
THE STATE OF WASHINGTON



Investor and Rating Agency Presentation
August 8, 2017



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I. June 2017 Economic and Revenue Forecast



June 2017 Forecast Overview

The June 2017 Washington Forecast reflects expectations for steady employment gains.

The Washington economy shows solid growth with employment rising in most sectors.

- Employment gains and lower unemployment claims indicate a strengthening labor market in Washington. After increasing by 3.1% in 2016, Washington employment is expected to again increase by 2.4% in 2017.
- Nominal personal income growth is expected to increase by 4.7% in 2017, averaging 5.1% annually from 2018 through 2021.

Downside risks outweigh upside risks. Risks to the baseline forecast include a slow global economy, weak productivity growth and international trade concerns.

General Fund-State revenue forecast for the

- 2015-17 Biennium has been increased by \$81 million to \$38.308 billion (\$39.041 billion including the Education Legacy Trust Account and Opportunity Pathways Account), 13.8% higher than the previous biennium, and
- The 2017-19 forecast has been increased by \$87 million to \$40.903 billion (\$41.677 billion including the Education Legacy Trust Account and Opportunity Pathways Account), a biennial growth rate of 6.8%.



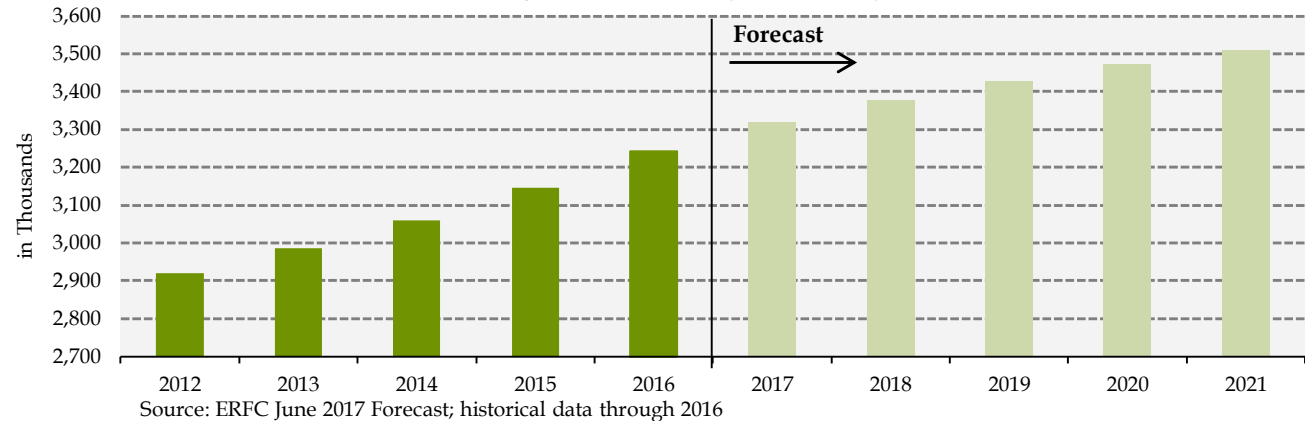
Employment and Income

The State's unemployment rate was 4.5% in May, down from 5.6% in May 2016.

The May Seattle area unemployment rate was 3.3%.

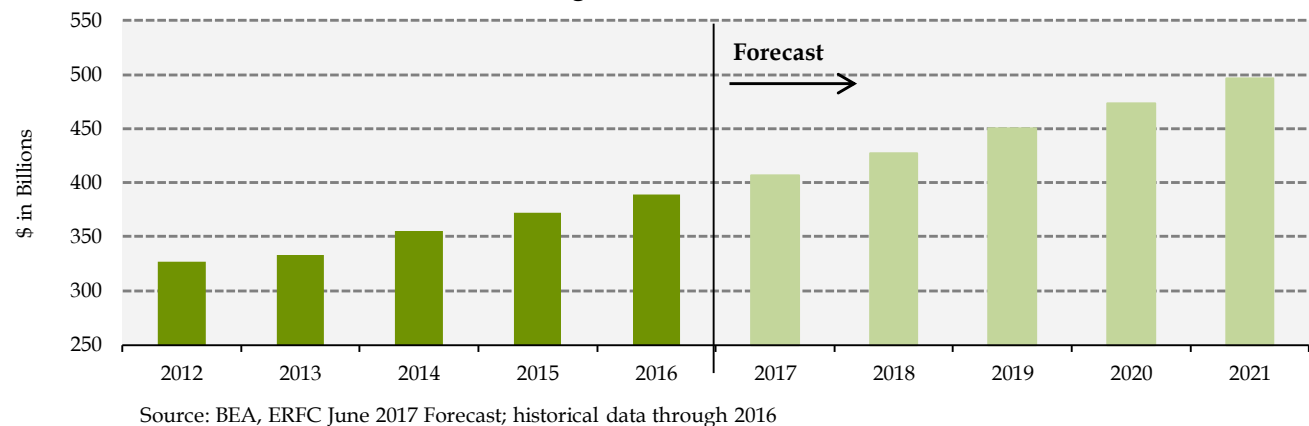
Adjusting for a data anomaly, Washington personal income grew by 4.2% in 2017Q1, equal to the national average. For all of 2017, 4.7% (SAAR) growth is expected.

Washington Nonfarm Payroll Employment



- Employment is expected to grow by 2.4% in 2017.

