OFFICIAL STATEMENT DATED APRIL 23, 2002

Moody's Rating: Aaa (underlying Aa2)
(See "Other Certificate Information—Rating.")

NEW ISSUE, BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Certificate Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions and assuming, among other matters, compliance with certain covenants, interest represented by the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Certificate Counsel, interest represented by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Certificate Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Certificate Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of the interest represented by, the Certificates. See "Tax Matters" herein.

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION
$1,295,000
LOCAL AGENCY REAL PROPERTY, SERIES 2002B

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

Dated: May 1, 2002 **Due: January 1 and July 1, as shown on page i hereof**

The Certificates of Participation Local Agency Real Property, Series 2002B (the "Certificates") will be executed and delivered in fully registered form and, when executed and delivered, will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of $5,000 and any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates purchased, except as described herein.

Interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning on January 1, 2003. Principal and interest evidenced and represented by the Certificates is payable directly to DTC by The Bank of New York, as Fiscal Agent for the Certificates (the "Fiscal Agent"). Upon receipt of payments of principal and interest represented by the Certificates, DTC in turn is obligated to remit such payments to the DTC Participants (as described herein) for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates.

The Certificates are not subject to optional prepayment prior to their respective Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment and mandatory sinking fund prepayment. See "The Certificates—Prepayment."

The Certificates are being executed and delivered to finance and refinance the costs of acquisition/or and construction of certain real property and/or improvements for the benefit of certain Local Agencies and to fund issuance costs with respect to the Certificates. The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "WFOA"), a Washington non-profit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the state under a Master Financing Contract between the WFOA and the state.

Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Contract are payable from Agency Rent Payments to be made pursuant to the Local Agency Financing Contracts, each between the state and the Local Agency. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the State Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Rent Payment, the State Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency.

THE MASTER FINANCING CONTRACT CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NEITHER THE BASE RENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF ANY BASE RENT PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT. PAYMENTS BY THE STATE TREASURER OF ANY AGENCY RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. AN ELECTION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT OR THE MASTER FINANCING CONTRACT.

Payment of the principal of and interest on the Certificates when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Certificates.

MBIA

This cover page contains certain information for quick reference only, and 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 Certificates are offered when, as and if executed and delivered, and are subject to receipt of the legal opinion of Orrick, Herrington & Sutcliffe, LLP, Seattle, Washington, Certificate Counsel to the state, and certain other conditions. Certain legal matters will be passed upon for the Local Agencies by their respective counsel. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about May 9, 2002.

No dealer, broker, sales representative, or other person has been authorized to give any information or make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the state. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from sources which are believed to be current and reliable but is not guaranteed as to its accuracy or completeness. Estimates, forecasts, projections, and expressions of opinion included herein should not be interpreted as statements of fact. The statements and information herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the securities offered hereby shall under any circumstances create an implication that there has been no change in the affairs of the state of Washington, or any other party described herein, since the date hereof. Neither this Official Statement nor any statement made herein is to be construed as a contract with the purchasers of any of the Certificates.

STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION

$1,295,000

LOCAL AGENCY REAL PROPERTY, SERIES 2002B

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

CERTIFICATE PAYMENT SCHEDULE

Payment Date (July 1)	Principal Component*	Interest Rate	Yield	Price
2003	$ 105,000	3.000%	2.00%	$101.124
2004	115,000	3.000	2.70	100.618
2005	120,000	3.125	3.10	100.071
2006	120,000	3.250	3.35	99.613
2007	125,000	3.625	3.65	99.880
2008	130,000	3.750	3.87	99.345
2009	135,000	4.000	4.05	99.688
2010	140,000	4.125	4.20	99.482
2011	150,000	4.250	4.30	99.620
2012	155,000	4.300	4.40	99.183
Total	$ 1,295,000			

* All Certificates are subject to mandatory sinking fund prepayment as described herein under "The Certificates—Prepayment—Mandatory Prepayment."

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STATE FINANCE COMMITTEE
of the
STATE OF WASHINGTON

Michael J. Murphy ..... State Treasurer and Chairman
Gary Locke ..... Governor and Member
Brad Owen..... Lieutenant Governor and Member

Allan J. Martin.....Deputy State Treasurer

Christine Gregoire .....Attorney General

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This publication will be available in alternative formats upon request to the Office of the State Treasurer. This publication is available in PDF format via the Internet at the Office of the State Treasurer's Home Page:

http://www.wa.gov/tre

The availability of this publication via the Internet shall 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.

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Information set forth in this summary is qualified by the entire Official Statement.
A full review of the entire Official Statement should be made by potential investors.

SUMMARY DESCRIPTION OF THE CERTIFICATES

Certificates:	The State of Washington Certificates of Participation Local Agency Real Property, Series 2002B (the "Certificates") represent undivided proportionate interests in Base Rent Payments to be made by the state pursuant to the Master Financing Contract between the Washington Finance Officers Association (the "WFOA"), which is a Washington nonprofit corporation, and the State of Washington (the "state"). The Certificates are dated May 1, 2002.
Interest Payments:	Interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2003.
Principal Payments:	Principal evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2003, through and including July 1, 2012.
Optional and Mandatory Prepayment:	The Certificates are not subject to optional prepayment prior to their respective Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment and mandatory sinking fund prepayment prior to their respective Principal Payment Dates. See "The Certificates—Prepayment."
Form of Certificates:	The Certificates will be executed and delivered in fully registered, book-entry only form in denominations of $5,000 or any integral multiple thereof.
Fiscal Agent:	The Bank of New York will act as Fiscal Agent for the Certificates (the "Fiscal Agent"). Payments of principal and interest represented by the Certificates will be paid to the Fiscal Agent which in turn will be obligated to remit such payments to DTC. DTC will be obligated to remit payments to its Participants, who in turn will be obligated to remit such payments to the beneficial owners in accordance with the operational arrangements then in effect at DTC.
Security:	Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Contract are payable from Agency Rent Payments to be made pursuant to the Local Agency Financing Contracts, each between the state and the Local Agency. Payment of the Agency Rent Payments of each Local Agency are secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the State Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Rent Payment, the State Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency.

THE MASTER FINANCING CONTRACT CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NEITHER THE BASE RENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF ANY BASE RENT PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT. PAYMENTS BY THE STATE TREASURER OF ANY AGENCY RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. AN ELECTION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT OR THE MASTER FINANCING CONTRACT.

The WFOA has assigned and transferred to the Fiscal Agent all of its right, title and interest in, to and under the Master Financing Contract, the Local Agency Financing Contracts and the Site Leases pursuant to a Master Assignment between the WFOA and the Fiscal Agent.

Purpose: The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition and/or construction of certain real property and improvements for the benefit of certain Local Agencies and to fund issuance costs with respect to the Certificates. See "The Property" and "Sources and Uses of Funds."

Legal Opinion: The Certificates are offered when, as and if executed and delivered, subject to the approving legal opinion of legality by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of such opinion is set forth in Appendix C.

Certificate Ratings: The Certificates have been rated "Aa2" by Moody's Investors Service. See "Other Certificate Information—Rating."

Continuing Disclosure: The state has entered into an undertaking for the benefit of the owners of the Certificates to provide certain financial information and operating data to certain information repositories annually and to provide notice to each of those repositories or to the Municipal Securities Rulemaking Board and to a state information depository for the state, if one is created, of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "Continuing Disclosure Undertaking."

OFFICIAL STATEMENT

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION
$1,295,000
LOCAL AGENCY REAL PROPERTY, SERIES 2002B

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

INTRODUCTION

This Official Statement, including the cover hereof and the appendices hereto, was prepared to provide certain information relating to the sale and delivery by the state of Washington (the "state") of the above-captioned Certificates of Participation (collectively, the "Certificates"). Capitalized terms used herein, if not specifically defined, are used as defined in Appendix I to the Trust Agreement, referred to below.

The proceeds of the Certificates will be used to finance and/or refinance the costs of acquisition and/or construction of certain real property and improvements (collectively, the "Projects") for the benefit of certain Local Agencies and to fund issuance costs with respect to the Certificates.

The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement with respect to the Certificates (the "Trust Agreement"), dated as of May 1, 2002, among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "WFOA"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the state under a Master Financing Contract (the "Master Financing Contract"), dated as of May 1, 2002, between the WFOA and the state. The Bank of New York will act as Fiscal Agent for the Certificates (the "Fiscal Agent").

The respective parcels of the real property which constitute or include the respective Projects of the participating Local Agencies (collectively, the "Sites") are being leased to the WFOA by the respective Local Agencies pursuant to separate Site Leases, each dated as of May 1, 2002 (the "Site Leases"), between each Local Agency and the WFOA. Pursuant to the Master Financing Contract, the state is leasing the Sites and the Projects thereon from the WFOA (collectively, the "Property"). The state in turn is subleasing each parcel of Property back to the respective Local Agencies pursuant to separate Local Agency Financing Contracts (the "Local Agency Financing Contracts"), each dated as of May 1, 2002, between the state and the respective Local Agencies. Each Local Agency will make Agency Rent Payments to the state pursuant to its Local Agency Financing Contract for the sublease of its respective parcel of the Property. The Agency Rent Payments payable by the participating Local Agencies pursuant to the Local Agency Financing Contracts are, in the aggregate, at least equal to the corresponding Base Rent Payments payable by the state pursuant to the Master Financing Contract. Pursuant to the Master Assignment (the "Master Assignment"), dated as of May 1, 2002, the WFOA is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to the Sites pursuant to the Site Leases, all of its rights to receive the Base Rent Payments from the state pursuant to the Master Financing Contract; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Site Leases and the Master Financing Contract, and all of its remaining right, title and interest in, to and under the

Site Leases, the Master Financing Contract , the Local Agency Financing Contracts, and the Property. For summaries of the Trust Agreement, the Master Financing Contract, the Local Agency Financing Contracts, the Master Assignment, and the Site Leases, see Appendix B—Definitions and Summary of Certain Legal Documents.

Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Contract are payable from Agency Rent Payments to be made pursuant to the Local Agency Financing Contracts. Payment of the Agency Rent Payments of each Local Agency are secured by the full faith and credit of such Local Agency. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the State Treasurer is obligated to withhold an amount sufficient to make such payment from the Local Agency's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, if otherwise legally permissible. Upon the failure of any Local Agency to make any Agency Rent Payment as required pursuant to its Local Agency Financing Contract, the State Treasurer is further obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency.

The Master Financing Contract constitutes a special, limited obligation of the state payable solely from the sources and subject to the limitations set forth therein. Neither the Base Rent Payments nor the Certificates constitute or represent debt or general obligations of the state, and neither the full faith and credit nor the taxing power of the state is pledged to the payment of any Base Rent Payments or the principal or interest evidenced and represented by the Certificates. The state will not be obligated to pay the same except from Agency Rent Payments and other amounts as provided in the Master Financing Contract. Payments by the State Treasurer of any Agency Rent Payments are subject to appropriation by the State Legislature and Executive Order reduction by the Governor. An election by the State Legislature not to appropriate, or any Executive Order reduction by the Governor, would not constitute an event of default under the Trust Agreement or the Master Financing Contract.

Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Office of Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management, have assisted the State Finance Committee (the "Committee") in assembling the information contained herein.

Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. Reference should be made to said audited financial statements and other financial reports, and their accompanying notes, for complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request.

The summaries and descriptions herein of the Certificates, the Trust Agreement, the Master Financing Contract, the Local Agency Financing Contracts, the Master Assignment, the Site Leases, the Committee's authorizing resolution, and certain provisions of state law do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof, copies of which are available for inspection at the Office of the State Treasurer upon request. Any statements herein involving estimates, projections or forecasts are to be construed as such, rather than as statements of fact or representations that such estimates, projections or forecasts will be realized.

State Finance Committee

The Committee is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. Pursuant to Chapter 3, Laws of 1981 (RCW 43.33.030), the Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds and approve all financing contracts and certificate of participation issues. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

THE CERTIFICATES

Authorization

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

All financing contracts of the state must be approved by the Committee, and financing contracts for the acquisition of real property by the state must receive the prior approval of the State Legislature. The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246, 804 P.2d 1241 (1991), held that a financing contract for the state's Department of Ecology did not create debt within the meaning of Article 8, Section 1, of the Washington State Constitution.

The Committee, by Resolution No. 923, adopted on July 17, 2000, authorized and approved the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the state pursuant to master financing contracts. The Committee also approved the forms of the Trust Agreement, the Master Financing Contract, the Local Agency Financing Contracts, the Master Assignment, and the Site Leases, and authorized and approved the execution and delivery thereof in connection with each series of certificates of participation. On July 31, 2001, the Committee approved a Finance Plan under which the aggregate principal amount for certificates of participation issued for the state during the 2001-03 Biennium was set at $189,000,000, including certificates expected to be issued to finance acquisition of equipment for State Agencies and Local Agencies.

Payment of Principal and Interest Components

The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the state pursuant to the Master Financing Contract. The Certificates will be dated as of May 1, 2002. The principal components of Base Rent Payments (the "Principal Components") evidenced and represented by the Certificates will be payable on the dates (each a "Principal Payment Date") and in the amounts as shown on page i of this Official Statement. The Certificates will be executed and delivered as fully registered certificates without coupons in denominations of $5,000 or any integral multiple thereof.

The interest component of Base Rent Payments will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, "Certificate Payment Dates"), beginning January 1, 2003, at the rates shown on page i of this Official Statement. Such interest will be computed using a 360-day year comprised of twelve 30-day months.

The interest component of the Base Rent Payments will be payable to the person whose name appears on the certificate register of the Fiscal Agent as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs (the "Record Date"), whether or not such day is a business day. Interest is to be paid by check or draft mailed by first class mail on each Interest Payment Date to each Owner at the address as it appears on the certificate register of the Fiscal Agreement, or at the request of any Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer within the United States of America of immediately available funds to the bank account specified in writing by such Owner to the Fiscal Agent no later than the applicable Record Date.

Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is required to be made on the Principal Payment Date upon presentation and surrender thereof at the principal corporate trust office of the Fiscal Agent.

So long as the DTC book-entry system is used for the Certificates, principal and interest represented by the Certificates will be paid to DTC for distribution to its Participants and payment to the beneficial owners of the Certificates. See Appendix F—Book-Entry System.

Prepayment

Optional Prepayment. The Certificates are not subject to prepayment prior to their respective stated Principal Payment Dates.

Mandatory Prepayment. Each of the Certificates is subject to mandatory sinking fund prepayment on the January 1st immediately preceding its regularly scheduled July 1st Principal Payment Date, at par plus accrued interest evidenced and represented thereby to the Prepayment Date, as shown below.

2003	Amount	2004	Amount	2005	Amount
January 1	$ 50,000	January 1	$ 55,000	January 1	$ 60,000
July 1 *	55,000	July 1 *	60,000	July 1 *	60,000

2006	Amount	2007	Amount	2008	Amount
January 1	$ 60,000	January 1	$ 60,000	January 1	$ 65,000
July 1 *	60,000	July 1 *	65,000	July 1 *	65,000

2009	Amount	2010	Amount	2011	Amount
January 1	$ 65,000	January 1	$ 70,000	January 1	$ 75,000
July 1 *	70,000	July 1 *	70,000	July 1 *	75,000

2012	Amount
January 1	$ 75,000
July 1 *	80,000

* Final maturity

Extraordinary Mandatory Prepayment. The Certificates are subject to extraordinary mandatory prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part by lot in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss, from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium.

Selection of Certificates for Prepayment. If less than all of the Certificates payable on a Principal Payment Date are prepaid, the Fiscal Agent is required to select the Certificates or any given portion thereof to be prepaid by lot in such manner as the Fiscal Agent will determine.

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

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

Book-Entry System

The Certificates initially will be delivered under a book-entry only system, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), acting as depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates. For information about the DTC book-entry system, see Appendix F—Book-Entry Transfer System.

Defeasance

If money and/or certain types of securities maturing at such times and bearing interest to be earned thereon in amounts sufficient to prepay the principal and interest evidenced and represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Master Financing Contract are set aside irrevocably in a special trust account to effect such prepayment and are pledged for such purpose, then no further payments are required to be made to pay or secure the payment of such principal and interest evidenced and represented by such Certificates, and such Certificates will be deemed thereafter not to be outstanding. See Appendix B—Definitions and Summary of Certain Legal Documents.

THE PROPERTY

Proceeds of the Certificates will be used to finance or refinance the acquisition or improvement of real property for the following local government agencies.

Pierce County FPD No. 13

Pierce County Fire Protection District No. 13 is located in Pierce County. Proceeds of the Certificates allocable to Pierce County Fire Protection District No. 13 will be used to refinance an existing loan and reimburse the District for the costs of construction of a fire station. Construction is complete.

Snohomish County FPD No. 1

Snohomish County Fire Protection District No. 1 is located in Snohomish County. Proceeds of the Certificates allocable to Snohomish County Fire Protection District No. 1 will be used to reimburse the District for the costs of acquiring land to be used for future construction of a fire station.

Walla Walla FPD No. 5

Walla Walla Fire Protection District No. 5 is located in Walla Walla County. Proceeds of the Certificates allocable to Walla Walla Fire Protection District No. 5 will be used to reimburse the District for the costs of construction of a fire station. Construction is complete.

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of funds:

Estimated Sources	
Principal Component of Certificates	$ 1,295,000
Accrued Interest from May 1, 2002, through May 9, 2002	1,064
Total Sources	$ 1,296,064
Estimated Uses	
Deposit to Project Fund	$ 1,210,000
Estimated Costs of Issuance, Underwriting and Bond Insurance*	86,064
Total Uses	$ 1,296,064

* Includes $1,064 funded from accrued interest.

SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES

Base Rent Payments

The Certificates will evidence and represent undivided proportionate interests in the Base Rent Payments payable by the state pursuant to the Master Financing Contract. Pursuant to the Master Financing Contract, the WFOA will lease the Property to the state. In consideration thereof, the state is required to make Base Rent Payments to the Fiscal Agent, as assignee of the WFOA, during the term of the Master Financing Contract. Base Rent Payments are composed of Principal Components and/or Interest Components. Base Rent Payments are due on each Certificate Payment Date.

Except as otherwise described below, Base Rent Payments due from the state under the Master Financing Contract are payable solely from Agency Rent Payments to be made by the respective Local Agencies

pursuant to the related Local Agency Financing Contracts. The total of the Agency Rent Payments payable by the participating Local Agencies on each Agency Rent Payment Date pursuant to the Local Agency Financing Contracts is at least equal to the Base Rent Payment payable by the state pursuant to the Master Financing Contract on the next succeeding Base Rent Payment Date. Agency Rent Payments are due one month prior to the corresponding Base Rent Payment.

Pursuant to the Master Assignment (the "Master Assignment"), dated as of May 1, 2002, the WFOA is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to the Sites pursuant to the Site Leases, all of its rights to receive the Base Rent Payments from the state pursuant to the Master Financing Contract; its right to take all actions, exercise all remedies and give all consents under and pursuant to the Site Leases and the Master Financing Contract, and all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Contract and the Local Agency Financing Contracts, and in and to the Property.

State Intercept

In the event that any Local Agency fails to make any Agency Rent Payment due under its Local Agency Financing Contract, the State Treasurer is obligated pursuant to the Master Financing Contract 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, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes and liquor control board receipts; *provided*, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by state law. Such withholding will continue until all such payments due under the related Local Agency Financing Contract have been made. Amounts withheld by the State Treasurer will be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any such payment made by the State Treasurer.

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

Conditional State Payment Obligation

Upon the failure of any Local Agency to make any Agency Rent Payment pursuant to its Local Agency Financing Contract, the State Treasurer is obligated, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment on behalf of such Local Agency within ten (10) Business Days after such Agency Rent Payment was due.

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

Limited Obligations of State

THE MASTER FINANCING CONTRACT CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NEITHER THE BASE RENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF ANY BASE RENT PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE

SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING CONTRACT.

Non-Appropriation and Executive Order Reduction

PAYMENTS BY THE STATE TREASURER OF ANY AGENCY RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. AN ELECTION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT OR THE MASTER FINANCING CONTRACT.

Payment History

The principal and interest represented by certificates of participation in lease or other payment obligations that are payable by the state have always been paid when due. The state has never failed to appropriate funds to meet its lease, installment sale or other payment obligations with respect to outstanding certificates of participation therein.

Local Agency Rent Payments

Pursuant to each Local Agency Financing Contract, the state will sublease the related parcel of the Property to the respective Local Agency. In consideration thereof, the Local Agency is required to make Agency Rent Payments to the state with respect to such parcel of the Property. Agency Rent Payments are composed of principal and interest components and are payable, during the term of the applicable Local Agency Financing Contract, on each June 1 and December 1 immediately preceding the related Certificate Payment Date.

The Agency Rent Payments payable by the participating Local Agencies pursuant to the Local Agency Financing Contracts in the aggregate are at least equal to the corresponding Base Rent Payments payable by the state pursuant to the Master Financing Contract.

Each Local Agency has covenanted in its Local Agency Financing Contract to take such action as may be necessary to include all the Agency Rent Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Agency Rent Payments.

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

Substitution of Property

Under the Master Financing Contract and the corresponding provisions of the Local Agency Financing Contracts, the State Treasurer may substitute and consent to the substitution, for a parcel of Property, another parcel or parcels of real property by first filing with the Fiscal Agent:

(i) an Opinion of Counsel to the effect that such substitution is permitted under the Master Financing Contract and the related Local Agency Financing Contract;

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

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

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

Release of Property

Under the Master Financing Contract and corresponding provisions of the Local Agency Financing Contracts, the State Treasurer may release and consent to the release of a portion of the Property leased under any Site Lease, and subleased under and pursuant to this Master Financing Contract and the related Local Agency Financing Contract, by first filing with the Fiscal Agent, as assignee of WFOA:

(i) an Opinion of Counsel to the effect that such release is permitted under this Master Financing Contract;

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

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

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

Rent Payments Not Subject to Abatement

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

Title Insurance

A separate title insurance policy, naming the Fiscal Agent as the insured party, will be obtained with respect to the Property under each Local Agency Financing Contract. Each such policy is for an amount at least equal to the Agency Principal Components payable under the related Local Agency Financing Contract.

Acceleration

The Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Master Financing Contract. However, the Certificates are not subject to acceleration upon the occurrence of a Local Agency Event of Default under any related Local Agency Financing Contract. See Appendix B—Definitions and Summary of Certain Legal Documents.

Limitations on Exercise of Remedies

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

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

WASHINGTON FINANCE OFFICERS ASSOCIATION

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

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the state have the ability to initiate legislation and to modify, approve and reject existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State 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 State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative or referendum.

Initiative 722

On November 7, 2000, the state's voters approved Initiative 722 ("I–722"), which would have limited property tax growth to two percent per year and would have rolled back some tax and fee increases. On September 20, 2001, the Washington Supreme Court voided I-722 on the grounds that it violated the State Constitution's ban on more than one subject in any legislation, including an initiative.

Initiative 728

On November 7, 2000, the state's voters approved Measure No. 728 ("I-728"). I-728 directs a portion of the state property tax and revenues in excess of the amount required for the Emergency Reserve Fund to a new Student Achievement Fund to be used for allocations to school districts for class size reduction, extended learning opportunities and professional development. I-728 also redirects state lottery revenues, currently deposited in the state General Fund, to the new Student Achievement Fund and to school construction.

Initiative 747

Initiative Measure No. 747 ("I-747") was approved by voters on November 6, 2001. As written, I-747 will reduce the limit on the total dollar amount of regular property taxes, including state taxes for the common schools, that may be levied annually by any taxing district (including the state) without a vote of its electors from 106 percent to 101 percent of the highest levy in the three previous years (excluding new construction, improvements and state-assessed property). The proceeds of the state's regular property tax levy are used exclusively for the common schools, which represents 37 percent of the state's total funding for the common schools. I-747 is expected to affect the state's ability to finance schools and the ability of local agencies to increase regular property taxes for their governmental purposes. While the precise impact of I-747 cannot be predicted at this time, the state does not expect the provisions of I-747 to affect adversely its ability to make payments required under the Master Financing Contract.

Future Initiative Legislation

Other tax and fee initiative measures may be filed, but it cannot be predicted whether any such initiative might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, would ultimately be approved.

LITIGATION

There is not currently pending litigation restraining or enjoining the sale, execution or delivery of the Certificates or in any other manner affecting the validity of the Certificates, the Trust Agreement, the Site Lease, the Lease, or the Assignment, or of the proceedings or authority pursuant to which they are to be executed and delivered.

The state and its agencies are parties to numerous routine legal proceedings which normally occur in governmental operations. At any given point in time, there may be numerous lawsuits involving state agencies which could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past two 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.

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen v. Western State Hospital*, for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community-based services when appropriate. The trial has been stayed pending further review of whether program changes and funding requests to the State Legislature by the Department of Social and Health Services will resolve claims. A similar lawsuit has been filed on behalf of patients at Eastern State Hospital. *Marr v. Eastern State Hospital*. *Arc, et al. v. Quasim* is a class action on behalf of the persons with developmental disabilities seeking access to Medicaid funded services. The trial has been stayed based on a settlement agreement contingent on additional future funding by the State Legislature. If these claims are not resolved through settlement and the cases go to trial, it is difficult to estimate with any certainty the potential amount of damages which might be recovered. These lawsuits, however, are not expected to have a material impact on state revenues or expenditures. If relief is granted, there would be a need to reprioritize agency program expenditures in the budget process to provide program support for individuals in these classes.

There is a class action lawsuit challenging the Department of Social and Health Services' authority to use Social Security benefits received on behalf of a foster child when it acts as a representative payee and applies the benefits toward the costs of the child's foster care. *Keffeler v. State.* The Department currently receives $600,000 a month in Social Security monies that it uses for this purpose. This is consistent with the practice in other states. The lawsuit sought a declaratory ruling that the state may not obtain and use such funds for foster care services, along with a refund of funds used in the past. The State Supreme Court has determined that the Department may not use the Social Security funds in this manner. The United States Supreme Court has been asked to review this decision. If relief is affirmed, there would be a reduction of revenue to the state in the future, resulting in a need to seek additional funding or reprioritize use of existing funding. There also would be a follow-up proceeding to determine to what extent there should be refunds. It is difficult to estimate with any certainty the potential amount of refunds which might be recovered.

Over the past ten years, the state has reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of approximately 115 corporate taxpayers for business and occupation tax refunds from periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied certiorari review of an April 1999 decision by the Washington State Supreme Court. *W.R. Grace & Co. - Conn. and Chrysler Motors Corporation v. State of Washington, Department*

of Rev., and Buffelen Woodworking Co., et al. v. State of Washington, Department of Rev. The State Supreme Court denied claims for a refund except to the extent the taxpayers could demonstrate entitlement to credits against their Washington State tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. The cases were remanded to Thurston County Superior Court, and the taxpayers have waived refunds measured by tax credits. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

In the past there has been periodic litigation involving Medicaid reimbursement issues. Over the last four years, there has been an increase in the number and types of claims. Currently, there are three lawsuits which raise issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. In the previous cases, these types of claims have been limited and focused by courts through motion practice and eventually resolved through settlement agreements and legislative appropriation. It is difficult to predict whether the current cases might result in any significant amount of reimbursement under the theories presented. If substantial costs are recovered in any of those proceedings, there would be a need to reprioritize agency program expenditures in the budget process to cover any additional costs.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale by the state of the Certificates are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of the legal opinion of Certificate Counsel is set forth in Appendix C hereto. Certain legal matters will be passed upon for the Local Agencies by their respective counsel.

Certificate Counsel will deliver a legal opinion to the state to the effect that the statements in the section of this Official Statement entitled "The Certificates" and "Sources of Payment and Security for the Certificates" and in Appendix B—Definitions and Summary of Certain Legal Documents hereto, insofar as such statements summarize or describe the terms of the Certificates, the Trust Agreement, the Master Financing Contract, the Local Agency Financing Contracts, the Master Assignment, and the Site Leases, are accurate in all material aspects. Neither Certificate Counsel nor counsel to the Local Agencies otherwise assumes any responsibility or liability for the accuracy or completeness of this Official Statement. Counsel to the Local Agencies have not reviewed this Official Statement. The payment of compensation to Certificate Counsel is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the successful bidders.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Certificate Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest represented by the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Certificate Counsel is of the further opinion that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Certificate Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Certificate Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest represented by, the Certificates. A complete copy of the proposed form of opinion of Certificate Counsel is set forth in Appendix C hereto.

The amount (if any) by which the issue price of the Certificates of any given Principal Payment Date is less than the amount to be paid on such date (excluding amounts stated to be interest and payable at least annually over the term of such Certificates) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes. For this purpose the issue price of Certificates of a particular Principal Payment Date is the first price at which a substantial amount of the Certificates of such Principal Payment Date are sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to Certificates of a particular Principal Payment Date accrues daily over the term to such payment date on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Certificate, and under Treasury Regulations, the amount of tax-exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest with respect to obligations such as the Certificates. The state and the Local Agencies have covenanted to comply with certain restrictions designed to insure that interest with respect to the Certificates will not be included in federal gross income. Failure to comply with these covenants may result in interest with respect to the Certificates being included in gross income for federal income tax purposes, possibly from the date of original delivery of the Certificates. The opinion of Certificate Counsel assumes compliance with these covenants. Certificate Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of delivery of the Certificates may adversely affect the value of, or the tax status of interest on, the Certificates. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest with respect to, the Certificates. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Master Financing Contract, the Local Agency Financing Contracts, the Tax Certificate executed by the state, and the Tax Certificates executed by each of the Local Agencies, all with respect to the Certificates, and in other relevant documents, may be changed and certain actions (including, without limitations, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Certificate Counsel expresses no opinion as to any Certificate or the interest represented thereby if any such change occurs or action is taken or omitted upon the advice or approval of certificate counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Certificate Counsel is of the opinion that interest with respect to the Certificates is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Certificate owner or the owner's other items of income or deduction. Certificate Counsel expresses no opinion regarding any such other tax consequences.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on behalf of the Committee, has agreed in the Master Financing Contract to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Certificates (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"), commencing January 31, 2003, for the fiscal year ending June 30, 2002, the state will provide or cause to be provided to each then existing nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the state of Washington, if one is created (the "SID"), an annual report (the "Annual Disclosure Report"), which will consist of the following:

(i) 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;

(ii) financial and operating data for the state as set forth in Appendix A to this Official Statement;

(iii) a summary of the state debt structure by revenue pledge; and

(iv) 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, including official statements of debt issues of the state, or of any related entity, that have been submitted to each of the NRMSIRs and the SID, if any, or to the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The state will identify clearly each document so included by reference.

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 Material Event.

Material Events

The state agrees to provide or cause to be provided to the SID, if any, and to each NRMSIR or to the MSRB timely notice of the occurrence of any of the following events with respect to the Certificates, if material (the "Material Events"):

(i) principal and interest payment delinquencies;

(ii) nonpayment-related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(vii) modifications to rights of holders of the Certificates;

(viii) optional, contingent or unscheduled Certificate calls (other than scheduled mandatory sinking fund prepayments for which notice is given pursuant to Exchange Act Release 34-23856);

(ix) defeasances;

(x) release, substitution or sale of property securing the repayment of the Certificates; and

(xi) rating changes.

There is no debt service reserve fund securing the Certificates, and there are no third party credit or liquidity facilities provided to pay or secure the payment of the Certificates.

In addition, the state agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of any failure to provide the Annual Disclosure Report on or prior to the Submission Date.

Termination of Undertaking

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

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

(ii) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of the Undertaking.

Amendment of Undertaking

The state may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The State Treasurer will give notice to each NRMSIR or the MSRB and the SID, if any, 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:

(i) notice of such change will be given in the same manner as for a Material Event under Section 4, and

(ii) 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; Beneficiaries

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 Certificates. The Undertaking inures to the benefit of the State Treasurer and any holder of the Certificates, and does not inure to the benefit of or create any rights in any other person.

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 Material 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 Material 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 Material Event.

Prior Compliance

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

OTHER CERTIFICATE INFORMATION

Municipal Bond Insurance

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificates. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions);

(ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Certificates upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Certificates resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Certificates.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Certificate the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Certificates in any legal proceeding related to payment of insured amounts on the Certificates, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Certificates, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.]

MBIA. MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "Municipal Bond Insurance." Additionally, MBIA makes no representation regarding the Certificates or the advisability of investing in the Certificates.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information. The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000;

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001; and

(3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (i) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (ii) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, and (iii) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, MBIA had admitted assets of $7.6 billion (audited), total liabilities of $5.2 billion (audited), and total capital and surplus of $2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2001, MBIA had admitted assets of $8.4 billion (unaudited), total liabilities of $6.0 billion (unaudited), and total capital and surplus of $2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA. Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates. MBIA does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

Financial Advisor

Susan D. Musselman, Inc. has served as financial advisor to the state relative to the preparation of the Certificates for sale, timing of the sale and other factors relating to the Certificates. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Certificates. Susan D. Musselman, Inc. makes no guaranty,

warranty or other representation on any matter related to the information contained in this Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading or distributing municipal securities.

The payment of compensation to the financial advisor is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the underwriter.

Rating

The Certificates have been rated "Aaa" with an underlying rating of "Aa2" by Moody's Investors Service ("Moody's"), as noted on the cover of this Official Statement, based on the assumption that the Financial Guaranty Insurance Policy will be issued by MBIA. The state has furnished certain information and materials to Moody's regarding the Certificates and the state. Such rating reflects only the view of such rating agency and is not a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. An explanation of the significance of such rating may be obtained from Moody's Investors Service, located at 99 Church Street, New York, New York 10007-2296.

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

Underwriter of the Certificates

The Certificates are being purchased by UBS PaineWebber, Inc. (the "Underwriter") at a price of $1,275,852.15, plus accrued interest. The Underwriter has represented that the Certificates will be reoffered at the prices or yields set forth on page i of this Official Statement. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Official Statement

Upon delivery of the Certificates to the successful bidder, the State Finance Committee by its Chairman, the State Treasurer, or his authorized representative, will approve or have approved this Official Statement, and also will deliver a certificate to the effect that the Preliminary Official Statement did not as of its date, and this Official Statement does not as of the date of such delivery, contain any untrue statement of a material fact required to be stated therein or necessary to make the statements therein, in the light of circumstances under which they were made, not misleading, and no event affecting the Certificates has occurred since the date of this Official Statement which should be disclosed in this Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event will any representation be made with respect to information herein regarding DTC and its book-entry only system).

Excerpts from the state's 2001 Comprehensive Annual Financial Report ("CAFR") are attached as Appendix D. Copies of the state's entire 2001 CAFR are available upon request from the Office of the State Treasurer.

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The state of Washington (the "state") is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau's 2000 Census, the state's resident population is 5,894,121, an increase of 21.1 percent over 1990.

The state capital is Olympia, and its largest city is Seattle. Seattle is situated on Puget Sound and is part of the international trade, manufacturing, high technology, and business service corridor that extends from Everett to Tacoma. The Pacific Coast-Puget Sound region of the state includes approximately 75 percent of the population, the bulk of industrial activity and most of the state's forests, which are important to the timber and paper industries. The balance of the state includes agricultural areas primarily devoted to grain, apple and other fruit orchards and dairy operations.

In recent years the state's economy has diversified, with employment in the trade and service sectors representing an increasing percentage of total employment relative to the manufacturing sector.

For an assessment of the current economic and budgetary outlook of the state, including certain changes in forecast assumptions made for purposes of the November 2001 state revenue forecast for the 2001-03 Biennia, see "Outlook for the 2001-03 and 2003-05 Biennia." For certain economic and demographic information with respect to the state, see "Economic Information."

State Finance Committee

The State Finance Committee (the "Committee") is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. The Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of official duties in accordance with prescribed policies of the Committee.

REVENUES, EXPENDITURES AND FISCAL CONTROLS

Revenues

The state's tax revenues are comprised primarily of excise and *ad valorem* taxes. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

Excise Taxes. Certain select sales and gross receipts taxes accounted for approximately 52.9 percent of total state tax revenues for the fiscal year ending June 30, 2001.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 49.9 percent of total collections. The retail sales and use tax is applied to a broad base of tangible personal property 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. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent.

Business and occupation tax collections represented approximately 16.2 percent of total state taxes for the fiscal year ending June 1999. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate of 0.484 percent of gross income for manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 6.3 percent of all state taxes for Fiscal Year 1999. The current tax rate is 23 cents per gallon.

Property Taxes. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 1999, assessed value averaged 90.3 percent of fair market value.

The state property tax levy represented approximately 11.2 percent of all state tax revenues for Fiscal Year 1999. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar 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 state levy rate for taxes due in 1999 is $2.93 per $1,000 of true and fair property value.

By statute, all of the state's property tax levy is dedicated to the support of public schools.

Income Tax. The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

Tax 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 State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Almost all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

State Expenditure and Revenue Limitation—Initiative 601. Initiative 601, passed by the voters in November 1993, places limits on state taxation and General Fund-State government expenditures and sets forth a series of guidelines for limiting revenue and expenditure increases and stabilizing long-range budget planning.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State during any fiscal year by more than the fiscal growth factor, which is calculated annually and is defined as the average of the sum of inflation and population change for each of the three prior fiscal years. The inflation index used for the computation of the fiscal growth factor is the IPD, which is determined from the same data used to establish the U.S. gross national product. This growth factor is used to determine a state spending limit for programs and expenditures supported by the General Fund-State. The spending limit became operational on July 1, 1995, based on the population and inflation growth factor determined in November 1994, which is based upon data accumulated for Fiscal Years 1992, 1993 and 1994. Annual adjustments to the expenditure limit are made by the Office of Financial Management (the "OFM") based on the previous year's actual General Fund-State expenditure and changes in population and inflation growth. The fiscal growth factors for the 1997-99 Biennium were 4.05 percent for Fiscal Year

1998 and 4.18 percent for Fiscal Year 1999. The fiscal growth factors for the 1999-01 Biennium are 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium are 2.79 percent for Fiscal Year 2002 and 3.29 percent for Fiscal Year 2003.

Initiative 601 also directs the OFM to make downward adjustments in the expenditure limit for costs of any state program or function that is shifted from the General Fund-State to another funding source, or for moneys that are transferred from the General Fund-State to another fund or account. In the event costs of a federal, state or local government program are transferred to or from the state by court order or legislative enactment, under the Initiative the expenditure limit may be increased or decreased accordingly by the OFM. Like Initiative 62, the state's previous tax revenue limitation, restrictions are placed on the addition or transfer of functions to local governments unless there is reimbursement.

Initiative 601 also limits revenue increases. Since July 1, 1995, any action by the Legislature that raises state revenues or requires revenue-neutral tax-shifts may be taken only if approved by a two-thirds vote of both houses of the Legislature.

Initiative 601 abolished the Budget Stabilization Account and created two new reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Ending balances in the Budget Stabilization Account were transferred to the General Fund-State ($100 million) and the Pension Reserve Account ($25 million) in the fiscal year ending June 1996.

Most of Initiative 601, including the General Fund-State expenditure limit, became effective July 1, 1995. Two provisions of the initiative became effective on December 1, 1993: the requirement for supermajority legislative approval of fee increases beyond the fiscal year growth factor, and a restriction on new taxes being imposed without voter approval. At the beginning of Fiscal Year 1996 (July 1, 1995), the requirement for voter approval for new tax measures expired. Taxes now can be enacted with a two-thirds majority of both houses of the Legislature if resulting General Fund-State expenditures do not exceed the spending limit. Voter approval still would be required to exceed the spending limit.

Engrossed House Bill 3169 ("EHB 3169"), which makes several changes to Initiative 601's limit statute, passed and was signed by the Governor during the 2000 legislative session. The bill establishes a State Expenditure Limit Committee for the purpose of calculating and adjusting the state expenditure limit. Members of the committee include the director of OFM, the chairs of the Senate Ways and Means and House Appropriations Committees and the Attorney General (or the Attorney General's designee). All actions of the Committee require an affirmative vote of at least three members.

EHB 3169 also clarifies the meaning of "money transfer" under Initiative 601, and establishes that any measure which has the effect of reducing revenues flowing into the General Fund-State while increasing revenues flowing into another state or local government account is considered a "money transfer" under Initiative 601, thus requiring a reduction to the state expenditure limit.

The bill establishes that the state expenditure limit can be adjusted upward when a program's cost or revenues are transferred to the General Fund-State from another state account.

EHB 3169 also provides the Office of State Treasurer the authority to transfer monies between the General Fund-State and the Emergency Reserve Fund at the conclusion of each fiscal year, to ensure that revenues deposited in the Emergency Reserve Fund for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year.

Finally, EHB 3169 changes the threshold for spillover of money from the Emergency Reserve Fund to the Education Construction Fund from five percent of biennial revenues to five percent of annual revenues and gives the State Treasurer the authority to make the appropriate end-of-year reconciliations between the funds.

State Nontax Revenue. The largest components of state nontax revenue include such items as revenues derived from the sale of supplies, materials and services, fines and forfeitures, income from property, transfer of lottery proceeds, and income from liquor sales.

Federal Grants. Legislative appropriations for federal programs are designated specifically from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred.

Expenditures

Expenditures of general state revenues are made pursuant to constitutional and statutory mandates. Most general state revenue is deposited in the General Fund-State. For a breakdown of expenditures by function, see the table titled "Washington State Expenditures" below.

State Funding of Basic Education. The state's expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. In 1976, Seattle School District No. 1 brought suit against the state to require the state, under the State Constitution, to make "ample provision for common schools." The decision, upheld by the State Supreme Court in 1978, required the state to ensure that each public school district would receive the funds needed to provide a basic education. The Court ordered the Legislature to decide the level of program funding and the funding mechanism.

The Legislature has passed four major pieces of legislation to further ensure stability and predictability for school funding.

(i) *The Basic Education Act* was passed in 1977, before the Supreme Court ruling, and describes course offerings, teacher contract hours, and core student/staff ratios. The Supreme Court recognized the passage of this Act in its opinion, but specifically declined to comment upon its adequacy.

