business Day of each calendar month, to the Third Tier Debt Service Subaccount, the following amounts with respect to each Series of Third Tier Bonds, taking into account amounts already on deposit therein:

(i) If interest (or Hedge Payments) on the Series of Third Tier Bonds is payable monthly, an amount equal to the interest (or Hedge Payments) coming due on that Series of Third Tier Bonds on the next succeeding Bond Interest Payment Date for that Series;

(ii) If interest (or Hedge Payments) on the Series of Third Tier Bonds is payable semiannually, an amount equal to one-sixth of the amount of interest (or Hedge Payments) coming due on that Series in the next succeeding six months; and

(iii) One-twelfth of the principal of the Series of Third Tier Bonds coming due in the next succeeding twelve months by reason of mandatory sinking fund redemption or maturity.

Notwithstanding the foregoing, with respect to (ii) and (iii) above, installments of interest, Hedge Payments or principal, as applicable, with respect to the amounts due on the first Bond Interest Payment Date or Bond Principal Payment Date for a Series may be adjusted as set forth in the applicable Bond Sale Resolution.

(g) On or before the last Business Day of each calendar month, to the Third Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s), or to reimburse a Credit Provider for the draw on a Credit Facility in the Third Tier Debt Service Reserve Subaccount; provided that such amount shall be deposited in 12 equal, consecutive, monthly installments, the first such installment to be due in the calendar month next succeeding the month in which the applicable deficiency arose.

(h) On or before the last Business Day of each calendar month, to the Fourth Tier Debt Service Subaccount, the following amounts with respect to each Series of Fourth Tier Bonds, taking into account amounts already on deposit therein:

(i) If interest (or Hedge Payments) on the Series of Fourth Tier Bonds is payable monthly, an amount equal to the interest (or Hedge Payments) coming due on that Series of Fourth Tier Bonds on the next succeeding Bond Interest Payment Date for that Series;

(ii) If interest (or Hedge Payments) on the Series of Fourth Tier Bonds is payable semiannually, an amount equal to one-sixth of the amount of interest (or Hedge Payments) coming due on such Series of Fourth Tier Bonds in the next succeeding six months; and

(iii) One-twelfth of the principal of the Series of Fourth Tier Bonds coming due in the next succeeding twelve months by reason of mandatory sinking fund redemption or maturity.

Notwithstanding the foregoing, with respect to (ii) and (iii) above, installments of interest, Hedge Payments or principal, as applicable, with respect to the amounts due on the first Bond Interest Payment Date or Bond Principal Payment Date for a Series may be adjusted as set forth in the applicable Bond Sale Resolution.

(i) On or before the last Business Day of each calendar month, to the Fourth Tier Debt Service Reserve Subaccounts the amount, if any, necessary to restore the amounts on deposit therein to the applicable Debt Service Reserve Requirement(s), or to reimburse a Credit Provider for the draw on a Credit Facility in the Fourth Tier Debt Service Reserve Subaccount; provided that such amount shall be deposited in 12 equal, consecutive, monthly installments, the first such installment to be due in the calendar month next succeeding the month in which the applicable deficiency arose.

(j) On or before the last Business Day of each calendar month, to the Operating and Maintenance Reserve Subaccount, an amount necessary to maintain a balance therein equal to the amount determined in accordance with Section 6.03.

(k) On or before the last Business Day of each calendar month, to the Deferred Sales Tax Subaccount one-twelfth of the amount required to be deposited, taking into account the balance on deposit in the Deferred Sales Tax Subaccount, in the next twelve months in order to amortize each Deferred Sales Tax Obligation not less rapidly than required by the applicable statute granting a deferral of state and local sales and use taxes for a Project and otherwise in compliance with a Deferred Sales Tax Obligation amortization plan set forth in the initial Bond Sale Resolution for the financing of the applicable Project.

(l) On or before the last Business Day of each calendar month, to the Motor Vehicle Fund the amount, if any, required to repay the Motor Vehicle Fuel Taxes that have been used to date to pay principal of and interest on any Triple Pledge Bonds in accordance with Section 7.01(c)(iv).

(m) On or before the last Business Day of each calendar month, to the Repair and Replacement Reserve Subaccount, the amount, if any, equal to one-twelfth of the amount therefor set forth in the annual System Budget, as determined in accordance with Section 6.05.

(n) Within 120 days after the end of each Fiscal Year, to the Revenue Stabilization Subaccount the amount, if any, to be deposited therein pursuant to Section 6.04.

(o) Each month, funds for the construction and completion of the SR 520 Corridor Program and any other Project financed with Bonds in conformity with law, as reflected in the System Budget and approved by the WSDOT Representative.

(p) To any proper purpose of the System.

Section 6.13 Payment Procedures

(a) On or before June 30 of each year, the Committee shall provide a certificate to the State Treasurer stating the amount of Toll Revenue and Motor Vehicle Fuel Taxes, if any, that will be required to pay principal of and interest on the Outstanding Bonds in the next Fiscal

Year. The amount of Toll Revenue and Motor Vehicle Fuel Taxes, if any, required in connection with the payments due prior to the start of the next Fiscal Year shall be identified in a certificate within thirty days following the date of sale of a Series of Bonds. The State Treasurer, subject to the applicable provisions of the Bond Act, shall withdraw revenues from the Toll Facilities Account and, if required, from the Motor Vehicle Fund, and deposit in the applicable subaccounts in the Toll Facility Bond Retirement Account on or before each Bond Payment Date such amounts as are required to pay debt service on the Outstanding Bonds.

(b) Any amounts received from the Federal government as Federal Credit Payments with respect to Bonds issued as Tax-Advantaged Bonds shall be deposited in the related Debt Service Subaccount.