Washington Personal Income

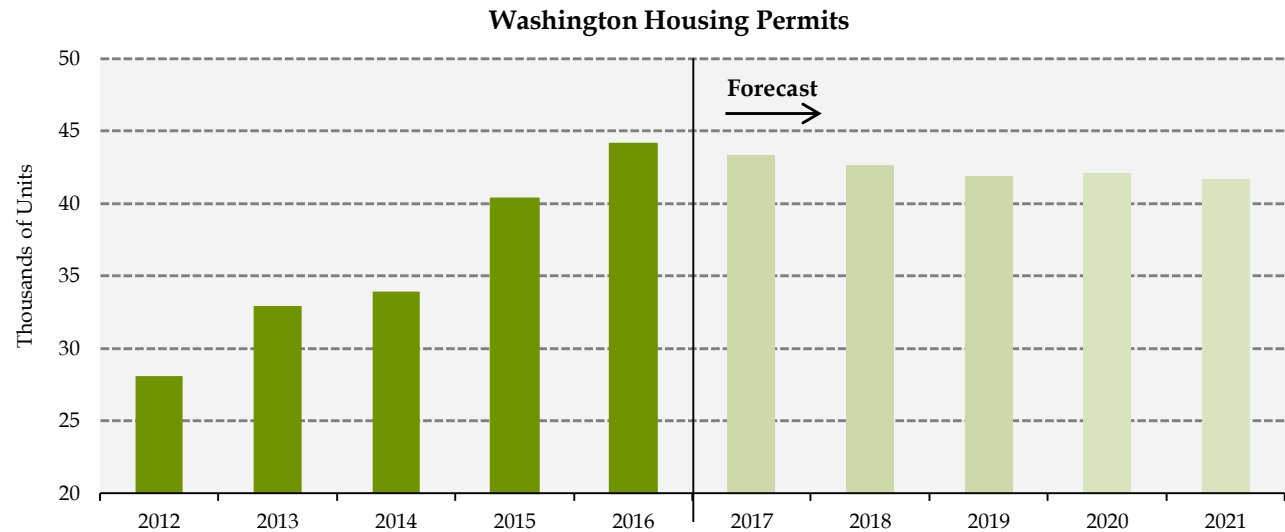




Housing Sector and Inflation

The April Case-Shiller home price index for Seattle is 12.9% higher than a year ago and 16.0% above the previous May 2007 peak.

- In April and May, 45,700 units (SAAR) were permitted; the June forecast had assumed 45,300 units for the entire third quarter. However, housing permits are expected to decline by 1.9% in 2017.



Source: Census, ERFC June 2017 Forecast; historical data through 2016

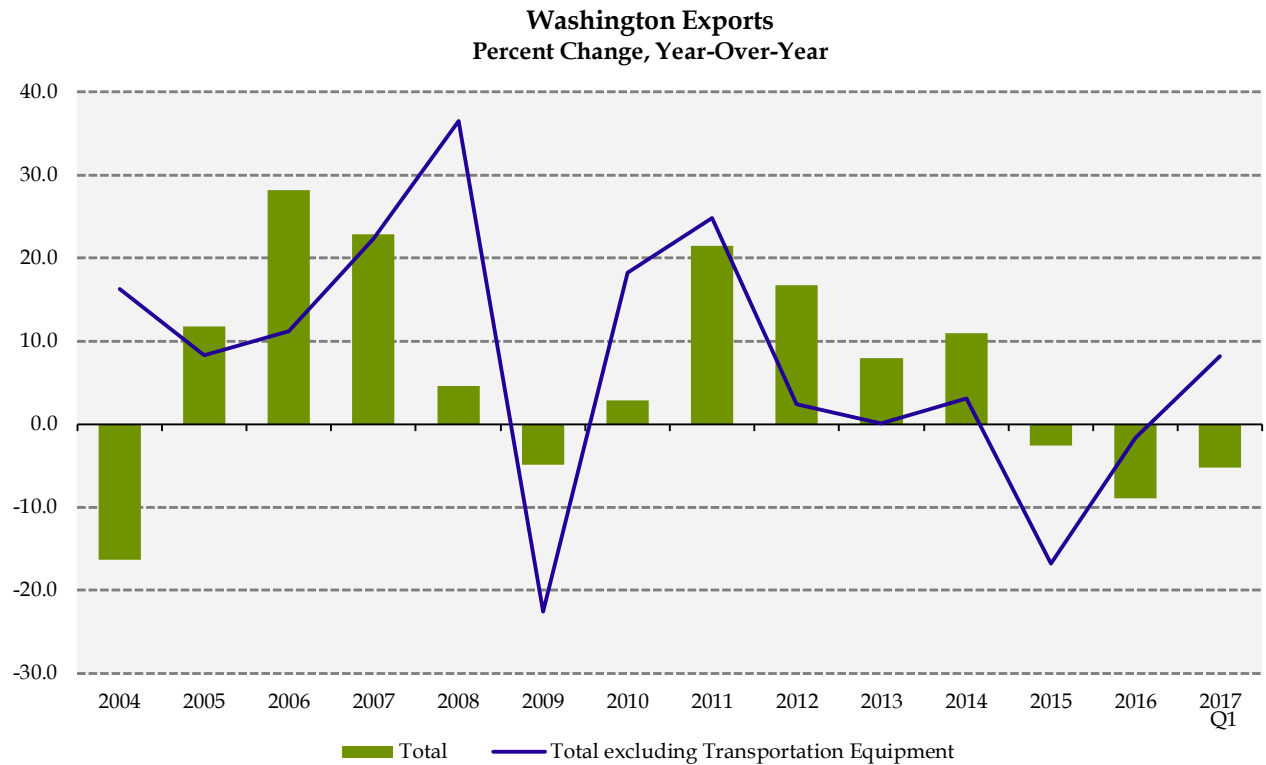
- In June, Seattle area consumer price inflation was reported at an annual rate of 3.0%, above the U.S. city average of 1.6%. Higher Seattle inflation is largely due to shelter costs, which increased by 6.3% over the year compared to 3.3% for the nation.



Washington Exports

Exports declined by 5.2% in the first quarter of 2017 compared to the same period last year, likely reflecting the impact of a stronger dollar and a slowing global economy.

- Transportation equipment exports (mostly Boeing planes) for the first quarter of 2017 decreased by 30.3% compared to the same period in 2016; all other exports increased by 8.2%.