(ii) *The Levy Lid Act*, also passed in 1977 and last amended in 1992, addresses property tax issues affecting basic education funding by limiting local property tax levies and providing for the gradual equalization of levy capacity per student throughout the state.

(iii) In 1981, legislation limiting local compensation increases to those authorized by the state was passed. Since personnel costs comprise over 80 percent of the public school budget, this legislation provides state financial decision-makers with an important cost containment tool.

(iv) *The School Financial Improvement Act* amended the Levy Lid Act in 1987. The amended act provided for state assistance to equalize tax rates for local levies, established a state-wide salary allocation schedule with mandated minimum salaries for teachers and required school districts to maintain minimum teacher/student ratios.

Social and Health Services. The Department of Social and Health Services ("DSHS") is the primary human service agency in the state; its expenditures account for the second largest category of state budget expenditures. DSHS provides services which are essential for the physical safety, security and survival of individuals and families, including protective services for children, the aged and mentally disabled people, as well as for people in institutions and other residential care facilities.

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary 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-State, funding is received from the federal government for those people and services covered under Medicaid (Title XIX of the Social Security Act). The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups, such as pregnant women and children, and growth in other eligible populations, such as disabled people, has resulted in increased expenditures. Rising health care costs and requirements to provide higher payments to hospitals also have added to the increase in this budget.

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

DSHS also provides other social service programs. It is responsible for supporting community mental health programs and 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, and vocational rehabilitation services.

Corrections. The Department of Corrections operates 15 correctional institutions, including three prerelease facilities and 16 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—"Three Strikes and You're Out," approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years the Department of Corrections has constructed nearly 5,000 new prison beds. The newest prison, Stafford Creek Corrections Center, is a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia.

Budgeting, Accounting and Fiscal Controls

Budgeting. The state operates on a July 1 to June 30 fiscal year and on a biennial budget basis, the constitutionally prescribed period. Formulation of the state's operating budget is initiated by the Office of Financial Management, the Governor's budget agency, with the distribution of instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the regular legislative sessions, which convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of the OFM in the summer. The budget requests are revised and evaluated by the Director of the OFM and his or her staff, and alternative methods of delivering services are examined and evaluated. Following this evaluation, recommended budget levels are prepared for the Governor by the Director of the OFM. These recommendations, based on the goals and objectives of the administration, are the result of an examination of the relative merits of each program, projections of caseload, enrollment and population statistics, an assessment of the state's overall priorities, and the availability of revenue. The OFM has the responsibility for calculation of the expenditure limit each November.

Budget tables and statistics provided by the OFM for inclusion in this Official Statement are based on generally accepted accounting principles ("GAAP"). GAAP provides that the recognition and inclusion of revenues occur when they are measurable and earned, regardless of when the funds are received. Given the nature of the state's revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would erode the state's cash balance, the Legislature enacted laws which limited the expenditure of funds to the amount of revenue actually received or money on deposit over the course of the biennium. These limitations do not apply to the state's general obligation bonds.

The Governor reviews the OFM's operating budget recommendations and accepts or modifies them. Following final decisions by the Governor the budget document is published as the Governor's budget and presented to the Legislature for consideration in December of even-numbered years. The formal budget presentation to the Legislature is delivered by the Governor the following January during the first week of the legislative session. This presentation outlines the administration's primary goals and offers recommendations for the adoption of the budget to achieve those objectives.

Subsequent to the introduction of revenue and expenditure measures that embody the Governor's proposed operating budget, the Legislature engages in extensive budget deliberations and committee hearings. Legislative authorizations of long-term debt also are considered to finance a portion of the capital budget. Upon adoption of revenue and expenditure legislation by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto sections of the bills and append in writing the reasons therefor.

During a biennium, supplemental budget requests may be submitted to the Legislature during either the regular annual session or any extraordinary session, subject to the approval of the Governor.

Accounting. The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year CAFR, including its 2000 CAFR. The state's fiscal 2000 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2000 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the 2000 Annual Financial Statements are attached as an appendix to the Official Statement. A copy of the 2000 CAFR is available on request from the Office of the State Treasurer.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2000. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

Fiscal Controls. To ensure that the budget remains in balance, fiscal controls are exercised during the biennium through an allotment process, which requires each agency to submit a monthly expenditure plan. This expenditure plan must be approved by the OFM and provides the authority for agencies to spend funds within statutory maximums specified in the legislatively adopted budget. Reports are available that compare actual agency expenditures to estimates.

The current biennium began July 1, 2001. State law requires a balanced biennial budget. If at any time during the fiscal period the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent a cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions occur only in those funds estimated to have a cash deficit. For example, if the General Fund-State were projected to have a deficit, the portion of an agency's budget provided by the General Fund-State would be subject to reduction. Across-the-board reductions are placed in reserve status until needed to avert a budget surplus; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

Debt Issuance Policy

All state general obligation debt and other evidence of indebtedness is authorized by the Legislature and issued under the authority granted to the Committee by the Legislature.

In May 1996, the Committee adopted a revised Debt Issuance Policy which, among other things, addresses the roles and responsibilities of the Committee and the State Treasurer, standards of conduct and appointment of professional service providers. The Debt Issuance Policy also addresses methods of sale, appointments of underwriters, pricing and allocation of negotiated sales, and refunding savings thresholds.

Under "Conditions of Sale," the Debt Issuance Policy generally calls for (i) level debt service, i.e. approximately equal amounts per year, (ii) fixed interest rates and (iii) debt life shorter than or equal to estimated useful life of the facility financed. These conditions may not apply in all cases.

State Investment Programs

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $2.2 billion to $2.8 billion from time to time through its Treasurer's Cash Management Account (the "CMA"). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the "LGIP"), an approximately $5.4 billion fund that invests money on behalf of more than 400 cities, counties and special municipal districts.

Permissible investments for both funds include U.S. government and agency securities, bankers acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposits with qualified Washington State depositories.

Treasurer's Cash Management Account. The CMA is a nonvoluntary pool of state agency funds; agencies are not permitted to make discretionary withdrawals for alternative investment purposes. The CMA may invest in securities with maturities out to ten years. The average life of the CMA generally ranges from one to two years.

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in March 1998, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. In order to manage state funds more efficiently and effectively, the State Treasurer's CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, *inter alia*, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

Local Government Investment Pool. The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a Rule 2a-7 money market fund, restricted to investments with maturities of 397 days or less. The average life generally ranges from 30 to 60 days.

The LGIP adheres to the traditional principles applicable to the prudent investment of public funds, which are, in order of priority: (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, both the CMA and the LGIP have had sufficient liquidity to meet all cash flow demands.

Asset Liability Management

Up to ten percent of the state's total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of the state's balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

Historically, state debt has been issued in long-term, fixed-rate form, while state investments have been made on a short-term basis. The issuance of some variable rate debt is intended to provide a closer match of interest expense to interest income.

State Economic and Revenue Forecasting Process

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Legislature, through enactment of Chapter 138, Laws of 1984 (RCW 82.01.130), established the Office of Forecast Council (the "Forecast Council") in the Department of Revenue, and in 1990, the Legislature established the Forecast Council as an independent body. The Forecast Council consists of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official revenue forecast for the state. The Forecast Council law requires a review of financial performance eight times during the biennium and requires action if changing economic conditions affect the budget. This "early warning" system gives policy makers time to reduce expenditures or raise taxes during economic downturns and provides the option of increasing financial reserves or dealing with emergent spending needs in periods of economic growth.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare 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 groundwork for these quarterly forecasts is undertaken in conjunction with the results of monthly state revenue collections, using a formally created economic and revenue forecast workgroup. This group consists of lead staff members representing the Department of Revenue and the OFM, as well as staff representatives of the legislative fiscal committees.

The quarterly forecast process starts with a preliminary review of the Forecast Council's findings by the workgroup. At approximately the same time, the Governor's Council of Economic Advisors is convened to provide a view of the state and national economy from outside state government. These views and cumulative and recent revenue performance are taken into account in the preparation of forecast scenarios. The Forecast Council meets to consider the economic outlook and, after a two-week interval, considers the revenue forecast and pessimistic and optimistic projections.

The most recent state forecast by the Forecast Council was released on February 19, 2002 This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2001-03 and 2003-05 Biennia." The next forecast will be released on or about June 18, 2002.

SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 1999-01 and the 2001-03 Biennia. Revenues for the 1999-01 Biennium are based on the State Forecast Council's February 2002 Forecast. Expenditures for the 1999-01 Biennium include the 2000 and 2001 Supplemental Budgets passed by the Legislature in April 2000 and signed by the Governor on May 2, 2000, and the Supplemental Budget passed by the Legislature in April 2001 and signed by the Governor on April 27, 2001. Revenues for the 2001-2003 Biennium are based on the February 2002 Forecast; 2001-03 expenditures are based on the budget passed by the Legislature in June 2001 and signed by the Governor on June 26, 2001.

The outlook for the 2001-03 Biennium immediately follows the tables.

WASHINGTON STATE REVENUE
MODIFIED ACCRUAL BASIS
(in Millions)

	1999-01 Biennium[1]	2001-03 Biennium Estimate [1]
Beginning General Fund-State Balance	$ 462	$ 600
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 11,683	$ 11,714
Real Estate Excise	802	790
Business and Occupation	3,773	3,915
Property Tax	2,693	2,615
Other Taxes	1,729	1,662
Subtotal Tax Revenue	**$ 20,680**	**$ 20,696**
Other Nontax Revenue	472	337
Other Financing	111	(71)
Changes in Reserves/Other Adjustments	(1)	0
TOTAL GENERAL FUND-STATE REVENUE [2]	**$ 21,724**	**$ 21,562**
Federal Revenue	$ 8,211	$ 10,043
Private/Local Revenue	496	549
TOTAL GENERAL FUND-STATE REVENUE	**$ 30,431**	**$ 32,154**

(1) Based on the February 2002 General Fund-State Revenue Forecast.
(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Note: The Legislature passed its budget for 1999-01 on April 25, 1999. The Governor signed the 1999-01 Budget Bill on May 14, 1999. The 2000 Supplemental Budget was passed by the Legislature on April 27, 2000, and signed by the Governor on May 2, 2000. The 2001 Supplemental Budget was passed by the Legislature in April 2001 and signed by the Governor on April 27, 2001.

Source: Office of Financial Management.

WASHINGTON STATE EXPENDITURES
MODIFIED ACCRUAL BASIS
(in Millions)

GENERAL FUND-STATE EXPENDITURES	1999-01 Biennium [1]	2001-03 Biennium Estimate [2]
Education		
Public Schools	$ 9,459	$ 9,903
Higher Education	2,549	2,800
Other Education	55	60
Total Education	**$ 12,063**	**$ 12,763**
Human Services		
Department of Social and Health Services	$ 5,300	$ 6,182
Department of Corrections	914	1,040
Other Human Services	187	193
Total Human Services	**$ 6,401**	**$ 7,415**
Natural Resources and Recreation	$ 305	$ 355
Governmental Operations	403	392
Other Expenditures [3]		
Debt Service	$ 1,119	$ 1,249
Other Expenditures	754	609
Total Other Expenditures	**$ 1,873**	**$ 1,858**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 21,045**	**$ 22,783**
Federal	$ 8,211	$ 10,043
Private/Local	496	549
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 29,752**	**$ 33,375**
Preliminary Ending General Fund-State Balance	**$ 677**	**$ (1,222)**
Transfer to the Emergency Reserve Fund Account	**(198)**	**0**
Transfer to General Fund from Health Services Account and Other Accounts	**121**	**228**
Ending General Fund-State Balance [4]	**$ 600**	**$ (994)**
Emergency Reserve Fund Account Including Investment Earnings Not Reflected in the Revenue Forecast	**$ 460**	**$ 384**
Total Ending General Fund-State Balance plus Emergency Reserve Account	**$ 1,060**	**$ (610)**

(1) Based on the 1999-01 budget as amended by the 2000 and 2001 Supplemental Budgets that were passed by the Legislature and signed by the Governor.
(2) Based on the 2001-03 budget as passed by the Legislature and signed by the Governor.
(3) Includes legislative, judicial and transportation agencies.
(4) In anticipation of the deficit in the General Fund-State, the Governor has taken the following actions:
- (i) Large agencies supported by the General Fund-State were asked to submit 15 percent budget reduction options.
- (ii) All agencies with General Fund-State support were encouraged to examine activities that could be postponed or streamlined, and to limit hiring to critical positions.
- (iii) A 2002 Supplemental Budget has been proposed for the Legislature to consider which reduces General Fund-State expenditures, assumes new revenues, transfers funds from other accounts, and leaves a total ending General Fund-State balance (plus Emergency Reserve Account) of $304 million.

Note: Totals may not add due to rounding.

Source: Office of Financial Management.

OUTLOOK FOR THE 2001-03 AND 2001-05 BIENNIA

The Economic Outlook

The February 2002 economic and revenue forecast incorporates the advance gross domestic product ("GDP") estimate for the fourth quarter of 2001. According to the advance estimate, real GDP rose at a 0.2 percent annual rate in the fourth quarter. According to the current GDP estimates, the recession was the shortest and mildest on record in terms of the GDP drop, with a single quarterly decline of 0.3 percent from the peak to the trough. Final sales rose at a 2.5 percent rate in the fourth quarter, due mainly to a surge of motor vehicle purchases as consumers responded to zero percent financing incentives. The incentives were used to reduce inventories and therefore had little impact on production, however. What strength there was in the fourth quarter was due to consumers and the government. The decline in fixed investment accelerated in the fourth quarter, due largely to a sharp drop in nonresidential construction while the effect of declining net exports continued.

Despite positive GDP growth in the fourth quarter of 2001, payroll employment fell at a 2.6 percent annual rate and the unemployment rate increased from 4.8 percent in the third quarter to 5.6 percent in the fourth quarter. The Consumer Price Index fell at a 0.4 percent rate in the fourth quarter of 2001, due to declining energy prices. Core inflation (excluding food and energy) increased to 2.7 percent in the fourth quarter from 2.5 percent in the third quarter. Housing starts fell by 7.4 percent rate to 1.571 million units in the fourth quarter, even though the mortgage rate declined to 6.78 percent in the fourth quarter from 6.97 percent in the third quarter. At its December 11th meeting, the Federal Open Market Committee (the "FOMC") made its eleventh consecutive rate cut in less than a year. The federal funds rate now stands at 1.75 percent, the lowest since 1961. The FOMC left its target rate unchanged at the January 30, 2002, meeting.

The February 2002 forecast is the first to extend through 2005. The February U.S. forecast is similar to the November 2001 forecast, with slightly more real GDP growth in 2002 but slightly less growth in 2003. On a calendar year basis, the forecast expects real GDP to grow 1.0 percent in 2002, down from the 1.1 percent increase registered in 2001. The weak calendar year growth rate masks the improving trend during 2002, however. The forecast expects one more weak but positive quarter in the first quarter of 2002 with moderate growth returning in the second and third quarters. By the end of 2002 a recovery is expected to be under way. The forecast expects GDP growth to improve to 4.0 percent in 2003 and 3.9 percent in 2004, before returning to 3.0 percent in 2005. The nation's unemployment rate, which was down to 3.97 percent in the fourth quarter of 2000, is expected to rise to 6.18 percent by the third quarter of 2002. The unemployment rate is expected to decline throughout 2003 and 2004 as the economy recovers, reaching 4.99 percent by the end of 2004. Inflation, as measured by the implicit price deflator for personal consumption expenditures, is expected to decline from 1.9 percent in 2001 to 1.0 percent in 2002. The improvement in 2002 is primarily the result of lower energy costs, but the slowing economy should keep inflation moderate for the next few years. The forecast expects inflation rates of 2.2 percent, 2.3 percent, and 2.2 percent in 2003, 200, and 2005, respectively. The forecast assumes that the FOMC is done easing for this cycle and will begin raising its target rate at its May 7, 2002, meeting.

Washington payroll employment fell by 3.2 percent in the fourth quarter of 2001, following a 2.4 percent drop in the third quarter and a 2.5 percent reduction in the second quarter. Excluding the impact of a seasonal anomaly in local education employment, the fourth quarter decline would have been 2.6 percent following a 2.9 percent decline in the third quarter. The employment decline over the last three quarters already exceeds 2.0 percent. Only twice in the last forty years has Washington seen a steeper decline, during the recessions of 1969-71 and 1981-82. Manufacturing employment fell at a 9.9 percent annual rate in the fourth quarter, the fourteenth consecutive decline in overall manufacturing employment

excluding the impact of the 2001 aerospace labor dispute. Aerospace employment growth turned negative in the fourth quarter, falling at a 10.7 annual rate, as the first of the Boeing layoffs was recorded in December. Aerospace employment had risen in each of the previous three quarters. Manufacturing employment other than aerospace fell at a 9.6 percent rate in the fourth quarter. Nonmanufacturing employment declined at a 2.2 percent annual rate in the fourth quarter of 2001 (1.6 percent excluding the state and local government seasonal anomaly). Nearly every nonmanufacturing sector was weak in the quarter, including transportation, communications and utilities (down 7.1 percent), construction (down 6.8 percent), trade (down 3.9 percent), and services (down 1.8 percent). Finance, insurance and real estate employment rose at a 5.2 percent rate, due to the finance sector, which is benefiting from a increase in refinancing activity, and federal government employment rose at a 3.1 percent rate. State and local government employment was unchanged in the fourth quarter only because of the seasonal adjustment problem with local government education. Excluding that anomaly, state and local government employment would have risen at a 3.6 percent rate in the fourth quarter.

Washington's personal income in the third quarter of 2001 was $0.382 billion (0.2 percent) lower than expected in the November forecast. Wage and salary disbursements were $0.248 billion (0.2 percent) lower than expected. Software wages were $1.367 billion (20.6 percent) higher than expected. Other wages, however, were $1.616 billion (1.5 percent) lower than expected in November. Nonwage personal income in the third quarter of 2001 was $0.133 billion (0.2 percent) lower than expected in November.

The number of housing units authorized by building permit fell by 4,100 to 35,500 in the fourth quarter of 2001 from 39,600 in the third quarter. Single family permits fell by 1,800 to 26,000, while the number of multi-family units authorized fell by 2,200 to 9,500.

Though the U.S. economy appears to be on the verge of recovering from a relatively shallow recession, it now appears that the state's employment downturn has been more severe than in all but two of the recessions of the last forty years (1981-82 and 1969-71). Construction and business services were particularly weak in 2001. The construction industry lost 12,500 jobs between January and December. Business services employment fell by 20,000 over the same period, due in part to temporary help services, where employment was down 6,000 through September. Computer and data processing services other than software fell 6,500 from January to December, reflecting the shakeout in internet startup companies. Employment in catalog and mail-order houses, home of major e-tailers such as Amazon.com, held up well in 2001, declining by 800 from January to September. The aerospace forecast for Washington is essentially unchanged since November. A decline in December appears to be a reflection of the December 14 Boeing layoffs. The forecast had assumed that those layoffs would be reflected in January. Aside from that timing issue, the overall decline in Boeing employment is the same as assumed in November, though the layoffs have been accelerated to reflect the WARN notices received so far. The software wage assumption is also nearly identical to the November forecast. As in November, the forecast assumes there will be no major fluctuations in Microsoft stock option activity.

Wage and salary employment fell 0.2 percent in 2001 following a 2.3 percent increase in 2000. The combination of a national recession and cutbacks in aircraft manufacturing is expected to result in a 1.3 percent decline in 2002. The recovery in Washington is expected to be unusually slow. The forecast expects only a weak national recovery and Boeing is expected to continue reducing its workforce through 2003. The forecast calls for an employment growth rate of 1.4 percent in 2003, improving to 2.3 percent per year in 2004 and 2005. Washington personal income growth slowed in 2001 to 2.5 percent from 5.7 percent in 2000. Excluding the volatile software sector, the slowdown was from 7.1 percent to 3.2 percent. Even slower growth is expected in 2002 due to the weak national economy and Boeing layoffs. The forecast expects personal income to grow by 1.3 percent in 2002, recovering to 5.0 percent in 2003, 5.7 percent in 2004 and 5.4 percent in 2005. Housing activity is also expected to decline over the next two years. In the near term, declining consumer confidence, rising unemployment and weak income and population growth is expected to outweigh the favorable impact of lower mortgage rates.

Though a modest recovery is expected in 2003, mortgage rates will be rising. The forecast expects housing permits to decline from 39,800 in 2001 to 37,600 in 2002 and 36,400 in 2003. The end of the Boeing cutbacks and a resumption of stronger population growth is expected to benefit housing in the final two years. The forecast calls for 38,800 units in 2004 and 41,400 units in 2005.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in February 2002.

Pessimistic Forecast. The pessimistic alternative assumes an effort to topple Saddam Hussein. Should the action take an unintended course, perhaps by Israel becoming involved, oil flows could be compromised. As hostilities escalate, the United States finds its Middle Eastern allies (other than Israel) deserting it, and the normal flood of oil slows to a trickle. Inflation accelerates as the economy tries to provide both guns and butter while energy prices are rising. The FOMC responds to the accelerating inflation by ramping up the federal funds rate. The higher interest rate takes effect about the time military activity winds down, resulting in a sharp but short recession. Real GDP falls 2.2 percent from peak to trough over the second and third quarters of 2003. At the state level, aerospace production and employment cuts are even more severe than assumed in the baseline forecast. Washington's wage growth and inflation are relatively slow and Washington personal income is lower. Population growth is also slower in this scenario, and the 2001-02 correction in construction employment is more severe than in the baseline forecast. By the end of the 2001-03 Biennium, Washington nonagricultural employment is lower by 49,400 jobs than in the baseline forecast and personal income is $6.9 billion lower. The pessimistic scenario produced $483 million (2.3 percent) less General Fund-State revenue in the 2001-03 Biennium than did the baseline forecast.

Optimistic Forecast. Recent economic indicators imply that the U.S. economy is either bottoming out or has turned the corner in the current recession. In the optimistic scenario, the turnaround happens sooner and is a bit stronger than in the baseline. The scenario assumes that the rest of the world grows faster than assumed in the baseline, resulting in higher U.S. exports. It also assumes that nonresidential construction, which has already decreased 13.5 percent from its peak level, stops contracting. Finally, it assumes that consumers spend more than in the baseline, particularly on durable goods such as autos. By the second quarter, the economy is on a solid growth track. At the state level, the initial level of personal income is higher in the optimistic forecast and wages and prices grow faster. Washington aerospace employment begins rising in the fourth quarter of this year rather than continuing to decline throughout 2003, as in the baseline scenario. Construction employment also turns up earlier and more vigorously than in the baseline, and population growth was enhanced in the optimistic alternative. By the end of the 2001-03 Biennium, Washington nonagricultural employment is higher by 53,600 jobs than in the baseline forecast and Washington personal income is $7.7 billion higher. The optimistic scenario generated $577 million (2.8 percent) more revenue in the 2001-03 Biennium than did the baseline forecast.

Budgetary Outlook

For the 2001-03 Biennium, General Fund-State revenues are projected to be $21.209 billion, a decrease of 0.24 percent from the 1999-01 Biennium, plus a carry-forward of $600 million. This figure includes $25 million in tax reductions that are the result of the passage by the state's voters of Initiative 747. which limits property tax increases. Another $9 million shift of revenue from the General Fund-State to other funds is assumed based upon the voters' passage of Initiative 773, which earmarks tobacco taxes for low income health programs.. The revenue outlook for the 2001-03 Biennium is expected to remain low at this time, and the Governor proposed a supplemental budget in December 2001 that is expected to bring General Fund-State revenue and expenditures back into balance.

The operating budget for the 2001-03 Biennium calls for an overall expenditure level of $22.78 billion for General Fund-State, which is an increase of $1.70 billion or 8.3 percent over the 1999-01 Biennium. This is among the smallest of the biennial growth rates in the past decade, and is within the $22.86 billion expenditure limit imposed by Initiative 601.

Fifty-five percent of the General Fund-State budget will go to support public schools and higher education. Most of the $459 million increase in public school funding is directed toward salary improvements that will aid in retaining and recruiting quality teachers, hiring additional teachers and providing means to assist struggling students. The legislative budget for the 2001-03 Biennium includes an increase of $48 million in General Fund-State and Other funds spending for 3,500 student enrollment increases in public universities and colleges, $19 million for work study and financial aid and $11 million in the Promise Scholarship program that will provide scholarships to more than 6,700 high school students from the top 15 percent of high school senior classes. Also in the budget is an increase of $113 million for salary adjustments to university and college faculty and staff, including funding for faculty retention pay increases, and to part-time faculty at the community and technical colleges intended to address pay disparities.

The spending for human service delivery systems provided by the Department of Social and Health Services makes up approximately 33 percent of the state budget. The "Work First" program, established in 1997, has enabled more than 145,000 job placements for clients. Welfare caseloads have dropped by 44 percent since the inception of the program. A survey of people leaving the program found that their wages average $7.80 per hour. The largest increase in the Human Services budget was made in the Medical Assistance Program where $579 million in funding was added to cover medical inflation and the increasing caseload and per capita costs.

The $310 million in tobacco settlement funding that the state will receive in the 2001-03 Biennium will be used in the Health Services Account to fund the state's Basic Health Plan, which will reach 125,000 enrollees, and for other public health expenditures. An additional $100 million in tobacco settlement dollars was used in the 1999-01 Biennium to establish an endowment fund to support public health efforts in smoking cessation, prevention and enforcement. The tobacco settlement funding is not part of the General Fund-State budget, and consequently such revenues and planned expenditures are not reflected in the General Fund-State budget figures presented herein.

The focus in criminal justice in the 2001-03 Biennium is on keeping communities safe from crime and drugs. Funding ($48 million) is provided in the capital budget to begin construction of a Special Commitment Center for Sexual Officers.

An across-the-board salary increase of 3.7 percent in the first year, and 2.7 percent in the second year for state employees accounts for $283 million in General Fund-State spending increases in the 2001-03 Biennium. Additionally, Initiative 732 was passed by the voters and provided for annual salary increases for K-12 teacher based upon the Seattle CPI index. The 2001-03 budget provides $353 million for a 3.7 percent increase for the first year, and a 3.1 percent increase in the second year.

The following table provides the General Fund-State budget for the 2001-03 Biennium.

2001-03 BIENNIUM
GENERAL FUND-STATE BUDGET*
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 600
Revenue	
June 2001 Forecast	$ 22,099
September 2001 Forecast Change	(96)
2001 Legislative Changes	18
November 2001 Forecast Change	(779)
Initiative 747 Limits on Property Tax Increases	(25)
Initiative 773 Tobacco Taxes for Low Income Health and Other Programs	(9)
February 2002 Forecast Update	(266)
Estate Tax, Legal Interpretation	19
Total Revenue	$ 20,962
Total Sources	**$ 21,562**
Total Expenditures	**$ 22,783**
Preliminary General Fund-State 2001-03 Balance	**$ (1,222)**
Transfer from General Fund to Emergency Reserve Account	**0**
Transfer to General Fund from Health Services Account and Other Accounts	**228**
Ending General Fund-State Balance	**$ (994)**
Emergency Reserve Fund Account Balance	**384**
Projected 2001-03 Balance Including Emergency Reserve Account	**$ (610)**

* The foregoing General Fund-State Budget information does not reflect revenues or expenditures expected in connection with the settlement of tobacco litigation.

Source: Office of Financial Management.

State Transportation Budget

The Legislature passed the state transportation budget for the 2001-03 Biennium on June 21, 2001, and the Governor signed the bill on June 26, 2001. The total $3.8 billion budget bill contained funding for $2.1 billion in capital expenditures, including $1.8 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

On November 2, 1999, the voters of Washington approved Initiative 695, which eliminated up to $1.1 billion in direct distributions of state revenues, including about $560 million from accounts that support the Department of Transportation's budget. See "Initiative and Referendum—Initiative 695." The initiative also eliminated the revenue stream that was designed to backfill the gas tax to be used for debt service on $1.9 billion in highway purpose bonds authorized during the previous year. As a result of the action taken by the 2000 Legislature, the Department of Transportation's capital expenditure level is now at nearly $1.7 billion.

The state gas tax, currently 23 cents per gallon, historically has been pledged for debt service retirement on transportation bonds.

CAPITAL BUDGET AND STATE DEBT

State Capital Budget

The state's 2001-03 biennial capital budget adopted by the 2001 Legislature provided for $2.5 billion expenditures in new projects. Of this total, $887 million in expenditures were to be funded from the sale of general obligations that are subject to the state's statutory debt limit.

The Governor's proposed 2002 Supplemental Budget includes an economic stimulus package that increases the amount provided for new state projects by $100 million; while replacing the funding source of $175 million in general obligation bonded projects with a new dedicated fund bond issue.

Including the Governor's proposed 2002 Supplemental Budget, the 2001-03 biennial capital budget provides for $711 million for higher education projects, $346 million for K-12 education, $672 million for natural resource projects, and $230 million in public works low interest loans to local governments. In addition, the budget includes $81 million for major renovations to the state Capital Building. Other capital fund are divided across the remaining state governmental functions.

General Obligation Debt

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

(i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to both constitutional and statutory limitations; see "General Obligation Debt Limitations" below);

(ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations, but is subject to statutory limitations; see "General Obligation Debt Limitations" below); or

(iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:

  (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;

  (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;

  (c) may be incurred only to provide for appropriations already made by the Legislature; or

  (d) may be incurred to refund outstanding obligations of the state.

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

General Obligation Debt Limitations. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled "General Obligation Debt Authority" above is limited by constitutional and statutory restrictions. The limitations in both

cases are imposed by prohibiting the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These are limitations on the incurrence of new debt and are not limitations on the amount of debt service which may be paid by the state in future years.

"General state revenues" is defined as including all state money received in the State Treasury from each and every source whatsoever, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes.

The constitutional and statutory limitations, which are overlapping, are summarized as follows:

(i) *The Constitutional Limitation*. Under Article VIII, Section 1 of the State Constitution, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine percent of the arithmetic mean of general state revenues for the preceding three fiscal years. Excluded from the calculation are the following types of general obligation debt:

(a) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;

(b) debt which has been refunded;

(c) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;

(d) debt issued to meet temporary deficiencies in the State Treasury (described in "General Obligation Debt Authority" above);

(e) debt issued in the form of bond anticipation notes;

(f) debt issued to fund or refund debt of the State Building Authority (no longer in existence);

(g) debt issued to pay "current expenses of [S]tate government;" and

(h) debt payable solely from the revenues of particular public improvements (revenue debt of the state).

(ii) *The Statutory Limitation*. Under chapter 39.42 RCW, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed seven percent (as contrasted with the nine percent limitation in the State Constitution) of the arithmetic mean of general state revenues for the preceding three fiscal years.

The percentage limitation and the general obligation debt excluded from calculation of the limitation under this state statute have changed from time to time. The types of general obligation debt currently excluded from the calculation are the same as those excluded from the calculation under the constitutional limitation with the following exceptions:

(a) general obligation debt issued after approval of both houses of the Legislature and a majority of the voters, which is included rather than excluded as described above under "The Constitutional Limitation;"

(b) general obligation debt issued prior to July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from money other than general state revenues or from special excise taxes imposed under chapter 67.40 RCW ("reimbursement bonds"); and

(c) general obligation debt issued after July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from (1) moneys outside the State Treasury (except for higher education operation fees); (2) higher education building fees; (3) indirect cost recovered from federal grants and contracts; and (4) University of Washington hospital patient fees.

Current General Obligation Debt Capacity. By applying the statutory limitation on general obligation debt, which is currently the more restrictive of the constitutional and statutory limitations, the state's estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows:

Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 1999, 2000, and 2001 (1)	$ 8,576,864,019
7% of such arithmetic mean (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 600,380,481
Maximum annual debt service on outstanding general obligation debt (1/15/2002)	$ 582,545,647
Uncommitted portion of debt service limitation (1/15/2002)	$ 17,834,834
Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	$ 227,989,034

(1) Preliminary, subject to change. The arithmetic means of general state revenues for fiscal years ending (a) June 30 1998, 1999, and 2000, (b) June 30 1997, 1998, and 1999, and (c) June 30 1996, 1997, and 1998, were $8,305,755,187, $7,918,308,401, and $7,559,859,280, respectively.

(2) The amount of debt that can be issued under this debt limitation calcualtion is subject to numerous factors, including state revenues, debt structure and interest rates, and may vary over time.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond acts of the state 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 are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional and statutory debt limitations. The state has no bond anticipation notes currently outstanding.

Article VIII of the State Constitution and chapter 39.42 RCW 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 twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from constitutional and statutory debt limitations. The state has no

certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

Motor Vehicle Fuel Tax Obligations

As of January 15, 2002, there were outstanding $1,400,935,000 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

Motor Vehicle Fuel Tax Rates. Chapter 49, Laws of 1983, 1st Ex. Sess., established a motor vehicle fuel tax at a fixed cents-per-gallon rate. Effective April 1, 1990, the fuel tax was raised to 22 cents per gallon from 18 cents. Effective April 1, 1991, the fuel tax was raised to 23 cents per gallon.

Revenue Available for Debt Service. The following table presents the state's motor vehicle fuel excise tax collection experience at various rates per gallon, including a revenue projection of the 23 cents per gallon tax effective April 1, 1991, and the allocations of excise tax pledged for bond principal and interest payments.

	Revenue Pledge	County-City Allocation (1)	State Allocation (2)
July 1, 1990 – June 30, 1991	$573,879,233	$78,783,798	$281,699,313
July 1, 1991 – June 30, 1992	610,681,244	81,153,690	305,143,075
July 1, 1992 – June 30, 1993	596,015,283	79,888,937	297,161,376
July 1, 1993 – June 30, 1994	614,890,069	82,418,884	306,571,969
July 1, 1994 – June 30, 1995	615,525,077	82,503,999	306,888,571
July 1, 1995 – June 30, 1996	655,427,980	87,887,898	327,133,159
July 1, 1996 – June 30, 1997	672,095,589	89,661,476	336,186,110
July 1, 1997 – June 30, 1998	688,474,782	91,846,557	344,379,077
July 1, 1998 – June 30, 1999	712,559,355	95,059,580	356,426,320
July 1, 1999 – June 30, 2000	721,684,773	96,276,797	365,130,833
July 1, 2000 – June 30, 2001	723,945,995	96,578,457	366,272,623
July 1, 2001 – June 30, 2002 (3)	729,341,278	97,298,218	368,999,249

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program (RCW 47.26.404, 47.26.4252, 47.26.4254, and 47.26.505).

(2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.

(3) Department of Transportation forecast (September 2001).

Revenue Pledge and Lien Priorities. Each legislative act authorizing 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 imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

Lien priorities have been created in order of chronology of bond authorizations and legislative designation in the distribution of revenue dedicated for various purposes. With the pledge of the aggregate of motor vehicle fuel tax revenues for payment of the principal of and interest on all motor vehicle fuel tax bonds

currently authorized, lien priorities can be characterized as a mandate as to which portion of the excise tax revenues should be used first on a priority basis in the transfer of funds to the Highway and Ferry Bond Retirement Funds.

Consistent with statutory language, reference to the pledge of revenue is now stated as the "excise taxes on motor vehicle and special fuels."

Certain significant aspects relating to motor vehicle fuel tax bonds should be noted:

(i) All motor vehicle fuel tax general obligation bonds are secured by a pledge of the full faith, credit and taxing power of the state.

(ii) All motor vehicle fuel tax bonds, including the revenue bonds (which are secured directly and only by the excise tax on motor vehicle fuels) and the general obligation bonds (which are secured additionally by that excise tax revenue), constitute liens in an established order of priority against the fuel tax revenue.

Sources of Repayment

The Legislature is obligated to appropriate money for state debt service requirements. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in the omnibus appropriation act or occasionally in another appropriation act of each biennial session. In addition, it has been the practice to provide in each omnibus appropriation act an appropriation of such additional money as may be required to satisfy bond covenants and laws for reserves, surplus funds and other "set-asides."

Generally, each bond statute provides that on or before June 30 of each year the Committee shall certify to the State Treasurer the amount required for payment of bond principal and interest for the ensuing fiscal year. For bonds authorized before the First Extraordinary Session of the 1977 Legislature on July 1 (in some instances on June 30), the State Treasurer was required to transfer those funds from any state general revenues, component or dedicated revenues, depending on the revenue pledge, to the specified bond fund. For bonds authorized during the 1977 First Extraordinary Legislative Session and for all subsequent authorizations made prior to the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds not less than 30 days prior to the principal or interest payment date. For bonds authorized during and since the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds on the principal or interest payment date.

The statutes(s) authorizing the bonds and other general obligations of the state require the Committee to certify annually the amount needed to provide for payment of debt service and require the State Treasurer to deposit "general state revenues" in such amount into the General Obligation Bond Retirement Fund from time to time. The term "general state revenues" is defined in Article VIII in the State Constitution. Not all money deposited in the General Fund-State constitutes general state revenues. The following table presents general state revenues for fiscal years since 1994:

GENERAL STATE REVENUES
(in Millions)

Fiscal Year	General State Revenues
2000	$ 8,655.570
1999	8,252.312
1998	7,999.384
1997	7,503.229
1996	7,176.965
1995	7,201.595

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). With the exception of bonds reimbursed by community college tuition, all of these required reimbursements have been made to date. A long-term receivable for the community college reimbursements in the amount of $18.7 million as of December 31, 1990, has been established in the State Treasury. As of February 1, 2000, the receivable amounted to $14.8 million.

In addition, special hotel-motel tax proceeds collected in King County are pledged to reimburse the General Fund-State debt service payments for the 1983 State Convention and Trade Center Bonds.

For motor vehicle fuel tax bonds, 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 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 State 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, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State 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.

The state retains and expects to continue to retain a minimum surplus of funds in the Highway Bond Retirement Fund pending the development of clear estimates of the consequences of energy conservation measures and more definite Department of Transportation revenue projections.

With respect to state ferry bonds, concurrent with the distribution of motor vehicle and special fuel tax revenue to the Ferry Bond Retirement Fund, the State Treasurer must transfer a like amount of funds from the Puget Sound Capital Construction Account to the Motor Vehicle Fund.

Other bonds are limited obligations not payable from the General Fund-State. Such bonds are payable from parking fees and land grant revenues (for state parking facilities bonds).

State Bonds Outstanding

The following table summarizes as of January 15, 2002, the state's general obligation bonds, general obligation and revenue bonds secured by motor vehicle fuel tax revenue, limited obligation bonds, and state agency debt.

General Obligation Bonds	$ 6,821,068,651
Motor Vehicle Fuel Tax General Obligation and Revenue Bonds	1,400,935,000
	$ 8,222,003,651

An additional $1,106,303,000 principal amount of general obligation bonds and $1,915,200,000 principal amount of motor vehicle fuel tax general obligation and revenue bonds currently are authorized but unissued as of January 15, 2002. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not

be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 10.43 times by general state revenues of $8.813 billion for the fiscal year ending June 30, 2001. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation and revenue bonds is 4.81 times based upon estimated gasoline tax revenues of $724.359 million for the fiscal year ending June 30, 2002.

Schedules

Schedules Nos. 1 through 3 on the following pages show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

SCHEDULE NO. 1 (Combined — General State Revenues and Components, Motor Vehicle Fuel Tax, and Other Revenues)

TOTAL BONDS OUTSTANDING AND JANUARY 15, 2002 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 1/15/2002 (1)		January 15, 2002 Bond Offering (2,5)		Total (3)
	Principal	Interest (4)	Principal	Interest	
2002	$ 36,945,000	$ 83,968,512	$ -	$ -	$ 120,913,512
2003	393,693,923	407,337,583	14,160,000	28,051,229	843,242,735
2004	367,895,451	387,397,019	13,375,000	28,726,050	797,393,520
2005	377,507,976	372,613,944	13,815,000	28,124,175	792,061,095
2006	381,919,229	349,039,178	14,335,000	27,502,500	772,795,907
2007	396,178,126	332,738,890	14,905,000	26,785,750	770,607,766
2008	403,244,536	309,425,889	15,540,000	26,040,500	754,250,925
2009	389,109,578	289,800,849	16,245,000	25,263,500	720,418,927
2010	363,647,556	271,113,898	16,990,000	24,451,250	676,202,704
2011	336,974,208	251,067,393	17,800,000	23,601,750	629,443,352
2012	325,305,276	236,267,556	18,650,000	22,711,750	602,934,581
2013	342,618,543	212,873,800	19,575,000	21,779,250	596,846,593
2014	358,498,999	188,223,843	20,565,000	20,800,500	588,088,342
2015	381,276,564	177,623,380	21,625,000	19,772,250	600,297,194
2016	388,299,988	169,520,269	22,765,000	18,691,000	599,276,257
2017	378,251,545	167,618,873	23,980,000	17,552,750	587,403,168
2018	352,313,956	145,648,084	25,285,000	16,353,750	539,600,790
2019	325,276,316	129,229,129	26,675,000	15,089,500	496,269,945
2020	298,828,376	116,518,458	28,160,000	13,755,750	457,262,584
2021	246,073,505	74,259,087	29,740,000	12,347,750	362,420,342
2022	218,100,000	38,579,050	31,410,000	10,860,750	298,949,800
2023	187,460,000	27,474,884	33,180,000	9,290,250	257,405,134
2024	162,310,000	17,982,906	35,055,000	7,631,250	222,979,156
2025	117,180,000	9,927,444	37,050,000	5,878,500	170,035,944
2026	78,425,000	4,064,894	39,145,000	4,026,000	125,660,894
2027	23,270,000	581,750	41,375,000	2,068,750	67,295,500
	$ 7,630,603,651	$ 4,770,896,562	$ 591,400,000	$ 457,156,454	$ 13,450,056,668

Note: Totals may not add due to rounding.