(c) On or before the date payments are due, the State Treasurer shall pay to the Bond Registrar, from money in the Toll Facility Bond Retirement Account, sums sufficient to pay the principal of and interest coming due on Bonds then Outstanding. For purposes of this Section 6.13, principal of the Outstanding Bonds shall be considered as coming due on their respective dates of maturity or, in the case of Term Bonds, on the dates and in the amounts scheduled for their mandatory redemption. The amount required to be deposited into the Toll Facility Bond Retirement Account and paid to the Bond Registrar, for purposes of effecting the payment of the Bonds or the mandatory redemption of Term Bonds, is subject to reduction arising from the State's purchase or optional redemption of the Bonds in the manner described in Article III of this Master Resolution.

(d) Any surplus money in the Toll Facility Bond Retirement Account may, in the discretion of the Committee, be used to redeem or purchase in the open market any Bonds payable from the Toll Facility Bond Retirement Account (subject to applicable bond covenants) prior to scheduled maturities or may remain in the Toll Facility Bond Retirement Account to reduce the transfers to the Toll Facility Bond Retirement Account, of Toll Revenue and Motor Vehicle Fuel Taxes, if any, otherwise required to pay Annual Debt Service on Outstanding Bonds.

Section 6.14 Investment of Funds.

All money in the various accounts and subaccounts created under this Article VI must be invested in legal investments of the State.

Article VII
BOND COVENANTS

Section 7.01 Establishment and Collection of Tolls

The State, acting by and through the Tolling Authority, covenants to set and adjust the Toll Rate Schedule and maintain Tolls on the SR 520 Corridor and on any Additional Eligible Toll Facilities at rates that will generate Toll Revenue sufficient to pay Operating and Maintenance Expenses; to pay, when due, the principal of and interest on all Outstanding Bonds; and to meet the State's financial and other covenants under this Master Resolution and applicable law.

The Committee on behalf of the State pledges that the State shall continue in effect and not impair or withdraw the power delegated to the Tolling Authority to set, adjust and maintain Tolls on the System of Eligible Toll Facilities as provided in this Master Resolution and in the Toll Facilities Act, including the specific provisions of RCW 47.56.850 in effect as of the date of this Master Resolution, as set forth below:

(a) Set toll rates, establish appropriate exemptions, if any, and make adjustments as conditions warrant on Eligible Toll Facilities.

(b) Review toll collection policies, toll operations policies, and toll revenue expenditures on the Eligible Toll Facilities and report annually on this review to the Legislature.

(c) In setting and periodically adjusting toll rates, the Tolling Authority shall ensure that toll rates will generate revenue at least sufficient to:

(i) Provide for the Operating and Maintenance Expenses of the Eligible Toll Facilities;

(ii) Meet obligations for the timely deposit of required amounts into the Debt Service Subaccounts and timely payment of debt service on Bonds issued for Eligible Toll Facilities (including Hedge Payments), and for any other associated financing costs including, but not limited to, Debt Service Reserve Requirements, the minimum debt coverage covenants of Section 7.02, deposits into the Operating and Maintenance Reserve Subaccount and the Repair and Replacement Reserve Subaccount, and other payments required to comply with all financial and other covenants made by the State in this Master Resolution, in any Bond Sale Resolution and in other proceedings related to the issuance of Bonds;

(iii) Meet other anticipated funding obligations of the System, giving due regard to the Projected Toll Rate Schedule provided to the Tolling Authority by WSDOT and the State Treasurer pursuant to Section 7.03(b) of this Master Resolution; and

(iv) Unless otherwise directed by the Legislature, to meet obligations to reimburse the Motor Vehicle Fund for Motor Vehicle Fuel Taxes applied to the payment of bonds issued for Eligible Toll Facilities. Unless otherwise directed by the Legislature or determined by agreement of the Treasurer Representative and the WSDOT Representative, each advance of Motor Vehicle Fuel Taxes for the payment of Triple Pledge Bonds shall be repaid in 36 monthly installments commencing in the sixth calendar month following the date such advance is made. Each installment shall be in an amount equal to one-thirty-sixth of the amount of the related advance; provided, however that the final installment shall be in an amount equal to the entire then-outstanding amount of such advance.

(d) The Tolling Authority shall include variable pricing in adopting Toll Rate Schedules and establishing Tolls, and Tolls shall be set to maintain travel time, speed, and reliability and to generate sufficient Toll Revenue to meet all requirements of (c), above. Tolls should be set to maintain and optimize System performance, recognizing the need to maintain a financially prudent balance between System performance and the generation of revenue required for the purposes specified in (c), above. Tolls may be adjusted to reflect inflation as measured by the consumer price index or as necessary to provide for the timely payment of debt service on

Bonds, to comply with other requirements of this Master Resolution and to provide for other eligible Project costs. Tolls may vary for type of vehicle, time of day, traffic conditions, or other factors designed to improve performance of the System.

(e) In fixing and adjusting toll rates, the only Toll Revenue to be taken into account shall be Toll Revenue pledged to Bonds that includes Toll receipts, and the only debt service requirements to be taken into account must be debt service on Bonds payable from and secured by Toll Revenue that includes Toll receipts.

(f) The Legislature has pledged in RCW 47.56.850 to appropriate Toll Revenue as necessary to carry out the purposes of that section. When the Legislature has specifically identified and designated an Eligible Toll Facility and authorized the issuance of Bonds for the financing of the Eligible Toll Facility that are payable from and secured by a pledge of Toll Revenue, the Legislature has further agreed for the benefit of the Bondholders of outstanding Bonds issued by the State for Eligible Toll Facilities to continue in effect and not to impair or withdraw the authorization of the Tolling Authority to fix and adjust tolls as provided in RCW 47.56.850. The Legislature has also provided for pledges relating to the setting of Tolls in RCW 47.10.887 and in RCW 47.56.870(3). The Committee pledges, to Bondholders, the State's obligation to impose and maintain tolls, together with the application of Toll Revenue as described herein and in the provisions of RCW 47.56.850, RCW 47.10.887 and RCW 47.56.870(3) in effect as of the date of this Master Resolution.