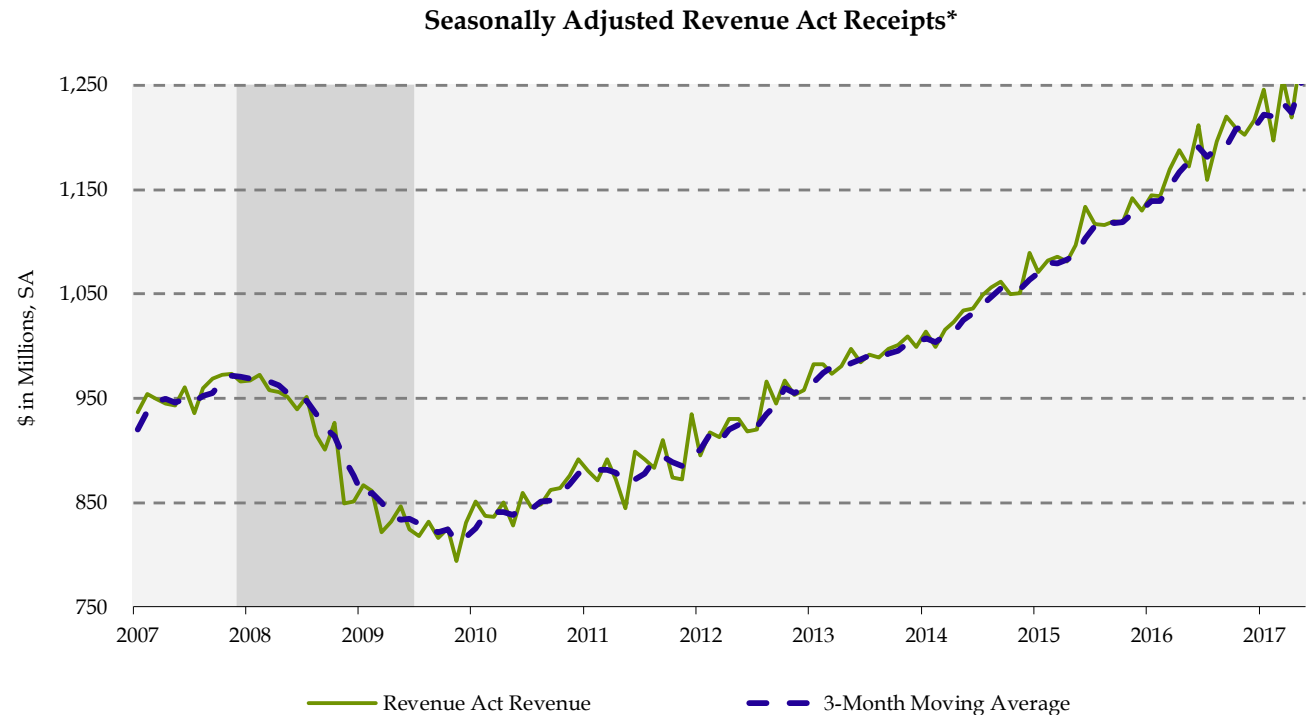
Source: WISER Trade Data; data through 2017 Q1



Revenue Collection Performance

Growth in seasonally adjusted Revenue Act collections was 7.0% in both the fourth quarter 2016 and the first quarter 2017 (preliminary).

- July payments from the motor vehicle and nonstore retail sectors were very strong.
- July Revenue Act collections increased by 4.5% Y-O-Y (preliminary).



*Current definition, adjusted for large payments/refunds and timing of payments
Source: DOR, ERFC; Monthly data through July 2017 collections (May economic activity)



Retail Sales Tax and B&O Receipts

Adjusted sales tax collections were up 6.3% Y-O-Y in 4th quarter 2016 and 6.6% in 1st quarter 2017 (preliminary).

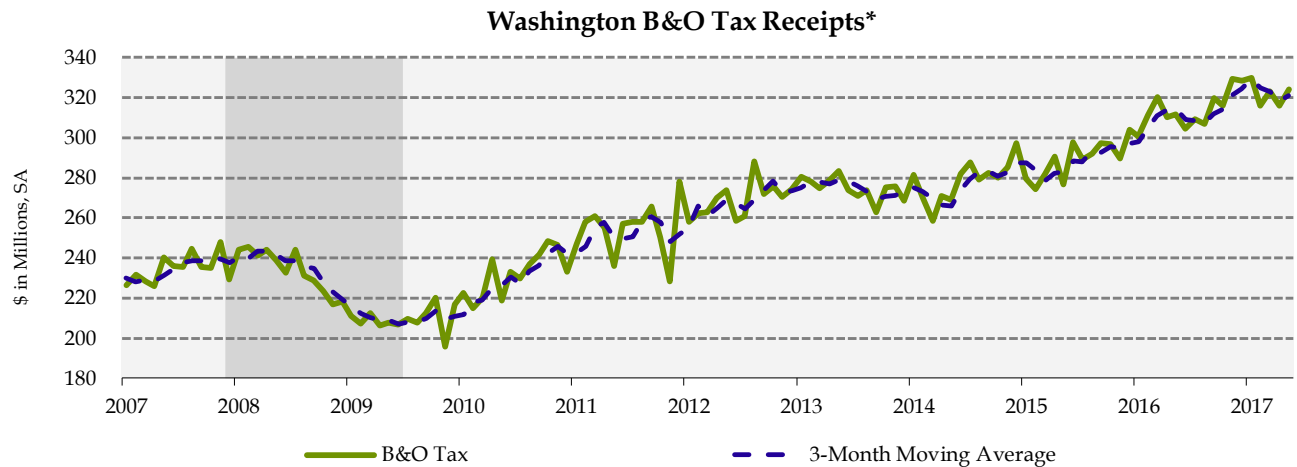
Sales tax growth has been boosted by construction activity and auto sales.

Adjusted B&O tax collections were up 6.4% Y-O-Y in 4th quarter 2016 and 3.5% in 1st quarter 2017 (preliminary).

B&O growth has been lifted by real estate, construction activity.



*Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change.
Source: ERFC; Monthly data through July 2017 collections



*Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds.
Source: ERFC; Monthly data through July 2017 collections



REET Activity and Property Taxes

Growth in State property tax is limited by law.

While large commercial property sales have caused spikes in taxable activity, underlying residential sales have shown strong growth due to rising prices.

Large commercial property sales are expected to decrease from recent elevated levels but remain strong.