(1) **Outstanding Bonds by Revenue Pledge**	Principal	Interest
(a) Prior Liens: Retail Sales Tax Revenues	$ 1,490,000	$ 77,400
(b) General State Revenues	6,566,253,651	4,167,704,628
(c) Motor Vehicle Fuel Tax	1,062,860,000	603,114,534
Total Bonds Outstanding	$ 7,630,603,651	$ 4,770,896,562
(2) **January 15, 2002 Bond Offering**		
(a) Series 2002B, dated 1/15/2002	$ 253,325,000	$ 196,531,054
(b) Series 2002C, dated 1/15/2002	338,075,000	260,625,400
Total Current Offerings	$ 591,400,000	$ 457,156,454
(3) **Total Bonds Outstanding Following January 15, 2002 Offering**	$ 8,222,003,651	$ 5,228,053,016

(4) Interest payments are only estimates and are subject to change from time to time as market conditions change.

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

(thousands of dollars)

	6/30/98		6/30/99		6/30/00		6/30/01		1/15/2002 (1)	
	General Obligation	Limited Obligation	General Obligation	Limited Obligation	General Obligation	Limited Obligation	General Obligation	Limited Obligation	General Obligation	Limited Obligation
Outstanding										
General State Revenues and Components										
General State Revenues	$ 5,542,022	$ - - - - - -	$ 5,842,971	$ - - - - - -	$ 6,277,518	$ - - - - - -	$ 6,540,745	$ - - - - - -	$ 6,819,579	$ - - - - - -
Retail Sales Tax Revenue	5,180	- - - - - -	4,325	- - - - - -	3,425	- - - - - -	2,485	- - - - - -	1,490	- - - - - -
Subtotal	$ 5,547,202	$ - - - - - -	$ 5,847,296	$ - - - - - -	$ 6,280,943	$ - - - - - -	$ 6,543,230	$ - - - - - -	$ 6,821,069	$ - - - - - -
Motor Vehicle Fuel Tax Revenue	$ 1,059,080	$ - - - - - -	$ 1,035,315	$ - - - - - -	$ 997,215	$ - - - - - -	$ 1,135,885	$ - - - - - -	$ 1,400,935	$ - - - - - -
Land Grant and Parking Revenues	- - - - - -	2,260	- - - - - -	1,170	- - - - - -		- - - - - -		- - - - - -	- - - - - -
Total	$ 6,606,282	$ 2,260	$ 6,882,611	$ 1,170	$ 7,278,158	$ - - - - - -	$ 7,679,115	$ - - - - - -	$ 8,222,004	$ - - - - - -
Grand Total - Outstanding	$6,608,542		$6,883,781		$7,278,158		$7,679,115		$8,222,004	
Annual Debt Service Requirements										
Fiscal Year	$660,195		$694,076		$736,210		$789,213		$829,871	
Authorized -- Unissued										
General State Revenues and Components										
General State Revenues	$ 1,378,563	$ - - - - - -	$ 2,003,136	$ - - - - - -	$ 1,259,883	$ - - - - - -	$ 1,697,723	$ - - - - - -	$ 1,106,303	$ - - - - - -
Retail Sales Tax Revenue	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
Subtotal	$ 1,378,563	$ - - - - - -	$ 2,003,136	$ - - - - - -	$ 1,259,883	$ - - - - - -	$ 1,697,723	$ - - - - - -	$ 1,106,303	$ - - - - - -
Motor Vehicle Fuel Tax Revenue	485,375	- - - - - -	2,436,820	- - - - - -	2,409,820	- - - - - -	2,253,275	- - - - - -	1,915,200	- - - - - -
Total	$ 1,863,938	$ - - - - - -	$ 4,439,956	$ - - - - - -	$ 3,669,703	$ - - - - - -	$ 3,950,998	$ - - - - - -	$ 3,021,503	$ - - - - - -
Grand Total - Unissued	$1,863,938		$4,439,956		$3,669,703		$3,950,998		$3,021,503	
Issued (New Money and Refunding)										
Fiscal Year	$960,735		$711,367		$874,563		$1,345,245		$929,495	

(1) Includes current offering dated January 15, 2002.

Note: Totals may not add due to rounding

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS [1]
by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2002	$693,428,833	$136,442,538	$423,551,504	$406,319,867	$829,871,371
2003	693,634,899	149,607,836	407,853,923	435,388,812	843,242,735
2004	660,214,635	137,178,885	381,270,451	416,123,069	797,393,520
2005	657,150,980	134,910,116	391,322,976	400,738,119	792,061,095
2006	640,784,295	132,011,612	396,254,229	376,541,678	772,795,907
2007	639,040,828	131,566,939	411,083,126	359,524,640	770,607,766
2008	628,735,214	125,515,711	418,784,536	335,466,389	754,250,925
2009	602,442,593	117,976,334	405,354,578	315,064,349	720,418,927
2010	570,501,498	105,701,206	380,637,556	295,565,148	676,202,704
2011	536,051,209	93,392,143	354,774,208	274,669,143	629,443,352
2012	514,522,133	88,412,448	343,955,276	258,979,306	602,934,581
2013	508,461,188	88,385,406	362,193,543	234,653,050	596,846,593
2014	499,705,058	88,383,284	379,063,999	209,024,343	588,088,342
2015	511,913,587	88,383,607	402,901,564	197,395,630	600,297,194
2016	510,889,375	88,386,882	411,064,988	188,211,269	599,276,257
2017	499,363,794	88,039,374	402,231,545	185,171,623	587,403,168
2018	453,410,800	86,189,990	377,598,956	162,001,834	539,600,790
2019	411,715,243	84,554,702	351,951,316	144,318,629	496,269,945
2020	375,240,163	82,022,421	326,988,376	130,274,208	457,262,584
2021	291,468,076	70,952,266	275,813,505	86,606,837	362,420,342
2022	234,009,788	64,940,013	249,510,000	49,439,800	298,949,800
2023	207,045,234	50,359,900	220,640,000	36,765,134	257,405,134
2024	179,297,466	43,681,691	197,365,000	25,614,156	222,979,156
2025	128,894,159	41,141,784	154,230,000	15,805,944	170,035,944
2026	86,456,281	39,204,613	117,570,000	8,090,894	125,660,894
2027	42,636,250	24,659,250	64,645,000	2,650,500	67,295,500
Total	$11,777,013,578	$2,382,000,949	$8,608,610,156	$5,550,404,371	$14,159,014,527

(1) Includes current offering dated January 15, 2002.

Note: Totals may not add due to rounding

SELECTED DEBT RATIOS

Debt Ratios

Year	State Debt Per Capita	State Debt/ Personal Income (Percentage)	Total Debt Service/ Personal Income (Percentage)	State Debt/ Market Value Taxable Property (Percentage)
1998	$ 1,129.95	3.98%	0.43%	1.67%
1999	1,183.83	3.96%	0.42%	1.65%
2000	1,247.83	3.99%	0.43%	1.62%
2001*	1,318.27	4.15%	0.44%	1.71%
2002*	1,360.67	4.26%	0.44%	1.79%

Factors for the Debt Ratios

Year	Population (1) (000)	Personal Income (2) (000,000)	Debt Service (3) (000)	Market Value Taxable Property (4) (000)	State Debt (5) (000)
1998	5,750.00	$ 163,291	$ 694,076	$ 389,446,412	$ 6,497,199
1999	5,830.80	174,324	736,210	419,424,340	6,902,685
2000	5,894.10	184,280	789,213	452,962,015	7,354,860
2001*	5,974.90	189,726	829,871	459,907,731	7,876,509
2002*	6,042.60	193,152	843,243	459,907,731	8,222,004

(1) Population -- Office of Financial Management, "Washington Economic and Revenue Forecast November 2001," Table A5.1.

(2) Personal Income -- Office of Financial Management, "Washington Economic and Revenue Forecast November 2001," Table A3.3.

(3) Debt Service -- Reported by State Finance Committee for the ensuing fiscal year.

(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 1995 through 2000 -- Department of Revenue, "Tax Statistics 1999," Table 38. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by Office of State Treasurer for December 31 each year. Outstanding as of January 15, 2002.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$5,635,480,153 (1)	
First Payable from Other Sources	2,586,523,499 (2)	
Limited Obligation	0	$8,222,003,651

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	1.34%	0.62%	1.96%
Per Capita Debt.....	$932.63	$428.05	$1,360.67

(1) Outstanding Bonds as of January 15, 2002.

(2) Certain state General Obligation Bonds are payable first from sources other than general state revenues ($2,586,523,499 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers while premiums for the Medical Aid and Supplemental Pension Funds are shared equally by employers and employees. A separate pension fund sufficient to pay future pension obligations is established in the Accident Fund and not through separate premium assessments. The Supplemental Pension component covers both state fund and self-insured employees. The Accident, Medical Aid and Pension components are designed to be self-sustaining; assets are accumulated to fund future benefits.

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, "pay-as-you-go" basis. GAAP formerly required those liabilities be recorded as long-term debt and allowed expected employer and employee contributions to be shown as an asset. GASB now requires the Supplemental Cost of Living Benefit to be characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, but does not permit employer and employee future contributions to be shown as an offsetting asset. This accounting change has no impact on the fund's liability to pay supplemental cost of living benefits, nor does it affect its ability to make those payments. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be $4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

Lease Commitments

The state has approximately ten million square feet of leased office, educational, laboratory, and warehouse space throughout the state occupied under 1,125 operating leases totaling $65 million annually. According to the State Department of General Administration, the agency responsible for negotiating the real estate lease rental contracts, the maximum requirement for any one lease currently committed is $3.9 million each year.

Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of January 1, 2002.

	Outstanding	1999-2001 Debt Service Requirement	Final Maturity
State Equipment Series C, 1994	$ 1,195,000	$ 1,038,171	2004
Master Installment Program, 1993	22,752,443	10,384,286	2016
Equipment Series, Competitive	64,239,568	39,965,365	2013
Bellingham Technical College Classroom Additions	280,000	94,838	2008
Whatcom, Columbia Basin and Yakima CC, 2000A	5,215,000	810,930	2020
Bates Purch of Land and Improvement KBTC TV	3,850,000	646,673	2020
Edmonds Community College	4,085,000	744,921	2018
Combined CC's 2001 A	6,565,000	1,486,416	2017
Combined CC's 2001 B	7,690,000	1,125,413	2015
Work/Release Financing Agreement	245,000	260,270	2003
State Department of Corrections, 1998	2,575,000	850,775	2009
Department of Correction Spokane- Brownstone	3,050,000	309,820	2021
State Department of Ecology, 1991	29,825,000	4,917,325	2016
State Department of Licensing, 1998	6,465,000	1,114,840	2018
State Department of Transportation, 1999	10,195,000	5,644,385	2005
Tacoma Co-location Project, Series 1996	14,815,000	2,597,458	2020
State Department of General Administration, 1999A	9,925,000	1,418,328	2022
State Department of General Administration, 1999B	8,385,000	1,474,343	2019
Kelso Building and Land, 2000	4,595,000	860,441	2015
Pierce College Classroom Building	590,000	195,694	2008
Cama Beach Historical Cabins	2,285,000	337,070	2016
Local Real Estate 2000 Series A	1,010,000	277,697	2016
Local Real Estate 2000 Series B	375,000	164,921	2016
Local Real Estate 2001A	2,190,000	302,608	2016
Local Real Estate 2001B	995,000	167,465	2017
Seattle Community College Parking Lot Refinancing	150,000	231,313	2002
South Puget Sound Community College, 1999	5,045,000	898,669	2020
University of Washington, 1999	10,425,000	2,179,560	2021
University of Washington, 2001	1,605,000	193,200	2021
University of Washington, 2001B	6,030,000	458,337	2022
University of Washington, 2001C	5,515,000	714,185	2013
Whatcom Community College Child Care Center	740,000	162,833	2013
State Convention and Trade Center Expansion	184,740,000	21,732,519	2017
Liquor Control Board Distribution Center, 1996	16,255,000	5,606,580	2010
Port Angeles Office Building	500,000	116,748	2012
Washington State University, 1996	7,390,000	1,615,919	2017
Department of Ecology 2001 Refunding	44,455,000	7,324,762	2012
UW Sandpoint Phase 2B	3,565,000	173,718	2022
Department of Veterans Administration	4,100,000	339,770	2016
Total Certificates of Participation/Financing Contracts	$ 503,907,012	$ 118,938,563	

The 1989 Legislature authorized financing contracts for personal and real property. The state currently has in place a program that provides for the financing of equipment and real estate projects by competitive sale of certificates of participation in master financing contracts. The state's obligations are subject to appropriation.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 30 weeks of regular unemployment insurance benefits, with a maximum state liability of $13,230 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now $441; the minimum is $94.

Legislative changes in 1984 improved the revenue-generating capacity of the unemployment insurance financing provisions. Collections under prior law could only meet the average annual benefit costs of the state's benefit provisions, and the reserve fund level (fund balance as a percent of total wages) could increase only during periods of low unemployment.

The experience rating system enacted in 1984 provided for six tax schedules with average yields ranging from 2.3 percent to 4.0 percent of taxable wages, depending on the reserve fund level. Each schedule has a maximum tax rate of 5.4 percent to conform to federal requirements. The highest tax schedule is in effect when the reserve fund level is below one percent of total wages, which was the case in 1985, 1986 and 1987. Growth in the trust fund triggered tax schedules with lower yields. The lowest tax schedule was in effect from 1990 through 1993. The reserve fund level continued to increase until June 30, 1993, after which it decreased slightly from 4.4 percent to 4.2 percent.

The 1993 Legislature concluded that the trust fund level was higher than necessary. In 1993, the Legislature enacted the new, lower tax schedule AA, and the 1995 Legislature enacted lower trust fund controls.

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

	Beginning Balance	Receipts	Disbursements	June 30 Balance	
				Dollars	Percent*
FY 1991	$ 1,474	$ 660	$ 499	$ 1,635	4.4%
FY 1992	1,635	676	601	1,710	4.4
FY 1993	1,710	684	646	1,748	4.2
FY 1994	1,748	688	845	1,591	3.7
FY 1995	1,591	674	813	1,452	3.2
FY 1996	1,452	682	815	1,319	2.7
FY 1997	1,319	765	728	1,356	2.6
FY 1998	1,356	852	691	1,517	2.6
FY 1999	1,517	921	816	1,622	2.4
FY 2000	1,622	1,109	799	1,932	2.6

* As a percent of total wages for the preceding calendar year.

State Retirement Systems

The table below presents details regarding liabilities and assumptions of the Washington State Retirement System Funds. These retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule but providing neither pre-retirement nor post-retirement medical benefits. The benefit amount may be determined by a combination of service and/or salary. The state also participates in the Judicial Retirement System and the Volunteer Fire-Fighter System, which are minor in relation to those illustrated.

The Office of the State Actuary is overseen by a special committee of the Legislature and performs all actuarial services for the Department of Retirement Systems, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and will be subject to revision at subsequent dates.

The pertinent items disclosed below are as follows:

(i) *Contribution Rates.* These are rates of contribution developed based upon the 2000 valuations, expressed as a percentage of the active members' compensation.

(ii) *Unfunded Actuarial Present Value of Fully Projected Benefits.* This is the unfunded actuarial present value of the state's total commitment to pensions, including the unfunded actuarial present value of benefits accrued to date for active, inactive and retired members, and the actuarial present

value of projected future accruals for active members. (Contribution rates are derived from this data.)

(iii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated by the Credited Projected Benefits Method. Benefits are projected to retirement, including future salary increases but only service earned to date.

(iv) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated by the Credited Projected Benefits Method.

(v) *Unfunded Actuarial Accrued Liability-Entry Age Cost Method.* This is a portion of the unfunded actuarial present value of fully projected benefits. The only significance of this item is in developing the contribution rates for the systems. Contributions toward the Unfunded Actuarial Accrued Liability have been developed as a level percentage of expected future payrolls. The current statute, chapter 41.45 RCW, requires the existing Unfunded Actuarial Accrued Liability, as well as future gains or losses, and benefit increases to be fully funded by the dates shown in the following table.

The Public Employees' Retirement System ("PERS"), the Teachers' Retirement System ("TRS"), the School Employees' Retirement System ("SERS"), and the Law Enforcement and Firefighters' Retirement System ("LEOFF") each include more than one plan. In the table below, contribution rates are shown for members entering before October 1, 1977 (Plan 1), and after October 1, 1977 (Plan 2). Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who were previously included in PERS Plan 2. School employees hired before Octboer 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of SERS, PERS and TRS is contributed to the respective Plan 1.

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated. These studies were performed for the 1989-94 period. As a result of these studies, significant changes were made in these assumptions and in the asset valuation method. The results shown below reflect the new assumptions.

The major economic assumptions used, developed and adopted by the Pension Funding Council, are as follows:

(i) ultimate rate of assumed investment return: 8.0 percent per annum;

(ii) general salary increases: 4.5 percent per annum;

(iii) rate of Consumer Price Index increase: 3.5 percent (where applicable).

ACTUARIAL ASSUMPTIONS—RETIREMENT SYSTEMS

(Dollars in Millions)

	Public Employees[3]		Teachers		School Employees[3]		Law Enforcement Officers and Firefighters		State Patrol	System Totals [4]
Most Recent Valuation Date	12/ 31/ 2000		06/ 30/2000		12/ 31/ 2000		12/ 31/ 2000		12/ 31/ 2000	2000
Contribution Rates	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)		
State	1.63%	1.63%	2.38%	2.38%	NA	1.63%	0.00%	1.61%	0.00%	
Employee	6.00%	1.05%	6.00%	1.29%	NA	0.46%	0.00%	4.02%	2.00%	
Employer (Other than State)	1.63%	1.63%	2.38%	2.38%	NA	1.63%	0.00%	2.41%	0.00%	
Unfunded Actuarial Present Value of Fully Projected Benefits	$ 1,270		$ 1,438		$ 58		$ (564)		$ (98)	$ 2,105
Unfunded Actuarial Present Value of Credited Projected Benefits	$ (2,572)		$ (1,592)		$ (404)		$ (2,361)		$ (244)	$ (7,172)
Funding Ratio (Assets/Actuarial Present Value of Credited Projected Benefits	129%		114%		170%		143%		152%	127%
Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	$ 452		$ 479		$ 0		$ (1,330)		$ 0	$ (399)
Contribution Rate [5] to Fund Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	0.58%		0.62%		0.58%		NA		NA	
Remaining Funding Period for Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	June 30, 2024		June 30, 2024		June 30, 2024		NA		NA	

(1) Contribution rate for members entering system before October 1, 1977 (Plan 1).

(2) Contribution rate for members entering system after October 1, 1977 (applies to Plan 2 members, not Plan 3 members).

(3) The Public Employees Retirement System and School Employees Retirement System cover employees of the state and its political subdivisions as provided by statute. The figures shown above for unfunded Actuarial Present Value of Fully Projected Benefits, Unfunded Actuarial Present Value of Credited Projected Benefits, and Unfunded Actuarial Accrued Liability represent the state's portion only, approximately 53 percent of the total for these items. The contribution rate in respect of the Unfunded Actuarial Accrued Liability is paid by all employers, and all these contributions go into the Public Employees Retirement System Plan 1, which covers both public and school employees.

(4) Includes items from different valuation dates.

(5) Contribution rates are effective July 1, 2003.

Source: Office of State Actuary

STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS
(Dollars in Millions)

Fiscal Year Ending June 30	Public Employees (1)	Teachers (2)	School Employees (2)	Law Enforcement Officers and Firefighters (2)	Volunteer Firefighters (2)(3)	State Patrol	Judicial (1)(2)
1997	192,800	313,000	(4)	84,400	3,000	6,800	6,900
1998	212,600	317,200	(4)	70,500	2,000	5,900	8,800
1999	222,300	322,700	(4)	71,000	2,500	5,900	8,800
2000	146,700	258,300	(4)	17,100	2,700	0	7,300
2001	152,200	210,900	10,600	20,900	3,300	0	7,300

(1) State Agency Appropriations. Contributions commingled in each agency's operations budget.

(2) General Fund-State transfers.

(3) Nonappropriated: volunteer firefighters receive 40 percent of state tax on fire insurance premiums.

(4) Prior to the 2000 valuation, school employees were members of PERS 2.

Source: Office of State Actuary

ECONOMIC INFORMATION

This section provides certain information concerning the economic condition of the state. The demographic information and statistical data which are provided do not necessarily present all factors which may have a bearing on the state's fiscal and economic affairs.

Overview

Population. The 2000 U.S. census count of the state's population was 5,894,121, or 21.1 percent more than the 4,866,700 counted in 1990.

The Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA") is the biggest single component of the state's economy, with a population of 2,414,616 in 2000, up 18.8 percent since 1990. King County and the adjacent counties to the north, Snohomish and Island Counties, comprise the Seattle PMSA, which is the fourth largest metropolitan center on the Pacific Coast. The city of Seattle, located in northwestern Washington, is the largest city in the Pacific Northwest and serves as the King County seat. The population trends of King County and the Seattle PMSA show continued growth at a higher rate than Seattle's, reflecting the stable economy of the area and the greater availability of residential construction sites outside Seattle.

In the eastern half of the state, population in the Spokane area grew to 417,939 in 2000, an increase of 15.7 percent over 1990, and the Yakima area's population increased to 222,581, growing by 17.9 percent since 1990.

Infrastructure. The state is the home of two full-facility sea ports, located in Seattle and Tacoma, and the Seattle-Tacoma International Airport ("Sea-Tac"). The state also is served by the federal interstate highway system and Union Pacific and Burlington Northern-Santa Fe railroads, as well as Amtrak passenger lines.

Human Resources. The concentration of technical, engineering, managerial, scientific, and other professional skills within the state's work force is due in part to the state's state-supported higher education system, which consists of two major universities, four regional universities and a system of community colleges. In addition, the state has 18 private colleges.

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

Population Characteristics

COMPONENTS OF POPULATION CHANGE
STATE OF WASHINGTON
1990—2000
(Population Numbers in Thousands)

		Population Change		Components of Change From Previous Period						
				Births		Deaths		Natural	Net Migration	
April 1	Population	Number	%	Number	% (1)	Number	% (1)	Increase	Number	% (1)
1990	4,866.7	138.6	2.9	76.4	15.9	36.2	7.6	40.1	98.5	20.5
1991	5,000.4	133.7	2.7	79.1	16.0	36.6	7.4	42.5	91.2	18.5
1992	5,116.7	116.3	2.3	80.2	15.9	37.2	7.3	43.1	73.2	14.5
1993	5,240.9	124.2	2.4	79.1	15.3	39.4	7.6	39.7	84.5	16.3
1994	5,334.4	93.5	1.8	78.2	14.8	39.5	7.5	38.7	54.9	10.4
1995	5,429.9	95.5	1.8	77.4	14.7	39.9	7.4	37.5	58.0	10.8
1996	5,516.8	86.9	1.6	77.2	14.4	40.9	7.5	36.3	50.6	9.2
1997	5,606.8	90.0	1.6	77.0	13.8	41.5	7.5	35.5	54.5	9.8
1998	5,685.3	78.5	1.4	78.3	13.9	42.7	7.6	35.6	42.9	7.6
1999	5,757.4	72.1	1.3	77.8	13.6	43.2	7.5	34.7	37.4	6.5
2000(2)	5,803.4	46.0	0.8	79.9	13.8	43.9	7.6	36.0	10.0	1.7

(1) Rates are per 1,000 midpoint population and are computed on unrounded numbers.
(2) Estimates.

Source: Office of Financial Management

DISTRIBUTION OF POPULATION BY AGE
(Population Numbers in Thousands)

	Washington State				United States			
Age	1980 Number	% of Total	1990 Number	% of Total	1980 Number	% of Total	1990 Number	% of Total
Under 5	306	7.4	374	7.7	16,348	7.2	18,354	7.4
5 to 19	987	23.9	1,031	21.2	56,110	24.8	52,967	21.3
20 to 24	401	9.7	353	7.2	21,319	9.4	19,020	7.6
25 to 34	745	18.0	856	17.6	37,082	16.4	43,176	17.4
35 to 44	487	11.8	801	16.5	25,635	11.3	37,579	15.1
45 to 54	392	9.5	500	10.3	22,800	10.1	25,223	10.1
55 to 64	383	9.3	381	7.8	21,703	9.6	21,148	8.5
65 and over	432	10.5	571	11.7	25,549	11.3	31,242	12.6

Source: Office of Financial Management and the U.S. Bureau of Census

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for the last eight years.

PERSONAL INCOME COMPARISON
WASHINGTON AND U.S.
1992 - 2001
(Dollars in Billions)

	Current Dollars				1996 Chained Dollars			
	Washington		United States		Washington		United States	
Year	Amount	Percent[2]	Amount	Percent[2]	Amount	Percent[2]	Amount	Percent[2]
1992	$112.6	7.5%	$5,390.4	6.0%	$122.9	4.3%	$5,883.1	2.9%
1993	117.6	4.4	5,610.0	4.1	125.4	2.0	5,980.4	1.7
1994	123.3	4.9	5,888.1	5.0	128.9	2.8	6,152.2	2.9
1995	129.7	5.1	6,200.9	5.3	132.5	2.8	6,334.1	3.0
1996	139.3	7.4	6,547.4	5.6	139.3	5.2	6,547.3	3.4
1997	150.2	7.8	6,937.0	6.0	147.3	5.8	6,804.7	3.9
1998	163.3	8.7	7,426.0	7.0	158.5	7.6	7,207.5	5.9
1999	174.3	6.8	7,777.3	4.7	166.5	5.0	7,426.9	3.0
2000	184.3	5.7	8,319.2	7.0	171.4	3.0	7,737.2	4.2
2001[1]	188.9	2.5	8,724.7	4.9	172.5	0.6	7,966.2	3.0

(1) As of February 2002.
(2) Percent change; annual rate.

Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis

Employment Characteristics

Washington's wage and salary employment growth is expected to remain at 2.0 percent in 2000 after declining in 1999 from 3.2 percent in 1998 and 4.1 percent in 1997. The next three tables give summaries of employment information.

AVERAGE ANNUAL EMPLOYMENT*
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE
(Employment Numbers in Thousands)

	1997	1998	1999	2000	2001
Resident Civilian Labor Force	2,981.2	3,037.2	3,074.6	3,045.8	3,056.0
Unemployment	141.6	144.7	145.4	157.9	184.7
Unemployment Rate	4.8%	4.8%	4.7%	5.2%	6.1%
Total Employment	2,839.6	2,892.5	2,929.2	2,887.9	2,871.3
Nonagricultural Wage and Salary Workers Employed in Washington State					
Wage and Salary Employment	2,514.2	2,594.7	2,648.7	2,709.2	2,702.5
% Change	4.1	3.2	2.1	2.3	(0.2)
Durable Manufacturing Employment	261.3	271.0	255.8	243.1	231.6
% Change	11.2	3.7	(5.6)	(5.0)	(4.7)
Aerospace Employment	105.0	112.4	98.9	86.2	87.0
% Change	21.6	7.1	(12.0)	(12.8)	0.9
Lumber and Wood Employment	35.6	34.2	33.9	33.0	30.6
% Change	1.2	(4.1)	(0.7)	(2.7)	(7.3)
Electrical Machinery Employment	17.0	18.5	18.5	20.0	18.8
% Change	11.0	8.8	(0.3)	8.5	(6.4)
Nondurable Manufacturing Employment	108.8	108.6	108.3	107.7	102.6
% Change	(0.9)	(0.2)	(0.2)	(0.6)	(4.8)
Nonmanufacturing Employment	2,144.2	2,215.1	2,284.6	2,358.4	2,368.4
% Change	3.5	3.3	3.1	3.2	0.4
Construction Employment	136.3	143.7	153.8	161.0	157.3
% Change	6.6	5.4	7.1	4.7	(2.3)
Transportation, Communication, and Utilities Employment	132.8	135.6	139.7	146.1	146.2
% Change	6.3	2.1	3.0	4.6	0.1
Finance/Insurance/Real Estate	127.7	134.6	137.6	137.3	140.9
% Change	3.0	5.4	2.2	(0.2)	2.6
Services Employment	678.8	709.3	739.7	777.6	779.7
% Change	4.6	4.5	4.3	5.1	0.3
Retail Trade	457.4	469.6	482.0	494.3	492.1
% Change	2.4	2.7	2.6	2.5	(0.4)
Wholesale Trade	149.6	153.1	154.1	155.4	156.3
% Change	3.6	2.3	0.7	0.8	0.6
State and Local Government Employment	390.2	398.8	406.9	413.3	424.3
% Change	2.1	2.2	2.0	1.6	2.6
Federal Government Civilian Employment	67.9	67.2	67.6	69.9	68.1
% Change	(1.1)	(0.9)	0.5	3.4	(2.6)

* Averages of monthly data. The 2001 figures are based upon the February 2002 Forecast.

Source: Washington State Office of the Forecast Council

COMPARISON OF EMPLOYMENT TRENDS BY INDUSTRY SECTOR (%) [1]

	State		United States	
	1992	**2001**	**1992**	**2001**
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.7	1.5	1.5	1.3
Pulp and Paper	0.8	0.5	0.6	0.5
Apparel	0.4	0.3	1.7	0.8
Printing	1.0	0.8	1.4	1.1
Other	0.7	0.7	2.0	1.6
Subtotal	4.6	3.8	7.2	5.3
Durable Manufacturing				
Lumber and Wood	1.6	1.1	0.6	0.6
Metals	1.0	0.9	1.9	1.6
Machinery	1.4	1.6	3.2	2.7
Transportation Equipment	5.6	3.7	1.7	1.3
Instruments	0.6	0.5	0.9	0.6
Other	0.8	0.8	1.3	1.1
Subtotal	11.1	8.6	9.5	8.0
Total Manufacturing	15.6	12.4	16.7	13.4
Nonmanufacturing				
Mining	0.2	0.1	0.6	0.4
Construction	5.4	5.8	4.1	5.2
Transportation, Communication, Utilities	5.1	5.4	5.3	5.3
Trade	24.2	24.0	23.3	23.1
Services	25.1	28.9	26.7	31.0
Finance, Real Estate and Insurance	5.4	5.2	6.1	5.8
State and Local Government	15.8	15.7	14.4	13.8
Federal Government	3.3	2.5	2.7	2.0
Total Nonmanufacturing	84.4	87.6	83.3	86.6
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: 2001 figures are based on the November 2001 Forecast of the Office of the Forecast Council.

ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES

1993-2001

(Employment Numbers in Thousands)

	Civilian Labor Force		Number of Unemployed		Unemployment Rate		Wash. Rate as Percent of U.S.
Year	Wash.	U.S.	Wash.	U.S.	Wash.	U.S.	Rate
1993	2,701	129,185	206	8,927	7.6	6.9	110.2
1994	2,716	131,047	174	7,976	6.4	6.1	104.7
1995	2,810	132,315	179	7,407	6.4	5.6	114.0
1996	2,879	133,951	187	7,231	6.5	5.4	120.1
1997	2,981	136,301	142	6,727	4.8	4.9	96.2
1998	3,037	137,678	145	6,206	4.8	4.5	105.7
1999	3,075	139,384	145	5,881	4.7	4.2	111.9
2000	3,046	140,872	158	5,653	5.2	4.0	129.0
2001*	3,056	141,822	185	6,779	6.1	4.8	126.3

* Forecast (February 2002).

Source: Washington State Office of the Forecast Council and the U.S. Dept. of Labor, Bureau of Labor Statistics

Companies. The following two tables provide information on the top companies in the state, ranked by revenues.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 1999 REVENUES (in Millions)

		Revenues			Revenues
1.	The Boeing Co.	$57,993	14.	Potlatch Corp	$1,676
2.	Costco Cos. Inc.	27,456	15.	Amazon.com Inc.	1,639
3.	Microsoft Corp.	19,747	16.	Expeditors Int'l of Washington	1,444
4.	Washington Mutual Inc.	13,571	17.	Labor Ready Inc.	851
5.	Weyerhaeuser Co.	12,262	18.	Longview Fibre Co.	774
6.	Paccar Inc.	8,648	19.	Western Wireless Corp.	567
7.	Avista	7,905	20.	Immunex Corp.	542
8.	Safeco Corp	6,866	21.	Multiple Zones International Inc.	487
9.	Nordstrom Inc.	5,124	22.	VoiceStream Wireless Corp.	475
10.	Airborne Freight Corp.	3,140	23.	Washington Federal Inc.	468
11.	Alaska Air Group	2,082	24.	Esterline Technologies Corp.	461
12.	Puget Sound Energy Inc.	2,066	25.	Plum Creek Timber Co.	461
13.	Starbucks	1,680			

Source: Puget Sound Business Journal 2001 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2000
(Dollars in Millions)

	Company	Rank	Revenues	Profits	Headquarters/Location
1.	The Boeing Co.	15	$51,321	$2,128	Seattle
2.	Costco Cos. Inc.	45	32,164	631	Issaquah
3.	Microsoft Corp.	79	22,956	9,421	Redmond
4.	Weyerhaeuser Co.	122	15,980	840	Federal Way
5.	Washington Mutual Inc.	124	15,766	1,898	Seattle
6.	Paccar Inc.	238	7,919	442	Bellevue
7.	Avista	239	7,911	92	Spokane
8.	Safeco Corp.	262	7,118	115	Seattle
9.	Nordstrom Inc.	323	5,528	102	Seattle
10.	Puget Sound Energy	473	3,441	194	Bellevue
11.	Airborne Freight Corp.	489	3,276	29	Seattle

Source: Fortune Magazine Fortune 500, April 2001

Annual Retail Sales Activity

The state is home to a number of specialty retail companies that have reached national stature, including Nordstrom, Eddie Bauer, Costco, and Recreational Equipment Inc. The following table provides a history of retail sales activity in the state.

FISCAL YEAR RETAIL SALES ACTIVITY 1996-2000
(Dollars in Billions)

Fiscal Year	Washington	% Change	United States	% Change
1996	62.8	1.5	2,429.0	5.2
1997	66.7	6.2	2,555.1	5.2
1998	72.1	8.1	2,674.5	4.7
1999	77.2	7.1	2,856.0	6.8
2000	83.4	8.0	3,135.0	9.8

Source: Washington State Office of the Forecast Council and the U.S. Department of Commerce.

Trade

One in six jobs in the state is related to international trade. The state, particularly the Puget Sound corridor, is a trade center for the Northwest and the state of Alaska. During the past 20 years, the state consistently has ranked number one or number two in the nation in international exports per capita.

Ports. The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each rank among the top 20 ports in the world based upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

Approximately 70 percent of the cargo passing through the Ports of Seattle and Tacoma has an ultimate destination outside of the Pacific Northwest. Therefore, trade levels depend largely on national and world economic conditions, rather than local economic conditions.

Airport. The city of Seattle is the commercial center for the state and is near a major international airport, Seattle-Tacoma International Airport, which has scheduled passenger service by

15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing is the world's leading manufacturer of commercial airliners and, as of April 2001, employed approximately 78,900 people state-wide and 198,800 around the world. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affects approximately one-half of the 1,000 people who currently work in the Seattle location.

The following table shows the record of sales and earnings reported by Boeing for the last five years:

Year	Sales (Billions) *	Earnings (Millions)
1996	$ 35.453	$ 1,818
1997	45.8	(178)
1998	56.2	1,120
1999	58.0	2,309
2000	51.3	2,128

* Includes firm orders; excludes options, orders without signed contracts, and orders from firms that have filed for bankruptcy.

Source: The Boeing Company

While Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state.

Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world. Microsoft reported revenues of $6.46 billion for the quarter ended March 31, 2001, a 14 percent increase over revenues for the same quarter in 1999.

Services/Tourism

As the business, legal and financial center of the state, Seattle ranks ninth in the country in the number of downtown hotel rooms (7,600 rooms in 50 hotels and motels). The Washington State Convention and Trade Center opened in June 1988, with the capacity for events involving as many as 11,000 people. An expansion of the Convention and Trade Center that will double the exhibition space and add a private office tower, hotel and museum is underway, with completion expected in 2001.

Timber

Natural forests cover more than 40 percent of the state's land area. Forest products rank second behind aerospace in value of total production. The Weyerhaeuser Company is the state's largest forest products employer.

A continued decline in overall production during the next few years is expected due to federally imposed limitations on the harvest of old-growth timber and the inability to maintain the recent record levels of production increases. The decline is not expected to have a significant effect on the state's overall economic performance.

Agriculture and Food Processing

Agriculture, combined with food processing, is the state's most important industry. The state's major products—wheat, apples, milk, and cattle—comprise more than half of total production. The values and uses of farmland in the state are expected to change in the future, with the listing of local salmon runs as endangered by the U.S. Environmental Protection Agency.

Finance/Insurance/Real Estate

Employment in the finance, insurance and real estate areas is estimated to represent 5.1 percent of the state's wage and salary employment for 2001.

Construction

Construction employment experienced positive growth through 1998, but has declined in recent years. Commercial building remains stable.

In 1999-2000, residential housing permits decreased by about three percent. Forecasts for 2001 indicate a continuing decrease from 2000, as indicated in the following table.

HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES
1993—2001

Calendar Year	Washington	United States (1)
1993	41,342	1,291,583
1994	44,034	1,446,000
1995	38,160	1,361,000
1996	39,597	1,468,667
1997	41,089	1,474,583
1998	45,727	1,621,167
1999	42,752	1,647,250
2000	39,021	1,574,833
2001 (2)	39,848	1,605,667

(1) Actual housing starts prior to current year.
(2) 2001 figures are based on the February 2002 forecast.

Source: Washington State Office of the Forecast Council and the Department of Commerce

Federal, State and Local Government

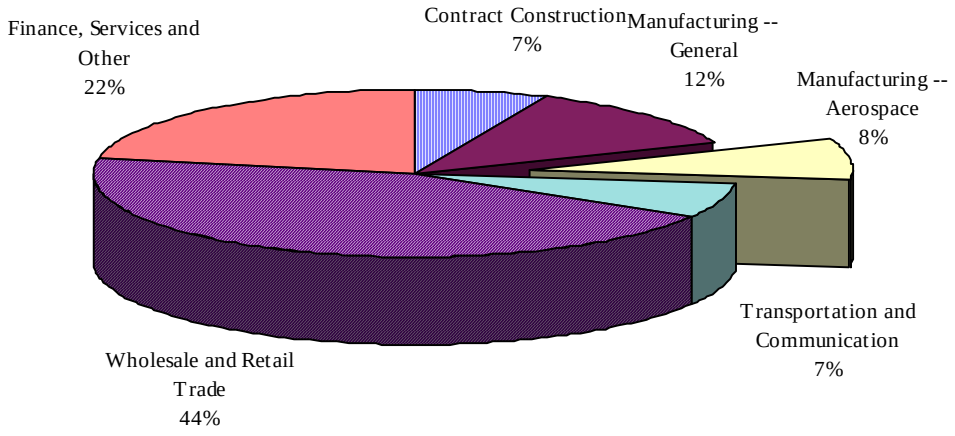
On a combined basis, employment in the government sector represents approximately 19 percent of all wage and salary employment in the state. Seattle is the regional headquarters of a number of federal government agencies, and the state receives an above-average share of defense expenditures.

Employment in the state and local government sector expanded in the state between 1990 and 1999 at a rate of approximately two percent per year, and slowed to 1.4 percent in 2000. Employment in the federal government increased between 1998 and 2000, but is projected to decrease in 2001.

Summary

The following diagram provides an overall description of business income by industry sector for 2000.

Gross Business Income by Industry Sector 2000



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2000", Table 1.

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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

CERTAIN DEFINITIONS

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

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

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

"Agency Event of Default" has the meaning given such term in each Local Agency Financing Contract, as described in this Appendix B under the caption "Local Agency Financing Contracts - Agency Event of Default".

"Agency Interest Component" means that portion of each Agency Rent Payment denominated as and comprising interest as set forth in each Local Agency Financing Contract.

"Agency Principal Component" means that portion of each Agency Rent Payment denominated as and comprising principal as set forth in each Local Agency Financing Contract.

"Agency Rent Payments" means the rent payments to be made by each Local Agency as set forth in the related Local Agency Financing Contract.

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

"Agency Rent Payment Fund" means the fund of that name maintained by the State Treasurer pursuant to the Master Financing Contract.

"Agreements" means, as the context requires, the Trust Agreement, Site Leases, Master Financing Contract, Local Agency Financing Contracts, Master Assignment or Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

"Authorized Agency Representative" means the natural person (i) designated on the certificate of each Local Agency in the related Local Agency Financing Contract and includes any other officer appointed by the chief elected official or administrative official of such Local Agency; and (ii) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

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

"Base Rent Payment Date" means each January 1 and July 1, as specified in the Trust Agreement, on which a Base Rent Payment evidenced and represented by the Certificates is due.

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

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

"Certificate Fund" means the "State of Washington Certificates of Participation, Real Property Series 2002B Certificate Fund" established pursuant to the Trust Agreement.

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

"Dated Date" means May 1, 2002.

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

"Event of Default" means an Event of Default as set forth in the Master Financing Contract as described in this Appendix B under the caption "Master Financing Contract- Events of Defaults; Remedies."

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

"Fiscal Agent" means the Bank of New York, a banking corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, or any other bank or trust company which may at any time be substituted in its place pursuant to the Trust Agreement.

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

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

"Information Services" means Financial Information, Inc.'s "Daily Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other services providing information with respect to called bonds, as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

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

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

"Interest Component" means that portion of each Base Rent Payment denominated as and comprising interest as set forth in the Master Financing Contract.

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

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

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

"Local Agency" means any "other agency" as that term is now or thereafter defined in the Act, including but not limited to any commission established under Title 15 RCW, a library or regional library, an educational service district, the superintendent of

public instruction, the school directors' association, a health district, or any county, city, town, school district or other municipal corporation or quasi-municipal corporation described as such by statute, and any successor thereto.

"Local Agency Financing Contract" means each of the Local Agency Financing Contracts, dated as of the Dated Date, between the State and the related Local Agency.

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

"Master Financing Contract" means the Master Financing Contract, dated as of the Dated Date, by and between the State and WFOA.

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

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

"Notice of Intent" means the Notice of Intent in the form attached to the Local Agency Financing Contract.

"NRMSIR" means a nationally recognized municipal securities information repository as designated by the SEC.