Section 7.02 Rate Covenant

(a) The Tolling Authority shall establish, and WSDOT shall charge and collect, Tolls for the privilege of traveling on the System of Eligible Toll Facilities at rates sufficient to meet the Operating and Maintenance Expenses and to produce in each Fiscal Year in which any Bonds are Outstanding Net Revenues that are in an amount at least equal to (i), (ii), (iii), (iv) and (v):

(i) 150% of the Annual Debt Service with respect to all Outstanding First Tier Bonds;

(ii) 135% of the Annual Debt Service with respect to all Outstanding First Tier Bonds and Second Tier Bonds;

(iii) 125% of the Annual Debt Service with respect to all Outstanding First Tier Bonds, Second Tier Bonds and Third Tier Bonds;

(iv) 110% of the Annual Debt Service with respect to all Outstanding Bonds; and

(v) 100% of the Annual Debt Service with respect to all Outstanding Bonds and all other deposits required by subsections (c), (e), (g) and (i) through (m) of Section 6.12 to the extent such deposits must be paid with Toll Revenue and have not been otherwise paid or provided for from Bond proceeds or other available funds.

(b) The Tolling Authority will at least annually prior to June 30 of each Fiscal Year review the financial condition of the System, the anticipated Operating and Maintenance

Expenses, Debt Service Requirements, various reserves and other costs of the System, and proceed in a timely fashion to review and adjust the Toll Rate Schedule as it determines is necessary to comply with subsection (a) above, provide sufficient Toll Revenue to fund amounts required to be deposited and maintained in the Toll Facilities Account and subaccounts therein, and comply with other relevant covenants in this Master Resolution.

(c) Prior to adopting any revision in its Toll Rate Schedule, the State, through the Tolling Authority, shall obtain: (A) a certificate of the Traffic Consultant stating, based upon reasonable assumptions and applying the revised Toll Rate Schedule, the projected Toll Revenue for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all then-Outstanding Bonds, (B) a certificate of the Consulting Engineer stating, based upon reasonable assumptions, the projected Operating and Maintenance Expenses for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds, and (C) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in (A) and (B) above, the adoption of the revised Toll Rate Schedule will not cause the State to fail to comply with its covenants in this Section 7.02.

Any certificate delivered by the Traffic Consultant pursuant to this Section 7.02(c) shall be based on the opinion of the Traffic Consultant as to Toll Revenue to be derived by the State from the ownership and operation of the System (provided that investment and other income not related to Tolls that constitute Toll Revenue of the System, shall be estimated by the WSDOT Representative), and a certificate of the WSDOT Representative stating the opinion of WSDOT as to the amount of Operating and Maintenance Expenses paid or accrued during any pertinent Fiscal Year, assuming that the proposed Toll Rate Schedule had been in effect during the pertinent Fiscal Year.

(d) The failure of the System in any Fiscal Year to produce Toll Revenue in the amounts sufficient to enable the State to comply with subsection (a) above, which failure may continue during the succeeding Fiscal Year, shall not, in and of itself, constitute an Event of Default under this Master Resolution if (1) WSDOT within 60 days after the end of the Fiscal Year requests the written recommendations of the Traffic Consultant as to how to increase Toll Revenue in the following Fiscal Year to the level required to comply with subsection (a) above, (2) within 60 days of the date of the request from WSDOT, the Traffic Consultant provides to WSDOT, the State Treasurer and the Tolling Authority the written recommendations described in clause (1), and (3) the Tolling Authority takes steps to implement those recommendations within 60 days after receipt thereof and diligently proceeds to substantially comply with the recommendations of the Traffic Consultant.

Section 7.03 Operating and Capital Budgets for the System

(a) The State covenants that it will for each Fiscal Year in each Biennium prepare and adopt a System Budget for Operating and Maintenance Expenses, for Annual Debt Service, for capital repairs and replacements, and for other costs of the System, and that the System Budget shall be prepared in consultation with WSDOT and shall provide for amounts sufficient to comply with the covenants in this Article VII. The Committee, as directed by the Legislature, pledges that the Legislature will appropriate Toll Revenue required under the System Budget.

(b) In conjunction with the preparation of each System Budget, the State, acting by and through WSDOT and the State Treasurer and in consultation with the Traffic Consultant, shall prepare and submit a Projected Toll Rate Schedule to the Tolling Authority for its review and consideration in setting and adjusting Tolls. The Projected Toll Rate Schedule shall include but not be limited to (1) an estimate of the Toll Revenue that will be required under the System Budget; (2) an estimate of the Toll Revenue that will be required under the long-term capital and operating finance plans for the System, including but not limited to projected increases in Toll Revenue that will be required as the result of estimated future changes in Operating and Maintenance Expenses and scheduled or anticipated future changes in Annual Debt Service requirements of the System; (3) a determination of the amount of a financially prudent working capital reserve that should be maintained for System operations; and (4) the related proposed schedule or schedules (which may include alternative schedules) of Toll rates that are projected to be necessary to produce Toll Revenue required for the System Budget, the long-term capital and operating finance plans for the System, and a financially prudent working capital reserve for System operations. Nothing in this Section 7.03(b) shall preclude more frequent submissions of Projected Toll Rate Schedules to the Tolling Authority.

Section 7.04 Operation and Maintenance of all Eligible Toll Facilities

The State covenants that (1) it will maintain and operate the System in an efficient and economical manner, (2) it will maintain the System in good repair and will make all necessary repairs, renewals and replacements, to the extent funds are available therefor; and (3) it will comply with laws and all rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the System, subject to the right of the State to contest the same in good faith and by appropriate legal proceedings.

Section 7.05 Construction and Completion of SR 520 Corridor Program and Other Projects

The State covenants that it will proceed with diligence to (1) construct and complete the SR 520 Corridor Program and any other Project financed with Bonds to the extent authorized by applicable law, and in conformity with law, with all requirements of governmental authorities having jurisdiction and the policies, rules and regulations of the State and (2) enforce any contracts relating to the construction of the SR 520 Corridor Program and any other Project financed with Bonds.