- Growth in the amount of State property tax is limited to the lesser of 101%, or 100% plus inflation, with an additional amount associated with new construction.
 - Property taxes grew by 1.9% in FY17 to \$2.1 billion and are forecasted to grow by 2.6% in FY18.
- REET receipts grew by 13% in FY17, due mainly to a surge in large sales of commercial property. FY18 receipts are expected to slow but have been increased compared to the March forecast.

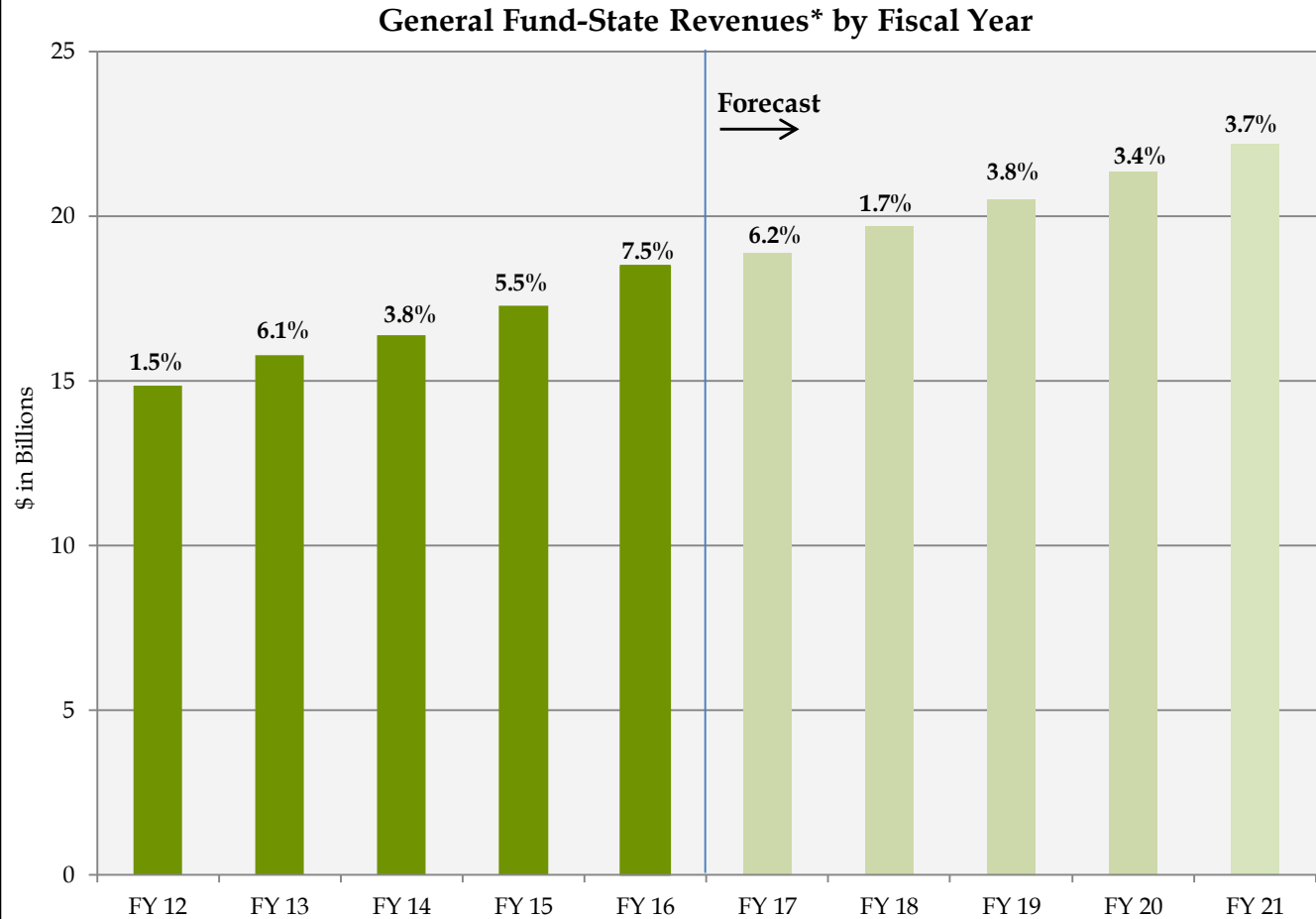


Source: ERFC; Monthly data through June 2017 collections



Forecasted Revenue

The June Forecast adds \$81 million to General Fund-State revenues in the 2015-17 Biennium and \$87 million to the 2017-19 biennium.



*General Fund-State new definition for FY 10-17
Source: ERFC June 2017 Forecast



II. Legislative and Financial Update



2017 Legislative Environment -- Context

As usual in odd-numbered years, the Legislative session was dominated by fiscal issues.

The 2017 session was the longest cumulative session in State history.

Ultimately, there was broad agreement on the operating budget (Senate: 39-10-0; House: 70-23-0).

The Legislature entered the 2017 session with an increase in forecasted revenue along with increased costs.

Significant fiscal and policy issues facing the Legislature in the 2017 session included

- implementation of the Supreme Court's McCleary decision (K-12 funding, particularly the state's share of basic education compensation),
- addressing behavioral health issues including court decisions involving both forensic and civil mental health services and federal oversight of Western State Hospital, and other fiscal/policy issues.

Forecasted revenue for the state General Fund, the Education Legacy Trust Account, and the Opportunity Pathways Account (NGF-P) increased from \$39.0 billion in 2015-17 to \$41.7 billion in 2017-19.

The cost of continuing current programs and meeting other statutory obligations increased by approximately \$3.2 billion compared to 2015-17.

About 60% of this increase is in K-12 (including funding for I-732 and K-3 class size reduction), about 20% in the Department of Social and Health Services, and about 10% in the Health Care Authority.



Operating Budget Overview

The 2017-19 Operating Budget leaves an unrestricted ending balance of \$925 million at the end of the 2017-19 biennium.

The 2017-19 Operating Budget provides \$43.7 billion Near General Fund-State and Opportunity Pathways (NGF-P) and \$87.3 billion in all funds. For NGF-P, this represents a net \$5.2 billion increase from 2015-17 spending levels.