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

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

"Outstanding" means all Certificates executed and delivered pursuant to the Trust Agreement, except: (i) Certificates theretofore canceled by the Fiscal Agent, or delivered to the Fiscal Agent for cancellation; (ii) Certificates for which the payment or prepayment of the Base Rent Payments evidenced and represented thereby has been made or duly provided for pursuant to the Master Financing Contract and Trust Agreement; and (iii) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered pursuant to the Trust Agreement.

"Owner" means the registered owner of a Certificate as set forth on the Certificate Register.

"Parties" means, as the context requires, the State, the WFOA, each Local Agency, and/or the Fiscal Agent.

"Paying Agent" means any paying agent for the Certificates appointed pursuant to the Trust Agreement.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, that are not then delinquent; (ii) the related Site Leases; (iii) the Master Financing Contract; (iv) the Master Assignment; (v) the related Local Agency Financing Contracts; (vi) any right or claim of any mechanic, laborer, materialmen, supplier or vendor filed or perfected in the manner provided by law; (vii) easements, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions which (a) exist of record as of the Dated Date and which the respective Local Agency certifies in writing will not materially impair the use of the Property by such Local Agency, and (b) arise thereafter and to which the State Treasurer and the WFOA consent in writing; and (viii) exceptions shown on the respective title insurance policies issued with respect to the Property as of the date of execution and delivery of the Certificates.

"Person or person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Prepayment Account" means the account by that name established pursuant to the Trust Agreement.

"Prepayment Date" means each date, other than a Principal Payment Date, on which Principal Component evidenced and represented by the Certificates is to be prepaid.

"Prepayment Price" means the price payable pursuant to the Master Financing Contract upon any optional or mandatory prepayment of Principal Components evidenced and represented by the Certificates.

"Principal Account" means the account by that name established pursuant to the Trust Agreement.

"Principal Component" means that portion of each Base Rent Payment denominated as and comprising principal as set forth in the Master Financing Contract.

"Principal Office" means, with respect to the State Treasurer, the office in Olympia, Washington, designated in writing by the State Treasurer to the Fiscal Agent, and, with respect to the Fiscal Agent, the corporate trust office of the Fiscal Agent located in New York, New York, designated in writing by the Fiscal Agent to the State Treasurer.

"Principal Payment Date" means each January 1 and July 1 on which a Principal Component is due as set forth in the applicable Master Financing Contract.

"Project" means the improvements acquired or constructed on the applicable Site, if any, pursuant to each respective Local Agency Financing Contract.

"Project Costs" means all costs incurred by or on behalf of the WFOA, or the state or any Local Agency, as agent of the WFOA, on, prior to or after the effective date of the Master Financing Contract in connection with the acquisition or construction of the Property or the Project, as applicable, and shall include, but not be limited to, (i) the cost of the Property or the Project (including, but not limited to, charges for design, testing and similar charges); (ii) the expenses of the State Treasurer and any Local Agency in connection with the acquisition or construction of the Property or the Project, including but not limited to the Costs of Issuance; (iii) any taxes, assessments and other charges, if any, payable in connection with the acquisition or construction of the Property or the Project; and (iv) any amounts required to reimburse the State Treasurer or any Local Agency for advances or payments made prior to the effective date of the Master Financing Contract for any of the above costs.

"Project Fund" means the "State of Washington Certificates of Participation, Real Property Series 2002B Project Fund" established by the State Treasurer pursuant to the Trust Agreement and Master Financing Contract.

"Property" means, with respect to each Local Agency Financing Contract, the Site and the Project leased by the State Treasurer to the Local Agency, and, with respect to the Master Financing Contract, means collectively all of such Property leased pursuant to the Master Financing Contract.

"Qualified Investments" shall include the following:

(i) any securities (including obligations held or issued in book-entry form on the books of the Department of the Treasury of the United States of America) which constitute direct obligations of, or the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America;

(ii) Federal Home Loan Bank Bonds and Discount Notes; Federal National Mortgage Association Bonds and Discount Notes; Federal Farm Credit Banks Consolidated System-Wide Bonds and Discount Notes; Federal Home Loan Mortgage Corporation Bonds and Discount Notes; Government National Mortgage Association Bonds; Student Loan Marketing Association Bonds and Discount Notes; Small Business Administration Bonds; Export-Import Bank Bonds; Maritime Administration Bonds; and Obligations of any other Government Sponsored Corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System;

(iii) bankers' acceptances, which are eligible for purchase by the Federal Reserve System, drawn on and accepted by a commercial bank (which may include the Fiscal Agent) having a combined capital and surplus of not less than $100,000,000, which bank has at the time of investment one of the two highest ratings of a Rating Agency;

(iv) commercial paper having original maturities of not more than 365 days which has at the time of investment one of the two highest ratings of a Rating Agency, which is issued by a corporation organized and operating in the United States with total assets in excess of $100,000,000;

(v) bonds of the state and any local government in the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(vi) general obligation bonds of a state other than the state and general obligation bonds of a local government of a state other than the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(vii) any investments authorized by law for the State Treasurer or any local government of the State;

(viii) shares of money market funds with portfolios consisting of only U.S. Treasury and agency securities or repurchase agreements, which have at the time of investment one of the three highest ratings of a Rating Agency;

(ix) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Fiscal Agent) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (i) or (ii) above;

(x) the LGIP; and

(xi) any other legal investment for funds held by the State Treasurer.

"Rating Agency" means Fitch, Moody's or S&P.

"Rating Category" means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other securities depositories as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

"Site" means the real property legally described in each Site Lease, including the improvements thereon as of the Dated Date.

"Site Lease" means each Local Agency Site Lease, dated as of the Dated Date, by and between a Local Agency and the WFOA for the lease of a parcel or parcels of the Property by the Local Agency to the WFOA.

"State" means the state of Washington.

"State Finance Committee" means the state finance committee as constituted from time to time pursuant to chapter 43.33 RCW.

"State Legislature" means the Legislature of the state of Washington.

"State Reimbursement Rate" means the average rate of return on the LGIP over the period the reimbursement payment by the Local Agency to the State Treasurer is delinquent, as determined by the State Treasurer, which determination shall be binding and conclusive against the Local Agency absent manifest error.

"State Sublease Termination Date" has the meaning given such term in the Master Financing Contract.

"State Treasurer" means the Treasurer of the state of Washington.

"Supplemental Agreement" means any agreement duly authorized and entered into following the Closing Date between or among the State Treasurer, the WFOA, and the Fiscal Agent (in the case of the Trust Agreement, the Master Financing Contract, or the Master Assignment), or the Local Agency (in the case of the Local Agency Financing Contracts or the Site Leases) supplementing, modifying or amending any Trust Agreement, Site Lease, Master Financing Contract, Master Assignment or Local Agency Financing Contract.

"Toxic or Hazardous Substances" shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, state or local laws as: (i) a "hazardous substance" pursuant to the Comprehensive

Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601(14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or thereafter amended; (ii) a "hazardous waste" pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or thereafter amended; (iii) a toxic pollutant under Section 307(1)(a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1)(a); (iv) a "hazardous air pollutant" under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or thereafter amended; (v) a "hazardous material" under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or thereafter amended; (vi) toxic or hazardous pursuant to regulations promulgated now or thereafter under the aforementioned laws; or (vii) presenting a risk to human health or the environment under other applicable federal, state or local laws, ordinances, or regulations, as now or as may be posed or promulgated in the future. "Toxic or Hazardous Substances" shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. "Toxic or Hazardous Substances" specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum-based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

"Treasurer Representative" means the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer of the State, and shall include any other natural person who at the time and from time to time may be designated by a Certificate of the State Treasurer delivered to the Party relying thereon. Such certificate shall contain the specimen signature of such person, and shall be signed on behalf of the state by the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer.

"Underwriter" means the original purchaser of the Certificates.

"WFOA" means the Washington Finance Officers Association, a Washington nonprofit corporation, and any successors and permitted assigns thereof, including without limitation the Fiscal Agent as assignee pursuant to the Master Assignment.

MASTER FINANCING CONTRACT

Sublease of Property

The WFOA subleases to the state, and the state hires from the WFOA, upon the terms and conditions set forth in the Master Financing Contract, the real property and all improvements thereon, including but not limited to the Projects, described in the Master Financing Contract, subject to all easements, covenants, conditions and restrictions existing as of the date hereof. The state agrees to pay in consideration thereof the Base Rent Payments and Additional Rent therefor in accordance with the Master Financing Contract, and all other amounts required to be paid by the state thereunder. The WFOA reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof, or otherwise in connection with the WFOA's rights and obligations thereunder. The state and its authorized assignees and sublessees at all times during the term of the Master Financing Contract, subject to the provisions of the Master Financing Contract, shall peaceably and quietly have, hold and enjoy all of the Property without suit, trouble or hindrance from the WFOA.

Appointment of Agents; Acquisition and Construction of Projects; Substitution and Release of Property

Appointment of Agents. The WFOA appoints, and ratifies, approves and confirms its appointment of, the State Treasurer and the respective Local Agencies pursuant to the Notices of Intent as its agents in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Projects, respectively, and the State Treasurer accepts and agrees to such designation and appointment.

Acquisition and Construction of Projects. The State Treasurer agrees that it has caused or will cause each Project to be designed, acquired and/or constructed and financed or refinanced with all reasonable dispatch by the respective Local Agency, as agent for the WFOA, in accordance with the plans, specifications, bidding documents, and construction and other contracts theretofore or thereafter approved by such Local Agency, and in accordance with applicable laws and regulations. The state further agrees that it will pay or cause to be paid the Project Costs solely from funds available to it pursuant to the Master Financing Contract, the Trust Agreement and the Local Agency Financing Contracts. The appointment of the State Treasurer and the respective Local Agencies to act as agents of the WFOA in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Projects, respectively, and all authority conferred thereby is made and conferred irrevocably by the WFOA, and shall not be terminated by any act of the State, any Local Agency, the WFOA or otherwise.

Changes to Projects: Additions to Property. The State Treasurer may revise or consent to the revision of any Project to be acquired, constructed, financed or refinanced with proceeds of the Certificates, or the description thereof; provided, that (a) such Project as so revised shall satisfy the requirements under the Master Financing Contract with respect to the substitution of Property previously acquired, constructed, financed or refinanced; (b) the Project Costs shall not be materially reduced thereby; and (c) any such revision shall not relieve the state or any Local Agency of its obligation to design, acquire, construct, finance or refinance the Project in accordance therewith and with the Local Agency Financing Contract with respect thereto.

The State Treasurer shall have the right during the term of the Master Financing Contract, at the cost and expense of the state or the Local Agency, to make or permit additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; provided, that such additions, betterments and improvements and fixtures, structures and signs (a) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (b) shall not diminish the value, capacity or usefulness of the Property.

Substitution of Property. After acquisition, construction, financing or refinancing of any Project, the State Treasurer may substitute and consent to the substitution, for a Property, another parcel or parcels of real property by first filing with the Fiscal Agent, as assignee of WFOA, (i) an Opinion of Counsel to the effect that such substitution (a) is permitted under the Master Financing Contract, and (b) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates; (ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the respective Local Agency Financing Contract equal to or greater than the Agency Rent Payments due thereunder from time to time (a) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (b) is essential to the Local Agency's ability to carry out its governmental functions and responsibilities; and (iii) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency. The State Treasurer, the Fiscal Agent, as assignee of the WFOA, and the Local Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Contract, the Master Assignment and the Local Agency Financing Contract, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent shall deem necessary or desirable in connection with such substitution.

Release of Property. After acquisition, construction, financing or refinancing of any Project, the State Treasurer may release and consent to the release of a portion of the Property leased under any Site Lease, and subleased under and pursuant to the Master Financing Contract and the related Local Agency Financing Contract, by first filing with the Fiscal Agent, as assignee of WFOA, (a) an Opinion of Counsel to the effect that such release (1) is permitted under the Master Financing Contract, and (2) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates; (b) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the respective Local Agency Financing Contract equal to or greater than the Agency Rent Payments due from time to time thereunder, (c) provision by such Local Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release; and (d) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency. The State Treasurer, the Fiscal Agent, as assignee of the WFOA, and the Local Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Contract, the Master Assignment and the Local Agency Financing Contract, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent shall deem necessary or desirable in connection with such release.

Title to the Property

Fee title to the Property, subject to Permitted Encumbrances, and all additions, modifications, repairs and improvements thereto, shall remain and vest in the respective Local Agencies, subject to the respective leasehold estates under the Site Leases, the Master Financing Contract and the Local Agency Financing Contracts, without any further action by the state, the Local Agency or the WFOA.

Assignment; Attornment

The state assigns and transfers to the WFOA the state's interest in the Local Agency Financing Contracts and all rentals, income and profits therefrom, including without limitation the Agency Rent Payments; provided, that until an Event of Default shall occur and be continuing thereunder, the state may receive, collect, enjoy and apply the rents accruing under the Local Agency Financing Contracts as otherwise provided therein. Upon the occurrence and continuance of an Event of Default, the WFOA

may, at its option, either (i) terminate the respective Local Agency Financing Contracts; (ii) elect to receive and collect, directly from the Local Agencies, the Agency Rent Payments and other amounts due and to become due under the Local Agency Financing Contracts, or (iii) elect to succeed to the state's interest in the Local Agency Financing Contracts and cause the Local Agencies to attorn to the WFOA, as sublessor. The WFOA shall credit the state with any Agency Rent Payments received as a result of such assignment; provided, that the acceptance by the WFOA of any such payment shall not be deemed to be (i) an attornment by the WFOA to the Local Agency, or by the Local Agency to the WFOA, or (ii) a waiver by the WFOA of any provision of the Master Financing Contract, or (iii) a release of the state from any obligation or liability thereunder.

Disclaimer of Warranties

The state acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the state in its present condition. The state subleases the Property in its present condition, "as is." THE WFOA MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY.

Rent Payments

The state promises to pay to the WFOA, as rental for the use and occupancy of the Property, the following amounts at the following times:

Base Rent. On each Base Rent Payment Date, the Base Rent Payment set forth in an exhibit thereto, consisting of a Principal Component and/or an Interest Component as set forth in such exhibit; and

Additional Rent. All Additional Rent incurred by the WFOA in connection with the lease of the Sites from the Local Agencies, the sublease of the Property to the State, the execution and delivery of the Certificates, and the observance and performance of the Agreements, within thirty (30) days following receipt of an invoice from the WFOA with respect thereto which includes (a) a brief description of each item of such Additional Rent, (b) the party to whom payment is due, (c) the amount thereof, and (d) such additional information as the State Treasurer may reasonably request.

Such payments of Base Rent Payments and Additional Rent for each rental payment period during the term of the Master Financing Contract shall constitute the total rental due for such period, and shall be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties thereto have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Master Financing Contract. Anything therein to the contrary notwithstanding, the state waives any right that it may have under the laws of the state to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the state of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Each Base Rent Payment shall consist of a Principal Component and/or an Interest Component as set forth in the Master Financing Contract. Interest shall accrue and be calculated as provided in the Trust Agreement. Each Base Rent Payment shall consist of the aggregate of the Agency Rent Payments payable by each Local Agency pursuant to its Local Agency Financing Contract. Each Base Rent Payment payable thereunder shall be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent shall be made to or upon the order of the WFOA. Each Base Rent Payment shall be applied first to the Interest Component due thereunder, and then to the Principal Component due thereunder.

The WFOA directs the State Treasurer, and the State Treasurer agrees, to make all Base Rent Payments directly to the Fiscal Agent, as assignee of the WFOA.

Sources of Payment of Base Rent Payments

Local Agency Financing Contracts. The state is subleasing the Property for and on behalf of the respective Local Agencies set forth in the Master Financing Contract. Concurrently with the execution thereof, each such Local Agency shall execute and deliver a

Local Agency Financing Contract pursuant to which such Local Agency shall agree to sublease its respective Property and to make Agency Rent Payments therefor, at such times and in such amounts as provided therein. Such Agency Rent Payments shall be sufficient in the aggregate to pay, on each Base Rent Payment Date, the Base Rent Payment for the Property subleased thereunder by the state from the WFOA for and on behalf of such Local Agencies.

The Base Rent Payments shall be payable by the state solely from the Agency Rent Payments to be made by the respective Local Agencies, except as otherwise provided therein. The obligation of each Local Agency to make its Agency Rent Payments shall be a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged. The state shall not be obligated to pay the Base Rent Payments other than from Agency Rent Payments paid by the respective Local Agencies, except as otherwise provided therein.

Intercept of Local Agency Share of State Revenues. In the event that any Local Agency fails to make any payment due under its Local Agency Financing Contract, the State Treasurer shall withhold an amount sufficient to make such payment from the Local Agency's share of state revenues or other amounts authorized or required by law to be distributed by the state to such Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes and liquor control board receipts; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by state law. Such withholding shall continue until all such payments due thereunder have been made. Amounts withheld by the State Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any such payment made pursuant to the Master Financing Contract.

Conditional Payment of Agency Rent Payments. Upon the failure of any Local Agency to make any Agency Rent Payment at such time and in such amount as required pursuant to its Local Agency Financing Contract, the State Treasurer shall, to the extent of legally available appropriated funds and subject to any Executive Order reduction, make such payment into the Agency Rent Payment Fund on behalf of such Local Agency within ten (10) Business Days after such Agency Rent Payment was due. The State Treasurer shall be entitled to reimbursement for any such payments made on behalf of the Local Agency as provided in the Local Agency Financing Contract.

Agency Rent Payments; Deposit and Investment

Agency Rent Payments shall be payable on each Agency Rent Payment Date and shall be deposited in a special fund or funds (the "Agency Rent Payment Fund"). The Agency Rent Payments due on each Agency Rent Payment Date shall be at least sufficient, in the aggregate, to make the Base Rent Payment next coming due thereunder. Amounts in the Agency Rent Payment Fund, including investment earnings thereon, shall be used and applied, first, to make the Base Rent Payment next coming due, and thereafter, but prior to the next Agency Rent Payment Date, to the extent that amounts remain in such Fund after such Base Rent Payment is made, to pay Additional Rent or for any other lawful purpose of the State Treasurer. Amounts in the Agency Rent Payment Fund shall be invested in Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes.

Net Lease

The Master Financing Contract shall be deemed and construed to be a "triple net lease," and the state shall pay absolutely net during the term of the Master Financing Contract the Base Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against among the state, the WFOA, the Fiscal Agent, any Local Agency, and/or any other Person, or for any other reason; provided, that nothing in the Master Financing Contract shall be construed to release or excuse the WFOA from the observance or performance of its obligations thereunder. If the WFOA shall fail to observe or perform any such obligation, the state may institute such legal action and pursue such other remedies against the WFOA as the state deems necessary or desirable, including, but not limited to, actions for specific performance, injunction and/or the recovery of damages.

Limited Obligation

THE MASTER FINANCING CONTRACT SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. THE MASTER FINANCING CONTRACT SHALL NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE

TO MAKE AGENCY RENT PAYMENTS ON BEHALF OF LOCAL AGENCIES IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE MASTER FINANCING CONTRACT. NOTHING IN THE MASTER FINANCING CONTRACT SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE TO MAKE THE BASE RENT PAYMENTS DUE THEREUNDER

Assignment

Concurrently with the execution and delivery of the Master Financing Contract, the WFOA will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment, without recourse, (i) all of its rights to the Sites pursuant to the Site Leases; (ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Contract; (iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Contract; (iv) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Contract, and the Local Agency Financing Contracts, and in and to the Property (including any security interest therein) and any rents or profits generated therefrom; and (v) its right of access more particularly described in the Master Financing Contract, all in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the WFOA, of the proceeds of the sale of the Certificates. The State Treasurer and the WFOA acknowledge and agree that such grant, sale, assignment, transfer and conveyance by the WFOA is intended to be a true sale of the WFOA's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the WFOA shall cease to have any rights, duties or obligations under the Site Leases, the Master Financing Contract, and the Local Agency Financing Contracts, or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the WFOA thereunder as if the Fiscal Agent had been the original party thereto and hereto, and every reference therein to the WFOA shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything therein to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

Mandatory Prepayment; Special Prepayment

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

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

To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal Components of Base Rent Payments in Authorized Denominations, such amounts shall be applied by the State Treasurer to provide for the payment thereof pursuant to the Master Financing Contract.

Notice to Fiscal Agent

The State Treasurer shall provide the Fiscal Agent, as assignee of the WFOA, with not less than 45 days' prior written notice of its intention (i) to prepay any Principal Components, which notice shall specify the reason for such prepayment, the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid; or (ii) to provide for the payment of any Base Rent Payments pursuant to the Master Financing Contract.

Revision of Base Rent Payments upon Prepayment

The Principal Components and Interest Components due on each Base Rent Payment Date on and after a Prepayment Date pursuant to the Master Financing Contract, shall be reduced by the Fiscal Agent, as assignee of the WFOA, to reflect such prepayment, in Authorized Denominations, in such amounts and on such Base Rent Payment Dates as the State Treasurer shall

elect in a written notice to the Fiscal Agent, as assignee of the WFOA; provided, that the aggregate reduction in such Principal Components shall be equal to the aggregate Principal Components prepaid by the State Treasurer, and provided further, that the reduction in Principal Components and Interest Components due on each Base Rent Payment Date shall be equal to the corresponding reduction in the Agency Rent Payments due on each Agency Rent Payment Date.

Discharge of Master Financing Contract

All right, title and interest of the WFOA therein and all obligations of the state thereunder shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the Fiscal Agent, as assignee of the WFOA, and the obligation of the state to have the moneys and Government Obligations so set aside applied to make the remaining Base Rent Payments) when either:

(i) all Base Rent Payments and all Additional Rent and other amounts due thereunder have been paid in accordance therewith; or

(ii) (a) the State Treasurer shall have delivered a written notice to the WFOA and the Fiscal Agent of its intention to prepay all of the Base Rent Payments remaining unpaid; (b) the State Treasurer shall cause to be deposited with the Fiscal Agent, as assignee of the WFOA, (1) moneys and/or Government Obligations in accordance with the Trust Agreement; and (2) an Opinion of Counsel to the effect that such actions are permitted thereunder and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and (c) for so long as any Base Rent Payments remain unpaid, provision shall have been made satisfactory to the WFOA and the Fiscal Agent for payment of all Additional Rent, including but not limited to the fees and expenses of the Fiscal Agent.

Eminent Domain

If all of the Property subleased to the state pursuant thereto and to any Local Agency pursuant to a Local Agency Financing Contract, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Local Agency at the time of such taking, shall be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Master Financing Contract and the Local Agency Financing Contract shall cease as of the day that the state and the Local Agency is required to vacate such Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the Local Agency at the time of such taking, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Master Financing Contract and the Local Agency Financing Contract shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due thereunder. So long as any Agency Rent Payments under the related Local Agency Financing Contract remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property shall be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Local Agency Financing Contracts and the Master Financing Contract. Any award or proceeds in excess of the amount necessary to prepay such Agency Rent Payments due under such Local Agency Financing Contract, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments thereunder, shall be paid to the WFOA, the state and the Local Agency as their respective interests may appear.

Loss of Title

If there is a loss of title to the Property subleased to the state pursuant thereto and to any Local Agency pursuant to a Local Agency Financing Contract which is insured under a policy or policies of title insurance, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the state and Local Agency at the time of such loss, the sublease of such Property pursuant to the Master Financing Contract and the Local Agency Financing Contract shall cease as of the day that the state and the Local Agency is required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the Local Agency at the time of such loss, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Master Financing Contract and the Local Agency Financing Contract shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due thereunder. So long as any Agency Rent Payments under the related Local Agency Financing Contract remain unpaid, any payments under such title insurance policy or policies with respect to such Property shall be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Local Agency Financing Contracts and the Master Financing Contract. Any payment in excess of the amount necessary to prepay such Agency Rent Payments due under such Local Agency Financing Contract, and thereby to prepay or provide for the payment

of the corresponding portion of the Base Rent Payments due thereunder, shall be paid to the WFOA, the state and the Local Agency as their respective interests may appear.

Damage or Destruction

If all or any portion of the Property subleased to the state pursuant thereto and to any Local Agency pursuant to a Local Agency Financing Contract shall be damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Master Financing Contract and the Local Agency Financing Contract shall not terminate, nor shall there be any abatement of the rent payable thereunder. So long as any Agency Rent Payments under the related Local Agency Financing Contract remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Local Agency Financing Contracts and the Master Financing Contract, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

Covenants and Agreements of the State

Budget. The State Treasurer shall (a) include in its biennial budget all scheduled Agency Rent Payments due during such Biennium; (b) submit such budget to OFM at such times and in such manner as required by law; (c) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (d) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (e) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments.

Local Agency Financing Contracts. Concurrently with the execution and delivery of the Master Financing Contract, the State Treasurer shall enter into a Local Agency Financing Contract with each Local Agency set forth in the Master Financing Contract with respect to the sublease of the respective Property and the acquisition and/or construction of the related Project substantially in the form set forth in the Master Financing Contract.

Tax-Exemption. The state shall not make any use of the proceeds of the Master Financing Contract or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The state shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments under Section 103 of the Code. The state shall not make any use of the proceeds of the Master Financing Contract or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Base Rent Payments remain unpaid, the State, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The state will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Base Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The state shall comply with the provisions of the Tax Certificate and Agreement.

The State Treasurer shall establish and maintain a separate account designated as the "State of Washington Certificates of Participation, Real Property Series 2002B Rebate Fund" (the "Rebate Fund"). The state shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of this subsection (iii), moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the state, the Local Agencies, the WFOA, the Fiscal Agent, and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the state agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive the discharge of the Master Financing Contract and the payment in full or defeasance of the Certificates. The state specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined under the Rebate Requirement as provided by the Tax Certificate.

Notwithstanding any provision of this subsection, if the state shall provide to the Fiscal Agent an Opinion of Counsel to the effect that any specified action required under this subsection is no longer required or that some further or different action is required to maintain the tax-exempt status of interest evidenced and represented by the Certificates, the Fiscal Agent may conclusively rely on such opinion, and the covenants of the state thereunder shall be deemed to be modified to that extent.

Liens. The state shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The state shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time.

Assignments and Subleases. The state shall not (and shall not permit any Local Agency to) grant, sell, assign, pledge, transfer, convey, mortgage, pledge, sublet or otherwise dispose any of its right, title or interest in, to or under the Master Financing Contract or the Property other than to the respective Local Agencies pursuant to the Local Agency Financing Contracts or as otherwise provided therein, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void. The WFOA consents to the sublease of the Property pursuant to the Local Agency Financing Contracts. Such subleases shall be subject and subordinate to the Master Financing Contract. Such subleases shall not release or alter the obligations or liability of the state under the Master Financing Contract. Upon the occurrence and continuance of an Agency Event of Default with respect to any Property, the State Treasurer shall have the right, pursuant to the Local Agency Financing Contract, to sublease all or any portion of such Property.

Performance. The state shall punctually pay the Base Rent Payments and Additional Rent in strict conformity with the terms and provisions thereof, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Contract required to be observed and performed by the state. The state will not suffer or permit any default to occur thereunder, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from doing anything, would or might be ground for cancellation or termination of the Master Financing Contract.

WFOA Not Liable. The WFOA and its directors, officers and employees shall not be liable to the state or to any other Person whomsoever for any death, injury or damage that may result to any Person or property by or from any cause whatsoever in, on, about or relating to the Property.

Accounting Records and Report. The State Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Agency Rent Payments, and such accounting records shall be available for inspection by the Fiscal Agent, as assignee of the WFOA, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

Further Assurances. The state will preserve and protect the rights of the WFOA and the Fiscal Agent, as assignee of the WFOA, thereunder and will warrant and defend such rights against all claims and demands of all Persons. The State Treasurer will promptly execute, make, deliver, file and record any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance thereof and for the better assuring and confirming to the WFOA the rights and benefits provided to it thereunder.

Disclosure Agreement. Concurrently with the execution and delivery thereof, the State Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The State Treasurer shall comply with the requirements of the Disclosure Agreement; provided, that failure to so comply shall not constitute a default thereunder.

Events of Default

Each of the following shall constitute an "Event of Default" under the Master Financing Contract:

(i) Failure by the state to pay or cause to be paid any Base Rent Payment required to be paid thereunder at the time set forth therein; and

(ii) Failure by the state to observe or perform any covenant, agreement, term or condition on its part to be observed or performed thereunder, other than as set forth in paragraph (i), above, for a period of thirty (30) days after written notice from the WFOA, or from the Owners of not less than 25% in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the State Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and corrective action is commenced by the state within such period and diligently pursued until the failure is corrected; and

(iii) If the state's interest under the Master Financing Contract or any part hereof shall be assigned, sublet or transferred other than as provided therein, either voluntarily or by operation of law; and

(iv) The occurrence of an Agency Event of Default.

Notwithstanding the foregoing provisions, if by reason of force majeure the state is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Master Financing Contract, the state shall not be deemed in default during the continuance of such inability. The term "force majeure" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the state or of any of its departments, agencies or officials or civil or military authorities of the state; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the state.

The WFOA may, at its election, waive any default or Event of Default and its consequences thereunder and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties thereunder shall be as they would have been if such default or Event of Default had not occurred.

Remedies

Whenever an Event of Default under the Master Financing Contract shall have occurred and be continuing, the WFOA shall have the following rights and remedies:

(i) *Continuation; Re-entry and Reletting.* The WFOA may continue the Master Financing Contract in full force and effect, and (a) collect rent and other amounts as they become due thereunder, (b) enforce every other term and provision hereof to be observed or performed by the State, and (c) exercise any and all rights of entry and re-entry upon the Property. In the event that the WFOA does not elect to terminate the Master Financing Contract in the manner provided in the Master Financing Contract, the state agrees to observe and perform all terms and provisions therein to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due thereunder for the term of the Master Financing Contract, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided therein, and notwithstanding any re-entry or reletting by the WFOA, or suit in unlawful detainer or otherwise brought by the WFOA for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the WFOA elect to re-enter or obtain possession of all or any part of the Property, the state irrevocably appoints WFOA as the State's agent and attorney-in-fact (a) to relet the Property, or any part thereof; from time to time, either in the name of the WFOA or otherwise, upon such terms and conditions and for such use and period as the WFOA may determine in its discretion, (b) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (c) to place such personal property in storage in any warehouse or other suitable place for the state in the county in which such personal property is located, for the account of and at the expense of the State. The state shall be liable for, and agrees to pay the WFOA, the WFOA's costs and expenses in connection with re-entry of the Property, removal and storage of any personal property, and reletting of the Property. The state agrees that the terms of the Master Financing Contract constitute full and sufficient notice of the right of the WFOA to re-enter and relet the Property or any part thereof without effecting a surrender or termination of the Master Financing Contract. Termination of the Master Financing Contract upon an Event of Default shall be effected solely as provided in the Master Financing Contract. The state further waives any right to, and releases, any rental obtained by the WFOA upon reletting in excess of the rental and other amounts otherwise due thereunder.

(ii) *Termination.* The WFOA may terminate the Master Financing Contract, but solely upon written notice by the WFOA to the State Treasurer of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or re-entry upon the Property or any part thereof by the WFOA, nor any proceeding in unlawful detainer or otherwise brought by the WFOA for the purpose of effecting such re-entry or obtaining possession, nor any other act shall operate to terminate the Master Financing Contract, and no termination of the Master Financing Contract on an account of an Event of Default shall be or become effective by operation of law or acts of the Parties thereto or otherwise, unless and until such notice of termination shall have been given by the WFOA. The state agrees that no surrender of the Property or any part thereof, nor any termination of the Master Financing Contract by the state shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the WFOA. Upon such termination, the WFOA may (a) re-enter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (b) place such personal property in storage in any warehouse or other suitable place for the state in the county in which such personal property is located, for the account of and at the expense of the state. Upon such termination, the state's right to possession of the Property shall terminate, and the state shall surrender possession thereof to the WFOA. In the event of such termination, the state shall remain liable to the WFOA for damages in an amount equal to the rent and other amounts that would have been due thereunder for the balance of the term thereof, less the net proceeds, if any, of any reletting of the Property or any part thereof by the WFOA subsequent to such termination, after deducting the expenses incurred by the WFOA in connection with any such re-entry, removal and storage of personal property, and reletting. The

WFOA shall be entitled to collect damages from the state on the respective Base Rent Payment Dates, or alternatively, the WFOA may accelerate the State's obligations under the Master Financing Contract and recover from the state (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the state proves could have been reasonably avoided, (iii) the worth at the time of award by which the unpaid rental for the balance of the term of the Master Financing Contract after the time of award exceeds the amount of rental loss that the state proves could reasonably have been avoided, and (iv) any other amount necessary to compensate the WFOA for all the detriment proximately caused by the state's failure to perform its obligations thereunder, or which in the ordinary course would be likely to result therefrom, including but not limited to the WFOA's expenses in connection with re-entry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to the composite Interest Component evidenced and represented by the Certificates.

(iii) *Other Remedies.* In addition to the other remedies set forth in this section, upon the occurrence and continuance of an Event of Default, the WFOA shall be entitled to proceed to protect and enforce the rights vested in them by the Master Financing Contract or by law. The terms and provisions of the Master Financing Contract and the duties and obligations of the state thereunder, and the officers and employees thereof, shall be enforceable by the WFOA by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the WFOA shall have the right to bring the following actions:

(a) Accounting. By action or suit in equity to require the state or any Local Agency and its officers and employees to account as the trustee of an express trust;

(b) Injunction. By action or suit in equity to enjoin the violation of the rights of the WFOA.

(c) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the WFOA's rights against the state or any Local Agency and its officers and employees, and to compel the state to perform and carry out its duties and obligations under the law and its covenants and agreements with the WFOA as provided therein.

In the event that the WFOA shall prevail in any action, suit or proceeding brought to enforce any of the terms of provisions of the Master Financing Contract, the state shall be liable for the reasonable attorneys' fees of the WFOA in connection therewith.

The state waives any and all claims for damages caused or which may be caused by the WFOA in re-entering and taking possession of the Property or any part thereof as provided therein, and all claims for damages that may result from the destruction of or injury to the Property or any part thereof, and all claims for damages to or loss of any personal property that may be in or upon the Property.

ANYTHING IN THE MASTER FINANCING CONTRACT TO THE CONTRARY NOTWITHSTANDING, IF THE EVENT OF DEFAULT CONSISTS OF AN AGENCY EVENT OF DEFAULT, THE REMEDIES OF THE WFOA SHALL BE LIMITED TO THOSE SET FORTH IN THE RELATED LOCAL AGENCY FINANCING CONTRACT AND THE MASTER FINANCING CONTRACT.

No Remedy Exclusive; Non-Waiver

No remedy conferred upon or reserved to the WFOA thereunder or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Financing Contract or now or thereafter existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default thereunder shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the WFOA thereunder, it shall not be necessary to give any notice, other than such notice as may be required thereunder. A waiver by the WFOA of any default or Event of Default thereunder shall not constitute a waiver of any subsequent default or Event of Default thereunder, and shall not affect or impair the rights or remedies of the WFOA in connection with any such subsequent default or Event of Default.

No acceptance of less than the full amount of a rental payment due thereunder shall constitute an accord and satisfaction or compromise of any such payment unless the WFOA specifically agrees to such accord and satisfaction or compromise in writing.

Default by WFOA

Anything therein to the contrary notwithstanding, the WFOA shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it thereunder unless and until the WFOA shall have failed to observe or perform such covenant, agreement, term or condition for a period of sixty (60) days after written notice by the State Treasurer to the WFOA specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the WFOA within such period and diligently pursued until the failure is corrected.

Term

The term of the Master Financing Contract shall commence on the Dated Date, and shall end on the finance term date indicated by the particular Local Agency, unless such term is extended or sooner terminated as thereinafter provided. If on such date, all amounts due thereunder shall not have been paid or the payment thereof duly provided for pursuant to the Master Financing Contract, then the term of the Master Financing Contract shall be extended until ten (10) days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of the Master Financing Contract shall in no event be extended beyond five years after the finance term date indicated by the particular Local Agency. If prior to this indicated finance date by the particular Local Agency, all amounts due thereunder shall have been paid or the payment thereof so provided for, the term of the Master Financing Contract shall end ten (10) days thereafter or ten (10) days after written notice by the State Treasurer to the WFOA, whichever is earlier.

Anything therein to the contrary notwithstanding, the lease of any Parcel of Property pursuant to the Master financing Contract shall terminate when all Agency Rent Payments and other amounts due under the respective Local Agency Financing Contract have been paid or the payment thereof duly provided for pursuant thereto.

Termination

The state agrees, upon the termination or expiration of the Master Financing Contract as to any parcel of Property, to quit and surrender such Property in the same good order, condition and repair as the same was in at the time of commencement of the term thereunder, except for acts of God, reasonable wear and tear, and any actions by any Local Agency in accordance therewith and with any Local Agency Financing Contract that affect the condition of such Property. The state agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Site Lease shall remain thereon. The state shall thereafter execute, acknowledge and deliver to the WFOA such instruments of further assurance as in the reasonable opinion of the WFOA are necessary or desirable to confirm the WFOA's leasehold right, title and interest in and to such Property.

TRUST AGREEMENT

Project Fund

The State Treasurer shall establish and maintain the Project Fund, as agent for the WFOA. The moneys in the Project Fund shall be held by the State Treasurer in trust for the benefit of the Owners and applied to the payment of the Project Costs (including reimbursement to the WFOA, or to the State Treasurer or any Local Agency, in its capacity as agent of the WFOA, for any such costs theretofore paid by such Party), including, but not limited to, the Costs of Issuance. Moneys in the Project Fund shall be invested by the State Treasurer in Qualified Investments. Disbursements by the State Treasurer from the Project Fund to pay or reimburse the Project Costs of the Property or the Projects to be acquired, constructed, financed or refinanced by each Local Agency shall not exceed the amount in the Project Fund allocable to such Local Agency, as determined by the State Treasurer.

When the Projects and the Property have been acquired, constructed, financed, or refinanced and all of the Project Costs and Costs of Issuance have been paid, the State Treasurer shall transfer any remaining balance in the Project Fund to the Agency Rent Payment Fund.

Base Rent Payments; Funds and Accounts; Investments

Base Rent Payments Held in Trust. The Base Rent Payments are irrevocably pledged and shall be applied to pay the Principal Component and Interest Component evidenced and represented by the Certificates when due, and shall not be used or applied for any other purpose while any of the Certificates remain Outstanding. The pledge shall constitute a first and exclusive lien on and security interest in the Base Rent Payments for the benefit of the Owners of the Certificates.

All Base Rent Payments shall be paid directly by the State Treasurer to the Fiscal Agent, as assignee of the WFOA, and if received by the WFOA at any time shall be deposited by the WFOA with the Fiscal Agent within one (1) Business Day after the receipt thereof. All Base Rent Payments shall be immediately deposited by the Fiscal Agent in the appropriate funds provided in the Trust Agreement, whereupon they shall be applied immediately to the payment or prepayment, as appropriate, of Certificates except as otherwise expressly provided in the Trust Agreement, but if for any reason not so applied, held in trust by the Fiscal Agent in such fund for the benefit of the Owners from time to time.

Deposit of Base Rent Payments. The Fiscal Agent agrees to establish, maintain and hold in trust the Certificate Fund for so long as any Certificates remain Outstanding. The Fiscal Agent shall deposit all Base Rent Payments, including prepayments, in the following Accounts within the Certificate Fund, each of which the Fiscal Agent agrees to establish and maintain, at the times, in the manner and in the order of priority as set forth below, and the moneys in each of such Accounts shall be disbursed only for the purposes and uses authorized.

(i) Interest Account. On each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account that amount of moneys evidencing the Interest Components due on such Interest Payment Date. Moneys in the Interest Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the interest evidenced and represented by the Certificates due and payable on such Interest Payment Date.

(ii) Principal Account. On each Principal Payment Date, the Fiscal Agent shall deposit in the Principal Account that amount of moneys evidencing the Principal Components due on such Principal Payment Date. Moneys in the Principal Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the principal evidenced and represented by the Certificates due and payable on such Principal Payment Date.

(iii) Prepayment Account. On each date on which the State Treasurer makes a prepayment of Principal Components at the Prepayment Price therefor (and related payments of Interest Components, if any) pursuant to the Master Financing Contract, the Fiscal Agent shall deposit in the Prepayment Account the amount of such prepayment and related payments. Moneys in the Prepayment Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the Prepayment Price evidenced and represented by Certificates prepaid on such date pursuant to the Trust Agreement and the accrued interest, if any, evidenced and represented by the Certificates so prepaid.

Application of Insurance Proceeds and Eminent Domain Awards. The proceeds of any casualty insurance with respect to any of the Property, if received by the state or any Local Agency, shall immediately be paid to the Fiscal Agent. Within ninety (90) days of payment of such proceeds to the Fiscal Agent, the respective Local Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the Local Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent to pay the costs of such repair or replacement. In the event that the Local Agency elects not to repair or replace the property damaged, destroyed or taken, the Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. Any eminent domain award, the proceeds of any sale under threat of condemnation, and the net proceeds of any title insurance in connection with a loss of title with respect to any Property, if received by the state or any Local Agency, shall immediately be paid to the Fiscal Agent. The Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be applied to provide for the payment thereof pursuant to the Trust Agreement.

Investment of Moneys. All moneys in any of the funds or accounts established and maintained by the Fiscal Agent pursuant to the Trust Agreement shall be invested by the Fiscal Agent, at the Written Direction of the State Treasurer, solely in Qualified Investments. The written investment instruction to the Fiscal Agent shall contain a statement that such investments are Qualified Investments as required by the Trust Agreement. In the absence of written investment instructions directing the Fiscal Agent by noon of the Business Day preceding the day when investments are to be made, the Fiscal Agent is directed to invest available funds in Qualified Investments described in the Trust Agreement, until such written instruction is received by the Fiscal Agent.

Qualified Investments may be purchased at such prices as the Fiscal Agent may in its discretion determine or as may be directed by the State Treasurer. All investment instructions to the Fiscal Agent shall be subject to the limitations set forth in the Trust Agreement and such additional limitations or requirements consistent with the foregoing as may be established by the State Treasurer.