Section 7.06 Engagement of Consultants

The State covenants to employ a traffic and revenue consultant or firm of traffic and revenue consultants of national recognition with expertise and experience in the operation, management and financing of, and collection of revenues from, toll roads to perform any functions of the Traffic Consultant hereunder. The State further covenants to employ an independent engineer or engineering firm, in each case experienced in determining the costs of operations and maintenance and costs of repair and replacement of facilities similar to the Eligible Toll Facilities to perform any functions of the Consulting Engineer hereunder.

Section 7.07 Insurance

The State covenants that it will keep the System and its use and operation thereof insured (including through self-insurance pool insurance) at all times in such amounts, subject to such exceptions and deductibles and against such risks, as are customary for similar facilities, including business interruption insurance. All insurance policies shall be carried with a responsible insurance company or companies authorized to do business in the State or shall be provided under a self-insurance program; any self-insurance program shall be actuarially sound in the written opinion of an accredited actuary, which opinion shall be filed with WSDOT at least annually. At any time and from time to time, the State may elect to terminate self-insurance of a given type. Upon making such election, the State shall obtain and maintain comparable commercial insurance.

The State covenants that it will take actions as it deems necessary to demand, collect and sue for any proceeds that may become due and payable to it under any insurance policy. To the extent that the State receives insurance payments under a business interruption insurance policy, those amounts shall be deposited into the Toll Facilities Account. To the extent that the State receives liquidated damages for delayed completion under a construction contract relating to the acquisition or construction of a Project, those amounts shall be deposited into the Toll Facilities Account.

Section 7.08 Damage or Destruction

Immediately after any damage to or destruction of any part of the System that materially adversely affect the Toll Revenue, the State will promptly cause the repair, reconstruction or replacement of the damaged or destroyed property or to otherwise ameliorate the adverse impact on Toll Revenue; provided, however, nothing in this Section shall require the State to expend, for that repair, reconstruction or replacement, amounts other than Toll Revenue, insurance proceeds and Bond proceeds available therefor, and any other funds available for those purposes under this Master Resolution.

Section 7.09 Financial Records and Statements

The State covenants that it will maintain books and accounts reflecting the operations of the System separately from other accounts, in accordance with Accounting Principles. The books and records of the System may form a part of the books and records of the State but shall be maintained as separate accounts. The State shall maintain accurate records showing all collections of Tolls and Motor Vehicle Fuel Taxes levied pursuant to Chapters 82.36 and 82.38 RCW and all payments made into and out of the Toll Facilities Account and the Toll Facility Bond Retirement Account, and those records shall be made available for inspection at any reasonable time by the Holders of any of the Outstanding Bonds.

In addition, the State covenants that as soon as practicable, but in no event more than one hundred fifty (150) days after the last day of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2012, it will prepare or cause to be prepared a financial report of the results of operations of the System for that Fiscal Year (all or a portion of which may be part of the State's comprehensive annual financial report) in accordance with Accounting Principles, containing

independently audited financial statements and the independent auditor's report on the financial statements for the end of that Fiscal Year.

Section 7.10 Sale, Lease or Other Disposition of Property Comprising Eligible Toll Facilities

(a) The State covenants so long as any Bonds are Outstanding under this Master Resolution that it will not sell or otherwise dispose of any real estate or personal property comprising a portion of the System (a "disposition") unless:

(i) the WSDOT Representative determines, as evidenced by a certificate filed with the Tolling Authority, that such property (1) has become obsolete or worn out or is reasonably expected to become so within one year after the date of disposition, (2) is no longer used or useful in the operation of the System or in the generation of Toll Revenue or (3) is to be or has been replaced by other property; or

(ii) the WSDOT Representative determines, as evidenced by a certificate filed with the Tolling Authority, that the disposition will not materially adversely affect the Toll Revenue; or

(iii) there shall be on file with the Tolling Authority:

(1) a certificate of the Traffic Consultant stating, based upon reasonable assumptions, the projected Toll Revenue following the proposed disposition (taking into account changes in Toll Revenue, if any, expected as a result of the proposed disposition) for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds;

(2) a certificate of the Consulting Engineer stating, based upon reasonable assumptions, the estimated Operating and Maintenance Expenses following the proposed disposition (taking into account any changes in Operating and Maintenance Expenses, if any, expected as a result of the proposed disposition) for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds; and

(3) a certificate of the Treasurer Representative stating that, based upon the information contained in the certificates described in (1) and (2) above, the projected Net Revenues following the proposed disposition for the then-current Fiscal Year and each subsequent Fiscal Year through the last scheduled maturity of all Outstanding Bonds will be equal to or greater than (i) 200% of Annual Debt Service on First Tier Bonds, (ii) 150% of Annual Debt Service on First Tier Bonds and Second Tier Bonds, (iii) 130% of Annual Debt Service on First Tier Bonds, Second Tier Bonds and Third Tier Bonds, (iv) 110% of Annual Debt Service on First Tier Bonds, Second Tier Bonds, Third Tier Bonds and Fourth Tier

Bonds; and (v) 100% of the aggregate amount of the required payments described in subsections (b) through (m) of Section 6.12 in the applicable Fiscal Year.

The proceeds of the sale or disposition permitted by this Section 7.10 shall be deposited in the Toll Facilities Account.

(b) The State will not lease any real estate or personal property comprising a portion of the System unless the WSDOT Representative determines, as evidenced by a certificate filed with the Tolling Authority, that the lease will not materially adversely affect the Toll Revenue.

(c) Without intending to limit the foregoing, but subject to the requirements of Section 7.11, the State also may enter into contracts or other forms of agreement for the use of any real estate comprising a portion of the System including, but not limited to, rights-of-way for telephone, telegraph, optic fiber and other forms of communication, electric, gas transmission and other lines, towers, or facilities for utilities, and other uses that do not materially adversely affect the operation of the System and the payments received in connection with the same shall, to the extent permitted by law, constitute Toll Revenue. The State also covenants to ensure that all necessary real property filings will be made in connection with any lease or other agreement relating to the use of real estate comprising a portion of the System to protect the interest of the State in that property.