Resources: The balance sheet associated with the budget includes:

- \$2.07 billion in new revenue, including:
 - \$456 million from extending economic nexus, repeal of the sales tax exemptions for bottled water, the self-produced fuel exemption, and streamlined sales tax payments
 - \$1.614 billion from increasing the state property tax rate to \$2.70 per thousand dollars of assessed value. (CY17: \$1.88)
- \$328 million in net fund transfers to the general fund.
- \$43 million in budget driven revenue.
- \$16 million revenue reductions from new tax preferences.
- To the extent that funds are deposited into the Budget Stabilization Account in 2017-19 as extraordinary revenue, those funds are transferred to the general fund. (This amount is expected to be approximately \$898 million.)



Operating Budget Overview

Expenditures: The Operating Budget provides \$2.1 billion in net new expenditures as follows:

Major Increases:

- \$1.8 billion for K-12 public school (\$7.3 billion four-year). This is an addition to the \$1.4 billion in increased maintenance level costs from continuation of basic education enhancements
- \$618 million for collective bargaining and related compensation costs (\$1.5 billion four-year)
- \$102 million for behavioral health and the investment plan (\$147 million four-year)
- \$75 million for higher education (\$143 million four-year)
- \$73 million for Long-Term Care and Development Disabilities (\$147 million four-year)

Major Savings:

- \$1.9 billion related to I-1351 savings (2019-21 only)
- \$463 million from the use of Budget Stabilization Account for pension related costs (\$925M four-year)
- \$292 million from the Hospital Safety Net (2019-21 only)



Near General Fund-State 2015-17 Budget Balance Sheet

Following the June 2017 Forecast, FY 2017 year-end balances are expected to exceed \$2.3 billion.

2015-17 Enacted Budget Balance Sheet General Fund-State, Education Legacy Trust, and Opportunity Pathways and Budget Stabilization Account (Dollars in Millions)	
RESOURCES	
Beginning Fund Balance	\$ 1,011
November 2016 Forecast	38,709
March 2017 Forecast	258
June 2017 Forecast	78
Current Revenue Totals	\$ 39,042
Prior Period Adjustments/Governor's Vetoes	\$ 68
Enacted Transfer to Budget Stabilization Account	(1,308)
Enacted Fund Transfers/Other Resource Adjustments	167
Total Resources (including beginning fund balance)	\$ 38,980
EXPENDITURES	
2015-17 Enacted Expenditures	\$ 38,488
Assumed Reversions	(227)
Total Expenditures	\$ 38,261
RESERVES	
Projected Ending Balance	\$ 719
Budget Stabilization Account Beginning Balance	513
Transfer from General Fund and Interest Earnings	1,125
Projected Budget Stabilization Account Ending Balance	\$ 1,638
Total Reserves (Near General Fund plus Budget Stabilization)	\$ 2,356



Near General Fund-State 2017-19 Budget Balance Sheet

FY 2019 year-end balances are expected to exceed \$2 billion.

2017-19 Enacted Budget Balance Sheet General Fund-State, Education Legacy Trust, and Opportunity Pathways and Budget Stabilization Account (Dollars in Millions)	
RESOURCES	
Beginning Fund Balance	\$ 719
November 2016 Forecast	41,284
March 2017 Forecast	313
June 2017 Forecast	80
Current Revenue Totals	\$ 41,677
Prior Period Adjustments/Governor's Vetoes	\$ 39
Enacted Transfer to Budget Stabilization Account	(430)
Enacted Fund Transfers/Other Resource Adjustments	2,415
Total Resources (including beginning fund balance)	\$ 44,417
EXPENDITURES	
2015-17 Enacted Expenditures	\$ 43,709
Assumed Reversions	(217)
Total Expenditures	\$ 43,492
RESERVES	
Projected Ending Balance	\$ 925
Budget Stabilization Account Beginning Balance	1,638
Transfer from General Fund and Interest Earnings	(480)
Projected Budget Stabilization Account Ending Balance	\$ 1,158
Total Reserves (Near General Fund plus Budget Stabilization)	\$ 2,083



K-12 McCleary Decision – 2013-15 Biennium

*Supreme Court,
2012: “The State is
not making ample
provision for the
basic education of
Washington’s K-12
public school
students...”*

In the 2013-15 Biennium, legislative budgets added over \$1 billion in state funding for K-12 schools. This was the first installment of a scheduled three-biennium effort to increase state funding for K-12.

In January, 2014 the Supreme Court acknowledged the “meaningful steps” taken in the 2013-15 budget, but ruled the state was not on target to meet full state funding requirements. The Supreme Court then ordered the Legislature to submit a complete plan to implement its school funding program, including “a phase-in schedule for funding each of the components of basic education.” The Legislature submitted its plan to the Supreme Court in April, 2014.

In September, 2014, the Supreme Court found the State in contempt for failing to submit a complete plan for fully implementing its program, but held sanctions or other remedial measures in abeyance to give the Legislature an opportunity to comply with the order during the 2015 session.



K-12 McCleary Decision -- 2015-17 Biennium

The enacted 2015-17 Biennium budget increases state funding for basic education by \$1.3 billion.

Another \$618 million in state funding is provided for K-12 compensation increases.

For the 2015-17 Biennium, every budget proposal included at least \$1.2 billion in funding to continue implementing prior legislative commitments (SHB 2776):

- Full funding of pupil transportation costs (completed);
- Full funding of maintenance, supplies and operating costs (complete in 2015-17 biennium);
- Full funding of all-day kindergarten (complete in 2015-17, one year earlier than planned); and
- Phased-in funding to reduce K-3 class sizes (on schedule; final phase-in step in 2017-19 biennium).

The final budget included state-funded K-12 salary increases:

- 3.0% increase for 2015-16 school year; and
- 1.8% increase for 2016-17 school year.

But, the Legislature did not reach consensus on a plan to address the Supreme Court ruling that the State is overly reliant on local district levy funding for employee compensation costs that exceed the state's current basic education formulas.



K-12 McCleary Decision -- 2015-17 Biennium -- Continued

On August 13, 2015, the Supreme Court issued an order pursuant to its previous finding that held the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018.

In its order, the Supreme Court fined the State \$100,000 per day – paid into a segregated account for basic education – until the Legislature adopts a complete plan to achieve compliance.