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding any

provisions in the Trust Agreement to the contrary, any moneys held for the payment of Certificates pursuant to the Trust Agreement, shall be invested only at the Written Direction of the State Treasurer and only in Government Obligations (or in shares of a taxable government money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than thirty days).

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be deposited in the fund or account which gave rise to the investment earnings. For the purpose of determining the amount in any fund or account, all Qualified Investments credited to such fund or account shall be valued at the lesser of cost or par value.

Subject to any written instruction from the State Treasurer pursuant to the Trust Agreement, moneys in any and all funds and accounts may be commingled for investment purposes; provided, that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Trust Agreement. The Fiscal Agent and its affiliates may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Qualified Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Qualified Investment is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment or disposition. The Fiscal Agent and its affiliates may act as sponsor, advisor or depository with regard to any Qualified Investments.

Non-Presentment of Certificates. In the event that any Certificates shall not be presented for payment when the principal or Prepayment Price evidenced and represented thereby becomes due, either at a Principal Payment Date, Prepayment Date or otherwise, if moneys sufficient to pay such principal or Prepayment Price shall have been deposited in the Principal Account or the Prepayment Account, as applicable, all liability of the Fiscal Agent and the state to the Owner thereof for payment with respect to such Certificate shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Fiscal Agent to hold such moneys (subject to the Trust Agreement), without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part thereunder or on or with respect to such Certificate.

Repayment to State Treasurer. When there are no longer any Certificates Outstanding, and all fees, charges and expenses of the Fiscal Agent and any Paying Agents have been paid or provided for, and all expenses of the WFOA and the State Treasurer relating to the Master Financing Contract and the Trust Agreement have been paid or provided for, and all other amounts payable thereunder and under the Master Financing Contract have been paid, and the Trust Agreement has been discharged and satisfied, the Fiscal Agent shall pay to the State Treasurer any amounts remaining in any fund or account established and held thereunder.

Covenants of the WFOA, the State and the Fiscal Agent

Compliance with Trust Agreement. The Fiscal Agent will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement. The WFOA, the state and the Fiscal Agent will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms thereof required to be complied with, kept, observed and performed by each of them.

Compliance with and Amendment of Master Financing Contract. The WFOA, the state and the Fiscal Agent, as assignee of the WFOA, will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Master Financing Contract required to be complied with, kept, observed and performed by each of them, and the Fiscal Agent will, to the extent required thereunder, enforce such agreement against the state in accordance with its terms.

The state will not alter, amend or modify the Master Financing Contract without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (i) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (ii) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; provided, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any Base Rent Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

Other Liens. So long as any Certificates are Outstanding, the WFOA, the state and the Fiscal Agent will not create or suffer to be created any pledge of, lien on or security interest in the Base Rent Payments other than the pledge and lien thereof and security interest thereunder.

Prosecution and Defense of Suits. The state will defend against every action, suit or other proceeding at any time brought against the WFOA, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Base Rent Payments or involving the rights or obligations of the WFOA, the Fiscal Agent or any Owner thereunder; provided, however, that the WFOA, the Fiscal Agent or any Owner, at its election and at its sole cost and expense, may appear in and defend any such action, suit or other proceeding.

Accounting Records and Statements. The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Base Rent Payments, and such accounting records shall be available for inspection by the State Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2002, and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the State Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the receipts, investment, deposits, application and disbursements of the Base Rent Payments for the twelve-month period ending on the preceding July 1.

Such records shall specify the fund or account to which each investment (or portion thereof) held pursuant to the Trust Agreement is to be allocated and shall set forth, in the case of each Qualified Investment, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (v) such other documentation as is required by the State Treasurer in writing.

Recording and Filing. The Fiscal Agent, upon receipt of a Written Request of the State Treasurer, shall file, record, register, renew, refile and rerecord all such documents, including but not limited to the Site Leases, the Master Financing Contract, the Local Agency Financing Contracts and the Master Assignment, as may be required by law in order to maintain a security interest in the Base Rent Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Fiscal Agent; provided, however, that the Fiscal Agent will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refiling or rerecording in any jurisdiction in which it is not now so subject.

Further Assurances. Whenever and so often as requested to do so by the Fiscal Agent or any Owner, the WFOA and the State Treasurer will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or desirable in order to further and more fully vest in the Fiscal Agent and the Owners all advantages, benefits, interests, powers, privileges and rights conferred upon them thereby and by the Master Financing Contract.

Events of Default; Remedies

Events of Default; Remedies; Waiver. If an Event of Default shall occur and be continuing, then such Event of Default shall constitute a default thereunder, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it shall, exercise the remedies provided to the WFOA and the Fiscal Agent, as assignee of the WFOA, thereunder and under the Master Financing Contract.

The Fiscal Agent may, in its discretion, waive any default or Event of Default and its consequences thereunder and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties thereunder shall be as they would have been if such default or Event of Default had not occurred.

Other Remedies of the Fiscal Agent. The Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it, shall:

(i) by mandamus or other action or proceeding or suit, action or proceeding at law or in equity enforce its rights against the state or any Local Agency or any officer or employee thereof, and to compel the state or any such Local Agency or any such officer or employee to perform or carry out its duties under law and the agreements and covenants required to be performed by it or him or her contained therein and in the Master Financing Contract;

(ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Fiscal Agent; or

(iii) by suit in equity upon the happening of any default thereunder to require the state or any Local Agency and its officers and employees to account as the trustee of an express trust.

Application of Moneys. If an Event of Default shall have occurred and be continuing, all moneys received by the Fiscal Agent shall be applied, first, to the payment of the reasonable costs and expenses incurred by the Fiscal Agent and the Owners to declare such default (including but not limited to the reasonable fees and expenses of their counsel and agents); second, to the payment of the Interest Components evidenced and represented by the Certificates accrued to the date of application thereof pro rata among the Owners entitled thereto; third, to the payment of the Principal Components evidenced and represented by the Certificates and the Prepayment Price, if any, then due thereunder *pro rata* among the Owners entitled thereto; and fourth, when no Certificates remain Outstanding, to pay or reimburse the state for its costs and expenses, including reasonable attorneys' fees, incurred in connection with the Certificates, the Master Financing Contract, the Financing Contracts and the Trust Agreement.

Non-Waiver. A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by such article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Fiscal Agent, the Fiscal Agent, the WFOA and the State Treasurer shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy therein conferred upon or reserved to the Fiscal Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given thereunder or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Fiscal Agent May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Fiscal Agent without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Fiscal Agent shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Actions by Owners. The Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding shall have the right to direct the method and place of conducting any proceeding or remedy available to the Fiscal Agent, or exercising any trust or power conferred on the Fiscal Agent, thereunder or under the Master Financing Contract in connection with the enforcement of the covenants, agreement, terms and conditions thereof and of the Trust Agreement; provided, that any such direction shall not be contrary to law, the Trust Agreement or the Master Financing Contract, and is not unduly prejudicial to the interest of the Owners not joining in such direction; and provided further, that the Fiscal Agent may take any other action which it deems necessary or appropriate and not inconsistent with such direction.

No Owner shall have the right to institute any action, suit or proceeding for the enforcement thereof or of the Master Financing Contract, or to pursue any remedy available thereunder or under the Master Financing Contract unless:

(i) the Fiscal Agent shall have been given written notice of an Event of Default by such Owner;

(ii) the Owners of at least a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding respecting which there has been an Event of Default shall have requested the Trustee, in writing, to exercise the powers granted by the Trust Agreement or the Master Financing Contract, or to institute such action, suit or proceeding, or to pursue such remedy in it or their name or names;

(iii) the Fiscal Agent shall have been offered indemnity satisfactory to it against its costs, expenses and liabilities in connection therewith; and

(iv) the Fiscal Agent shall have failed to comply with such request within sixty (60) days, or such shorter period as shall be reasonable under the circumstances.

No Liability by the WFOA to the Owners. Except for the observance and performance of the agreements and covenants required to be observed and performed by it contained therein, the WFOA shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the payment when due of the Base Rent Payments by the state, or with respect to the observance or performance by the state of the other agreements and covenants required to be observed and performed by the state contained in the Master Financing Contract or therein, or with respect to preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rent Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be performed or observed by it contained in the Trust Agreement.

No Liability by the State to the Owners. Except for the payment when due of the Base Rent Payments and the observance and performance of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Contract and the Trust Agreement, the state shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rent Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be observed or performed by it contained therein.

No Liability by the Fiscal Agent to the Owners. Except as expressly provided therein, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rent Payments by the state, with respect to the observance or performance by the state of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Contract or the Trust Agreement or with respect to the observance or performance by the WFOA of the agreements and covenants required to be observed and performed by it contained therein.

Amendment or Supplement of Trust Agreement

Amendment or Supplement; Consents. The Trust Agreement and the rights and obligations of the state, the Owners, the Fiscal Agent or any Paying Agent thereunder may be amended or supplemented at any time as provided in the Appendix of the Trust Agreement. No such amendment or supplement shall (i) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or (ii) reduce the percentage of Owners whose consent is required for the execution of any amendment thereof or supplement thereto; or (iii) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

Disqualified Certificates. Certificates owned or held by or for the account of the state (but excluding Certificates held in any pension or retirement fund of the state) or any Local Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided therein, and shall not be entitled to consent to or take any other action provided therein, and the Fiscal Agent may adopt appropriate regulations to require each Owner, before consent provided for therein shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided above, the Fiscal Agent may determine that the Certificates may bear a notation by endorsement in a form approved by the Fiscal Agent as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the Principal Office of the Fiscal Agent a suitable notation as to such action shall be made on such Certificate. If the Fiscal Agent shall so determine, new Certificates so modified as in the opinion of the Fiscal Agent shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Fiscal Agent without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment to the particular Certificates held by it; provided, that due notation thereof is made on such Certificates.

Defeasance of Certificates; Discharge of Trust Agreement

Discharge of Trust Agreement. When the obligations of the state under the Master Financing Contract shall cease pursuant to the Master Financing Contract (except for the right of the Fiscal Agent and the obligation of the state to have the money and Qualified Investments referenced therein applied to the payment of Base Rent Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate, become void and be completely discharged except for the right of the Owners and the obligation of the Fiscal Agent to apply such moneys and Qualified Investments to the

payment of the Certificates as therein set forth and the right of the Fiscal Agent to collect any fees or expenses due thereunder. The Fiscal Agent shall turn over to the State Treasurer, as an overpayment of Base Rent Payments, any surplus in the Certificate Fund and all balances remaining in any other funds or accounts other than moneys and Qualified Investments held for the payment of the Certificates on the Principal Payment Dates or Prepayment Dates thereof, which moneys and Qualified Investments shall continue to be held by the Fiscal Agent in trust for the benefit of the Owners and shall be applied by the Fiscal Agent to the payment, when due, of the principal, Prepayment Price and interest evidenced and represented by the Certificates, and after such payment, the Trust Agreement shall become void. The Fiscal Agent shall thereafter execute and deliver to the state such other documents and instruments as may be necessary or desirable to evidence such discharge and satisfaction of the Trust Agreement.

Defeasance of Certificates. Any Outstanding Certificates shall be deemed to have been paid with the meaning and effect expressed in the immediately preceding paragraph if there shall be irrevocably deposited and held in trust by the Fiscal Agent moneys or Qualified Investments in the amount necessary to pay or prepay the principal or Prepayment Price and interest evidenced and represented thereby as provided in the Trust Agreement.

If moneys or Qualified Investments are deposited with and held by the Fiscal Agent as thereinabove provided, the Fiscal Agent shall within thirty (30) days after such moneys or Qualified Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners of the Certificates that have been defeased at the addresses listed on the registration books kept by the Fiscal Agent pursuant to the Trust Agreement, setting forth (i) the date or dates fixed for payment or prepayment of the Certificates, (ii) a description of the moneys or Qualified Investments so held by it, and (iii) that such Certificates have been defeased and are no longer deemed to be Outstanding thereunder, and/or that the Trust Agreement has been released and discharged in accordance with the provisions thereof.

Deposit of Money or Securities with Fiscal Agent. Whenever in the Trust Agreement or the Master Financing Contract it is provided or permitted that there be deposited with or held in trust by the Fiscal Agent money or securities (certified to be sufficient by a report of an independent certified public accountant or firm of accountants, or an independent financial advisor or consultant or firm of such advisors or consultants) in the necessary amount to pay or prepay the principal and interest evidenced and represented by all or a portion of the Certificates, the money or securities to be so deposited or held may include money or securities held by the Fiscal Agent in the funds and accounts established pursuant to the Trust Agreement and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount evidenced and represented by such Certificates and all unpaid interest evidenced and represented thereby to the respective Principal Payment Dates thereof, except that, in the case of Certificates which are to be prepaid prior to their respective Principal Payment Dates and in respect of which notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Prepayment Price plus accrued interest to such date of prepayment, if any, evidenced and represented by such Certificates; or

(ii) Government Obligations, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay the principal or Prepayment Price, and accrued interest to the Principal Payment Date or to the Prepayment Date, as the case may be, evidenced and represented by the Certificates to be paid or prepaid, as such amounts become due;

provided that, in the case of Certificates which are to be prepaid prior to the Principal Payment Date thereof, notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice; further provided, in each case, that the Fiscal Agent shall have been irrevocably instructed (by the terms of the Trust Agreement and the Master Financing Contract or by Written Request of the State Treasurer) to apply such money to the payment of such principal, Prepayment Price and interest, if any, evidenced and represented by such Certificates.

Unclaimed Moneys. Any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal, Prepayment Price or interest evidenced and represented by any of the Certificates which remain unclaimed for two (2) years after the date when the principal, Prepayment Price or interest evidenced and represented by such Certificates have become payable, shall at the Written Request of the State Treasurer be repaid by the Fiscal Agent to the State Treasurer as its property free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the State Treasurer for the payment of the principal, Prepayment Price or interest evidenced and represented by such Certificates.

Miscellaneous

Funds and Accounts. Any fund required to be established and maintained therein by the Fiscal Agent or the State Treasurer may be established and maintained in the accounting records of the Fiscal Agent or the State Treasurer, respectively, either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof, and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with prudent accounting practice and with due regard for the protection of the security of the Certificates and the right of the Owners.

Notices to Rating Agencies. The Fiscal Agent shall provide to each Rating Agency then rating the Certificates prompt written notice of (i) the appointment of any successor Fiscal Agent or Paying Agent; (ii) any material amendment to the Trust Agreement or the Master Financing Contract; (iii) any prepayment of the Certificates; and (iv) any defeasance or discharge of the Certificates or the Trust Agreement.

MASTER ASSIGNMENT

Assignment. The WFOA unconditionally grants, sells, assigns, transfers and conveys to the Fiscal Agent without recourse (i) all of its rights to the Sites pursuant to the Site Leases; (ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Contract; (ii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Contract; (iii) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Contract, the Local Agency Financing Contracts and in and to the Property and any rents or profits generated therefrom; and (iv) its right of access more particularly described in the Master Financing Contract.

Acceptance. The Fiscal Agent accepts the foregoing grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rent Payments and Additional Rent shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Site Lease and the Master Financing Contract from and after the date thereof.

Acknowledgement. The Fiscal Agent and the WFOA acknowledge and agree that (i) the grant, sale, assignment, transfer and conveyance by the WFOA is intended to be a true sale of the WFOA's right, title and interest in, to and under the Site Leases, the Master Financing Contract and in and to the Property; (ii) the WFOA shall thereafter cease to have any rights, duties or obligations under the Site Leases, the Master Financing Contract or with respect to the Property; (iii) the Fiscal Agent shall thereafter have all the rights, duties and obligations of the WFOA thereunder as if the Fiscal Agent had been the original party thereto; and (iv) every reference in the Site Leases and the Master Financing Contract to the WFOA shall be deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires.

SITE LEASES

Lease of the Site; Ownership

Under each Site Lease, the Local Agency leases to the WFOA and the WFOA hires from the Local Agency, the real property and all improvements thereon described in the Site Lease subject to all easements, covenants, conditions and restrictions existing as of the date thereof. Under each Site Lease, the Local Agency represents and warrants that it is the owner in fee of the Site, subject only to Permitted Encumbrances.

Term

The term of each Site Lease commences on the Dated Date, and ends the termination date of the related Local Agency Financing Contract, unless such term is extended or sooner terminated as thereinafter provided. If on such date, the Local Agency Financing Contract shall not be discharged by its terms, then the term of each Site Lease shall be extended until ten (10) days after all amounts due under the Local Agency Financing Contract shall have been paid and the Local Agency Financing Contract shall have been discharged by its terms, except that the term of such Site Lease shall in no event be extended beyond five years after the term date indicated by the Local Agency. If, prior to the scheduled termination date of the Site Lease, all amounts due under the Local Agency Financing Contract shall have been paid and the Local Agency Financing Contract shall have been discharged by its terms, the term of the Site Lease shall end ten (10) days thereafter or ten (10) days after written notice by the Local Agency to the WFOA, whichever is earlier.

Assignments and Subleases

(i) Under each Site Lease, the WFOA is not permitted to grant, sell, assign, mortgage, pledge, sublet or transfer any of its right, title or interest in, to or under such Site Lease or the related Site except as expressly provided in the Master Assignment, the Master Financing Contract and the Local Agency Financing Contract, without the prior written consent of the Local Agency. The Local Agency consents to the sublease of the Property pursuant to the Master Financing Contract, and the assignment of the WFOA's right, title and interest thereunder to the Fiscal Agent pursuant to the Master Assignment for the benefit of the Owners of the Certificates.

(ii) Upon the occurrence and continuance of an Event of Default or Agency Event of Default with respect to the Property, the WFOA has the right, pursuant to the Master Assignment, Trust Agreement and Master Financing Contract, to sublease all or any portion of the Property; provided, that the subtenant and the terms and provisions of the sublease shall be subject to the prior written approval of the Local Agency, which approval shall not be unreasonably withheld or delayed.

Eminent Domain; Loss of Title

In the event the whole or any part of the Property leased pursuant to a Site Lease is taken permanently or temporarily under the power of eminent domain (or sold under threat of condemnation), or there is a loss of title to the whole or any part of such Property, the interest of the WFOA in the Property shall be recognized and is determined to be an amount not less than the then unpaid indebtedness incurred by the Local Agency under its Local Agency Financing Contract. The term "unpaid indebtedness," as used in the preceding sentence, includes all unpaid Agency Principal Components, Agency Interest Components and all other payments required to be made by the Local Agency pursuant to the Local Agency Financing Contract, until all Agency Rent Payments due thereunder have been paid or the payment thereof provided for in accordance therewith. The amount of any such award, judgment or payment shall be paid to the WFOA, and the balance, if any, in excess of the unpaid indebtedness shall be paid to the Local Agency.

LOCAL AGENCY FINANCING CONTRACTS

Agency Rent Payments

Under each Local Agency Financing Contract, the Local Agency promises to pay to the state the following amounts at the following times:

(i) on each Agency Rent Payment Date, the Agency Rent Payment set forth in such Local Agency Financing Contract, consisting of an Agency Principal Component and/or an Agency Interest Component; and

(ii) all Additional Rent incurred by the state in connection with the sublease of the related Property to the Local Agency, the execution and delivery of the Certificates, and the observance and performance of the Agreements, within thirty (30) days following receipt of an invoice from the state with respect thereto.

Term

The term of each Local Agency Financing Contract shall commence on the Dated Date, and shall end on the termination date set forth in this Official Statement under the heading "THE PROPERTY," unless such term is extended or sooner terminated as provided therein.

Sublease of Property

Under each Local Agency Financing Contract, the state subleases to the related Local Agency, and such Local Agency hires from the state, upon the terms and conditions set forth therein, the real property and all improvements thereon, including, but not limited to the Project, described in the Local Agency Financing Contract (collectively, the "Property"), subject to all easements, covenants, conditions and restrictions existing as of the Dated Date. The Local Agency agrees to pay in consideration thereof the Agency Rent Payments and Additional Rent therefor in accordance with the Local Agency Financing Contract and all other amounts required to be paid by the Local Agency thereunder, all in accordance with the provisions of the Local Agency Financing Contract. The state reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof, or otherwise in connection with the state's rights and obligations thereunder. The Local Agency at all times

during the term of the Local Financing Contract, subject to the provisions thereof, is required to peaceably and quietly have, hold and enjoy all of the Property without suit, trouble or hindrance from the state.

Appointment of Agents; Acquisition and Construction of Project

Appointment of Agents. Under each Local Agency Financing Contract, the Local Agency accepts appointment as agent of the WFOA in connection with the design, acquisition and/or construction of the Project and the financing or refinancing of the Property.

Changes to the Project: Additions to the Property. Each Local Agency, with the prior written consent of the State Treasurer, may revise the Project to be acquired, constructed, financed or refinanced; provided, that: (i) such Project as so revised shall satisfy the requirements under the Local Agency Financing Contract with respect to the substitution of Property; (ii) the Project Costs shall not be materially reduced thereby; and (iii) any such revision shall not relieve the Local Agency of any obligation to design, acquire, construct, finance or refinance the Project or the Property in accordance therewith.

Each Local Agency shall have the right during the term of the related Local Agency Financing Contract, at its cost and expense, to make additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; provided, that such additions, betterments and improvements and fixtures, structures and signs (i) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (ii) shall not diminish the value, capacity or usefulness of the Property.

Substitution of Property. After design, acquisition, construction, financing, or refinancing of the Project or the Property, each Local Agency, with the prior written consent of the State Treasurer and only upon the satisfaction of the requirements set forth in the Master Financing Contract, may substitute for the Property, another parcel or parcels of real property. As a condition to any such substitution, such Local Agency is required to deliver to the State Treasurer:

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

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

Release of Property. After design, acquisition, construction, financing, or refinancing of the Project, the related Local Agency, with the prior written consent of the State Treasurer and only upon the satisfaction of the requirements set forth in the Master Financing Contract, may release a portion of the Property leased under the related Site Lease, and subleased under and pursuant to the Master Financing Contract and Local Agency Financing Contract. As a condition to any such release, such Local Agency is required to:

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

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

Title to the Property

Fee title to the applicable Property, and all additions, modifications, repairs and improvements thereto, shall remain and vest in the related Local Agency, subject to the respective leasehold estates under each Site Lease, the Master Financing Contract and the related Local Agency Financing Contract, without any further action by the State, the Local Agency or the WFOA.

Assignment

Each Local Agency acknowledges and agrees to the assignment and transfer to the WFOA of the state's interest in the related Local Agency Financing Contract and the rentals, income and profits therefrom, including without limitation the Agency Rent Payments. In each Local Agency Financing Contract, the State Treasurer irrevocably authorizes and directs the Local Agency, upon receipt of written notice from the Fiscal Agent, as assignee of the WFOA, that an Event of Default has occurred and is continuing, to pay to the Fiscal Agent the Agency Rent Payments and other amounts due and to become due thereunder. The State Treasurer shall not have any right or claim against the Local Agency for any Agency Rent Payments or other amounts so paid by the Local Agency to the Fiscal Agent.

Disclaimer of Warranties

Each Local Agency acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the Local Agency in its present condition. Such Local Agency subleases the Property in its present condition, "as is." The state makes no warranty or representation, either express or implied, and assumes no responsibility, liability or obligation, as to the value, design, structural, or other condition, use, usability, suitability, occupancy, or management of the property, as to the income from or expense of the use or operation thereof, as to title to the property, as to compliance with applicable zoning, subdivision, planning, safety, fire, health or environmental laws, regulations, ordinances, codes or requirements, or as to compliance with applicable covenants, conditions or restrictions, or any other representation or warranty with respect to the property.

Agency Rent Payments

Each Agency Rent Payment consists of an Agency Principal Component and/or an Agency Interest Component as set forth in each Local Agency Financing Contract. Interest shall accrue and be calculated as determined by the State Treasurer, which determination shall be binding and conclusive against the Local Agency, absent manifest error. Each Agency Rent Payment is required to be paid to or upon the order of the State Treasurer, at such place as the State Treasurer shall direct in writing not less than ten (10) Business Days prior to the Agency Rent Payment Date, by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent are required to be made to or upon the order of the State Treasurer. Each Agency Rent Payment shall be applied first to the Agency Interest Component due thereunder, and then to the Agency Principal Component due thereunder.

Such payments of Agency Rent Payments and Additional Rent for each rental payment period during the term of the Local Agency Financing Contract constitute the total rental due for such period, and are required to be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties to each Local Agency Financing Contract have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Local Agency Financing Contract. The Local Agency waives any right that it may have under the laws of the state to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the Local Agency of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Sources of Payment of Agency Rent Payments

The obligation of each Local Agency to make its Agency Rent Payments is a direct and general obligation of the Local Agency to which the full faith and credit of such Local Agency is pledged.

State Intercept. In the event that a Local Agency fails to make any payment due under the Local Agency Financing Contract, the State Treasurer is required to withhold an amount sufficient to make such payment from the Local Agency's share of state revenues or other amounts authorized or required by law to be distributed by the state to the Local Agency, including but not limited to leasehold excise taxes, sales and use taxes, excise taxes, property taxes and liquor control board receipts; provided, that the use of any such revenues or amounts to make such payments is otherwise authorized or permitted by state law. Such withholding shall continue until all such delinquent payments have been made. Amounts withheld by the State Treasurer shall be applied to make any such payment due under the Local Agency Financing Contract on behalf of the Local Agency, or to reimburse the State Treasurer for any such payment made pursuant to the Local Agency Financing Contract thereof. Each Local Agency authorizes, approves and consents to any such withholding.

State Conditional Payment Obligation. Upon the failure of a Local Agency to make any Agency Rent Payment at such time and in such amount as required pursuant to the Local Agency Financing Contract, the State Treasurer is required, to the extent of legally available appropriated funds and subject to any Executive Order reduction, to make such payment into the Agency Rent Payment

Fund on behalf of such Local Agency within ten (10) Business Days after such Agency Rent Payment Date. The Local Agency shall reimburse the state for such payments made on its behalf immediately thereafter and in any case not later than ten (10) Business Days after such Agency Rent Payment Date, together with interest thereon at a rate equal to the State Reimbursement Rate. Failure of the Local Agency to reimburse the State Treasurer for any such payment will not constitute an Agency Event of Default thereunder, but the state may institute such legal action and pursue such other remedies against the Local Agency as the state deems necessary or desirable including but not limited to actions for specific performance, injunction and/or the recovery of damages.

The treasurer of each Local Agency is authorized and directed to establish and/or maintain a special fund in the "bonds payable" category of accounts of the Local Agency for the purposes of paying the Local Agency's Agency Rent Payments and Additional Rent. The treasurer of the Local Agency is further authorized and directed to remit each payment of Agency Rent Payments to the State Treasurer or its assignee on each Agency Rent Payment Date and any Additional Rent when due thereunder. Such payment shall be made from any legally available funds of the Local Agency.

Deposit and Investment of Agency Rent Payments

Agency Rent Payments are required to be deposited in a special fund or funds maintained by the State Treasurer (the "Agency Rent Payment Fund"). The Agency Rent Payments due on each Agency Rent Payment Date shall be at least sufficient, in the aggregate, to make the Base Rent Payment next coming due under the Master Financing Contract. Amounts in the Agency Rent Payment Fund, including investment earnings thereon, shall be used and applied, first, to make the Base Rent Payment next coming due, and thereafter, but prior to the next Agency Rent Payment Date, to the extent that amounts remain in such Fund after such Base Rent Payment is made, to pay Additional Rent or for any other lawful purpose of the State Treasurer. Amounts in the Agency Rent Payment Fund are required to be invested in Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes. The Local Agency shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Rent Payment Fund.

Net Lease

The obligation of each Local Agency to make Agency Rent Payments from the sources set forth in the Local Agency Financing Contract and to perform its other obligations thereunder are absolute and unconditional. Each Local Agency Financing Contract shall be deemed and construed to be a "triple net lease," and the Local Agency shall pay absolutely net during the term of the Local Agency Financing Contract the Agency Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the Local Agency, the state, the WFOA, the Fiscal Agent, and/or any other Person, or for any other reason; provided, that nothing is to be construed to release or excuse the state from the observance or performance of its obligations, under each Local Agency Financing Contract. If the state fails to observe or perform any such obligation, the Local Agency may institute such legal action and pursue such other remedies against the state as the Local Agency deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Assignments by WFOA

Each Local Agency acknowledges and agrees that, concurrently with the execution and delivery thereof, the WFOA will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment, without recourse: (i) all of its rights to the Site pursuant to the Site Lease; (ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Contract; (iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Lease and the Master Financing Contract; (iv) all of its remaining right, title and interest in, to and under the Site Lease, the Master Financing Contract, and the Local Agency Financing Contract, and in and to the Property (including any security interest therein) and any rents or profits generated therefrom; and (v) its right of access more particularly described in the Master Financing Contract, all in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the WFOA, of the proceeds of the sale of the Certificates.

Optional Prepayment

Each Local Agency may, at its option, prepay all or any portion of its Agency Installment Payments then unpaid, in whole or in part on any date, by causing to be deposited with the State Treasurer money and/or Government Obligations in an amount sufficient for the State Treasurer to prepay or defease the portion of its Base Rent Payments corresponding thereto in accordance with the Master Financing Contract and to pay any Additional Rent in connection therewith.

Each Local Agency is required to provide the State Treasurer with not less than sixty (60) days' prior written notice of its intention to prepay any of its Agency Rent Payments which notice shall specify the date of prepayment, and the amount and the Agency Rent Payment Dates of the Agency Rent Payments to be prepaid. The State Treasurer shall notify such Local Agency within fifteen (15) Business Days after receipt of such notice from the Local Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Base Rent Payments, including any Additional Rent in connection therewith. The determination by the State Treasurer of the amount to be paid by the Local Agency shall be binding and conclusive against the Local Agency, absent manifest error.

Mandatory Prepayment; Special Prepayment

Eminent Domain; Loss of Title. Each Local Agency is required to prepay or cause to be prepaid from eminent domain awards, sale proceeds and net proceeds of title insurance received pursuant to the Local Agency Financing Contract, the Agency Rent Payments then unpaid, in whole or in part on any date, so that the aggregate annual Agency Rent Payments for the related Property from and after such prepayment date will be in approximately equal amounts, at a Prepayment Price equal to the sum of the Agency Rent Payments so prepaid, without premium, plus accrued interest evidenced and represented thereby to the date of prepayment.

Insurance Proceeds. Each Local Agency may, at its option, prepay or cause to be prepaid from net insurance proceeds received pursuant to the Local Agency Financing Contract, the Agency Rent Payments then unpaid, in whole or in part on any date, so that the aggregate annual Agency Rent Payments for the related Property from and after such prepayment date will be in approximately equal amounts, at a Prepayment Price equal to the sum of the Agency Rent Payments prepaid, without premium, plus accrued interest evidenced and represented thereby to the date of prepayment.

Revision of Agency Rent Payments upon Prepayment

The Agency Principal Components and Agency Interest Components of the Agency Rent Payments due on each Agency Rent Payment Date on and after the date of any prepayment pursuant to the Local Agency Financing Contract, are required to be reduced by the State Treasurer to reflect such prepayment, in Authorized Denominations, in such amounts and on such Agency Rent Payment Dates as the related Local Agency elects in its written notice to the State Treasurer pursuant to the related Local Agency Financing Contract.

Discharge of Financing Contract

All right, title and interest of the state in all obligations of each Local Agency under a Local Agency Financing Contract shall cease, terminate, become void, and be completely discharged and satisfied (except for the right of the State Treasurer and the Fiscal Agent, as assignee of the WFOA, and the obligation of the Local Agency to have the moneys and Government Obligations so set aside applied to make the remaining Agency Rent Payments) when either:

(i) all Agency Rent Payments and all Additional Rent and other amounts due thereunder have been paid in accordance therewith; or

(ii) such Local Agency shall have delivered a written notice to the State Treasurer of its intention to prepay all of the Agency Rent Payments remaining unpaid shall have caused to be deposited with the State Treasurer (a) moneys and/or Government Obligations in accordance with the Local Agency Financing Contract; and (b) an Opinion of Counsel to the effect that such actions are permitted thereunder, under the Master Financing Contract and under the Trust Agreement; and

(iii) for so long as any Base Rent Payments remain unpaid, provision shall have been made satisfactory to WFOA and the Fiscal Agent for payment of all Additional Rent.

Eminent Domain

If the Property subleased to a Local Agency pursuant to a Local Agency Financing Contract, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by such Local Agency at the time of such taking shall be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Local Agency Financing Contract shall cease as of the day that such Local Agency is required to vacate such Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the Local Agency at the time of such taking, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Local Agency Financing Contract shall continue in full force and effect as to

such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due thereunder. So long as any Agency Rent Payments under the Local Agency Financing Contract remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property is required to be applied to the prepayment of Agency Rent Payments as provided in the Local Agency Financing Contract. Any award or proceeds in excess of the amount necessary to prepay such Agency Rent Payments due thereunder, and to prepay or provide for the payment of the corresponding portion of the Base Rent Payments under the Master Financing Contract, shall be paid to the WFOA, the state and the Local Agency as their respective interests may appear.

Loss of Title

If there is a loss of title to the Property subleased to a Local Agency pursuant to a Local Agency Financing Contract which is insured under a policy or policies of title insurance, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by a Local Agency at the time of such loss, the sublease of such Property pursuant to the Local Agency Financing Contract shall cease as of the day that the Local Agency is required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the Local Agency at the time of such loss, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Local Agency Financing Contract shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due thereunder. So long as any Agency Rent Payments under the Local Agency Financing Contract remain unpaid, any payments under such title insurance policy or policies with respect to such Property shall be applied to the prepayment of Agency Rent Payments as provided in the Local Agency Financing Contract. Any payment in excess of the amount necessary to prepay such Agency Rent Payments due under the Local Agency Financing Contract, and to prepay or provide for the payment of the corresponding portion of the Base Rent Payments due under the Master Financing Contract, shall be paid to the WFOA, the state and the Local Agency as their respective interests may appear.

Damage or Destruction

If all or any portion of the Property subleased to the Local Agency pursuant to the Local Agency Financing Contract is damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Local Agency Financing Contract shall not terminate, nor shall there be any abatement of the rent payable thereunder. So long as any Agency Rent Payments under the Local Agency Financing Contract remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Agency Rent Payments as provided in the Local Agency Financing Contract, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

Covenants and Agreements of the Local Agency

The Local Agency covenants and agrees as follows:

Budget. The Local Agency covenants to take such action as may be necessary to include all the Agency Rent Payments and Additional Rent due thereunder in its annual budget and to make the necessary annual appropriations for all such Agency Rent Payments and Additional Rent.

Tax-Exemption. With respect to each Local Agency Financing Contract, the Local Agency is prohibited from making any use of the proceeds thereof or the Certificates or of any amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "arbitrage bonds" within the meaning of the Code. The Local Agency may not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Rent Payments under Section 103 of the Code. The Local Agency may not make any use of the proceeds from the Local Agency Financing Contract or the Certificates or of any other amounts, and may not take or refrain from taking any action, that would cause the Master Financing Contract or the Certificates to be "federally guaranteed," "private activity bonds," or "hedge bonds" all within the meaning of the Code. To that end, for so long as any Agency Rent Payments remain unpaid, the Local Agency, with respect to such proceeds and other amounts, will comply with all requirements under certain Sections of the Code and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The Local Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Local Agency shall comply with the applicable provisions of the Tax Certificate and Agreement.

Liens; Assignments and Subleases. Except as otherwise provided in a Local Agency Financing Contract, the Local Agency may not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The Local Agency is required to promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Local Agency may not grant, sell, transfer, assign, pledge, convey, mortgage, sublet, or otherwise dispose of any of the Property or any interest therein during the term of the Local Agency Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

General. The Local Agency may not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The Local Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Local Agency may not grant, sell, transfer, assign, pledge, convey, mortgage, pledge, sublet or otherwise dispose of any of the Property or any interest therein during the term of the Local Agency Financing Contract, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

General Obligation of Local Agency. The obligations of the Local Agency under the Local Agency Financing Contract constitute a debt and a general obligation of the Local Agency, and a contracting of an indebtedness by the Local Agency, to which the full faith and credit of the Local Agency are pledged. The Local Agency covenants and agrees that it will, to the extent provided by law, levy taxes in such amounts and at such times as shall be necessary, within and as a part of the tax levy permitted to the Local Agency without a vote of its electors, to provide funds, together with other legally available moneys, sufficient to make the Agency Rent Payments and the other payments required under the Local Agency Financing Contract.

Use of Property. During the term of the Local Agency Financing Contract, the Local Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities.

Maintenance; Repairs. For so long as the Local Agency is in possession of the Property, the Local Agency is solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Local Agency will (a) keep and maintain the Property in good repair and condition, protect the same from deterioration other than normal wear and tear, and pay or cause to be paid all charges for utility services to the Property; (b) comply with the requirements of applicable laws, ordinances and regulations and the requirements of any insurance or self-insurance program required under the Local Agency Financing Contract in connection with the use, occupation and maintenance of the Property; (c) obtain all permits and licenses, if any, required by law for the use, occupation and maintenance of the Property; and (d) pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property.

Hazardous Substances.

(a) *Use.* The Local Agency and its officers, agents, employees, contractors, or invitees, may not use the Property in a manner that violates any applicable federal, state or local law, regulation or ordinance, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage and disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. The Local Agency may not cause or permit the release or disposal of any Toxic or Hazardous Substances on or from the Property.

(b) *Indemnity.* The Local Agency, to the extent permitted by law, agrees to protect, indemnify, defend (with counsel satisfactory to the Local Agency) and hold the State, the WFOA and the Fiscal Agent, and their respective directors, officers, employees and agents harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising out of or in any way relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property; provided, however, that the Local Agency shall not be obligated to indemnify the state, in its capacity as lessor under the Local Agency Financing Contract, from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property occurring when the Local Agency is or was not in possession of the Property. Such indemnity shall include, without limitation, costs incurred in connection with:

(i) Toxic or Hazardous Substances present or suspected to be present in the soil, groundwater or soil vapor on or under the Property; or

(ii) Toxic or Hazardous Substances that migrate, flow, percolate, diffuse, or in any way move onto or under the Property; or

(iii) Toxic or Hazardous Substances present on or under the Property as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Property by any person, corporation, partnership, or entity other than the Local Agency, its officials, officers, employees or agents.

The indemnification described above also specifically covers, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence of Toxic or Hazardous Substances in the soil, groundwater, or soil vapor on or under the Property. Such costs may include, but not be limited to, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Property, sums paid in settlements of claims, attorneys fees, consultants fees, and expert fees.

(c) *Notification Requirement.* The Local Agency is required to promptly notify the other Parties in writing of all spills or releases of any Toxic or Hazardous Substances, all failures to comply with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Upon request by any Party, the Local Agency shall provide such Party with a written report (1) listing the Toxic or Hazardous Substances that were used or stored on the Property; (2) discussing all releases of Toxic or Hazardous Substances that occurred or were discovered on the Property and all compliance activities related to Toxic or Hazardous Substances, including all contacts with and all requests from third parties for cleanup or compliance; (3) providing copies of all permits, manifests, business plans, consent agreements or other contracts relating to Toxic or Hazardous Substances executed or requested during that time period; and (4) including such other information requested by such Party.

(d) *Inspection Rights.* The Parties, and their officers, employees and agents, shall have the right, but not the duty, to inspect the Property and the Local Agency's relevant environmental and land use documents at any time and to perform such tests on the Property as are reasonably necessary to determine whether the Local Agency is complying with the terms of the Local Agency Financing Contract. The Local Agency shall be responsible for paying for any testing that is conducted if the Local Agency is not in compliance with the Local Agency Financing Contract and such Party has reason to believe such noncompliance is due to the Local Agency's operations or use of the Property. If the Local Agency is not in compliance with the Local Agency Financing Contract, such Party, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Property to remedy any contamination caused by the Local Agency's failure to comply notwithstanding any other provision of the Local Agency Financing Contract. The Party shall use reasonable efforts to minimize interference with the Local Agency's business but shall not be liable for any interference caused thereby.

(e) *Corrective Action.* In the event any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work ("Remedial Work") of any kind is necessary under any applicable federal, state or local laws, regulations or ordinances, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Toxic or Hazardous Substances on or under the Property, the Local Agency shall assume responsibility for all such Remedial Work and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work. The Local Agency shall pay for all costs and expenses of such Remedial Work, including, without limitation, the Party's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event the Local Agency fails to timely commence, or cause to be commenced, or fails to diligently prosecute to completion, such Remedial Work, such Party may, but is not required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, will become immediately due and payable as Additional Rent due to the state from the Local Agency.

Insurance.

(a) The Local Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Local Agency from time to time but in any event not less than $1,000,000 per occurrence, or such greater amount as the State Treasurer may reasonably require from time to time. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Local Agency and its officials, officers, employees and volunteers.

Such insurance shall include (1) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (2) comprehensive property damage insurance.

(b) The Local Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the Local Agency may reasonably determine from time to time, but in any event not less than the aggregate of the principal components of Agent Rent Payments due thereunder which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Local Agency. Such property insurance shall be "all risk" insurance, and shall cover physical loss or damage as a result of fire, lightning, theft, vandalism, malicious mischief, flood, earthquake, and boiler and machinery; provided, that the State Treasurer may waive the requirement for earthquake or flood insurance if it determines, in its reasonable discretion, that the same is not available from reputable insurers and commercially reasonable rates. Such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as the Local Agency may reasonably determine from time to time. Such policies of insurance shall provide that all proceeds thereunder are required to be payable to the Fiscal Agent, as assignee of the WFOA, pursuant to a lender's loss payable endorsement in a form approved in writing by the State Treasurer, which approval may not be unreasonably withheld or delayed. The net proceeds of such insurance shall be applied as provided in the Trust Agreement. Such insurance may at any time include a deductible of not to exceed $5,000 for losses in any year, or such greater amount as the State Treasurer may approve in writing.