Section 7.11 Tax Covenants

The Committee on behalf of the State covenants that the State will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds sold and issued as Tax-Exempt Bonds and will take or require to be taken those acts as may be permitted by law and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Tax-Exempt Bonds. Without limiting the generality of the foregoing, the State will comply with Section 148 of the Code, will spend the proceeds of the Bonds with due diligence to completion of the purposes specified herein, will pay any required rebate or penalty (if permitted in lieu of loss of tax exemption) to the United States under Section 148(f) of the Code, and will not invest or make other use of the proceeds of the Tax-Exempt Bonds or of its other money or take any other intentional acts at any time during the term of the Tax-Exempt Bonds that will cause those Tax-Exempt Bonds to be arbitrage bonds within the meaning of Section 148(a) of the Code. The State Treasurer may establish accounts and/or subaccounts as the State Treasurer deems necessary to comply with this section.

The Committee on behalf of the State also covenants that the State will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of the State to receive from the United States Treasury the applicable Federal Credit Payments in respect of Tax-Advantaged Bonds, or the entitlement of the Beneficial Owners to receive tax credits in respect of Tax-Advantaged Bonds.

Article VIII
AMENDATORY AND SUPPLEMENTAL RESOLUTIONS

Section 8.01 General

This Master Resolution shall not be modified or amended in any respect while any Bonds are Outstanding, except as provided in and in accordance with and subject to the provisions of this Article VIII. Upon the execution and delivery of any supplemental resolution pursuant to the provisions of this Article, this Master Resolution shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Master Resolution of the State, the Bond Registrar and all Holders of Outstanding Bonds, shall thereafter be determined, exercised and enforced under this Master Resolution subject in all respects to such modifications and amendments.

Section 8.02 Amendments Without Consent of Holders

The Committee on behalf of the State, from time to time, and at any time, without the consent of or notice to the Bondholders of the Outstanding Bonds, may adopt supplemental or amendatory resolutions as follows:

(a) To cure any formal defect, omission, inconsistency or ambiguity in this Master Resolution in a manner not adverse to the Holder of any Outstanding Bond;

(b) To impose upon the Bond Registrar (with its consent) for the benefit of the Holders of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this Master Resolution as in effect immediately prior to the adoption of the proposed supplemental or amendatory resolution;

(c) To add to the covenants and agreements of, and limitations and restrictions upon, the State in this Master Resolution, other covenants, agreements, limitations and restrictions to be observed by the State which are not contrary or inconsistent with this Master Resolution as in effect immediately prior to the adoption of the proposed supplemental or amendatory resolution;

(d) To confirm, as further assurance, any pledge under, and the subjection to any claim, security or pledge created or to be created by this Master Resolution of any other money, securities or funds;

(e) To authorize different denominations of the Bonds and to make correlative amendments and modifications to this Master Resolution regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(f) To modify, alter, amend or supplement this Master Resolution as required to accommodate any addition of Additional Eligible Toll Facilities to the System that is otherwise permitted under this Master Resolution and which is not materially adverse to the Holders of the Outstanding Bonds;

(g) To modify, alter, amend or supplement this Master Resolution in any other respect which is not materially adverse to the Holders of the Outstanding Bonds and which does not involve a change described in Section 8.03;

(h) To maintain the exclusion from gross income of the interest on the Tax-Exempt Bonds from federal income taxation or to preserve Federal Credit Payments or tax credits with respect to Tax-Advantaged Bonds; and

(i) To add to the covenants and agreements of, and limitations and restrictions upon, the State in this Master Resolution, other covenants, agreements, limitations and restrictions to be observed by the State which are requested by a Credit Provider and which are not materially adverse to the Holders of the Outstanding Bonds.

Section 8.03 Amendments With Consent of Holders

(a) Except for any supplemental resolution entered into pursuant to Section 8.02, subject to the terms and provisions contained in this Section 8.03 and not otherwise, Holders of not less than 60% in aggregate principal amount of the Outstanding Bonds within each Tier shall have the right from time to time to consent to and approve the adoption by the State of any supplemental resolution deemed necessary or desirable by the State for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Master Resolution; except that, unless approved in writing by the Holders of all Outstanding Bonds, nothing contained in this section shall permit, or be construed as permitting:

(i) A change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Bond, or a reduction in the principal amount or redemption price of any Outstanding Bond or a change in the redemption price of any Outstanding Bond or a change in the method of determining the rate of interest thereon, or

(ii) A preference of priority of any Bond or Bonds over any other Bond or Bonds of the same Tier with respect to Toll Revenue, or

(iii) A reduction in the aggregate principal amount of Bonds, the consent of the Holders of Bonds of which is required for the supplemental resolution.

(b) The related Bond Sale Resolution may provide that a person other than the Registered Owner may, for purposes of this Section 8.03, have the right to consent on behalf of all or a portion of a Series of Bonds, including but not limited to providers of Credit Facilities for a Series of Bonds.

(c) If at any time the State shall notify the Bond Registrar in writing of its desire to enter into any supplemental or amendatory resolution for any of the purposes of this Section 8.03, the Bond Registrar shall, within 30 days of its receipt of such notice to that effect, cause notice of the proposed supplemental Master Resolution to be given by first class mail, postage prepaid, to all Registered Owners of the then-outstanding Bonds, to the Rating Agencies, if any, then maintaining a rating on any Bonds at the request of the State, and to any other persons designated to receive notice in a Bond Sale Resolution. The notice shall briefly set forth

the nature of the proposed supplemental or amendatory resolution, shall request the consent of each Holder and shall state that a copy of the proposed supplemental resolution is on file at the office of the Bond Registrar for inspection by all Holders of Outstanding Bonds.