The order recognized that the 2015-17 Biennial Budget made significant progress in paying for pupil transportation, establishing all-day kindergarten, and reaching other per-student spending goals.

But, the order also says the State is not on course to meet its class-size reduction goals by 2018, did not show how it will pay for facilities needed for all-day kindergarten and smaller class sizes, or how to pay for the cost of recruiting and retaining competent teachers, administrators and staff needed to deliver a quality education.



K-12 McCleary Decision -- 2017-19 Biennium

The 2017-19 Operating Budget and supportive legislation implements the Supreme Court's McCleary decision.

The 2017-19 biennial operating budget provides \$1.8 billion in additional spending for public schools. Over the 2017-19 and 2019-21 biennia, the projected total increase in K-12 spending is \$7.3 billion. Of this 4-year total, approximately \$6 billion is compensation related with most of the remainder funding enhancements to the categorical programs and funding other K-12 budget items.

Brief Summary of K12 Basic Education Program Allocations and Additional Support Provided in the 2017-19 Biennial Budget
(NGF-S+OpPath - dollars in thousands)

Program	Funding Change	FY 2018	FY 2019	FY 2020	FY 2021	4-Year Total
K-12 Salary allocations	Increase minimum salary allocations to: CIS - \$64,000; CLS - \$45,912; Admin - \$95,000. Each staff type is further localized and adjusted for inflation. One-time COLA restored in for SY 2017-18	93,071	1,002,042	1,995,360	2,201,250	5,291,723
Professional Learning Days	Implement 3 professional learning days, phased in over three years, beginning with SY 2018-19	-	26,378	66,013	106,335	198,726
Health Benefit Allocation	Transition all school employees to a SEBB by SY 2019-20. State-funded benefit rate aligned with state PEBB rate	39,858	70,498	164,040	187,612	462,008
Subtotal: Compensation Related Allocations		132,929	1,098,918	2,225,413	2,495,197	5,952,457
Subtotal: Categorical and Other Programmatic Increases		227,403	348,484	374,955	410,146	1,360,988
Total		360,332	1,447,402	2,600,368	2,905,343	7,313,445



III. Transportation

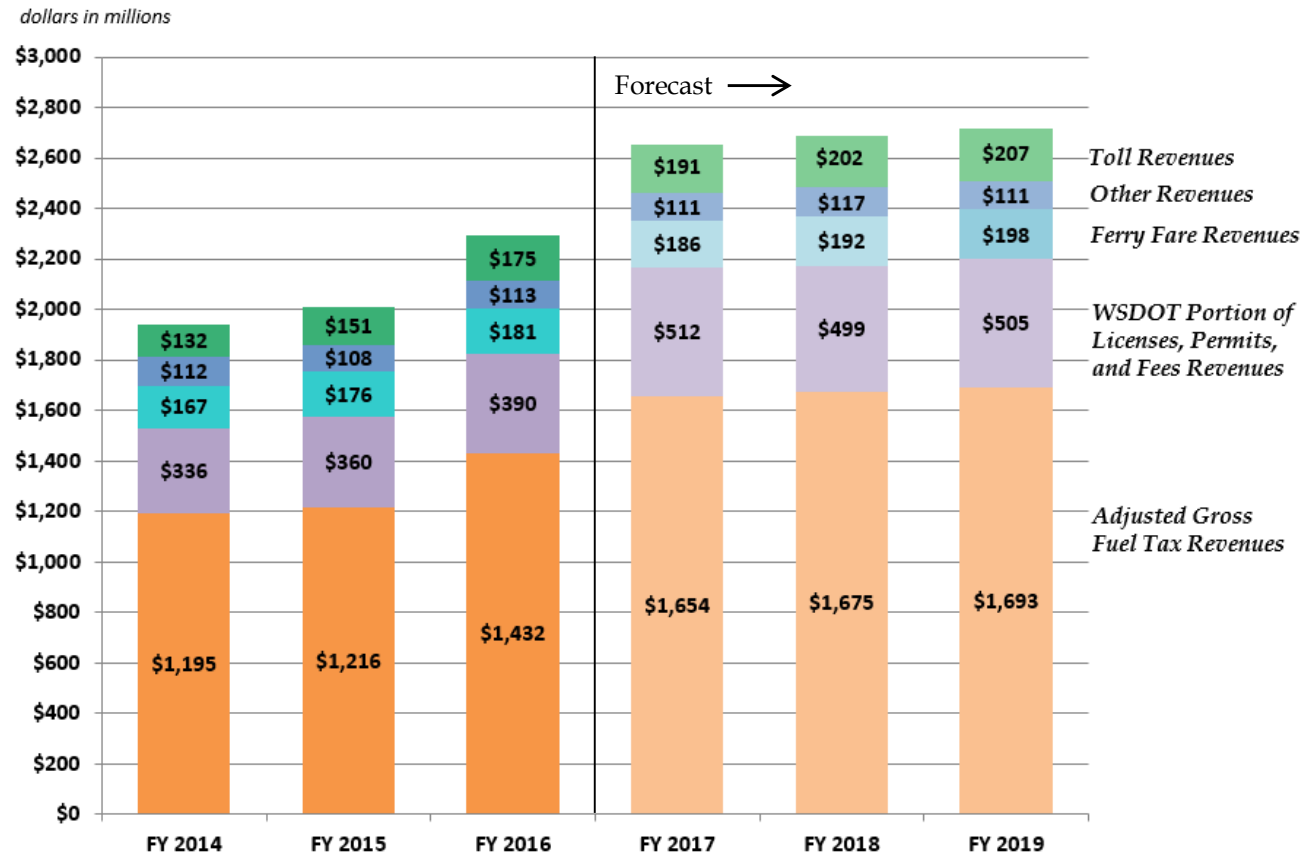


Transportation Revenues

The June forecast projects gross transportation revenue for the 2015-17 Biennium will total \$5.8 billion, a 24 percent increase from 2013-15.

2017-19 total transportation revenues are forecast to increase to \$6.3 billion.

State Collected Transportation Revenues*
Fiscal Years 2014 through 2019



*Actual and Projections as of June 2017 Forecast. State Collected Transportation Revenues include WSDOT accounts only and do not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.