(c) The insurance required under paragraphs (a) and (b) above (1) shall be provided by a financially responsible insurance company authorized to do business in the state; (2) shall name the state, the WFOA and the Fiscal Agent, as assignee of the WFOA, as additional insureds thereunder, (3) shall provide that the same may not be canceled or given notice of non-renewal, nor may the terms of conditions thereof be altered, amended or modified, without at least forty-five (45) days' prior written notice being given by the insurer to the State Treasurer, and (4) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

(d) A certificate of insurance with respect to the required coverages shall be provided by the Local Agency to the State Treasurer annually on or prior to December 1 with respect to any required insurance maintained pursuant thereto.

(e) The Local Agency will pay or cause to be paid when due the premiums for all insurance policies required under the Local Agency Financing Contract.

Agency Event of Default.

Each of the following constitutes an "Agency Event of Default" under each Local Agency Financing Contract:

(i) failure by the Local Agency to pay or cause to be paid any Agency Rent Payment required to be paid thereunder within ten (10) Business Days of the respective Agency Rent Payment Date;

(ii) failure by the Local Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed thereunder, other than as set forth in paragraph (a) above, for a period of thirty (30) days after written notice from the State Treasurer or the Fiscal Agent to the Local Agency specifying such failure and requesting that it be remedied; *provided, however,* that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and the corrective action is commenced by the Local Agency within such period and diligently pursued until the failure is corrected;

(iii) if any statement, representation, or warranty made by the Local Agency in the Local Agency Financing Contract or in any writing delivered by the Local Agency pursuant thereto or in connection herewith is false, misleading, or erroneous in any material respect;

(iv) if the Local Agency's interest under the Local Agency Financing Contract or any part thereof is assigned, sublet or transferred other than as provided therein, either voluntarily or by operation of law;

(v) if the Local Agency abandons or vacates the Property; and

(vi) inability of the Local Agency to generally pay its debts as such debts become due, or admission by the Local Agency, in writing, of its inability to pay its debts generally, or the making by the Local Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Local Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief

or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Local Agency to authorize any of the actions set forth in the Local Agency Financing Contract.

Notwithstanding the foregoing provisions of the Local Financing Contract, if by reason of force majeure the Local Agency is unable in whole or in part to carry out the covenants, agreements, terms, and conditions on its part contained in the Local Agency Financing Contract, the Local Agency shall not be deemed in default during the continuance of such inability. The term *"force majeure"* means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the state or of any of its departments, agencies or officials or civil or military authorities of the state; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the Local Agency.

The State Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences thereunder and annul any notice thereof by written notice to the Local Agency to such effect, and thereupon the respective rights of the Parties thereunder shall be as they would have been if such default or Agency Event of Default had not occurred.

Rights of State Treasurer Following Agency Default Event

Whenever an Agency Event of Default shall have occurred and be continuing, the state shall have the following rights and remedies:

(i) *Continuation; Re-entry and Reletting.* The state may continue the Local Agency Financing Contract in full force and effect, and (a) collect rent and other amounts as they become due thereunder, (b) enforce every other term and provision hereof to be observed or performed by the Local Agency, and (c) exercise any and all rights of entry and re-entry upon the Property.

In the event that the state does not elect to terminate the Local Agency Financing Contract in the manner provided pursuant to paragraph (ii) below, the Local Agency agrees to observe and perform all terms and provisions therein to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due thereunder for the term of the Local Agency Financing Contract, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided therein, and notwithstanding any re-entry or reletting by the state, or suit in unlawful detainer or otherwise brought by the state for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the state elect to re-enter or obtain possession of all or any part of the Property, the Local Agency irrevocably appoints the state as the Local Agency's agent and attorney-in-fact (a) to relet the Property, or any part thereof, from time to time, either in the name of the state or otherwise, upon such terms and conditions and for such use and period as the state may determine in its discretion, (b) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (c) to place such personal property in storage in any warehouse or other suitable place for the Local Agency in the county in which such personal property is located, for the account of and at the expense of the Local Agency. The Local Agency shall be liable for, and agrees to pay the state, the state's costs and expenses in connection with re-entry of the Property, removal and storage of any personal property, and reletting of the Property. The Local Agency agrees that the terms of the Local Agency Financing Contract constitute full and sufficient notice of the right of the State Treasurer to re-enter and relet the Property or any part thereof without effecting a surrender or termination of the Local Agency Financing Contract. Termination of the Local Agency Financing Contract upon an Agency Event of Default shall be effected solely as provided the Contract. The Local Agency further waives any right to, and releases, any rental obtained by the state upon reletting in excess of the rental and other amounts otherwise due thereunder.

(ii) *Termination.* The state may terminate the Local Agency Financing Contract, but solely upon written notice by the State Treasurer to the Local Agency of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or re-entry upon the Property or any part thereof by the State Treasurer, nor any proceeding in unlawful detainer or otherwise brought by the State Treasurer for the purpose of effecting such re-entry or obtaining possession, nor any other act shall operate to terminate the Local Agency Financing Contract, and no termination of the Local Agency Financing Contract on an account of a Master Contract Event of Default shall be or become effective by operation of law or acts of the Parties thereto or otherwise, unless and until such notice of termination shall have been given by the State Treasurer. The Local Agency agrees that no surrender of the

Property or any part thereof, nor any termination of the Local Agency Financing Contract by the Local Agency shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the State Treasurer. Upon such termination, the state may (a) re-enter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (b) to place such personal property in storage in any warehouse or other suitable place for the Local Agency in the county in which such personal property is located, for the account of and at the expense of the Local Agency. Upon such termination, the Local Agency's right to possession of the Property shall terminate, and the Local Agency shall surrender possession thereof to the state. In the event of such termination, the Local Agency shall remain liable to the state for damages in an amount equal to the rent and other amounts that would have been due thereunder for the balance of the term thereof, less the net proceeds, if any, of any reletting of the Property or any part thereof by the state subsequent to such termination, after deducting the expenses incurred by the state in connection with any such re-entry, removal and storage of personal property, and reletting. The state shall be entitled to collect damages from the Local Agency on the respective Agency Rent Payment Dates, or alternatively, the State Treasurer may accelerate the Local Agency's obligations under the Local Agency Financing Contract and recover from the Local Agency (a) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (b) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the Local Agency proves could have been reasonably avoided, (c) the worth at the time of award by which the unpaid rental for the balance of the term of the Local Agency Financing Contract after the time of award exceeds the amount of rental loss that the Local Agency proves could reasonably have been avoided, and (d) any other amount necessary to compensate the state for all the detriment proximately caused by the Local Agency's failure to perform its obligations thereunder, or which in the ordinary course would be likely to result therefrom, including but not limited to the state's expenses in connection with re-entry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to the composite Agency Interest Component of the unpaid Agency Rent Payments.

(iii) *Other Remedies.* In addition to the other remedies set forth in the Local Agency Financing Contract, upon the occurrence and continuance of an Agency Event of Default, the state shall be entitled to proceed to protect and enforce the rights vested in them by the Local Agency Financing Contract or by law. The terms and provisions of the Local Agency Financing Contract and the duties and obligations of the Local Agency thereunder, and the officers and employees thereof, shall be enforceable by the State Treasurer by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the state shall have the right to bring the following actions:

(a) Accounting. By action or suit in equity to require the Local Agency and its officers and employees to account as the trustee of an express trust;

(b) Injunction. By action or suit in equity to enjoin the violation of the rights of the State Treasurer.

(c) Mandate. By writ of mandate or other action, suit or proceeding at law or in equity to enforce the State Treasurer's rights against the Local Agency and its officers and employees, and to compel the Local Agency to perform and carry out its duties and obligations under the law and its covenants and agreements with the State Treasurer.

In the event that the state prevails in any action, suit or proceeding brought to enforce any of the terms or provisions of the Local Agency Financing Contract, the Local Agency shall be liable for the reasonable attorneys' fees of the State Treasurer in connection therewith.

No Remedy Exclusive; Non-Waiver

No remedy conferred upon or reserved to the state thereunder or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Local Agency Financing Contract or now or thereafter existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Agency Event of Default thereunder shall impair any such right or remedy or shall be construed to be a waiver of such default or Agency Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the State Treasurer thereunder, it shall not be necessary to give any notice, other than such notice as may be required thereunder. A waiver by the State Treasurer of any default or Agency Event of Default thereunder shall not constitute a waiver of any subsequent default or Agency Event of Default thereunder, and shall not affect or impair the rights or remedies of the State Treasurer in connection with any such subsequent default or Agency Event of Default.

No acceptance of less than the full amount of a rental payment due thereunder shall constitute an accord and satisfaction or compromise of any such payment unless the State Treasurer specifically agrees to such accord and satisfaction or compromise in writing.

Default by State

The state shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it thereunder unless and until obligations thereunder unless and until the state shall have failed to observe or perform such covenant, agreement, term or condition for a period of sixty (60) days after written notice by the Local Agency to the State Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the state within such period and diligently pursued until the failure is corrected.

Indemnification of State and WFOA

To the extent permitted by law, the Local Agency releases the state and the WFOA from, agrees that the state and the WFOA shall not be liable for, and agrees to indemnify and hold the state and the WFOA and their respective directors, officers, officials, employees, and agents harmless from, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever arising out of the ownership or operation of the Property or the design, acquisition, construction, financing or refinancing thereof. The Local Agency agrees to indemnify and hold the state and the WFOA and their respective directors, officers, officials, employees, and agents harmless from any losses, costs, charges, expenses (including reasonable attorneys' fees), judgments and liabilities incurred by it or them, as the case may be, in connection with any action, suit or proceeding instituted or threatened in connection with the transactions contemplated by the Local Agency Financing Contract or the exercise of rights or the performance of duties of the state or the WFOA under the Local Agency Financing Contract, the Master Financing Contract or the bond Agreements to which each of them is a Party, except to the extent caused by the gross negligence or willful misconduct of such indemnified party. The indemnification provided in the Local Agency Financing Contract shall survive the final payment of the Agency Rent Payments and the termination of the Local Agency Financing Contract for any reason.

Term

If on the scheduled termination date for the Local Agency Financing Contract as set forth in the Contract, all amounts due thereunder shall not have been paid or the payment thereof duly provided for pursuant to the Local Agency Financing Contract, then the term of the Local Agency Financing Contract shall be extended until ten (10) days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of the Local Agency Financing Contract shall in no event be extended more than five (5) years beyond such scheduled termination date. If prior to the scheduled termination date, all amounts due thereunder shall have been paid or the payment thereof so provided for, the term of the Local Agency Financing Contract shall end ten (10) days thereafter or ten (10) days after written notice by the Local Agency to the State Treasurer, whichever is earlier.

Termination

The Local Agency agrees, upon the termination or expiration of the Local Agency Financing Contract, to quit and surrender the Property (i) in the same good order, condition and repair as the same was in at the time of commencement of the term thereunder, except for acts of God and reasonable wear and tear, that affect the condition of the Property; and (ii) free and clear of all leases, occupancies, liens and encumbrances, other than those existing as of the date thereof or subsequently created in accordance therewith. The Local Agency agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Local Agency Financing Contract shall remain thereon. The Local Agency shall thereafter execute, acknowledge and deliver to the State Treasurer such instruments of further assurance as in the reasonable opinion of the State Treasurer are necessary or desirable to confirm the State Treasurer's leasehold right, title and interest in and to the Property.

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APPENDIX C

PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

[TO BE DATED THE CLOSING DATE]

State of Washington
Office of the State Treasurer

$1,295,000
State of Washington Certificates of Participation
Local Agency Real Property, Series 2002B

(Final Opinion)

Ladies and Gentlemen:

We have acted as certificate counsel in connection with the execution and delivery of $1,295,000 aggregate principal amount of State of Washington Certificates of Participation, Local Agency Real Property, Series 2002B (the "2002B Certificates"). In such connection, we have reviewed a Master Financing Contract, Series 2002B, dated as of May 1, 2002 (the "Master Financing Contract"), between the Washington Finance Officers Association (the "WFOA") and the State of Washington (the "State"), each Local Agency Site Lease, Series 2002B, dated as of May 1, 2002 (each, a "Site Lease" and all of such leases being referred to herein as the "Site Leases") between the related local agency (each, a "Local Agency" and all of such agencies being referred to herein as the "Local Agencies") and the WFOA, each Local Agency Financing Contract, Series 2002B, dated as of May 1, 2002 (each, a "Local Agency Financing Contract" and all of such contracts being referred to herein as the "Local Agency Financing Contracts") between the State and the related Local Agency, a Trust Agreement, Series 2002B, dated as of May 1, 2002 (the "Trust Agreement"), among the WFOA, the State and The Bank of New York, as trustee and fiscal agent thereunder (the "Fiscal Agent"), a Master Assignment, dated as of May 1, 2002 (the "Master Assignment") between the WFOA and the Fiscal Agent, a tax certificate of the State, dated as of the date hereof (the "State Tax Certificate"), a tax certificate of each Local Agency, dated as of the date hereof (each a "Local Tax Certificate," and all of such tax certificates being referred to herein as the "Local Tax Certificates"), Resolution No. 923 of the State Finance Committee, opinions of counsel to the State and each Local Agency, certificates of the State, the WFOA, each Local Agency, the Fiscal Agent and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Master Financing Contract.

Certain agreements, requirements and procedures contained or referred to in the Master Financing Contract, the Local Agency Financing Contracts, the Trust Agreement, the Site Leases, the State Tax Certificate, the Local Tax Certificates and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2002B Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest components of any Base Rent Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the 2002B Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions (including, without limitation, a separate opinion of counsel of each Local Agency as to the validity and enforceability of the related Site Lease and Local Agency Financing Contract), referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Master Financing Contract, the Local Agency Financing Contracts, the Site Leases, the Trust Agreement, the State Tax Certificate, the Local Tax Certificates and the Master Assignment including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of Base Rent Payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the 2002B Certificates, the Master Financing Contract, each Local Agency Financing Contract, each Site Lease, the Trust Agreement, the State Tax Certificate, each Local Agency Tax Certificate, the Master Assignment and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State and municipal corporations and political subdivisions in the State of Washington. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or non-substitution provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of any of the Site Leases, the Local Agency Financing Contracts, the Master Financing Contract or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or scope of remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy,

completeness or fairness of the Official Statement or other offering material relating to the 2002B Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Master Financing Contract, each Local Agency Financing Contract and the Trust Agreement have been duly executed and delivered by, and constitute valid and binding obligations of, the State.

2. The obligation of the State to make the Base Rent Payments during the term of the Master Financing Contract constitutes a valid and binding limited obligation of the State, payable from Agency Rent Payments due under the respective Local Agency Financing Contracts. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. The conditional obligation of the State pursuant to the Master Financing Contract to pay Agency Rent Payments under each Local Agency Financing Contract at the default of the related Local Agency is subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

4. Assuming due authorization, execution and delivery of the Trust Agreement and the 2002B Certificates by the Fiscal Agent, the 2002B Certificates are entitled to the benefits of the Trust Agreement.

5. The portion of each Base Rent Payment designated as and constituting interest paid by the State under the Master Financing Contract and received by the registered owners of the 2002B Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the 2002B Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX D

EXCERPTS FROM THE STATE'S 2001 FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

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INDEPENDENT AUDITOR'S REPORT

December 12, 2001

The Honorable Gary Locke
Governor, State of Washington
P.O. BOX 40002
0lympia, WA 98504

Dear Governor Locke:

We have audited the accompanying general-purpose financial statements of the state of Washington as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with, generally accepted auditing standards. 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 out audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Washington as of June 30, 2001 and the results of its operations and cash flows of its proprietary funds, nonexpendable trust funds and discretely presented component units for the fiscal year then ended, in conformity with, generally accepted accounting principles.

As discussed in Note 3, the state adopted certain. new accounting pronouncements related to the timing of recognition of non-exchange transactions.

Our audit was made for the purpose of forming an opinion on the general-purpose Financial statements taken as a whole. The required supplementary information, combining financial statements and schedules listed in the table of contents, and the budgetary reports (MFS 1054) referenced in Note 1D are for purposes of additional analysis, and are not a required part of the general-purpose financial statements of the state of Washington. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

The other data included in this report, designated as the introductory and statistical sections in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

BS:KH:je

General Purpose Financial Statements

Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 2001 (expressed in thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and Other Debits						
Assets:						
Cash and pooled investments	$ 1,590,915	$ 1,625,689	$ 93,957	$ 229,177	$ 210,883	$ 95,693
Investments	148,199	813,792	-	-	69,371	-
Taxes receivable (net of allowance)	2,318,046	72,535	-	-	4,276	-
Other receivables (net of allowance)	286,223	200,611	5	20,616	619,081	3,533
Due from other funds	179,080	662,260	2,010	82,955	246,385	108,279
Due from other governments	1,276,919	185,702	-	4,527	32,350	21,996
Inventories	20,201	37,969	-	-	66,083	19,596
Investments, noncurrent	-	-	-	-	9,784,727	45,099
Other nonfixed assets	-	-	-	-	28,450	2,006
Fixed assets (net of depreciation)	-	-	-	-	1,078,072	318,044
Other Debits:						
Amount available in debt service funds	-	-	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	-
Total Assets and Other Debits	$ 5,819,583	$ 3,598,558	$ 95,972	$ 337,275	$ 12,139,678	$ 614,246
Liabilities, Equity, and Other Credits						
Liabilities:						
Accounts payable	$ 610,491	$ 222,777	$ -	$ 21,856	$ 97,067	$ 37,649
Contracts and retainages payable	19,950	30,444	-	31,008	19,457	22,358
Accrued liabilities	122,016	193,737	3,235	1,769	301,435	18,176
Obligations under security lending agreements	292,315	229,285	9,802	8,734	501,404	6,431
Matured bonds payable	-	-	-	-	26,236	-
Due to other funds	589,024	732,619	-	40,192	86,018	52,493
Due to other governments	77,172	72,072	-	100	3,139	170
Deferred revenues	1,235,045	199,368	-	10,169	42,119	687
Claims and judgments payable, current	20,842	-	-	-	1,317,130	78,349
Claims and judgments payable, long-term	-	-	-	-	12,929,183	233,535
Bonds payable	-	-	-	-	468,768	-
Accrued retirement obligations	-	-	-	-	-	-
Other long-term obligations	-	-	-	-	805,613	63,917
Total Liabilities	2,966,855	1,680,302	13,037	113,828	16,597,569	513,765
Equity and Other Credits:						
Contributed capital	-	-	-	-	10,314	89,314
Investment in general fixed assets	-	-	-	-	-	-
Retained earnings (deficit)	-	-	-	-	(4,468,205)	11,167
Fund Balances:						
Reserved	1,416,473	306,175	-	62,988	-	-
Unreserved, designated	871,327	189,925	82,935	-	-	-
Unreserved, undesignated	564,928	1,422,156	-	160,459	-	-
Total Equity and Other Credits	2,852,728	1,918,256	82,935	223,447	(4,457,891)	100,481
Total Liabilities, Equity, and Other Credits	$ 5,819,583	$ 3,598,558	$ 95,972	$ 337,275	$ 12,139,678	$ 614,246

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

Fiduciary Fund Types	Account Groups		Totals Primary Government (Memorandum Only)			Totals Reporting Entity (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Obligations	June 30, 2001	June 30, 2000	Component Units	June 30, 2001	June 30, 2000
$ 7,748,069	$ -	$ -	$ 11,594,383	$ 9,856,887	$ 79,705	$ 11,674,088	$ 9,904,325
127	-	-	1,031,489	1,357,742	29,875	1,061,364	1,387,664
-	-	-	2,394,857	2,172,439	-	2,394,857	2,172,439
1,076,139	-	-	2,206,208	1,903,094	2,204	2,208,412	1,905,421
724,307	-	-	2,005,276	2,030,103	-	2,005,276	2,030,103
364,197	-	-	1,885,691	1,653,182	-	1,885,691	1,653,182
155	-	-	144,004	148,588	-	144,004	148,588
49,678,432	-	-	59,508,258	62,214,762	15,722	59,523,980	62,228,259
95,770	-	-	126,226	121,070	13,237	139,463	128,075
-	7,597,864	-	8,993,980	8,497,175	330,798	9,324,778	8,673,284
-	-	82,935	82,935	210,676	-	82,935	210,676
-	-	8,184,004	8,184,004	7,544,755	-	8,184,004	7,544,755
$ 59,687,196	$ 7,597,864	$ 8,266,939	$ 98,157,311	$ 97,710,473	$ 471,541	$ 98,628,852	$ 97,986,771
$ 24,505	$ -	$ -	$ 1,014,345	$ 860,420	$ 1,551	$ 1,015,896	$ 861,977
19,387	-	-	142,604	134,547	21,542	164,146	145,714
474,182	-	-	1,114,550	1,997,770	148	1,114,698	1,997,877
2,544,681	-	-	3,592,652	2,465,049	-	3,592,652	2,465,049
-	-	-	26,236	20,139	-	26,236	20,139
504,930	-	-	2,005,276	2,030,103	-	2,005,276	2,030,103
408,950	-	-	561,603	480,775	-	561,603	480,775
230,567	-	-	1,717,955	1,561,438	196	1,718,151	1,561,682
687	-	-	1,417,008	1,269,858	-	1,417,008	1,269,858
-	-	9,205	13,171,923	12,671,816	-	13,171,923	12,671,816
-	-	7,636,255	8,105,023	7,612,021	-	8,105,023	7,612,021
-	-	40,100	40,100	36,800	-	40,100	36,800
108,651	-	581,379	1,559,560	1,503,316	33,310	1,592,870	1,525,579
4,316,540	-	8,266,939	34,468,835	32,644,052	56,747	34,525,582	32,679,390
-	-	-	99,628	1,242,207	361,275	460,903	1,435,081
-	7,597,864	-	7,597,864	6,395,806	-	7,597,864	6,395,806
-	-	-	(4,457,038)	(4,405,284)	53,519	(4,403,519)	(4,357,198)
54,552,818	-	-	56,338,454	58,939,724	-	56,338,454	58,939,724
4,463	-	-	1,148,650	1,206,443	-	1,148,650	1,206,443
813,375	-	-	2,960,918	1,687,525	-	2,960,918	1,687,525
55,370,656	7,597,864	-	63,688,476	65,066,421	414,794	64,103,270	65,307,381
$ 59,687,196	$ 7,597,864	$ 8,266,939	$ 98,157,311	$ 97,710,473	$ 471,541	$ 98,628,852	$ 97,986,771

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Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Year Ended June 30, 2001	Year Ended June 30, 2000
Revenues:							
Retail sales and use taxes	$ 5,912,004	$ 22,543	$ -	$ -	$ 20,011	$ 5,954,558	$ 5,827,895
Business and occupation taxes	1,970,054	48,273	-	-	-	2,018,327	1,829,503
Property taxes	1,366,714	-	-	-	-	1,366,714	1,332,837
Excise taxes	476,508	32,902	-	-	-	509,410	840,120
Motor vehicle and fuel taxes	2,865	733,281	-	-	-	736,146	755,428
Other taxes	947,163	395,392	-	-	-	1,342,555	1,237,697
Licenses, permits, and fees	123,896	490,336	-	-	2,340	616,572	598,035
Timber sales	62,406	72,905	-	5,723	-	141,034	178,514
Other contracts and grants	206,269	312,650	-	4,648	77,182	600,749	625,500
Federal grants-in-aid	4,633,596	1,121,694	164	2,079	393,942	6,151,475	5,664,520
Charges for services	39,757	888,487	-	23,300	207,065	1,158,609	1,044,934
Unemployment compensation contributions	-	-	-	-	947,061	947,061	939,475
Investment gains (losses)	145,800	128,341	3,598	2,824	1,432	281,995	496,967
Miscellaneous revenue	157,939	293,790	4,580	21,121	224,168	701,598	661,193
Total Revenues	16,044,971	4,540,594	8,342	59,695	1,873,201	22,526,803	22,032,618
Expenditures:							
Current:							
General government	673,692	147,076	-	60,638	230,373	1,111,779	882,036
Human services	7,653,107	718,924	-	7,376	1,105,981	9,485,388	8,665,828
Natural resources and recreation	368,367	249,249	-	19,563	6,081	643,260	555,328
Transportation	48,290	1,045,109	-	338	163,500	1,257,237	1,006,706
Education	6,608,269	1,796,933	-	64,578	312,200	8,781,980	8,243,754
Intergovernmental	57,068	264,016	-	-	-	321,084	645,855
Capital outlays	95,419	609,722	-	487,386	16,470	1,208,997	1,195,529
Debt service:							
Principal	15,756	10,518	373,529	29	45	399,877	388,282
Interest	2,733	8,020	382,373	1,722	7	394,855	359,188
Total Expenditures	15,522,701	4,849,567	755,902	641,630	1,834,657	23,604,457	21,942,506
Excess of Revenues Over (Under) Expenditures	522,270	(308,973)	(747,560)	(581,935)	38,544	(1,077,654)	90,112
Other Financing Sources (Uses):							
Bond sale proceeds	-	242,263	-	578,187	-	820,450	778,020
Proceeds of refunding bonds	-	-	565,367	-	-	565,367	100,649
Payment to refunded bond escrow agent	-	-	(565,451)	-	-	(565,451)	(100,649)
Note proceeds	5,679	17,642	-	-	-	23,321	25,871
Operating transfers in	432,077	959,112	779,306	115,698	94,171	2,380,364	2,037,402
Operating transfers out	(1,043,990)	(657,611)	(159,403)	(45,537)	(228,490)	(2,135,031)	(1,907,667)
Capital lease acquisitions	-	10,364	-	-	-	10,364	-
Total Other Financing Sources (Uses)	(606,234)	571,770	619,819	648,348	(134,319)	1,099,384	933,626
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(83,964)	262,797	(127,741)	66,413	(95,775)	21,730	1,023,738
Fund Balances:							
Fund balances as restated, July 1	2,936,692	1,647,046	210,676	157,034	4,772,207	9,723,655	8,289,321
Residual equity transfers in	-	8,789	-	-	-	8,789	4,048
Residual equity transfers out	-	(376)	-	-	(248)	(624)	(3,510)
Fund Balances, June 30	$ 2,852,728	$ 1,918,256	$ 82,935	$ 223,447	$ 4,676,184	$ 9,753,550	$ 9,313,597

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

Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual

All Governmental Fund Types

For the Biennium Ended June 30, 2001 (expressed in thousands)

	General Fund			Special Revenue Funds		
	Approved Budget 1999-01 Biennium	Actual For 1999-01 Biennium	Variance Favorable (Unfavorable)	Approved Budget 1999-01 Biennium	Actual For 1999-01 Biennium	Variance Favorable (Unfavorable)
Revenues:						
Taxes	$ 20,867,587	$ 20,787,643	$ (79,944)	$ 1,974,481	$ 1,963,291	$ (11,190)
Licenses, permits, and fees	245,540	255,090	9,550	848,405	862,852	14,447
Other contracts and grants	453,915	447,103	(6,812)	16,688	19,502	2,814
Timber sales	128,193	135,782	7,589	148,050	149,886	1,836
Federal grants-in-aid	8,684,615	8,161,625	(522,990)	1,054,305	927,689	(126,616)
Charges for services	73,832	76,036	2,204	160,708	162,271	1,563
Interest income	139,240	226,384	87,144	69,465	97,344	27,879
Miscellaneous revenue	313,267	366,909	53,642	418,778	427,115	8,337
Total Revenues	30,906,189	30,456,572	(449,617)	4,690,880	4,609,950	(80,930)
Expenditures:						
Current:						
General government	2,551,276	2,550,912	364	259,777	215,656	44,121
Human services	14,174,329	14,073,184	101,145	1,385,698	1,346,727	38,971
Natural resources and recreation	680,672	643,752	36,920	287,132	238,418	48,714
Transportation	99,151	96,396	2,755	1,177,244	1,138,750	38,494
Education	12,918,818	12,835,438	83,380	80,124	79,456	668
Capital outlays	731,354	319,034	412,320	2,862,266	2,167,703	694,563
Total Expenditures	31,155,600	30,518,716	636,884	6,052,241	5,186,710	865,531
Excess of Revenues Over (Under) Expenditures	(249,411)	(62,144)	187,267	(1,361,361)	(576,760)	784,601
Other Financing Sources (Uses):						
Bond sale proceeds	-	-	-	778,064	272,097	(505,967)
Proceeds of refunding bonds	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Operating transfers in	580,850	867,697	286,847	770,658	1,213,627	442,969
Operating transfers out	(220,720)	(765,640)	(544,920)	(785,497)	(776,845)	8,652
Total Other Financing Sources (Uses)	360,130	102,057	(258,073)	763,225	708,879	(54,346)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 110,719	$ 39,913	$ (70,806)	$ (598,136)	$ 132,119	$ 730,255

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

Debt Service Funds			Capital Projects Funds			Totals (Memorandum Only)		
Approved Budget 1999-01 Biennium	Actual For 1999-01 Biennium	Variance Favorable (Unfavorable)	Approved Budget 1999-01 Biennium	Actual For 1999-01 Biennium	Variance Favorable (Unfavorable)	Approved Budget 1999-01 Biennium	Actual For 1999-01 Biennium	Variance Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -	$ 22,842,068	$ 22,750,934	$ (91,134)
-	-	-	-	-	-	1,093,945	1,117,942	23,997
-	-	-	-	-	-	470,603	466,605	(3,998)
-	-	-	13,382	13,405	23	289,625	299,073	9,448
-	329	329	-	-	-	9,738,920	9,089,643	(649,277)
-	-	-	4,481	45,320	40,839	239,021	283,627	44,606
3,549	3,631	82	1,941	4,243	2,302	214,195	331,602	117,407
-	51	51	11,300	11,576	276	743,345	805,651	62,306
3,549	4,011	462	31,104	74,544	43,440	35,631,722	35,145,077	(486,645)
365,949	363,058	2,891	8,812	5,109	3,703	3,185,814	3,134,735	51,079
-	-	-	-	-	-	15,560,027	15,419,911	140,116
-	-	-	-	-	-	967,804	882,170	85,634
-	-	-	-	-	-	1,276,395	1,235,146	41,249
-	-	-	-	-	-	12,998,942	12,914,894	84,048
-	-	-	1,729,979	1,197,855	532,124	5,323,599	3,684,592	1,639,007
365,949	363,058	2,891	1,738,791	1,202,964	535,827	39,312,581	37,271,448	2,041,133
(362,400)	(359,047)	3,353	(1,707,687)	(1,128,420)	579,267	(3,680,859)	(2,126,371)	1,554,488
-	-	-	1,085,229	1,129,434	44,205	1,863,293	1,401,531	(461,762)
-	666,015	666,015	-	-	-	-	666,015	666,015
-	(666,100)	(666,100)	-	-	-	-	(666,100)	(666,100)
394,574	372,851	(21,723)	25,051	146,292	121,241	1,771,133	2,600,467	829,334
(10,952)	(13,414)	(2,462)	(56,952)	(53,879)	3,073	(1,074,121)	(1,609,778)	(535,657)
383,622	359,352	(24,270)	1,053,328	1,221,847	168,519	2,560,305	2,392,135	(168,170)
$ 21,222	$ 305	$ (20,917)	$ (654,359)	$ 93,427	$ 747,786	$ (1,120,554)	$ 265,764	$ 1,386,318

Combined Statement of Revenues, Expenses, and Changes in Equity - All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type
	Enterprise	Internal Service	Nonexpendable Trust
Operating Revenues:			
Sales	$ 484,700	$ 132,920	$ -
Less: Cost of goods sold	356,174	115,800	-
Gross profit	128,526	17,120	-
Charges for services	726,733	536,522	-
Earnings on investments	548,199	4,258	27,170
Insurance premiums	1,084,613	778,206	-
Lottery ticket proceeds	483,904	-	-
Miscellaneous revenue	118,398	28,216	54,862
Total Operating Revenues	3,090,373	1,364,322	82,032
Operating Expenses:			
Salaries and wages	502,389	206,975	-
Employee benefits	103,503	47,992	-
Personal services	49,866	18,909	-
Goods and services	467,483	250,695	-
Travel	17,252	4,274	-
Insurance premiums and claims	1,881,808	824,364	-
Lottery prize payments	288,509	-	-
Depreciation and amortization	40,392	50,086	-
Miscellaneous expenses	49,440	30,234	-
Total Operating Expenses	3,400,642	1,433,529	-
Operating Income (Loss)	(310,269)	(69,207)	82,032
Nonoperating Revenues (Expenses):			
Other revenues (expenses)	90,546	(1,073)	581
Earnings (losses) on investments	191,814	2,631	-
Interest expense	(65,407)	(2,814)	-
Distributions to other governments	(29,090)	-	-
Total Nonoperating Revenues (Expenses)	187,863	(1,256)	581
Income (Loss) Before Operating Transfers	(122,406)	(70,463)	82,613
Operating Transfers:			
Operating transfers in	394,989	69,529	28,536
Operating transfers out	(568,383)	(72,999)	(97,005)
Net Operating Transfers In (Out)	(173,394)	(3,470)	(68,469)
Net Income (Loss)	(295,800)	(73,933)	14,144
Equity:			
Equity as restated, July 1	(3,313,031)	170,390	1,677,068
Residual equity transfers in (out)	298,598	(1,055)	(1)
Contributions of capital	-	5,079	-
Return of contributed capital	(1,147,658)	-	-
Equity, June 30	$ (4,457,891)	$ 100,481	$ 1,691,211

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

Totals Primary Government (Memorandum Only)			Totals Reporting Entity (Memorandum Only)	
Year Ended June 30, 2001	Year Ended June 30, 2000	Component Units	Year Ended June 30, 2001	Year Ended June 30, 2000
$ 617,620	$ 592,706	$ -	$ 617,620	$ 592,706
471,974	439,736	-	471,974	439,736
145,646	152,970	-	145,646	152,970
1,263,255	1,269,108	8,971	1,272,226	1,277,605
579,627	725,711	-	579,627	725,711
1,862,819	1,545,147	-	1,862,819	1,545,147
483,904	452,954	-	483,904	452,954
201,476	203,508	-	201,476	203,508
4,536,727	4,349,398	8,971	4,545,698	4,357,895
709,364	729,558	3,764	713,128	732,682
151,495	157,012	852	152,347	157,803
68,775	40,374	423	69,198	40,875
718,178	748,774	3,535	721,713	751,631
21,526	21,088	19	21,545	21,102
2,706,172	3,010,451	-	2,706,172	3,010,451
288,509	289,608	-	288,509	289,608
90,478	118,686	2,388	92,866	120,805
79,674	76,118	383	80,057	76,708
4,834,171	5,191,669	11,364	4,845,535	5,201,665
(297,444)	(842,271)	(2,393)	(299,837)	(843,770)
90,054	100,000	1,500	91,554	100,000
194,445	(86,319)	6,107	200,552	(83,237)
(68,221)	(69,786)	(344)	(68,565)	(70,091)
(29,090)	(27,342)	-	(29,090)	(27,342)
187,188	(83,447)	7,263	194,451	(80,670)
(110,256)	(925,718)	4,870	(105,386)	(924,440)
493,054	521,680	-	493,054	521,680
(738,387)	(651,415)	-	(738,387)	(651,415)
(245,333)	(129,735)	-	(245,333)	(129,735)
(355,589)	(1,055,453)	4,870	(350,719)	(1,054,175)
(1,465,573)	(512,560)	240,960	(1,224,613)	(407,033)
297,542	(538)	-	297,542	(538)
5,079	82,563	168,964	174,043	216,718
(1,147,658)	(21)	-	(1,147,658)	(21)
$ (2,666,199)	$ (1,486,009)	$ 414,794	$ (2,251,405)	$ (1,245,049)

Combined Statement of Cash Flows

All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust	Year Ended June 30, 2001	Year Ended June 30, 2000
Cash Flows from Operating Activities:					
Operating Income (Loss)	$ (310,269)	$ (69,207)	$ 82,032	$ (297,444)	$ (842,271)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:					
Depreciation	40,392	50,086	-	90,478	118,686
Interest revenue reported as operating	(548,199)	(4,258)	(27,170)	(579,627)	(725,711)
Other revenues	3,712	439	708	4,859	8,552
Other expenses	(10,517)	(1,214)	(127)	(11,858)	(3,509)
Changes in Assets: Decrease (Increase)					
Receivables (net of allowance)	4,156	368	4,177	8,701	(74,262)
Due from other funds	47,952	25,652	5,662	79,266	(374,142)
Due from other governments	(2,736)	(4,451)	(21)	(7,208)	(13,669)
Inventories	16,695	(665)	-	16,030	(11,487)
Prepaid expenses	535	(27)	-	508	2,341
Other nonfixed assets	(1,153)	-	4,444	3,291	359
Changes in Liabilities: Increase (Decrease)					
Accounts payable	21,676	540	-	22,216	(5,489)
Contracts and retainages payable	5,803	11,442	(747)	16,498	(6,882)
Accrued liabilities	(258,647)	9,643	(2,146)	(251,150)	280,411
Due to other funds	(16,297)	(14,054)	8,067	(22,284)	93,233
Due to other governments	1,914	(102)	-	1,812	(71)
Deferred revenues	(2,300)	(2,243)	(3)	(4,546)	3,602
Claims and judgments payable	619,022	28,491	-	647,513	1,209,869
Other long-term obligations	(25,993)	(677)	(201)	(26,871)	30,927
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	(414,254)	29,763	74,675	(309,816)	(309,513)
Cash Flows from Noncapital Financing Activities:					
Distributions to other governments	(29,090)	-	-	(29,090)	(27,342)
Taxes and license fees collected	98,788	-	-	98,788	81,905
Operating transfers in	394,989	69,529	28,536	493,054	521,680
Operating transfers out	(568,382)	(72,999)	(97,005)	(738,386)	(651,415)
Payments for interest	-	-	-	-	-
Proceeds from noncapital long-term financing	12,817	-	-	12,817	5,956
Payment of noncapital long-term obligations	(7,673)	-	-	(7,673)	(1,027)
Equity restatement	-	-	-	-	3,167
Fund equity transfers in	298,696	-	-	298,696	15,971
Fund equity transfers out	(1,147,756)	(1,055)	(1)	(1,148,812)	(16,509)
Net Cash or Cash Equivalents Provided by (Used in) Noncapital Financing Activities	(947,611)	(4,525)	(68,470)	(1,020,606)	(67,614)
Cash Flows from Capital and Related Financing Activities:					
Payments for interest	(26,829)	(2,814)	-	(29,643)	(31,054)
Acquisitions of fixed assets	(182,930)	(82,752)	-	(265,682)	(213,549)
Proceeds from sale of fixed assets	872,556	20,785	-	893,341	25,049
Proceeds from long-term capital financing	128,071	71	-	128,142	226,233
Retirement of long-term bonds payable	(85,215)	-	-	(85,215)	(21,850)
Payment of other long-term obligations	(4,703)	(7,014)	-	(11,717)	(163,419)
Contributions for capital acquisitions	-	-	-	-	-
Net Cash or Cash Equivalents Provided by (Used in) Capital and Related Financing Activities	700,950	(71,724)	-	629,226	(178,590)
Cash Flows from Investing Activities:					
Receipt of interest	624,882	6,157	131,744	762,783	706,998
Proceeds from sale of investment securities	4,333,078	37,759	231,065	4,601,902	4,278,371
Purchases of investment securities	(4,333,755)	(42,848)	(349,095)	(4,725,698)	(4,743,774)
Net Cash Provided by (Used in) Investing Activities	624,205	1,068	13,714	638,987	241,595
Net Increase (Decrease) in Cash and Pooled Investments	(36,710)	(45,418)	19,919	(62,209)	(314,122)
Cash and Pooled Investments, July 1	247,593	141,111	3,882	392,586	706,708
Cash and Pooled Investments, June 30	$ 210,883	$ 95,693	$ 23,801	$ 330,377	$ 392,586

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

Continued

Component Units	Totals Reporting Entity (Memorandum Only) Year Ended June 30, 2001	Year Ended June 30, 2000
$ (2,393)	$ (299,837)	$ (843,770)
2,387	92,865	120,805
-	(579,627)	(725,711)
1,500	6,359	8,552
-	(11,858)	(3,509)
143	8,844	(73,787)
-	79,266	(374,142)
-	(7,208)	(13,669)
-	16,030	(11,487)
-	508	2,341
(6,252)	(2,961)	(1,754)
(6)	22,210	(2,707)
-	16,498	(6,882)
10,418	(240,732)	280,498
-	(22,284)	93,233
-	1,812	(71)
(48)	(4,594)	3,637
-	647,513	1,209,869
11,047	(15,824)	33,153
16,796	(293,020)	(305,401)
-	(29,090)	(27,342)
-	98,788	81,905
-	493,054	521,680
-	(738,386)	(651,415)
(344)	(344)	(305)
-	12,817	5,956
-	(7,673)	(1,027)
-	-	3,167
-	298,696	16,031
(37)	(1,148,849)	(16,509)
(381)	(1,020,987)	(67,859)
-	(29,643)	(31,054)
(157,077)	(422,759)	(313,600)
-	893,341	25,049
-	128,142	233,883
-	(85,215)	(21,850)
-	(11,717)	(163,419)
169,000	169,000	134,095
11,923	641,149	(136,896)
6,107	768,890	709,915
1,247	4,603,149	4,279,552
(3,425)	(4,729,123)	(4,760,411)
3,929	642,916	229,056
32,267	(29,942)	(281,100)
47,438	440,024	721,124
$ 79,705	$ 410,082	$ 440,024

Combined Statement of Cash Flows

All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust	Year Ended June 30, 2001	Year Ended June 30, 2000
Noncash Investing, Capital, and Financing Activities:					
Acquisition of capital assets with capital leases and COPs	$ -	$ 1,475	$ -	$ 1,475	$ 1,778
Capital lease and COP liabilities incurred in acquiring capital assets	-	(1,475)	-	(1,475)	(1,778)
Contributions of capital assets	-	5,008	-	5,008	82,600
Return of contributed assets	-	-	-	-	(21)
Noncash portion of prior period adjustments	20,436	-	-	20,436	(5,621)
Amortization of long-term lottery prize liability	38,557	-	-	38,557	(38,622)
Amoritization of gains (losses) on bond refunding	(22)	-	-	(22)	-
Increase (decrease) in fair value of investments	115,349	732	(104,574)	11,507	(67,606)

Cash and Pooled Investments in Fiduciary Fund Types on the Combined Balance Sheet include:

Expendable Trust Funds	$ 2,365,889
Nonexpendable Trust Funds	23,801
Pension and Investment Trust Funds	5,013,466
Agency Funds	344,913
Total	$ 7,748,069

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

Concluded

Component Units	Totals Reporting Entity (Memorandum Only) Year Ended June 30, 2001	Year Ended June 30, 2000
$ -	$ 1,475	$ 1,778
-	(1,475)	(1,778)
-	5,008	82,600
-	-	(21)
-	20,436	(5,621)
-	38,557	(38,622)
-	(22)	-
-	11,507	(67,606)

Statement of Changes in Net Assets

Pension and Investment Trust Funds

For the Fiscal Year Ended June 30, 2001 (expressed in thousands)

	Public Employees' Plan 1	Public Employees' Plan 2	Teachers' Plan 1	Teachers' Plan 2/3 Defined Benefit	Teachers' Plan 3 Defined Contribution	School Employees' Plan 2/3 Defined Benefit	School Employees' Plan 3 Defined Contribution
Additions:							
Contributions:							
Employers	$ 181,711	$ 115,039	$ 141,351	$ 69,579	$ -	$ 19,939	$ -
Members	72,571	117,445	56,988	11,242	125,300	14,217	13,727
State	-	-	-	-	-	-	-
Pool participants	-	-	-	-	-	-	-
Total Contributions	254,282	232,484	198,339	80,821	125,300	34,156	13,727
Investment Income:							
Net appreciation (depreciation) in fair value	(940,735)	(873,428)	(807,773)	(281,115)	(164,380)	(192,465)	369
Interest and dividends	314,586	310,127	271,045	96,385	30,026	44,574	914
Less: Investment expenses	(35,926)	(36,023)	(30,902)	(11,670)	(2,103)	(4,304)	(68)
Net Investment Income	(662,075)	(599,324)	(567,630)	(196,400)	(136,457)	(152,195)	1,215
Transfers from other pension plans	382	322	4	9	3,455	1,424,526	478,031
Other additions	-	-	-	-	-	-	-
Total Additions	(407,411)	(366,518)	(369,287)	(115,570)	(7,702)	1,306,487	492,973
Deductions:							
Pension benefits	669,877	50,798	632,674	6,810	-	285	-
Pension refunds	8,466	48,311	2,762	3,871	20,078	1,397	2,168
Transfers to other pension plans	3	1,903,135	-	3,289	172	320	18
Administrative expenses	597	423	234	1,322	175	-	315
Distributions to pool participants	-	-	-	-	-	-	-
Total Deductions	678,943	2,002,667	635,670	15,292	20,425	2,002	2,501
Net Increase (Decrease)	(1,086,354)	(2,369,185)	(1,004,957)	(130,862)	(28,127)	1,304,485	490,472
Net Assets Held in Trust for Pension Benefits and Investment Pool Participants, as restated July 1	11,300,894	12,529,376	9,802,832	3,396,307	1,660,177	-	-
Net Assets Held in Trust for Pension Benefits and Investment Pool Participants, June 30	$ 10,214,540	$ 10,160,191	$ 8,797,875	$ 3,265,445	$ 1,632,050	$ 1,304,485	$ 490,472

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

LEOFF Plan 1	LEOFF Plan 2	Washington State Patrol Retirement System	Judicial Retirement System	Judicial Retirement Account	Judges' Retirement Fund	Volunteer Fire Fighters' Retirement System	Local Gov't Investment Pool	Totals for the Year Ended June 30, 2001	Totals for the Year Ended June 30, 2000
$ 130	$ 31,450	$ -	$ 257	$ 482	$ 8	$ 761	$ -	$ 560,707	$ 594,350
46	52,986	1,819	257	414	8	156	-	467,176	420,233
-	20,919	-	7,000	-	750	3,270	-	31,939	27,543
-	-	-	-	-	-	-	11,109,314	11,109,314	9,720,201
176	105,355	1,819	7,514	896	766	4,187	11,109,314	12,169,136	10,762,327
(460,833)	(207,748)	(60,311)	9	(1,285)	85	(10,638)	-	(4,000,248)	4,459,353
154,051	69,405	20,125	579	829	298	3,607	237,569	1,554,120	1,299,415
(17,589)	(7,922)	(2,302)	(12)	(1)	(48)	(416)	(10,347)	(159,633)	(109,838)
(324,371)	(146,265)	(42,488)	576	(457)	335	(7,447)	227,222	(2,605,761)	5,648,930
57	2	226	-	-	-	-	-	1,907,014	79,015
-	-	-	-	-	-	92	5	97	9
(324,138)	(40,908)	(40,443)	8,090	439	1,101	(3,168)	11,336,541	11,470,486	16,490,281
238,938	1,727	20,359	7,719	347	662	6,933	-	1,637,129	1,501,823
11	8,343	88	-	-	-	17	-	95,512	103,025
6	71	-	-	-	-	-	-	1,907,014	79,015
168	7	7	-	-	-	21	-	3,269	3,838
-	-	-	-	-	-	-	9,667,328	9,667,328	9,834,668
239,123	10,148	20,454	7,719	347	662	6,971	9,667,328	13,310,252	11,522,369
(563,261)	(51,056)	(60,897)	371	92	439	(10,139)	1,669,213	(1,839,766)	4,967,912
5,549,423	2,410,292	719,754	9,421	9,274	4,519	129,405	3,321,353	50,843,027	45,875,115
$ 4,986,162	$ 2,359,236	$ 658,857	$ 9,792	$ 9,366	$ 4,958	$ 119,266	$ 4,990,566	$ 49,003,261	$ 50,843,027

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2001

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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 proprietary fund accounting and reporting, the state applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. The more significant of the state's accounting policies follow.