(d) Within eight weeks after the date of the mailing of the notice, the State may adopt the supplemental resolution substantially in the form described in the notice, but only if there shall have first been or is simultaneously delivered to the Bond Registrar the required consents, in writing, of the Holders of at least the principal amount of Bonds required pursuant to this Section 8.03 or of another person pursuant to Section 8.03(b).

(e) If the Holders of not less than the percentage of Bonds required by this Section 8.03 shall have consented to and approved the execution and delivery thereof as provided herein, no Holder of any Bond shall have any right to object to the adoption of the supplemental resolution, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the State from entering into the same or from taking any action pursuant to the provisions thereof. Any written consent to a permitted amendment may be embodied in and evidenced by one or any number of concurrent written instruments of substantially similar tenor signed by Bondholders in person or by an agent duly appointed in writing, and that consent shall become effective when the instrument or instruments are delivered to the State or the Bond Registrar.

(f) Proof of the execution of any consent or of a writing appointing any agent shall be sufficient for any purpose and shall be conclusive in favor of the State if made in the following manner: the fact and date of the execution by any person of any consent or appointment may be proved by the affidavit of any witness of execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the person signing the consent or appointment acknowledged to him the execution thereof. The fact and date of execution of the consent or appointment may also be proved in any other manner that the State may deem sufficient; but the State may nevertheless, in its discretion, require further proof in cases where it deems further proof desirable. Any consent by the Holder of any Bond shall bind any future Registered Owners and Holders of the same Bond with respect to any supplemental resolution adopted by the State pursuant to that consent.

Section 8.04 Opinion Required.

Before the State shall adopt any supplemental resolution pursuant to this Article or simultaneously with that adoption, there shall be or have been delivered to the State an Opinion of Bond Counsel, stating that the supplemental resolution is authorized or permitted by this Master Resolution and will, upon the execution and delivery thereof, be valid and binding upon the State in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds or the receipt of Federal Credit Payments by the State or tax credits by the Beneficial Owners in respect of the Tax-Advantaged Bonds.

Section 8.05 Notice of Amendment.

The Bond Registrar shall notify the Bondholders and each Rating Agency then maintaining a rating on any Series of Bonds at the request of the State, if any, by mail of all amendments made to this Master Resolution whether or not the amendment required the consent of Bondholders.

Article IX
DEFAULTS AND REMEDIES

Section 9.01 Events of Default

The occurrence and continuation of the following events shall constitute "Events of Default" with respect to the Bonds:

(a) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable;

(b) If the State defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the State set forth in this Master Resolution or any covenants, conditions or agreements on the part of the State contained in any Bond Sale Resolution and such default or defaults have continued for a period of six months after the State has received from the Bond Owners' Trustee (as defined below) or from the Registered Owners of not less than 25% in principal amount of the Outstanding Bonds, a written notice specifying and demanding the cure of that default. However, (1) if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the State has taken active steps within the six months after written notice has been given to remedy the default and is diligently pursuing that remedy, and (2) as provided in Section 7.02(d), the failure of the System in any Fiscal Year to produce Toll Revenue in the amounts sufficient to enable the State to comply with Section 7.02(a), shall not, in and of itself, constitute an Event of Default under this Master Resolution if the State complies with the provisions set forth in Section 7.02(d); or

(c) The occurrence of a Bankruptcy Related Event.

Section 9.02 Bond Owners' Trustee.

So long as an Event of Default has not been remedied, a trustee (the "Bond Owners' Trustee") may be appointed by the Registered Owners of 25% in principal amount of the Outstanding Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by those Registered Owners of the Outstanding Bonds or by their attorneys-in-fact duly authorized and delivered to the Bond Owners' Trustee and notification thereof being given to the State. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of this Section 9.02 shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The bank or trust company acting as Bond Owners' Trustee may be removed at any time, and a successor

Bond Owners' Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Outstanding Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by those Registered Owners of the Outstanding Bonds or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require from Beneficial Owners (other than the TIFIA Bondholder) such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee is cured and the Bond Owners' Trustee furnishes to the State a certificate so stating, that Event of Default shall be conclusively deemed to be cured and the State, the Bond Owners' Trustee and the Registered Owners of the Outstanding Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

The Bond Owners' Trustee appointed in the manner herein provided, and each successor thereto, is declared to be a trustee for the Registered Owners of all the Outstanding Bonds and is empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.

Section 9.03 Suits at Law or in Equity

Upon the occurrence of an Event of Default and during the continuance thereof, the Bond Owners' Trustee may, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Outstanding Bonds shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the Registered Owners of the Outstanding Bonds, to collect any amounts due and owing to or from the State, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this Master Resolution or in any of the Outstanding Bonds.

Nothing contained in this Article IX shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Outstanding Bonds, and the remedy of acceleration is expressly denied to the Registered Owners of the Outstanding Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder shall be brought in its name as trustee for the Bond owners and all such rights of action upon or under any of the Outstanding Bonds or the provisions of this Master Resolution may be enforced by the Bond Owners' Trustee without the possession of any of those Outstanding Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all of the Registered Owners of those Outstanding Bonds, subject to the provisions of this Master Resolution. The respective Registered Owners of the Outstanding Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bond Owners' Trustee the true and lawful trustee of the respective Registered Owners of those Outstanding Bonds, with authority to institute any action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Outstanding Bonds; to execute any paper or

documents for the receipt of money; and to do all acts with respect thereto that the Registered Owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any Registered Owner of the Outstanding Bonds, any plan of reorganization or adjustment affecting the Outstanding Bonds or any right of any owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the State is a party.

Notwithstanding the foregoing, the Holder of any Bond may by mandamus or other appropriate proceeding require and compel performance of any duties imposed upon the Tolling Authority and WSDOT consistent with the provisions of RCW 47.10.887 in effect as of the date of this Master Resolution.