Enacted Transportation Budgets

The Legislature passed the 2017-19 transportation budget in April 2017.

The enacted 2017-19 combined transportation budget provides:

	<u>2017-19</u>	<u>2015-17</u>
Operating Budget	\$1.9 billion	\$1.6 billion
Capital Budget	\$3.8 billion	\$3.8 billion
Total Appropriation	\$5.7 billion	\$5.4 billion

WSDOT construction projects in 2017-19 include work on:

- The Alaskan Way Viaduct Replacement;
- The Tacoma/Pierce County HOV Program;
- I-90/Snoqualmie Pass East; and
- US 395/NSC BNSF Railway Structures/Realignment.



Connecting Washington

Connecting Washington includes a \$5.3 billion GO bond authorization, payable from MVFT and vehicle-related license fees. Issuance is expected to begin in 2017-19.

Washington has the 2nd highest gas tax in the nation. As of January 1, 2017, state MVFT taxes are 49.4¢ per gallon.

Higher transportation revenues include higher fuel taxes and license fees approved as part of the Connecting Washington transportation package:

- 7¢ fuel tax increase effective August 1, 2015;
- Additional 4.9¢ fuel tax increase effective July 1, 2016; and
- License fees by weight for trucks and cars increase effective July 1, 2016.

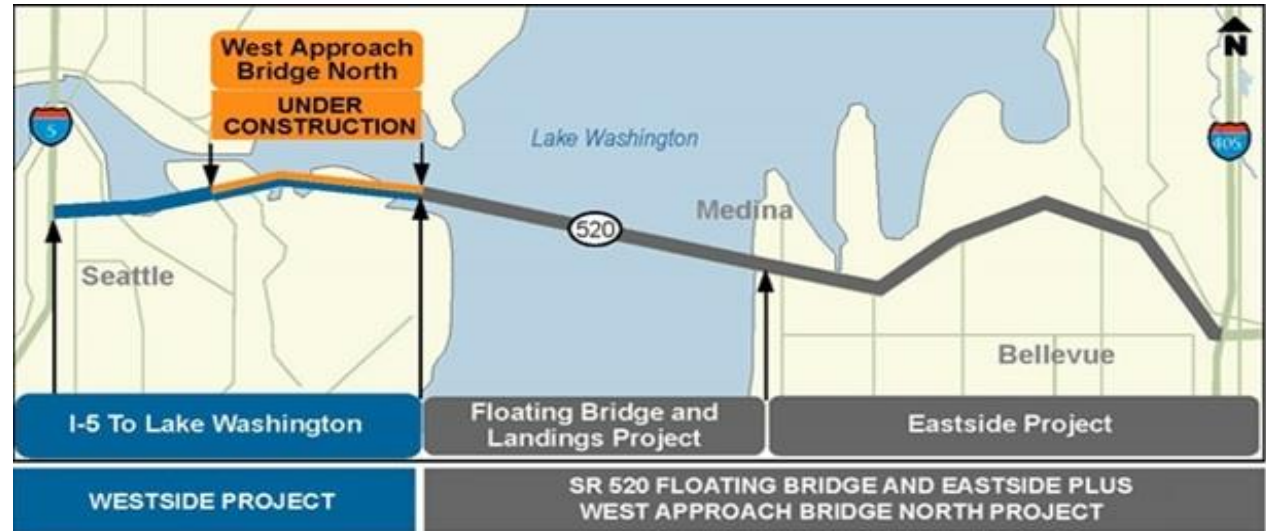
Connecting Washington capital projects include:

- SR 167/SR 509 Puget Sound Gateway (\$1.9 billion);
- SR 520 Westside Project (\$1.6 billion);
- I-405 Renton to Lynnwood (\$1.2 billion);
- Highway system preservation (\$1.2 billion);
- US 395 North Spokane Corridor (\$0.9 billion); and
- 127 other projects (\$5 billion).



SR 520 Corridor Program

The cost of the SR 520 Floating Bridge and Eastside plus West Approach Bridge North Project and the Westside Project is estimated to be \$4.562 billion.



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 corridor is one of two major east-west roadways crossing Lake Washington and includes two major bridges: a floating bridge which is 1.42 miles long (the longest floating bridge in the world), and the Portage Bay (elevated) bridge.

The SR 520 Corridor Program includes two major projects:

- The SR 520 Floating Bridge and Eastside plus West Approach Bridge North Project is nearing completion.
- The Westside Project, also known as the “Rest of the West”, has been funded by the Legislature as part of the Connecting Washington transportation package.



SR 520 Corridor Project: Actual Traffic and Revenue vs. Projections

SR 520 gross and net toll revenues are on target.

Traffic and Toll Revenue*	Forecast	Actual	Variance
Toll Transactions			
FY 2015	21,882,000	22,019,770	+ 0.6%
FY 2016	22,886,000	23,217,000	+ 1.4%
FY 2017 through May	22,021,000	21,815,799	- 0.9%
Gross Toll Revenues			
FY 2015	68,995,000	69,383,209	+ 0.6%
FY 2016	74,492,000	74,801,674	+ 0.4%
FY 2017 through May	74,942,000	74,763,923	- 0.2%
Net Toll Revenues			
FY 2015	55,115,000	54,907,229	- 0.4%
FY 2016	55,901,000	58,773,457	+ 5.1%
FY 2017 through May	52,881,000	54,349,206	+ 2.8%

*FY 2015 data is compared to the November 2014 forecast, FY 2016 data is compared to the November 2015 forecast, and FY 2017 data is compared to the November 2016 forecast.



Alaskan Way Viaduct Updates

On April 4th, Bertha broke through the surface of the AWW tunnel, marking the end of the 9,270 foot journey beneath the city of Seattle.

Alaskan Way Viaduct Replacement Program:

- The structure is being replaced with a two-mile-long bored tunnel beneath downtown Seattle, highway connections to the tunnel, an overpass at the south end of downtown, and a new surface street along the waterfront.
- Due to a two-year delay in tunnel boring, the cost to complete the program is now estimated to be up to \$3.30 billion. The responsibility for additional costs and delays associated with this work is currently the subject of litigation.
- Based on the contractor's latest schedule, the tunnel is expected to open in early 2019.