A. Reporting Entity

In evaluating how to define the state of Washington, for financial reporting purposes, management has considered: 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 is manifest when the primary government appoints a voting majority of an organization's governing body and is 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 this 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 account groups 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 reside with the state.

COLLEGES AND UNIVERSITIES - The governing boards of the five state universities, the state college, and the 33 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 for construction of facilities for certain revenue generating activities such as housing, dining, and parking. 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, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

RETIREMENT SYSTEMS - The state of Washington, through the Department of Retirement Systems, administers seven 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 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' 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 Administrator for 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 nine of the aforementioned retirement systems are included in the primary government's financial statements.

COMPONENT UNITS - Discrete component units are entities which are legally separate from the state but which are financially accountable to the state. The following are discretely presented in the financial statements of the state in the component units column:

The WASHINGTON STATE HOUSING FINANCE COMMISSION, the WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY, the WASHINGTON HEALTH CARE FACILITIES AUTHORITY, and the WASHINGTON ECONOMIC DEVELOPMENT FINANCE AUTHORITY (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities are reported as discrete component units of the state government solely for accounting purposes. 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 - 2nd Avenue, Suite 2700
Seattle, WA 98104-1046

The WASHINGTON STATE PUBLIC STADIUM AUTHORITY (PSA) was created by the Legislature to acquire, construct, own, and operate a stadium, exhibition center, and parking garage. The state has budget approval authority over a majority of PSA's funding sources. Further, conditioned upon certain events occurring, the state is authorized to issue and has issued general obligation bonds to participate in the funding of project construction costs. Under statute, the state's share of the total project cost is capped at $300 million. Project costs in excess of $300 million are the responsibility of the project's private partner, First & Goal, Inc. The bonds will be 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
401 Second Avenue South, Suite 520
Seattle, WA 98104-0280

B. Basis of Presentation - Fund Accounting

The state uses 476 accounts which have been administratively combined into 55 funds and two account groups. The state uses these funds and account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category,

in turn, is divided into separate "fund types." State transactions are recorded in the fund types and account groups described below:

Governmental Funds
Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term obligations (debt service funds). The General Fund is used to account for activities of the general government not accounted for in some other fund.

Proprietary Funds
Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the governmental unit (internal service funds).

Fiduciary Funds
Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the governmental unit. When these assets are held under the terms of a formal trust agreement, either an expendable trust fund, a nonexpendable trust fund, or a pension/investment trust fund is used. The terms "expendable" and "nonexpendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Groups
The General Fixed Assets Account Group accounts for all fixed assets of the state other than those accounted for in proprietary and similar trust funds. The General Long-Term Obligations Account Group accounts for the unmatured principal of the state's general obligation bonds and other long-term obligations of governmental and expendable trust funds.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary, nonexpendable trust, and pension/investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in equity (i.e., total net assets). Equity in proprietary funds is segregated into contributed capital and retained earnings components. Equity for nonexpendable trust and pension/investment trust funds is shown as reserved for nonexpendable trust corpus and reserved for pension benefits/local governments, respectively.

The modified accrual basis of accounting is used by all governmental, expendable trust, and agency funds. 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, unemployment compensation contributions, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collected within 60 days. 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. 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 collected 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 recognized when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general long-term obligations which is recognized when due, and

certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

All proprietary, nonexpendable trust, and pension/investment trust funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The state reports deferred revenues on its balance sheet. 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 the incurrence of qualifying expenditures.

D. 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 "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual - All Governmental Fund Types" ("Governmental Budgetary Statement") is not presented at the legal level of budgetary control. This is due to the large number of appropriated fund/accounts and appropriations within agencies that would make such a presentation in the accompanying financial statements extremely cumbersome. Section 2400.112 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 1999-2001 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 the fund/account, agency, and appropriation level are presented in Report MFS1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43123, Olympia, Washington 98504-3123.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures 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 only at the beginning of the second year of the biennium and must be initiated by the Governor. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary statements displayed in the accompanying financial statements are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds 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 versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying "Governmental Budgetary Statement" is different in certain respects from the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement"). In the accompanying "Governmental Budgetary Statement," budget and actual expenditures are reported only for appropriated fund/accounts and 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 accompanying "Governmental Operating Statement," 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 activities are excluded from the "Governmental Budgetary Statement" because they are not appropriated. These activities include: funds designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments. Further, certain operating transfers are appropriated as expenditures. These transfers are reported as expenditures in the "Governmental Budgetary Statement" and as operating transfers in the "Governmental Operating Statement." The main factors contributing to the difference in the amount "Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses" are: note and loan activity as explained in Note 2, "Budgetary Accounting, Reporting, and Compliance," and nonappropriated governmental fund activities.

E. Cash and Pooled Investments

Investments of surplus or pooled cash balances are reported on the accompanying Combined Balance Sheet and Combined Statement 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. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Combined Statement of Cash Flows, the state considers cash and 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 to be cash equivalents.

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 SEC's 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 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 TDD (360) 902-8963.

All other noncurrent investments are reported at fair value. Fair values are determined using closing market prices at year-end for marketable securities and other reasonable methods for investments where market values are not readily available.

F. Receivables

Receivables in the state's governmental and fiduciary funds consist primarily of tax 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.

G. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes if the annual balance on hand within an agency is estimated to exceed $25,000 in value. Consumable inventories are generally valued using the first-in, first-out method. All merchandise inventories are valued and considered reportable for financial statement purposes. Merchandise inventories are generally valued using the first-in, first-out method. Donated consumable inventories are recorded at fair market value. Food stamps on hand are recorded at face value.

Governmental and expendable trust fund inventories are valued at cost and are recorded using the consumption method. Inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $33 thousand in food stamps and $5.6 million in federally

donated consumable inventories, both of which are offset by deferred revenues because they do not constitute a fund resource until issued or consumed.

Proprietary fund inventories are valued at the lower of cost or market and are expensed when used or sold.

H. Fixed Assets

Except as noted below, all fixed assets with a unit cost of $5,000 or greater are capitalized and reported in the accompanying financial statements. Fixed assets acquired by capital leases with a net present value or fair market value, whichever is less, of $10,000 or more are capitalized and also included in these financial statements.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Fixed asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Donated fixed assets are valued at their estimated fair value, plus all appropriate ancillary costs, on the date of donation. 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 increased by the construction. In proprietary and similar trust funds, interest costs (if material) incurred during the period of construction are capitalized.

Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings (including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets) that are immovable and are of value only to the state are not capitalized. Streets, sidewalks, lighting systems, and similar assets located on college and university campuses, which predominately benefit college and university activities, are capitalized.

Fixed assets in governmental and expendable trust funds are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and related assets (including construction projects not completed at the end of the accounting period) with the following characteristics are reported in the General Fixed Assets Account Group:

- Acquired for the production of general government services, not for the production of services that are sold.
- Have a life expectancy of more than one year.
- Have a unit cost of $5,000 or greater.

Depreciation expense of general fixed assets is not recorded in the activity statements of governmental and expendable trust funds. Accumulated depreciation is recorded in the General Fixed Assets Account Group and is included in the financial statements as a “Memo Only” entry. Depreciation is calculated using the straight-line method with estimated useful lives of 50 years for buildings, and three to 50 years for furnishings and equipment, other improvements, and miscellaneous fixed assets. General fixed assets are removed from the General Fixed Assets Account Group at the time of disposal.

Fixed assets used in proprietary and similar trust funds are accounted for in the fund in which they are utilized. Depreciation is computed using the straight-line method. Buildings are depreciated using estimated useful lives extending to 50 years. Furnishings and equipment, other improvements, and miscellaneous fixed assets are depreciated using estimated useful lives of three to 50 years. The cost and related accumulated depreciation of fixed assets retired from service or disposed of, are removed from the accounting records.

I. Compensated Absences

Annual Leave

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee’s anniversary date. It is the state’s policy to liquidate unpaid annual leave at June 30 from future resources rather than currently expendable available financial resources. Accordingly, governmental and expendable trust funds recognize annual leave when it is paid. A long-term liability of $232.6 million for the accumulated annual leave and related payroll taxes and benefits in governmental and expendable trust funds has been recorded in the General Long-Term Obligations Account Group as of June 30, 2001. Proprietary and similar trust funds recognize the expense and accrued liability when the annual leave is earned. An accrued liability for accumulated annual leave, including related payroll taxes and benefits, has been recorded in enterprise funds for $25.5 million and $16.3 million in internal service funds as of June 30, 2001.

Sick Leave

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 60 days 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 sick leave at June 30 from future resources rather than currently expendable available expendable financial resources. Accordingly, governmental and expendable trust funds recognize sick leave when it is paid. The state has recorded an estimated sick leave buyout liability, including related payroll taxes, for governmental and expendable trust funds of $111.5 million at June 30, 2001 in the General Long-Term Obligations Account Group. Proprietary and similar trust funds recognize the expense and accrue a liability for estimated sick leave buyout as sick leave is earned. As of June 30, 2001, a liability for estimated sick leave buyout, including related payroll taxes, has been accrued in enterprise funds for $8.1 million and in internal service funds for $6.2 million.

J. Long-Term Obligations

Long-term obligations expected to be financed from resources to be received in the future by governmental and expendable trust funds are reported in the General Long-Term Obligations Account Group, not in the individual funds. Long-term obligations to be financed from proprietary and similar trust funds are recorded in the applicable funds rather than in the General Long-Term Obligations Account Group.

K. Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. In governmental and fiduciary funds, fund equity is called "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.

For proprietary funds, equity attributable to accumulated earnings is referred to as "Retained Earnings." Equity provided by contributions from other funds and capital grants is classified as "Contributed Capital."

L. Insurance Activities

Workers' Compensation

The state of Washington's workers' compensation program is established by Title 51 RCW. The statute requires all employers to insure payment of benefits 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, disability, and pension payments to qualifying individuals sustaining work-related injuries. 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 cost-of-living adjustments (COLA) 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.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage 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 settlements, 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. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Risk Management

Washington State operates a risk management 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 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 employee bonds and to limit the exposure to catastrophic losses. Otherwise, the risk management 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 risk management liability program in proportion to the anticipated exposure to liability losses.

State Employees' Insurance

The state's health care benefits program is accounted for in the State Employees' Insurance Fund, an internal service fund, and is funded through contributions from employees and a per capita amount determined annually by the Legislature and allocated to state agencies. The allocation represents a composite rate that funds all programs except for the portion contributed by employees. 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. The program also covers employees on extensions of coverage and retirees who self-pay their insurance premiums.

The state self-insures or internally manages the risk of loss for the Uniform Medical Plan. Thirty-two percent of eligible subscribers were enrolled in this health care plan in Fiscal Year 2001. 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.

M. Interfund Activities

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Totals (Memorandum Only) Columns

Totals columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis.

The data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Furthermore, this data is not comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

O. Future Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, and Statement No. 38 *Certain Financial Statement Note Disclosures*. These new accounting and reporting standards will impact the state's revenue and expenditure recognition and assets, liabilities, and fund equity reporting. The new standards will also require reformatting of the financial statements and the restating of beginning balances. These new GASB standards will be implemented in Fiscal Year 2002.

Note 2 - Budgetary Accounting, Reporting, and Compliance

A. Biennial Budget

Budgeted amounts reported on the accompanying "Combined Statement of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual - All Governmental Fund Types" ("Governmental Budgetary Statement") include approved appropriations for the 1999-2001 Biennium.

The following schedule details the approved budget by fund type (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	**Totals** (Memo Only)
Legislative Appropriations:					
Original	$ 30,107,841	$ 6,348,746	$ 383,622	$ 1,697,675	$ 38,537,884
Supplemental	1,047,759	(296,505)	(17,673)	41,116	774,697
Total Legislative Appropriations	$ 31,155,600	$ 6,052,241	$ 365,949	$ 1,738,791	$ 39,312,581

B. Reconciliation of Governmental Budgetary Statement to Governmental Operating Statement

The following is a reconciliation for Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses for all governmental fund types between the "Governmental Budgetary Statement" and the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types" ("Governmental Operating Statement").

Certain transactions appear on the "Governmental Operating Statement" and not on the "Governmental Budgetary Statement," or conversely, appear on the "Governmental Budgetary Statement" and not on the "Governmental Operating Statement." Also, certain transactions appear differently on the "Governmental Operating Statement" and the "Governmental Budgetary Statement." These transactions are reconciled as detailed below:

BASIS ADJUSTMENTS - Loan disbursements/receipts are budgeted items and appear on the "Governmental Budgetary Statement." However, they do not appear on the "Governmental Operating Statement" because they represent increases/decreases of loan receivables and appropriately appear on the Combined Balance Sheet. Certain operating transfers are budgeted as expenditures to allow the exercise of budgetary control. These operating transfers are reflected as expenditures on the "Governmental Budgetary Statement" in accordance with approved appropriations, but they are reflected as operating transfers on the "Governmental Operating Statement."

ENTITY ADJUSTMENTS - Certain funds designated as nonappropriated by the Legislature, resources collected and distributed to other governments, federal surplus food commodities, food stamp benefits, and notes and capital lease proceeds/acquisitions are not appropriated and do not appear on the "Governmental Budgetary Statement." Portions of the difference in the Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses between the accompanying "Governmental Budgetary Statement" and the "Governmental Operating Statement" can be caused by the funds designated as nonappropriated by the Legislature, and by expending note proceeds received in prior fiscal periods. The other entity adjustments do not cause differences in those statements because offsetting revenues and expenditures are excluded from the "Governmental Budgetary Statement" in each case.

The following schedule details the reconciling items between the "Governmental Budgetary Statement" and the "Governmental Operating Statement" by governmental fund type (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	**Totals** (Memo Only)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (Budgetary Basis) for the Biennium Ended June 30, 2001	$ 39,913	$ 132,119	$ 305	$ 93,427	$ 265,764
Less: For the Fiscal Year ended June 30, 2000	231,323	(126,852)	119,487	43,589	267,547
For the Fiscal Year Ended June 30, 2001	(191,410)	258,971	(119,182)	49,838	(1,783)
Basis Adjustments:					
Loan disbursements	115,831	411	-	22	116,264
Loan receipts	(46,585)	(580)	-	(42)	(47,207)
Current expenditures	582,960	78,748	(567,443)	14,000	108,265
Operating transfers (net)	(582,960)	(78,748)	567,443	(14,000)	(108,265)
Entity Adjustments:					
Revenues of nonappropriated funds	227,461	1,877,290	(8,559)	61,336	2,157,528
Expenditures of nonappropriated funds	(189,261)	(1,878,434)	-	(44,906)	(2,112,601)
Revenues collected for other governments	94,554	264,016	-	-	358,570
Revenues distributed to other governments	(94,554)	(264,016)	-	-	(358,570)
Revenues attributable to federal surplus food commodities and food stamps	283,083	-	-	-	283,083
Noncash commodities and food stamps issued	(283,083)	-	-	-	(283,083)
Capital leases proceeds	-	10,364	-	-	10,364
Note proceeds	5,679	17,642	-		23,321
Noncash capital acquisitions	(5,679)	(22,867)	-	165	(28,381)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis) for the Fiscal Year Ended June 30, 2001	$ (83,964)	$ 262,797	$ (127,741)	$ 66,413	$ 117,505

C. Budget Overexpenditures

Appropriations are legal limitations on agency expenditures subject to available fund balances. The biennial appropriation bill authorizes bond debt service expenditures and retirement contributions in an amount sufficient to meet financing needs. There are no overexpenditures of appropriations at the legal level of control for the 1999-2001 Biennium.

Note 3 - Accounting and Reporting Changes

Fund equity at July 1, 2000, has been restated as follows (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	**Totals** (Memo Only)
Fund equity at June 30, 2000, as previously reported	$ 2,936,692	$ 1,619,804	$ 210,676	$ 157,034	$ (3,333,467)	$ 170,390	$ 56,909,486	$ 58,670,615
Accounting policy	-	27,242	-	-	-	-	276,753	303,995
Prior period adjustment	-	-	-	-	20,436	-	106,063	126,499
Fund equity as restated, July 1, 2000	$ 2,936,692	$ 1,647,046	$ 210,676	$ 157,034	$ (3,313,031)	$ 170,390	$ 57,292,302	$ 59,101,109

Changes Affecting Equity

Accounting policy – Effective for Fiscal Year 2001 reporting, the state implemented Statement No. 33 of the Governmental Accounting Standard Board (GASB), *Recipient Reporting for Certain Shared Nonexchange Revenues*, and GASB Statement No. 36, *an amendment of GASB Statement No. 33*. These statements address the timing of recognition of nonexchange transactions. In accordance with these statements, the state is recognizing revenue for unemployment compensation contributions in an Expendable Trust fund, and motor fuel taxes in a Special Revenue fund.

Prior period adjustment - The Higher Education Coordinating Board reported an adjustment to record the appropriate value of installment contract receivables related to the Guaranteed Education Tuition Program in an Enterprise fund. The Department of Retirement Systems reported an adjustment to the beginning fair value of investments in the Deferred Compensation Program which is an Expendable Trust fund.

Note 4 - Deposits and Investments

As of June 30, 2001, the carrying amount of Washington's cash and investments was $72 billion. Total cash and investments at fiscal year-end amounted to $72.4 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to $8.8 million, deposits with financial institutions amounted to $674.4 million, and deposits in the federal Unemployment Trust Fund amounted to $1.9 billion. The remaining $69.8 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2001, are as follows (expressed in thousands):

Type of Deposit	Carrying Amount	Bank Balance	Insured/ Collateralized	Uninsured/ Uncollateralized
Demand deposits	$ 76,409	$ 175,549	$ 166,525	$ 9,024
Certificates of deposit	421,015	421,015	417,836	3,179
Cash with fiscal and escrow agents	77,846	77,844	54,202	23,642
Total Deposits	$ 575,270	$ 674,408	$ 638,563	$ 35,845

DEPOSITS - At fiscal year end, 94.7 percent of the state's deposits with financial institutions were either insured or collateralized, the remaining 5.3 percent were uninsured/uncollateralized. The state's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

INVESTMENTS - The State Investment Board and the Office of the State Treasurer manage approximately 92 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute follow.

STATE INVESTMENT BOARD (SIB) - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute (Chapter 43.33A RCW) and SIB policy, SIB is authorized and invests in the following: 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; nondollar bonds; 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, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture

capital and leveraged buy-out investments are determined by independent investment advisors based on analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent or more of each plan's net assets.

The SIB 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. SIB 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 SIB authority to invest in derivatives, international active equity managers may make limited investment 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, 2001. 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 the use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2001, the only derivative securities held directly by SIB were collateralized mortgage obligations of $3.4 billion.

State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into agreements with State Street Bank and Trust to act as agents for the SIB in securities lending transactions. As State Street Bank and Trust is the custodian bank for the SIB, it is a counterparty to securities lending transactions. Therefore, all cash collateral reinvested by State Street Bank and Trust is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agents 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 were denominated in United States dollars, where securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2001 approximated $2.6 and $2.5 billion, respectively.

During Fiscal Year 2001, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 39 days.

Cash collateral was invested by the SIB's agents in securities issued or guaranteed by the U.S. government, the SIB's short-term investment pool (average weighted maturity of 212 days), or term loans. 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. Noncash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were loaned with the agreement that they would be returned in the future for exchange of the collateral. State Street Bank and Trust indemnified the SIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Bank and Trust Company'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 2001, 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 SIB incurred no losses during Fiscal Year 2001 resulting from a default by either the borrowers or the securities lending agents.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2001, the state had the following unfunded investment commitments (expressed in thousands):

Private equity partnerships	$ 4,614,146
Real estate	428,734

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

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 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 OST. The securities held as collateral and the securities underlying the cash collateral are held by the OST's custodian. At June 30, 2001, all OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2001, the average life of both the loans and the investment of cash received as collateral was two days.

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 2001, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. Furthermore, the contract with the lending agent requires them to indemnify the OST 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 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. 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.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the OST's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for 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.

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. At fiscal year end, the 30 percent limitation of the policy applies to a combination of securities lending and reverse repurchase agreements. During the fiscal year, the maturities of reverse repurchase agreements were matched to anticipated cash flows adequate to liquidate the agreements. On June 30, 2001, there were no obligations under reverse repurchase agreements.

UNIVERSITY OF WASHINGTON – The University's investment policies permit it 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 University's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities. U.S. securities are loaned verses collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan. Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is ten days. Cash collateral is invested in a short-term investment pool, which had an average weighted maturity of 30 days as of June 30, 2001. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be sold unless the borrower defaults.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered investments which are held by the counterparties' trust departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 2001, by investment type, are listed below (expressed in thousands):

Investment Type	Carrying Amount by GASB Categories 1	2	3	Carrying Amount	Fair Value
Corporate bonds	$ 10,660,729	$ 461	$ 75,851	$ 10,737,041	$ 10,737,141
Corporate stocks	2,547,666	623	-	2,548,289	2,548,303
U.S. government securities	4,059,206	1,533	5,083	4,065,822	4,065,827
Government securities - foreign	170,125	-	-	170,125	170,125
Collateralized mortgage obligations	3,411,520	-	-	3,411,520	3,411,525
Repurchase agreements	1,472,680	4,560	450,000	1,927,240	1,927,240
Zero coupon bonds	1,289	-	-	1,289	1,289
Asset backed securities	543,763	-	207,053	750,816	750,816
Commercial paper	15,308	-	104,722	120,030	120,030
Discount notes	4,914,508	-	-	4,914,508	4,914,508
Bankers' acceptances	7,365	-	-	7,365	7,365
Municipal bonds	44,238	-	-	44,238	44,252
Variable rate notes	-	-	1,073,068	1,073,068	1,073,068
Negotiable certificates of deposit	-	-	614,576	614,576	614,576
Other	34,622	-	8,359	42,981	42,981
	$ 27,883,019	$ 7,177	$ 2,538,712	30,428,908	30,429,046
Mutual funds				24,347,781	24,347,781
Mortgages				1,136,262	1,136,262
Real estate				3,700,456	3,700,456
Private equity				5,913,976	5,913,976
Guaranteed investment contracts				421,749	421,749
Investments held by broker-dealers under securities lending programs:					
U.S. government securities				2,877,706	2,877,706
Corporate securities				987,517	987,517
Total Investments				$ 69,814,355	$ 69,814,493

Note 5 - Receivables and Deferred Revenues

A. Taxes Receivable

Taxes receivable at June 30, 2001, consisted of the following (expressed in thousands):

Taxes Receivable	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	**Totals** (Memo Only)
Property	$ 746,284	$ -	$ -	$ -	$ -	$ -	$ -	$ 746,284
Sales	1,159,951	12,549	-	-	-	-	-	1,172,500
Business and occupation	383,374	-	-	-	-	-	-	383,374
Excise	-	-	-	-	-	-	-	-
Estate	13,435	-	-	-	-	-	-	13,435
Fuel	-	60,008	-	-	-	-	-	60,008
Other	44,446	27	-	-	4,276	-	-	48,749
Subtotals	2,347,490	72,584	-	-	4,276	-	-	2,424,350
Less: Allowance for uncollectible receivables	29,444	49	-	-	-	-	-	29,493
Total Taxes Receivable	$ 2,318,046	$ 72,535	$ -	$ -	$ 4,276	$ -	$ -	$ 2,394,857

B. Other Receivables

Other receivables at June 30, 2001, consisted of the following (expressed in thousands):

Other Receivables	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	**Totals** (Memo Only)
Public assistance receivables	$ 1,207,032	$ -	$ -	$ -	$ -	$ -	$ 5,601	$ 1,212,633
Accounts receivable	19,288	97,322	13	6,451	546,865	3,474	14,898	688,311
Interest receivable	5,793	10,283	-	23	118,115	136	270,085	404,435
Loans receivable	9,404	2,016	-	1,182	2	-	332,196	344,800
Long-term contracts	73,153	44,953	-	10,101	-	-	-	128,207
Miscellaneous receivables	5,135	62,394	-	2,867	43,272	209	528,711	642,588
Subtotals	1,319,805	216,968	13	20,624	708,254	3,819	1,151,491	3,420,974
Less: Allowance for uncollected receivables	1,033,582	16,357	8	8	89,173	286	75,352	1,214,766
Total Other Receivables	$ 286,223	$ 200,611	$ 5	$ 20,616	$ 619,081	$ 3,533	$ 1,076,139	$ 2,206,208

Note: 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.

C. Deferred Revenues

Deferred revenues at June 30, 2001, consisted of the following (expressed in thousands):

Deferred Revenues	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	**Totals** (Memo Only)
Property taxes	$ 720,884	$ -	$ -	$ -	$ -	$ -	$ -	$ 720,884
Other taxes	364,703	-	-	-	592	-	-	365,295
Timber sales	71,347	44,953	-	10,101	-	-	-	126,401
Charges for services	2,521	25,446	-	-	29,609	656	12,007	70,239
Food stamps	33	-	-	-	-	-	-	33
Donable goods	5,551	-	-	-	22	-	-	5,573
Miscellaneous	70,006	128,969	-	68	11,896	31	218,560	429,530
Total Deferred Revenues	$ 1,235,045	$ 199,368	$ -	$ 10,169	$ 42,119	$ 687	$ 230,567	$ 1,717,955

Note 6 - Interfund Balances

The following balances at June 30, 2001, represent due from/to balances among all funds and state agencies (expressed in thousands):

Fund Type	Fund	Due From	Totals	Due To	Totals
Governmental Funds:					
General	General Fund		$ 179,080		$ 589,024
Special Revenue	Motor Vehicle Fund	$ 46,181		$ 58,576	
	Transportation Fund	7,938		7,441	
	State Wildlife Fund	4,052		5,072	
	Common School Construction Fund	21,505		2,000	
	Central Administrative and Regulatory Fund	14,271		12,094	
	Human Services Fund	22,466		9,657	
	Natural Resources Fund	20,952		21,400	
	Higher Education Fund	524,895	662,260	616,379	732,619
Debt Service	General Obligation Bond Fund	1,774		-	
	Transportation Bond Fund	236	2,010	-	-
Capital Projects	State Facilities Fund	37,322		37,495	
	Higher Education Facilities Fund	45,633	82,955	2,697	40,192
Total Governmental Funds			926,305		1,361,835
Proprietary Funds:					
Enterprise	Liquor Fund	7,937		7,952	
	Workers' Compensation Fund	1,978		7,175	
	Convention and Trade Fund	614		156	
	Lottery Fund	7,550		1,998	
	Institutional Fund	4,027		1,101	
	Student Services Fund	223,351		32,489	
	Other Activities Fund	928	246,385	35,147	86,018
Internal Service	Central Services Fund	20,672		4,447	
	Equipment Revolving Fund	5,632		1,031	
	Data Processing Revolving Fund	15,415		1,576	
	Printing Services Fund	5,413		371	
	State Employees' Insurance Fund	23,521		22,910	
	Risk Management Fund	1,003		6,730	
	Higher Education Revolving Fund	36,623	108,279	15,428	52,493
Total Proprietary Funds			354,664		138,511
Total Governmental and Proprietary Funds			1,280,969		1,500,346

Continued on next page

Fund Type	Fund	Due From	Totals	Due To	Totals
Totals from previous page			1,280,969		1,500,346
Trust and Agency:					
Expendable Trust	Human Services Trust Fund	3,466		1,173	
	Higher Education Trust Fund	45,930		7,111	
	Deferred Compensation Trust Fund	-		8	
	Miscellaneous Trust Fund	14,193	63,589	3,290	11,582
Nonexpendable Trust	Higher Education Endowment Fund	53,763		174,295	
	Common School Permanent Fund	-	53,763	910	175,205
Pension/Investment Trust	Public Employees' Plan 1 Fund	3,520		643	
	Public Employees' Plan 2 Fund	312		4,516	
	Teachers' Plan 1 Fund	124		275	
	Teachers' Plan 2 & 3 Defined Benefit Fund	8		592	
	School Employees' Plan 2 & 3 Defined Benefit Fund	3,051		3,723	
	L.E.O.F.F Plan 1 Fund	7		106	
	L.E.O.F.F Plan 2 Fund	6		177	
	Washington State Patrol Fund	1		5	
	Judicial Retirement System	2		-	
	Judges Fund	19		-	
	Volunteer Fire Fighters' Fund	5		1	
	Local Government Investment Pool	-	7,055	35	10,073
Agency	Clearing Fund	2,386		133	
	Suspense Fund	11,288		8,741	
	Local Government Distributions Fund	314,936		18	
	Pooled Investments Fund	271,290	599,900	299,178	308,070
Total Trust and Agency Funds			724,307		504,930
Total Due From and To Other Funds			$ 2,005,276		$ 2,005,276

Note 7 - Fixed Assets

A. General Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during Fiscal Year 2001 (expressed in thousands):

General Fixed Assets	Balances July 1, 2000	Additions	Deletions	Balances June 30, 2001
Land	$ 1,022,490	37,435	(117,469)	$ 942,456
Buildings	4,663,335	612,413	(90,757)	5,184,991
Accumulated depreciation	(1,401,317)	(136,631)	12,202	(1,525,746)
Net buildings	3,262,018			3,659,245
Furnishings and equipment	951,645	948,998	(164,181)	1,736,462
Accumulated depreciation	(646,709)	(351,866)	52,724	(945,851)
Net furnishings and equipment	304,936			790,611
Other improvements and miscellaneous	1,127,771	250,118	(33,446)	1,344,443
Accumulated depreciation	(184,065)	(75,226)	5,118	(254,173)
Net other improvements and miscellaneous	943,706			1,090,270
Construction in progress	862,656	524,915	(272,289)	1,115,282
Total General Fixed Assets	$ 6,395,806			$ 7,597,864

The following summarizes the funding source of the investment in General Fixed Assets as of June 30, 2001, (expressed in thousands):

Source of Funds by Fund Type:	Balances June 30, 2001
General	$ 1,859,997
Special Revenue	1,786,107
Capital Projects	3,914,301
Expendable Trust	37,459
Total General Fixed Assets	$ 7,597,864

B. Proprietary Fixed Assets

The following is a summary of proprietary fund type fixed assets at June 30, 2001, (expressed in thousands):

Fixed Assets	Enterprise	Internal Service
Land	$ 24,054	$ 1,458
Buildings	937,735	57,809
Accumulated depreciation	(315,624)	(8,779)
Net buildings	622,111	49,030
Furnishings and equipment	260,852	504,258
Accumulated depreciation	(180,517)	(267,046)
Net furnishings and equipment	80,335	237,212
Other improvements and miscellaneous	64,401	24,941
Accumulated depreciation	(15,316)	(10,394)
Net other improvements and miscellaneous	49,085	14,547
Construction in progress	302,487	15,797
Total Fixed Assets	$ 1,078,072	$ 318,044

C. Construction in Progress

Other major construction commitments of the state at June 30, 2001, are as follows (expressed in thousands):

Agency/Project Commitments	Construction In Progress June 30, 2001	Remaining Project Commitments
Department of General Administration:		
Various projects	$ 83,442	$ 249,786
Liquor Control Board:		
Distribution center	22,255	-
Washington State Patrol:		
Seattle crime laboratory	1,516	12,200
Military Department:		
Emergency operation center and other projects	16,121	23,918
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations, and other projects	136,852	34,300
Department of Corrections:		
Correctional centers construction, improvements, and other projects	259,652	526,159
Department of Transportation:		
Maintenance facilities, ferry vessels, and terminals	214,427	103,174
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	1,432	108
State Convention and Trade Center:		
Various projects	175,185	-
Higher Education Facilities:		
University of Washington	198,725	346,852
Washington State University	96,798	93,837
Eastern Washington University	7,422	-
Central Washington University	6,157	-
Western Washington University	39,910	28,022
Community and Technical Colleges	150,451	44,086
Other Agency Miscellaneous Projects	23,221	11,032
Total Construction in Progress	$ 1,433,566	$ 1,473,474

Note 8 - Lease Commitments

The state leases land, office facilities, office and computer equipment, and other assets. 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. The total operating lease expenditures for Fiscal Years 2000 and 2001 were $295.6 million and $317.2 million, respectively.

Future minimum lease commitments for noncancelable operating and capital leases as of June 30, 2001, are as follows (expressed in thousands):

		Capital Leases			
Lease Commitments during Fiscal Years:	**Operating Leases**	Enterprise Funds	Internal Service Funds	General L.T. Obligations Account Group	**Total All Leases**
2002	$ 89,761	$ 375	$ 574	$ 2,440	$ 93,150
2003	81,100	341	404	2,083	83,928
2004	68,816	333	374	2,061	71,584
2005	57,889	317	338	2,030	60,574
2006	48,332	272	77	1,987	50,668
Thereafter	179,338	1,126	21	9,871	190,356
Total Future Minimum Lease Commitments	$ 525,236	2,764	1,788	20,472	$ 550,260
Amounts representing executory and interest costs		828	165	4,422	
Present Value of Future Minimum Lease Commitments		$ 1,936	$ 1,623	$ 16,050	

Note 9 - Claims and Judgments Payable

Claims and judgments payable is materially comprised of the three activities described below: workers' compensation, risk management, and state employees' insurance.

A. Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

Workers' Compensation Fund	**Balances Beginning of Fiscal Year**	Current Year Claims and Changes in Estimates	Claim Payments	**Balances End of Fiscal Year**
FY 2000	$ 12,515,445	2,359,394	(1,253,137)	$ 13,621,702
FY 2001	$ 13,621,702	1,990,349	(1,368,938)	$ 14,243,113

As discussed in Note 1.L, the Workers' Compensation Fund, an enterprise fund, establishes a liability for both reported and incurred but not reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

At June 30, 2001, $28.9 billion of unpaid claims and claim adjustment expenses are presented at their net present value of $14.2 billion. These claims are discounted at assumed interest rates of 4.0 (time loss and medical) to 6.5 percent (pensions) and are net of third party recoveries.

The $14.2 billion claims and claim adjustment liabilities as of June 30, 2001, includes $6.98 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 $7.3 billion in claims liabilities is fully funded by long-term investments, net of obligations under securities lending agreements.

B. Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
FY 2000	$ 138,292	139,070	(23,496)	(13,619)	$ 240,247
FY 2001	$ 240,247	131,096	(85,425)	(17,181)	$ 268,737

The Risk Management Fund, an internal service fund, reports claims and judgment 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 claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims 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. Claims 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 property and casualty matters. As of June 30, 2001, outstanding and actuarially determined claims against the state and its public authorities were $268.7 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 claims. At June 30, 2001, the Risk Management Fund held no funds designated for payment of these claims under the state's Self Insurance Liability Program.

C. State Employees' Insurance

Changes in the balances of state employees' insurance claims liabilities during Fiscal Years 2000 and 2001 were as follows (expressed in thousands):

State Employees' Insurance Fund	Balances Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2000	$ 23,836	234,972	(223,542)	$ 35,266
FY 2001	$ 35,266	262,342	(254,461)	$ 43,147

The State Employees' Insurance Fund, an internal service 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 or social factors.

At June 30, 2001, state employees' insurance claims liabilities totaling $43.1 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Note 10 - Bonds Payable

A. General Information

Bonds payable at June 30, 2001, consisted of bonds issued by the state of Washington and accounted for in the General Long-Term Obligations Account Group, and certain state agency bonds accounted for in proprietary funds. A detailed schedule of bonds issued and outstanding and those proprietary bonds accounted for by the State Treasurer are presented in the Washington State Treasurer's Annual Report for 2001. 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 TDD (360) 902-8963.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); (2) appropriations already made by the Legislature; or (3) refunding of outstanding obligations of the state.

Debt authorized in the preceding procedures is generally limited by the State Constitution and current statutes. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service which may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2001 was $5.4 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2001, did not exceed the authorized debt service limitation.

Computation of Legal Debt Limitation (expressed in millions) [1]	
Three year mean, general state revenues	$ 8,306
Legal Debt Limitation:	
Debt service limitation (7 percent of above)	$ 581
Less: Projected maximum annual debt service of outstanding bonds	560
Uncommitted Portion of Debt Service Limitation	$ 21
Remaining state general obligation debt capacity	$ 299
Plus - Debt outstanding subject to limitation	5,114
Maximum Debt Authorization Subject to Limitation	$ 5,413

[1] Source: Office of the State Treasurer - Certification of the Debt Limitation of the State of Washington for Fiscal Year 2001.