Section 9.04 Application of Money Collected by Bond Owners' Trustee

Any money collected by the Bond Owners' Trustee at any time pursuant to this Article shall be applied to the following purposes, within the limitations with respect thereto and only after payment has been brought current for every preceding purpose described in the following order of priority:

(a) first, to the payment of the charges, expenses, advances and compensation of the Bond Owners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys;

(b) second, to the payment to the persons entitled thereto of all installments of interest past due or coming due on the Outstanding First Tier Bonds in the following six months in the order of maturity of those installments within the First Tier Bonds and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference within the First Tier Bonds;

(c) third, to the payment to the persons entitled thereto of the unpaid principal amounts of any Outstanding First Tier Bonds which shall have become due or which will become due in the following six months (other than Outstanding Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference;

(d) fourth, to the payment to the persons entitled thereto of all installments of interest past due or coming due on the Outstanding Second Tier Bonds in the following six months in the order of maturity of those installments within the Second Tier Bonds and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference within the Second Tier Bonds;

(e) fifth, to the payment to the persons entitled thereto of the unpaid principal amounts of any Outstanding Second Tier Bonds which shall have become due or which will become due in the following six months (other than Outstanding Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference;

(f) sixth, to the payment to the persons entitled thereto of all installments of interest past due or coming due on the Outstanding Third Tier Bonds in the following six months in the order of maturity of those installments within the Third Tier Bonds and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference within the Third Tier Bonds;

(g) seventh, to the payment to the persons entitled thereto of the unpaid principal amounts of any Outstanding Third Tier Bonds which shall have become due or which will become due in the following six months (other than Outstanding Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference;

(h) eighth, to the payment to the persons entitled thereto of all installments of interest past due or coming due on the Outstanding Fourth Tier Bonds in the following six months in the order of maturity of those installments within the Fourth Tier Bonds and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference within the Fourth Tier Bonds;

(i) ninth, to the payment to the persons entitled thereto of the unpaid principal amounts of any Outstanding Fourth Tier Bonds which shall have become due or which will become due in the following six months (other than Outstanding Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference;

(j) tenth, to the payment of subordinate obligations payable from Toll Revenue coming due in the following six months;

(k) eleventh, for continued application to the purposes and in the priority described in (a) through (j) above.

Section 9.05 Duties and Obligations of Bond Owners' Trustee

The Bond Owners' Trustee shall not be liable except for the performance of the duties as are specifically set forth herein. During an Event of Default, the Bond Owners' Trustee shall exercise the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of this Master Resolution, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this Master Resolution.

The Bond Owners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bond Owners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bond Owners' Trustee shall not be bound to recognize any person as a Registered Owner of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

The Bond Owners' Trustee may consult with counsel and the opinion of that counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of that counsel. The Bond Owners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected-by it with reasonable care.

Section 9.06 Suits by Individual Bond Holders Restricted

(a) No Holder of any one or more of Outstanding Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

(i) an Event of Default has happened and is continuing;

(ii) a Bond Owners' Trustee has been appointed;

(iii) that Holder previously shall have given to the Bond Owners' Trustee written notice of the Event of Default on account of which that suit, action or proceeding is to be instituted;

(iv) the Registered Owners of 25% in principal amount of the Outstanding Bonds, after the occurrence of that Event of Default, has made written request of the Bond Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable opportunity to institute a suit, action or proceeding;

(v) there have been offered to the Bond Owners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(vi) the Bond Owners' Trustee has refused or neglected to comply with that request within a reasonable time.

(b) No Holder of any Outstanding Bond shall have any right in any manner whatever by his action to affect or impair the obligation of the State to pay from the Net Revenue the principal of and interest on that Outstanding Bond to the respective Registered Owners thereof when due.

Section 9.07 TIFIA Bond Default Remedy

Upon the occurrence of an Event of Default described in Section 9.01(c), any then-Outstanding TIFIA Bond will be deemed to be and will automatically become a First Tier Bond for all purposes of this Master Resolution, and the TIFIA Bondholder will be deemed to be the Holder of such First Tier Bond; provided, however, that the TIFIA Bond will not be secured by any First Tier Debt Service Reserve Subaccount. Notwithstanding the other provisions of this Section 9.07, (A) if on the date that the Event of Default described in Section 9.01(c) occurs, any amounts are on deposit in the First Tier Debt Service Subaccount, such amounts shall be used to pay amounts due or to become due on those First Tier Bonds Outstanding immediately prior to the occurrence of that Event of Default described in Section 9.01(c) and shall not be used to pay amounts due or to become due on the TIFIA Bond; and (B) if on the date that the Event of Default described in Section 9.01(c) occurs, any amounts are on deposit in the Fourth Tier Debt Service Subaccount that are allocable to the TIFIA Bond, such amounts shall be used to pay amounts due or to become due on the TIFIA Bond.

Section 9.08 Failure to Comply With Undertaking

Notwithstanding anything in this Article to the contrary, the failure of the State or any obligated person to comply with the Undertaking shall not constitute an Event of Default hereunder, and the sole remedy of any Holder of a Bond shall be to seek an order of specific performance from an appropriate court to compel the State to comply with the Undertaking.

Article X
REFUNDING OR DEFEASANCE OF BONDS

The State may issue refunding bonds pursuant to the laws of the State or use money from any other lawful source to pay the principal of and interest on the Bonds, or that portion thereof included in a refunding or defeasance plan, as the same become due and payable and to redeem and retire, release, refund or defease all such then-outstanding Bonds (the "defeased Bonds") and to pay the costs of the refunding or defeasance. If money and/or "Government Obligations" (as defined in Chapter 39.53 RCW, as now in existence or hereafter amended) maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient together with any money initially deposited, to provide for the payment of the principal of and interest on the defeased Bonds when due in accordance with their respective terms are set aside in a special fund (hereinafter

called the "trust account") to effect that payment, and are pledged irrevocably in accordance with a refunding plan adopted by the State for the purpose of effecting that payment, then no further payments need be made into the related Debt Service Subaccount in the Toll Facility Bond Retirement Account for the payment of principal of and interest on those defeased Bonds, the Registered Owners thereof shall cease to be entitled to any pledge, benefit or security of this Master Resolution, except the right to receive payment of the principal of and interest on those defeased Bonds when due in accordance with their respective terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and those defeased Bonds shall no longer be deemed to be outstanding hereunder. Registered Owners of defeased Bonds shall thereafter have the right to receive payment of the principal of and interest or redemption price of the defeased Bonds from the trust account.