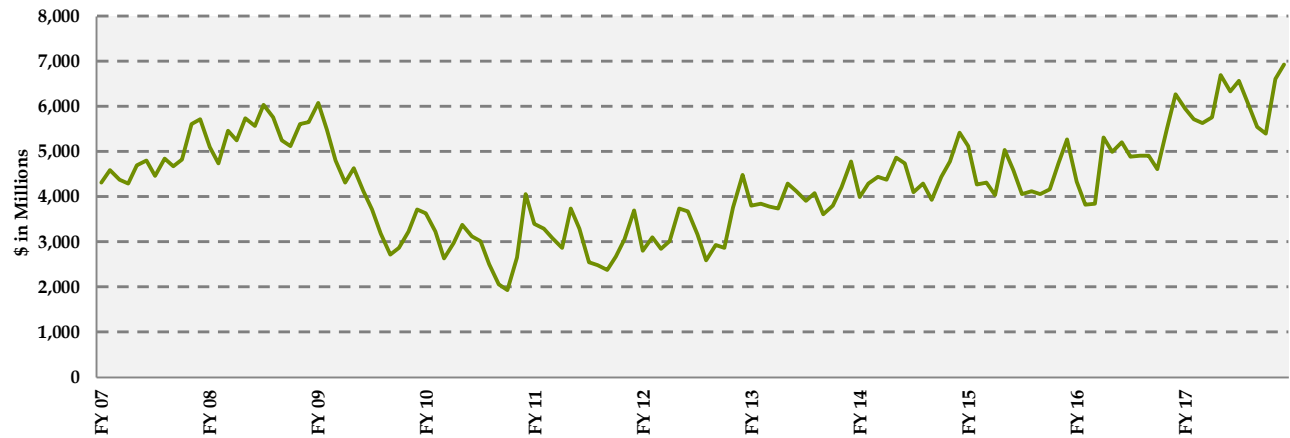
IV. Investments and Fund Balances



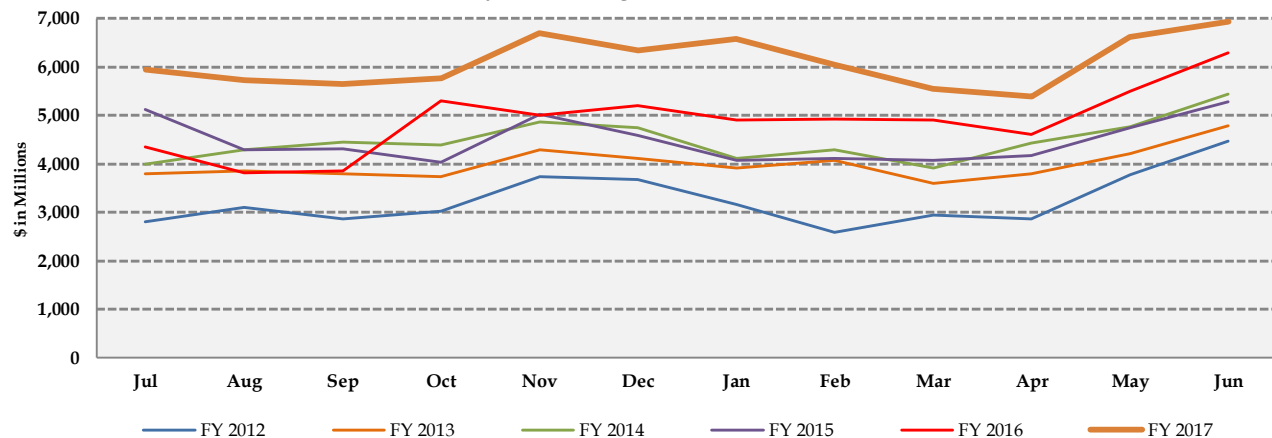
Treasury/Trust Fund Balances

The State has strong cash management policies and sound liquidity.

Treasury/Trust Month Ending Balances
July 2006 through June 2017



Treasury/Trust Month Ending Balances
July 2011 through June 2017





Investment Practices are Conservative

The State maintains conservative investment practices and policies.

Average Daily Balances by Security Class

Treasury and Treasurer's Trust Funds	July 2017		Aug 2016 - Jul 2017	
	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	1,699,609	27.2	2,148,923	36.1
Supranational Agency	423,846	6.8	265,025	4.5
U.S. Treasury	1,405,099	22.5	1,050,229	17.7
Corporate Notes	51,752	0.8	14,199	0.2
Repurchase Agreements	-	-	-	-
Bank Deposits	742	0.0	3,436	0.1
LGIP Deposit	2,499,977	40.0	2,304,783	38.7
Certificates of Deposit	169,937	2.7	163,232	2.7
	6,250,962	100	5,949,827	100

Weighted Average Maturity: 477 days

LGIP	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	6,343,796	46.4	5,343,321	41.1
Supranational Agency	420,148	3.1	232,373	1.8
U.S. Treasury	2,387,823	17.5	2,691,475	20.7
Repurchase Agreements	3,334,839	24.4	3,584,806	27.6
Interest Bearing Bank Accounts	1,120,902	8.2	1,067,497	8.2
Certificates of Deposit	74,896	0.5	78,443	0.6
	13,682,404	100	12,997,915	100

Weighted Average Maturity: 38 days

Source: Office of the State Treasurer



V. Debt Issuance Plans



Forward Calendar

The Office of the State Treasurer plans for sales of general obligation bonds. Refundings will be executed as market conditions permit.

Projected Debt Issuance		
September 12, 2017		
	COP State and Local	\$24,770,000
September 26, 2017		
	Various Purpose GO	\$359,660,000
	MVFT GO	101,235,000
	Various Purpose GO (Taxable)	36,720,000
	Various Purpose GO Refunding	27,805,000
	MVFT GO Refunding	29,870,000
	Total:	\$555,290,000
January/February 2018		
	Various Purpose GO	TBD
	MVFT GO	\$70,000,000

Estimates as of August 1, 2017

Source: Office of the State Treasurer