If the refunding or defeasance plan provides that the Bonds to be refunded or defeased be secured by money and/or Government Obligations pending the prior redemption of the defeased Bonds and if the refunding plan also provides that certain money and/or Government Obligations are pledged irrevocably for the redemption of the defeased Bonds included in that refunding plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in the computation of Annual Debt Service.

Article XI
SALE OF THE BONDS

Section 11.01 Methods of Sale of Bonds

The Deputy State Treasurer is hereby authorized to determine, for each Series of Bonds, whether those Bonds will be sold competitively at public sale or whether that Series will be sold by means of a negotiated sale to one or more underwriters.

If the Deputy State Treasurer determines to sell Bonds at a public sale, [s]he shall: (1) establish the date of the public sale; (2) establish the criteria by which the successful bidder will be determined; (3) determine the amount, form and method of delivery of a good faith deposit to the State; (4) cause notice of the public sale to be given; and (5) provide for other matters pertaining to the public sale as [s]he deems necessary or desirable.

If the Deputy State Treasurer determines to sell Bonds by means of a negotiated sale, [s]he is authorized to solicit proposals for the selection of firms to serve as underwriters for those Bonds and to negotiate the terms of a bond purchase contract for the sale of those Bonds.

Section 11.02 Adoption of Bond Sale Resolutions

The State Treasurer is authorized, on behalf of the Committee, to adopt a Bond Sale Resolution to approve the sale of a Series of the Bonds within the aggregate total amount of Bonds authorized by this Master Resolution.

Provisions of the Bond Sale Resolution may include, without limitation, (1) provisions for the acceptance of offers to purchase the Bonds and provisions for the sale and delivery of the Bonds to the purchasers; (2) provisions for the date or dates, price or prices,

aggregate principal amount of the Series, principal amounts per maturity, delivery dates, and interest rate or rates (or mechanisms for determining the interest rate or rates); (3) redemption provisions; (4) provisions relating to any Debt Service Reserve Subaccount securing the Bonds and any applicable Debt Service Reserve Requirement; and (5) other terms and conditions required by or otherwise not inconsistent with the provisions of this Master Resolution.

Section 11.03 Elections to Treat Bonds as Tax-Advantaged Bonds

If the State Treasurer determines that it is beneficial to the State for a Series of Bonds to be sold and issued as Tax-Advantaged Bonds, the Bond Sale Resolution shall include those elections and other provisions as may be required under the Code for the State to designate that Series of Bonds as Tax-Advantaged Bonds and may authorize other actions as are necessary or appropriate for the State to receive from the United States Treasury the applicable Federal Credit Payments or for the holders to receive the applicable tax credit in respect of those Bonds.

Article XII
PRELIMINARY OFFICIAL STATEMENT UNDER THE RULE

To allow the Original Purchasers of the Bonds of each Series to comply with Section (b)(1) of the Rule, the Committee hereby authorizes the State Treasurer or Deputy State Treasurer to execute a certificate "deeming final," as of its date, the preliminary official statement to be prepared by the State in connection with the offering of each Series of Bonds. A preliminary official statement may be deemed final even though it omits information as to offering prices, interest rates, selling compensation, aggregate principal amounts, principal amount per maturity, maturity dates, options of redemption, delivery date, ratings and other terms of the Bonds that are dependent on those matters.

Article XIII
DELIVERY OF BONDS

The proper State officials are authorized and directed to execute all documents and to do everything necessary, without unreasonable delay after each Bond Sale Resolution is adopted, for (1) the preparation and delivery of transcripts of proceedings pertaining to the Series of Bonds sold thereunder, and (2) the preparation, authentication and delivery of Bonds, in definitive form, to the Original Purchasers thereof.

Article XIV
CONTINUING DISCLOSURE

The State shall undertake to provide for the benefit of Holders of each Series of Bonds disclosure of certain financial information and operating data of the type included in the final official statement for those Bonds, as well as disclosure of certain material events respecting those Bonds, in the manner and to the extent required by Section (b)(5) of the Rule. The particular terms of the Undertaking shall be set forth in the related Bond Sale Resolution.

Article XV
MISCELLANEOUS

Section 15.01 Contract; Severability

The covenants contained in this Master Resolution and in the Series of Bonds issued hereunder shall constitute a contract between the State and the Registered Owner of each Bond. If any one or more of the covenants or agreements provided in this Master Resolution, to be performed by the State, shall be declared by any court of competent jurisdiction after final appeal (if any appeal be taken) to be contrary to law, then the covenant or covenants, agreement or agreements, shall be null and void, shall be deemed separable from the remaining covenants and agreements in this Master Resolution and shall in no way affect the validity of the other provisions of this Master Resolution, the Bonds.

Section 15.02 Filing of Resolution.

The Deputy State Treasurer is directed to file with the State Treasurer, pursuant to RCW 39.42.100, a certified copy of this Master Resolution immediately upon its adoption.

Section 15.03 Ratification

All actions heretofore taken by officers or staff of the Committee consistent with the terms of this Master Resolution are ratified, approved and confirmed.

Section 15.04 Immediate Effect

This Master Resolution shall take effect immediately upon its adoption.

ADOPTED at an open meeting of the State Finance Committee after notice thereof was duly given as required by law, this 29th day of September, 2011.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By /s/
James L. McIntire
State Treasurer and Chair

By /s/
Christine Gregoire
Governor and Member

By _____
Brad Owen
Lieutenant Governor and Member

ATTEST:

_____
Ellen L. Evans, Deputy State Treasurer
and Secretary