B. Schedule of Bonds Payable

A schedule of bonds payable by fund type as of June 30, 2001, is as follows (expressed in thousands):

Bonds Payable	Enterprise	Internal Service	General L.T. Obligations Account Group	Totals
General obligation (GO) bonds	$ 176,055	$ -	$ 7,210,495	$ 7,386,550
GO - zero coupon bonds (principal)	29,259	-	264,441	293,700
Subtotals	205,314	-	7,474,936	7,680,250
GO - zero coupon bonds' accreted interest	12,190	-	161,319	173,509
Revenue bonds	277,500	-	-	277,500
Total Bonds Payable	$ 495,004	$ -	$ 7,636,255	$ 8,131,259

C. General Obligation Bonds

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for public and common schools, higher education, public and mental health, corrections, conservation, and maintenance and construction of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized and issued to provide for the refunding of general obligation bonds outstanding.

Zero coupon general obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of public administrative buildings and facilities, and capital facilities for public and common schools and higher education.

Total debt service requirements for general obligation bonds to maturity as of June 30, 2001, are as follows (expressed in thousands):

	General Obligation		Zero Coupon		**Totals**	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2002	$ 405,365	$ 389,909	$ 18,187	$ 12,534	$ 423,552	$ 402,443
2003	371,510	377,108	14,914	13,670	386,424	390,778
2004	346,985	357,076	13,320	14,061	360,305	371,137
2005	353,550	336,815	16,018	19,884	369,568	356,699
2006	361,855	317,055	11,734	16,453	373,589	333,508
2007-2011	1,785,005	1,279,779	56,404	103,400	1,841,409	1,383,179
2012-2016	1,685,235	822,118	50,999	104,773	1,736,234	926,891
2017-2021	1,411,960	370,924	112,124	221,674	1,524,084	592,598
Thereafter	665,085	79,245	-	-	665,085	79,245
Total Debt Service Requirements	$ 7,386,550	$ 4,330,029	$ 293,700	$ 506,449	$ 7,680,250	$ 4,836,478

General obligation bonds outstanding and bonds authorized but unissued at June 30, 2001, are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
School building construction	4.25% to 7.25%	$ 221,973	$ 143
Higher education	3.70% to 7.75%	256,441	141,785
Institutional and public buildings	5.83% to 7.05%	29,259	98,510
Highways	4.00% to 7.00%	1,135,885	2,253,275
Administrative buildings	4.50% to 5.00%	15,255	-
General	3.70% to 9.00%	6,021,437	1,457,285
Totals		$ 7,680,250	$ 3,950,998

D. Revenue Bonds

Current state statutes empower certain state agencies to issue bonds that are not supported, or are not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Revenue bonds issued by individual agencies are supported by fees and rentals assessed to users. Issuing agencies include the University of Washington (housing, dining, and student facilities construction), Washington State University (housing, dining, parking, and student facilities construction), Eastern Washington University (housing, dining, and student facilities construction), Central Washington University (housing, dining, and student facilities construction), The Evergreen State College (housing and dining), Western Washington University (housing and dining), and various Community Colleges (housing, dining, and student facilities construction).

Total debt service requirements for revenue bonds to maturity at June 30, 2001, are as follows (expressed in thousands):

Revenue Bonds	Principal	Interest	Totals
By Fiscal Year:			
2002	$ 7,463	$ 12,433	$ 19,896
2003	8,679	14,662	23,341
2004	8,806	14,227	23,033
2005	9,126	13,784	22,910
2006	8,917	13,334	22,251
2007-2011	50,271	59,173	109,444
2012-2016	58,939	43,819	102,758
2017-2021	52,493	28,686	81,179
Thereafter	72,806	19,406	92,212
Total Debt Service Requirements	$ 277,500	$ 219,524	$ 497,024

Revenue bonds outstanding and bonds authorized but unissued at June 30, 2001, are as follows (expressed in thousands):

Purpose	Interest Rates	Outstanding Amounts	Authorized but Unissued
Higher education - Student acitivities	4.80% to 5.90%	$ 129,986	$ 20
Higher education	4.28% to 5.86%	137,373	-
Other public buildings	4.40% to 5.95%	10,141	-
Totals		$ 277,500	$ 20

E. Defeased Bonds

When advantageous and permitted by statute or bond covenants, the State Finance Committee authorizes the refunding of 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 to be defeased and the liability has been excluded from the state's financial statements.

CURRENT YEAR DEFEASANCES
During the fiscal year ended June 30, 2001, the state issued the following bonds to refund various outstanding issues:

General Long-Term Obligations
On December 15, 2000, the state issued $12.1 million of Various Purpose General Obligation Refunding Bonds (Series R-2001T) to refund $10.4 million of Various Purpose General Obligation Bonds from several different series. The refunding resulted in a $3.5 million reduction in gross debt service savings over the next 19 years but an economic loss of $0.9 million.

On June 1, 2001, the state issued $405.6 million of Various Purpose General Obligation Refunding Bonds (Series R-2001A) to refund $417.9 million of Various Purpose General Obligation Bonds from several different series. The refunding was undertaken to take advantage of $44.8 million reduction in gross debt service savings over the next 13 years. This refunding resulted in an economic gain of $37.7 million.

On June 1, 2001, the state issued $119.6 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2001B) to refund $120 million of Motor Vehicle Fuel Tax General Obligation Bonds. The refunding was undertaken to take advantage of $12.3 million reduction in gross debt service savings over the next 9 years. This refunding resulted in an economic gain of $10.4 million.

Proprietary Funds
On February 15, 2001, $22.2 million in Housing and Dining Service Refunding Bonds (Series R-2001) were issued to refund $20.6 million in Housing and Dining Service Bonds (Series 1994). This refunding was undertaken to take advantage of $2.3 million reduction in gross debt service savings over the next 24 years. This refunding resulted in an economic gain of $1.4 million.

PRIOR YEAR DEFEASANCES
State refunded and defeased bonded debt outstanding totaled $179 million for general governmental bonded debt and $66 million for proprietary bonded debt as of June 30, 2001.

F. 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 payment of voter-approved school district general obligation bonds. The State Treasurer introduced the new School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2001, the state had guaranteed 52 school districts' voter-approved general obligation debt with a total outstanding principal of $748.8 million.

Note 11 - Certificates of Participation

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 impact the state's obligation under certain agreements. If the possibility of the state not meeting the terms of the agreement is considered remote, the certificate of participation is recorded for financial reporting purposes.

Total debt service requirements for certificates of participation to maturity as of June 30, 2001, are as follows (expressed in thousands):

Certificates of Participation	Principal	Interest	**Total**
By Fiscal Year:			
2002	$ 28,816	$ 23,506	$ 52,322
2003	31,443	22,385	53,828
2004	29,365	20,997	50,362
2005	28,235	19,658	47,893
2006	26,535	18,387	44,922
2007-2011	124,631	74,677	199,308
2012-2016	169,465	38,933	208,398
2017-2021	47,115	4,863	51,978
Thereafter	2,855	140	2,995
Total Debt Service Requirements	$ 488,460	$ 223,546	$ 712,006

On September 1, 1998, the state lease-purchase program was extended to enable local government to participate in low cost financing of essential equipment (Local Option Capital Asset Lending Program (LOCAL)). The program allows local participants to pool their financing requests together with Washington State agencies for lower tax-exempt interest rates. While these bonds do not constitute a debt or pledge of the faith and credit of the state, in the event of default these financing contracts have the state's guarantee to the extent of legally available appropriated funds. As of June 30, 2001, outstanding certificates of participation bonds totaled $17.7 million for 104 local governments participating in LOCAL.

Note 12 - 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 table below presents the latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

No Commitment Debt	Principal Balance
Washington State Housing Finance Commission	$ 1,940,972
Washington Higher Education Facilities Authority	321,384
Washington Health Care Facilities Authority	2,222,396
Washington Economic Development Finance Authority	178,596
Total No Commitment Debt	$ 4,663,348

Note 13 - Changes in General Long-Term Obligations

The changes in the General Long-Term Obligations Account Group for the fiscal year ended June 30, 2001, are summarized as follows (expressed in thousands):

General Long-Term Obligations	Balance July 1, 2000	Debt Issued	Debt Paid	Other Changes	Balance June 30, 2001
Bonds:					
General obligation (GO)	$ 6,775,715	1,314,019	(879,239)	-	$ 7,210,495
GO - zero coupon bonds (principal)	279,210	-	(14,769)	-	264,441
GO - zero coupon bonds' accreted interest	125,702	35,617	-	-	161,319
Notes and contract obligations	191,645	23,321	(1,383)	-	213,583
Other Long-Term Obligations:					
Lease obligations (net)	6,135	-	-	9,915	16,050
Compensated absences (net)	324,765	-	-	19,394	344,159
Other obligations (net)	3,863	-	-	3,724	7,587
Claims and judgements (net)	11,596	-	-	(2,391)	9,205
Accrued retirement costs	36,800	-	-	3,300	40,100
Totals	$ 7,755,431	1,372,957	(895,391)	33,942	$ 8,266,939

Note 14 - Residual Equity Transfers

The table below reflects residual equity transfers in and out and related activity that occurred during the fiscal year ended June 30, 2001, (expressed in thousands):

Residual Equity Transfers	In	Out
Motor Vehicle Fund	$ 8,387	$ -
Transportation Fund	-	376
Higher Education Fund	402	-
State Ferry Fund	298,696	-
Student Services Fund	-	98
Equipment Revolving Fund	-	1,000
Higher Education Revolving Fund	-	55
Higher Education Trust Fund	-	248
Higher Education Endowment Fund	-	1
Subtotals	307,485	1,778
Transferred to/from Account Groups	-	305,707
Total Residual Equity Transfers	$ 307,485	$ 307,485

Note 15 - Reservations and Designations of Equity

The nature and purposes of equity reserves and designations as of June 30, 2001, are listed below (expressed in thousands):

Reservations and Designations of Fund Balance

	General	Special Revenue	Debt Service	Capital Projects	Trust	**Totals (Memo Only)**
Reserved for:						
Encumbrances	$ 7,585	$ 198,447	$ -	$ 59,477	$ 83,457	$ 348,966
Inventories	14,619	37,969	-	-	155	52,743
Long-term student loans	-	-	-	-	97,601	97,601
Investments with trustees	581	439	-	-	1,191	2,211
Restricted accounts	303,060	-	-	-	-	303,060
Nonexpendable trust corpus	-	-	-	-	1,691,211	1,691,211
Unemployment compensation	-	-	-	-	1,956,833	1,956,833
Deferred compensation	-	-	-	-	1,311,889	1,311,889
Pension benefits	-	-	-	-	44,012,695	44,012,695
Local Gov't Invest. Pool participants	-	-	-	-	4,990,566	4,990,566
Long-term receivables	612,597	12,309	-	3,511	287,289	915,706
Long-term investments	1,022	52,137	-	-	119,862	173,021
Emergency reserve	476,385	-	-	-	-	476,385
Petty cash	624	4,874	-	-	69	5,567
Total Reserved Fund Balance	$ 1,416,473	$ 306,175	$ -	$ 62,988	$ 54,552,818	$ 56,338,454
Unreserved, Designated for:						
Debt service	$ -	$ -	$ 82,935	$ -	$ -	$ 82,935
Working capital	856,248	-	-	-	-	856,248
Net unrealized gains	15,079	34,246	-	-	-	49,325
Higher education	-	155,679	-	-	4,463	160,142
Total Unreserved, Designated Fund Balance	$ 871,327	$ 189,925	$ 82,935	$ -	$ 4,463	$ 1,148,650

Note 16 - Deficit Retained Earnings

At June 30, 2001, there were two proprietary funds with deficit retained earnings.

The Workers' Compensation Fund, an enterprise fund, had deficit retained earnings of $5.4 billion at June 30, 2001. The fund is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. 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 cost-of-living adjustments (COLA) 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.

The following schedule details the changes in total fund equity for the Workers' Compensation Fund during the fiscal year ended June 30, 2001, (expressed in thousands):

Workers' Compensation Fund	Contributed Capital	Retained Earnings (Deficit)	**Total Fund Equity (Deficit)**
Balances as restated, July 1, 2000	$ 23	$ (5,063,334)	$ (5,063,311)
Fiscal Year 2001 activity	-	(362,864)	(362,864)
Balances, June 30, 2001	$ 23	$ (5,426,198)	$ (5,426,175)

The Risk Management Fund, an internal service fund, had deficit retained earnings of $271.2 million at June 30, 2001. The Risk Management Fund is used to account for the claims, torts, judgments generally arising from automobile, ferry services, and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit retained earnings.

The Self Insurance Liability Program initiated in 1990 is intended to provide funds for the payment of all claims and loss adjustment expenses for tort defense.

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. At June 30, 2001, the Risk Management Fund held no funds designated for payment of these claims under the state's Self Insurance Liability Program.

The following schedule details the changes in retained earnings for the Risk Management Fund during the fiscal year ended June 30, 2001, (expressed in thousands):

Risk Management Fund	**Retained Earnings (Deficit)**
Balance as restated, July 1, 2000	$ (184,115)
Fiscal Year 2001 activity	(87,037)
Balance, June 30, 2001	$ (271,152)

Note 17 - Retirement Systems

A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrator for the Courts, administers eleven defined benefit retirement plans and three defined contribution retirement plans covering eligible employees of the state and local governments. 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.

DEPARTMENT OF RETIREMENT SYSTEMS
As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers seven retirement systems comprising ten defined benefit pension plans and two defined contribution plans as follows:

Public Employees' Retirement System (PERS)
- Plan 1 - defined benefit
- Plan 2 - defined benefit

Teachers' Retirement System (TRS)
- Plan 1 - defined benefit
- Plan 2/3 - defined benefit
- Plan 3 - defined contribution

School Employees' Retirement System (SERS)
- Plan 2/3 – defined benefit
- Plan 3 – 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)
- Defined benefit plan

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, and LEOFF systems and plans is funded by an employer rate of .23 to .25 percent of employee salaries. Administration of the WSPRS, 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 supplemental information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

BOARD FOR VOLUNTEER FIRE FIGHTERS
As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

ADMINISTRATOR FOR THE COURTS
As established in chapter 2.14 RCW, the Administrator for the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

TIAA/CREF
Eligible higher education state employees may participate in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is a privately administered defined contribution plan.

Plan descriptions, funding policies, and a table of employer contributions required and paid for defined benefit plans follow at Notes 17.B through D respectively. For information related to defined contribution plans, refer to Note 17.I. Details on plan net assets for pension plans administered by the state are presented at Note 17.J.

B. Plan Description

Membership of each defined benefit plan consisted of the following at December 31, 2000, the date of the latest actuarial valuation for all plans except for TRS which had an actuarial valuation performed on June 30, 2000.

Defined Benefit Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS 1	53,161	3,220	23,915	1,918	82,214
PERS 2	7,927	14,094	74,103	52,325	148,449
TRS 1	29,839	1,985	16,878	344	49,046
TRS 2/3	611	3,441	23,372	23,264	50,688
SERS 2/3	27	733	25,338	22,387	48,485
LEOFF 1	7,780	31	1,497	2	9,310
LEOFF 2	143	248	9,183	3,950	13,524
WSPRS	672	84	762	251	1,769
JRS	131	2	32	-	165
Judges	18	-	1	-	19
VFFRPF	2,638	3,960	5,035	7,219	18,852

Following is a summary of government employers participating in state administered retirement plans as of December 31, 2000.

Plan	State Agencies	Public Schools	Counties/ Municipalities	Other Political Subdivisions
PERS 1	178	257	216	257
PERS 2	186	1	265	443
TRS 1	91	287	-	-
TRS 2/3	48	294	-	-
SERS 2/3	10	294	-	-
LEOFF 1	-	-	119	30
LEOFF 2	7	-	227	128
WSPRS	1	-	-	-
JRS	3	-	-	-
Judges	1	-	-	-
VFFRPF	-	-	-	520

Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those joining after September 30, 1977, are Plan 2 members. PERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to PERS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of legislative committees; community and technical college, college, and university employees not in national higher education retirement programs such as TIAA/CREF; judges of district and municipal courts; noncertificated employees of school districts (in PERS Plan 1 only); and employees of local governments. Approximately 51 percent of PERS salaries is from state employment.

Retirement benefit provisions are established in state statute and may be amended only by the state Legislature. PERS 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 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 membership service (AFC is based on the greatest compensation during any eligible 24 consecutive compensation months), capped at 60 percent of AFC.

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 per year of membership service of the AFC (AFC is based on the greatest compensation during any consecutive eligible 60 month period). Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply. 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.

Plan 1 provides duty and nonduty 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 amount of the allowance is two-thirds of the AFC, not to exceed $4,200 a year. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or attains the age of 60. A member with five years of membership service is eligible for nonduty 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 by which the date of disablement precedes the disabled member's 55th birthday. The total benefit is limited to 60 percent of the AFC.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. There were no other material changes in PERS benefit provisions effective for the fiscal year ended June 30, 2001. The 2000 session created PERS Plan 3 which offers both a defined benefit component and a defined contribution component. For state and higher education employees, PERS Plan 3 goes into effect March 1, 2002, and for local government employees, September 1, 2002. Current PERS Plan 2 members have the option to transfer to PERS Plan 3. PERS members hired after the effective date of PERS Plan 3 have the option of selecting membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans: Plans 1 and 2/3 are defined benefit plans and Plan 3 is a defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan 1 members. Those joining between October 1, 1977, and June 30, 1996, are Plan 2/3 members unless they exercise an option to transfer their holdings to Plan 3. Those joining after June 30, 1996, and those exercising the transfer option, are members of both Plan 2/3 and Plan 3. TRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public

schools. TRS is comprised principally of nonstate employees.

TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature. Defined benefit plan benefits are vested after an employee completes five years of eligible service in Plans 1 or 2, and from five to ten years in TRS Plan 3.

Teachers in Plan 1 are eligible to retire either 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 benefit is 2 percent of the average earnable compensation per year of service (average earnable compensation is based on the greatest compensation during the highest of any consecutive two compensation contract years).

The normal retirement age for Plan 2/3 employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan 3 retirement benefits may be paid at age 55 with 10 years of service. Plan 2/3 benefits are 2 percent of the average final compensation per year of service for members not enrolled in Plan 3 Defined Contribution Plan (DC) and 1 percent of the average final compensation per year of service for members enrolled in Plan 3 DC. TRS Plan 1 and Plan 2/3 also provide a cost-of-living allowance indexed to the Seattle Consumer Price Index capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan 2/3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply.

Death and disability benefits are available in Plan 1. TRS Plan 1 members receive the following additional lump sum death benefits: retired members - $400 (if at least ten years of membership service), active members - $600. Members on temporary disability receive a temporary life annuity of $180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on salary and service to date of disability. Members prior to April 25, 1973 may elect a benefit based on the formula in effect at that time.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. There were no material changes in TRS benefit provisions effective for the fiscal year ended June 30, 2001.

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans: Plan 2/3 is a defined benefit plan and Plan 3 is a defined contribution plan. SERS Plan 2/3 was formed by transferring school employees from PERS Plan 2 to SERS Plan 2/3 on September 1, 2000. These members had the option of transferring to SERS Plan 3. Those school employees hired after September 1, 2000, become SERS Plan 3 members. SERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to SERS accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

Membership in the system includes non-certificated employees of school districts, except those in PERS Plan 1.

Retirement benefit provisions are established in state statute and may be amended only by the state Legislature. SERS Plan 2 benefits are vested after an employee completes five years of eligible service, and from five to ten years in SERS Plan 3.

The normal retirement age for Plan 2/3 employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan 3 retirement benefits may be paid at age 55 with 10 years of service. Plan 2/3 benefits are 2 percent of the average final compensation per year of service for members not enrolled in Plan 3 Defined Contribution Plan (DC) and 1 percent of the average final compensation per year of service for members enrolled in Plan 3 DC. SERS Plan 2/3 also provides a cost-of-living allowance indexed to the Seattle Consumer Price Index capped at 3 percent annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan 2/3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3% per year reduction applies, otherwise an actuarial reduction will apply.

Legislation passed in the 2001 session increases the number of hours a retiree can work before there is a suspension in their benefit. The cost impact of this provision is to be studied over the next several years. A technical correction was made in the funding provisions for this plan.

There were no other material changes in SERS benefit provisions effective for the fiscal year ended June 30, 2001.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

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 joining after September 30, 1977 are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation where the state pays the remainder through state legislative appropriations. Employee contributions to LEOFF accrue interest at a rate specified by DRS. During Fiscal Year 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF can elect to withdraw total employee contributions and interest earnings thereon upon termination. Effective July 1, 2000, the employer and employee contribution rate, for LEOFF Plan 1, is set to zero contingent on the plan remaining fully funded.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. LEOFF membership is comprised principally of nonstate employees.

LEOFF retirement benefits are established in state statute and may be amended only by the state Legislature. LEOFF System benefits are vested after an employee completes five years of eligible service.

Plan 1 participants are eligible to retire with five years of service at the age of 50. The benefit per year of service is calculated as a percent of average final salary as follows: 5-10 years - 1.0 percent, 10-20 years - 1.5 percent, 20+ years - 2.0 percent. The average final salary 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. Retirement benefits are fully indexed to the Seattle Consumer Price Index.

Plan 2 participants are eligible to retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service. Retirement benefits prior to the age of 53 are reduced 3% for each year that the benefit commences prior to age 53. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. Retirement benefits are indexed to the Seattle Consumer Price Index with a cap of 3 percent annually.

Significant death and disability benefits are provided by Plan 1. Death benefits for Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the average final salary, plus 5 percent of average final salary for each surviving child, with a limitation on the combined allowances of 60 percent of the average final salary; or (2) if no eligible spouse, 30 percent of average final salary for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of average final salary. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

Plan 1 members are eligible for disability benefits after a six-month waiting period (during which the salary is paid by the employer). The amount of the allowance is 50 percent of the average final salary 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. These benefit provisions were established by statute.

Legislation passed in the 2001 session corrected the age from which disability benefits are reduced from 55 to 53. There were no significant changes in LEOFF benefit provisions for the fiscal year ended June 30, 2001.

Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer retirement system comprised of one defined benefit plan. 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 2001, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

The WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate.

Members are eligible to retire at the age of 55 or after 25 years of service with a benefit of 2 percent of average final salary per year of service. The benefit is capped at 75 percent of average final salary. In addition, a 2 percent cost-of-living allowance is included. Starting on

July 1, 2001 the cost-of-living allowance was increased to a 3 percent compound increase.

WSPRS retirement benefits are established in state statute and may be amended only by the state Legislature. Benefits are vested after an employee completes five years of eligible service.

Benefit provisions include death benefits; however, the system contains no disability benefits. The death benefit for a spouse of a member on active duty consists of 50 percent of average final salary, and 5 percent of average final salary for each surviving child, with a limitation on the combined allowance of 60 percent of average final salary. The death benefit also provides a uniform COLA after a member's death. In addition, a duty death benefit of $150,000 is provided.

Effective July 1, 2001, the employee rate for WSPRS was set to the greater of 2% or employer rate (and the funding method was changed to the aggregate cost method as done for the other Plan 2/3 systems). Starting on July 1, 2001 the cost-of-living allowance was increased to a 3 percent compound increase. Voluntary Department of Transportation overtime was excluded from the definition of salary. There were no other significant changes in WSPRS benefit provisions for the fiscal year ended June 30, 2001.

There were significant changes in benefit provisions for those commissioned after January 1, 2003:

1. Changing from a 2 year to a 5 year Average Final Salary (AFS).
2. Excluding annual and holiday pay cash-outs.
3. Changing military service to include only up to 5 years interruptive military service.
4. Removing the post-retirement death benefit and allowing the member to select an actuarial equivalent benefit option at retirement.
5. Changing the pre-retirement death benefit to return of the member's accumulated contributions for members who are single or have less than ten years of service. For a married member or one with an eligible child, changing the pre-retirement death benefit to a reduced accrued benefit or 150 percent of the member's accumulated contributions at the survivor's option.

These changes will be reflected in valuations which include members commissioned after January 1, 2003.

Judicial Retirement System (JRS)

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 where the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

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.

Benefit provisions are established in state statute and may be amended only by the state Legislature. Any member who involuntarily terminates with 12 or more years of credited service and 15 years after beginning judicial service, or voluntarily terminates with 15 or more years of credited service, is vested and shall receive retirement benefits upon attaining the age of 60. Retirement benefits are 3 percent of the average final compensation for 10-15 years of service, and 3.5 percent for 15 or more years of service.

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, or if greater, 25 percent of the average final compensation of the member. These benefits terminate with the death or remarriage of the recipient. If the member is retired, a 50 percent allowance is provided to the surviving spouse that has been married to the judge at least three years at the time of death. Benefits terminate on remarriage. For members with ten or more years of service, a disability benefit of 50 percent of salary is provided.

There were no significant changes made in JRS benefit provisions for the fiscal year ended June 30, 2001.

Judges

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation where the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to chapter 2.12 RCW, 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 9, 1971 enter the Judicial Retirement System.

Benefit provisions are established in statute and may be amended only by the state Legislature. Any member who has ten years of credited service and attains the age of 70 or has served as a judge for an aggregate of 18 years, regardless of age, is vested and entitled to receive a retirement allowance upon leaving service. Any member who leaves eligible service after having served as a judge for an aggregate of 12 years is vested and eligible for a partial retirement allowance. 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.

There were no significant changes made in Judges benefit provisions for the fiscal year ended June 30, 2001.

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

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. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

VFFRPF was created by the Legislature in 1945. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State.

Retirement benefits are established in state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

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 $30 plus $10 per year of service. The maximum monthly benefit is $280. 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 $2,000. 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. Benefit provisions for VFFRPF are established under the authority of 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 CPI.

There were no other significant changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2001.

C. Funding Policies

During the 2001 Session, the Legislature decided to adopt rates based on the 1999 valuation calculated in accordance with the Funding Policy with the following modifications:

1. An 8% investment return assumption was prescribed.
2. A 4.5% salary inflation assumption was prescribed.
3. The amortization of the PERS Plan 1 and TRS Plan 1 unfunded actuarial liability was extended to June 30, 2024. This amortization will no longer be reduced due to future gain sharing.

This replaced the rates adopted by the Pension Funding Council for the 2001-03 Biennium, as adjusted for legislation passed since they were adopted.

A four-year asset smoothing technique is adopted for studies done after July 1, 2001, along with the above changes, subject to future modification by the Pension Funding Council.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee rates. The employee contribution rate for Plan 1 is established by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods

used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW. All employers are required to contribute at the level required by the Legislature.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2
Employer Rates:		
State agencies*	4.67%	4.67%
Local governmental units*	4.67%	4.67%
State gov't elected officials*	6.89%	4.67%
Employee Rates:		
State agencies	6.00%	2.43%
Local governmental units	6.00%	2.43%
State gov't elected officials	7.50%	2.43%

*Includes an administrative expense rate of 0.23 percent.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rate and Plan 2/3 employer and employee contribution rates. The employee contribution rate for Plan 1 is established by statute at 6 percent and does not vary from year to year. The employer and employee contribution rates for Plan 2/3 are developed by the Office of the State Actuary to fully fund Plan 2/3. The methods used to determine the contribution requirements are established under state statute as per chapters 41.32 and 41.45 RCW. All employers are required to contribute at the level established by the Legislature. Employees who participate in the DC portion of the TRS 2/3 Plan do not contribute to the DB portion of the TRS 2/3 Plan.

Required contributions (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

TRS Actual Contribution Rates

	PLAN 1	PLAN 2/3
Employer Rates *	7.33%	7.33%
Employee Rates:		
State agencies	6.00%	3.01%
Local governmental units	6.00%	3.01%
State gov't elected officials	7.50%	3.01%

* Includes an administrative expense rate of 0.23 percent.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2/3 employer and employee contribution rates. The employer and employee contribution rates for Plan 2/3 are developed by the Office of the State Actuary to fully fund Plan 2/3. The methods used to determine the contribution requirements are established under state statute as per chapters 41.35 and 41.45 RCW. All employers are required to contribute at the level established by the Legislature. Employees who participate in the SERS 3 defined contribution plan do not contribute to the defined benefit portion of the SERS 2/3 Plan.

Required contributions (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

SERS Actual Contribution Rates

	PLAN 1	PLAN 2/3
Employer Rates*	NA	4.67%
Employee Rates	NA	2.43%

*Includes an administrative expense rate of 0.23 percent

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

For Plan 1, employers and employees are required to contribute at a rate of 6 percent, and the state is responsible for the balance of the funding at rates set by the Pension Funding Council. 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 Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

LEOFF Actual Contribution Rates

	PLAN 1	PLAN 2
Employer Rates:		
Ports and Universities*	NA	7.01%
Local governmental units*	0.23%	4.30%
Employee Rates:		
Ports and Universities	NA	6.78%
Local governmental units	NA	6.78%
State of Washington	NA	2.71%

*Includes an administrative expense rate of 0.23 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. 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.

Washington State Patrol Retirement System (WSPRS)

State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 3 percent for Fiscal Year 2001. The contribution rate for the state is adopted by the Pension Funding Council in accordance with chapter 41.45 RCW. The state is required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2001 were as follows:

WSPRS Actual Contribution Rates	
Employer Contributions	0.00%
Employee Contributions	3.00%

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 General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2001, the state contributed $7 million.

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. Each biennium, the Legislature, through biennial appropriations from the General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2001, the state contributed $.75 million.

The Volunteer Fire Fighters' 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. The death and disability provisions of VFFRPF are funded by an employer contribution rate of $10 per member.

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.

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.

	2001	2000	1999
PERS Plan 1	$94.0	$102.6	$119.3
PERS Plan 2	58.2	44.1	103.0
TRS Plan 1	3.5	4.7	6.0
TRS Plan 2/3	0.3	.3	.5
SERS Plan 2/3	0.0	NA	NA
LEOFF Plan 1	0.0	0	48.8
LEOFF Plan 2	21.1	17.3	22.2
VFFRPF	3.3	2.7	2.5

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation (NPO) in millions to the plans listed for the current year were as follows:

	WSPRS	JRS	Judges
Annual Required Contribution	$(11.9)	$13.3	$0.2
Interest on NPO	(4.3)	2.9	(0.2)
Adjustment to annual required contribution	6.7	(5.6)	0.4
Annual Pension Cost	(9.5)	10.6	0.4
Less Contributions Made	0.0	7.3	0.8
Increase (decrease) in NPO	(9.5)	3.3	(0.4)
NPO at beginning of year	(54.2)	36.8	(2.6)
NPO at end of year	(63.7)	40.1	(3.0)

The valuation date for the plans is 12/31/2000. The actuarial cost method for the WSPRS is aggregate and for JRS and Judges is entry age normal. The unfunded amount is being amortized as a level dollar amount to 12/31/08 for JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to Required Supplementary Schedules – Defined Benefit Pension Plans."

F. Three Year Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2001	2000	1999
WSPRS			
Annual Pension Cost	$(9.5)	$(11.0)	$(6.5)
% of APC contributed	0.0	0.0	-90.8
NPO	$(63.7)	$(54.2)	$(43.2)
JRS			
Annual Pension Cost	$10.6	$10.3	$10.3
% of APC contributed	68.9	70.9	85.4
NPO	$40.1	$36.8	$33.8
Judges			
Annual Pension Cost	$0.4	$0.5	$0.4
% of APC contributed	200.0	160.0	200.0
NPO	$(3.0)	$(2.6)	$(2.3)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions

For studies done after July 1, 2001, the investment assumption was changed from 7.5% to 8.0% and the salary inflation assumption was increased from 4.0% to 4.5%. The contribution rates for the 2001-03 Biennium were based on these new assumptions as well.

H. Changes in Benefit Provisions

The School Employees' Retirement System (SERS) 2/3, was created by the Washington State Legislature in 1998. Beginning September 1, 2000, all eligible classified employees of school districts and educational service districts who are members of PERS Plan 2 automatically become members of SERS Plan 2. The benefits in SERS Plan 2 are identical to the benefits in PERS Plan 2. SERS Plan 2 members may choose to transfer to SERS Plan 3, which offers both a defined benefit component and a defined contribution component.

Changes in contribution rates were made as described above.

The PERS, TRS, and SERS systems allowed retirees to work more hours before their benefits are suspended.

WSPRS increased their cost-of-living allowance from a simple 2% annual increase to a compound 3% annual increase. Voluntary Department of Transportation overtime was excluded from the plan's definition of salary.

LEOFF and SERS had corrections made for errors in prior legislation.

Other changes had no material impact or were not effective this year and will not be recognized until members transfer to PERS 3 as described in Section B of this note.

I. Defined Contribution Plans

Teachers Retirement System Plan 3 (TRS 3)

The Teachers Retirement System Plan 3 is a defined contribution (DC) plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include certificated employees in grades K-12 in the public schools hired after July 1, 1996, and those TRS 2/3 members who elect to transfer. There are 331 participating employers in TRS 3. Refer to Section B of this note for TRS plan descriptions.

As established by chapter 41.34 RCW, employee contribution rates range from 5 percent to 15 percent of salaries based on age. There are currently no requirements for employer contributions.

TRS 3 DC 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 Benefit Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2001, employee contributions required and made were $125.3 million and plan refunds paid out were $20.1 million.

The School Employees' Retirement System (SERS 3)

The School Employees' Retirement System Plan 3 is a defined contribution (DC) 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 are SERS 2/3 members after September 1, 2000, who elect to transfer. As of June 30, 2001, there are 295 participating employers in SERS 3. Refer to Section B of this note for SERS plan descriptions.

As established by RCW 41.35, employee contribution rates range from 5 percent to 15 percent of salaries based on age. There are currently no requirements for employer contributions.

SERS 3 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 caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2001, employee contributions required and made were $13.7 million and plan refunds paid out were $2.2 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 of Washington Administrator for 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 the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Employee contributions equal 2.5 percent of salary and the state, as employer, matches this amount. Contributions are collected by the Administrator for the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Current-year covered payroll for JRA employees was $19.3 million for the fiscal year ended June 30, 2001. For Fiscal Year 2001, the contribution requirement for JRA was $968,000. Actual employer and employee contributions were $484,000 each, for a total of $968,000. Plan benefits paid out for Fiscal Year 2001 totaled $335,753.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. 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 such a person or persons having an insurable interest in the member's life, per written designation of the member.

Membership in TRS 3, SERS 3, and the Judicial Retirement Account consisted of the following at December 31, 2000:

Plan Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	**Total**
TRS 3	92	1,242	16,036	22,244	39,614
SERS 3	0	196	13,347	8,664	22,207
JRA	0	11	179	n/a	190

Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)

TIAA/CREF, privately administered defined contribution plans, provide individual retirement fund contracts for each eligible employee. There are 38 participating state employers in the TIAA/CREF plan. Eligible employees include higher education faculty and other positions as designated by each institution; participation was established under chapter 28B.10 RCW. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2001, covered payroll for TIAA/CREF employees was $1 billion and the contribution requirement for TIAA/CREF was $176 million. Actual employer and employee contributions were $88 million each, for a total of $176 million. These contribution amounts represent approximately 8 percent of covered payroll for employers and employees.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF.

Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable

annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

J. Plan Net Assets

Pension plan investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Private equity investments are valued by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value equals 5 percent or more of each plan's net assets.

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities.

Combining Statement of Plan Net Assets

Defined Benefit Pension Plans and Other Pension Trust Funds

June 30, 2001 (expressed in thousands)

	Public Employees' Plan 1	Public Employees' Plan 2	Teachers' Plan 1	Teachers' Plan 2/3 Defined Benefit	Teachers' Plan 3 Defined Contribution	School Employees' Plan 2/3 Defined Benefit
Assets:						
Cash and pooled investments	$ 5,636	$ 940	$ 4,956	$ 1,232	$ 911	$ 700
Receivables:						
Interest and dividends	48,858	48,390	42,053	15,531	3,881	6,186
Contributions	7,768	21,599	9,667	13,134	-	4,641
Due from other funds	3,520	312	124	8	-	3,051
Other	7,485	6,678	6,058	2,105	526	837
Total Receivables	67,631	76,979	57,902	30,778	4,407	14,715
Investments, Noncurrent:						
Asset backed securities	123,142	122,218	105,964	39,078	9,877	15,774
Collaterialized mort oblig	427,884	424,674	368,197	135,784	34,321	54,812
Commercial paper	19,682	19,534	16,937	6,246	1,579	2,521
Corporate bonds	1,376,304	1,365,978	1,184,316	436,754	110,395	176,304
Corporate stock	465,063	461,574	400,189	147,582	37,303	59,574
Govt securities domestic	89,170	88,501	76,732	28,297	7,152	11,423
Govt securities foreign	40,456	40,153	34,813	12,838	3,245	5,182
Government bonds	1,988	1,973	1,710	631	159	255
Repurchase agreements	84,576	83,941	72,778	26,839	6,784	10,834
Certificates of deposit	115,507	114,641	99,395	36,655	9,265	14,796
Mutual funds	4,595,400	4,560,922	3,954,363	1,458,297	368,602	588,669
Mortgages	227,022	225,318	195,353	72,043	18,210	29,081
Real estate	862,256	855,787	741,975	273,627	69,163	110,455
Private equity	1,361,913	1,351,695	1,171,933	432,187	109,241	174,460
Investments on loan	468,559	465,044	403,197	148,692	37,584	60,023
Short term investments	387,624	397,199	341,049	136,746	29,393	41,419
Other noncurrent investments	1,628	392	1,288	371	813,523	167
Total Investments, Noncurrent	10,648,174	10,579,544	9,170,189	3,392,667	1,665,796	1,355,749
Total Assets	10,721,441	10,657,463	9,233,047	3,424,677	1,671,114	1,371,164
Liabilities:						
Obligations under security lending agreements	484,399	480,130	417,058	154,363	38,485	61,531
Accrued liabilities	21,859	12,626	17,839	4,277	579	1,425
Due to other funds	643	4,516	275	592	-	3,723
Total Liabilities	506,901	497,272	435,172	159,232	39,064	66,679
Net Assets Held in Trust for Pension Benefits (Schedule of funding progress by plan begins on page 96)	$ 10,214,540	$ 10,160,191	$ 8,797,875	$ 3,265,445	$ 1,632,050	$ 1,304,485

School Employees' Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	Washington State Patrol Retirement System	Judicial Retirement System	Judicial Retirement Account	Judges' Retirement Fund	Volunteer Fire Fighters' Retirement System	**Totals** June 30, 2001
$ 250	$ 1,915	$ 456	$ 489	$ 344	$ 6	$ 4,910	$ 4,375	$ 27,120
1,677	23,869	11,203	3,149	34	-	-	549	205,380
-	-	7,472	82	18	-	1	-	64,382
-	7	6	1	2	-	19	5	7,055
227	3,297	1,550	428	22	-	-	74	29,287
1,904	27,173	20,231	3,660	76	-	20	628	306,104
4,036	60,144	28,269	7,943	-	-	-	1,386	517,831
14,022	208,985	98,228	27,598	-	-	-	4,816	1,799,321
645	9,613	4,518	1,270	-	-	-	222	82,767
45,103	672,207	315,953	88,771	-	-	-	15,492	5,787,577
15,241	227,144	106,763	29,997	-	-	-	5,235	1,955,665
2,922	43,552	20,470	5,752	-	-	-	1,004	374,975
1,326	19,759	9,287	2,609	-	-	-	455	170,123
65	971	456	128	-	-	-	22	8,358
2,772	41,308	19,416	5,455	-	-	-	952	355,655
3,785	56,416	26,517	7,450	-	-	-	1,300	485,727
150,598	2,244,462	1,054,947	296,403	-	-	-	51,727	19,324,390
7,440	110,881	52,116	14,643	-	-	-	2,555	954,662
28,257	421,139	197,945	55,615	-	-	-	9,706	3,625,925
44,632	665,179	312,649	87,843	-	-	-	15,330	5,727,062
15,355	228,851	107,565	30,222	-	-	-	5,274	1,970,366
28,259	189,770	97,576	25,297	9,517	-	-	4,347	1,688,196
140,984	705	93	89	68	9,361	781	183	969,633
505,442	5,201,086	2,452,768	687,085	9,585	9,361	781	120,006	45,798,233
507,596	5,230,174	2,473,455	691,234	10,005	9,367	5,711	125,009	46,131,457
16,634	236,525	111,312	31,242	64	1	741	5,605	2,038,090
490	7,381	2,730	1,130	149	-	12	137	70,634
-	106	177	5	-	-	-	1	10,038
17,124	244,012	114,219	32,377	213	1	753	5,743	2,118,762
$ 490,472	$ 4,986,162	$ 2,359,236	$ 658,857	$ 9,792	$ 9,366	$ 4,958	$ 119,266	$ 44,012,695

Note 18 - Segment Information - Enterprise Funds

The state of Washington operates enterprise funds which are intended to be self-supported through fees charged to the public, or where a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise fund activities operated by the state include the following:

Liquor Fund
The Liquor Fund is used to account for the administration and operation of state liquor stores and warehouses, and the distribution of net proceeds.

Workers' Compensation Fund
The Workers' Compensation Fund is used to account for the workers' compensation program which provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

Convention and Trade Fund
The Convention and Trade Fund is used to account for the acquisition, design, construction, promotion and operation of the State Convention and Trade Center.

Lottery Fund
The Lottery Fund is used to account for lottery ticket revenues, administrative and operating expenses of the Lottery Commission, and the distribution of revenue.

Student Services Fund
The Student Services Fund is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

All Other Enterprise Funds
Fees charged by the various activities including the Department of Corrections' Vocational and Educational programs, the Guaranteed Tuition Program, and operation of certain computer systems.

The table below reflects in a summarized format the significant enterprise fund activities that have occurred during the fiscal year ended June 30, 2001. Interfund transactions have not been eliminated for purposes of this analysis (expressed in thousands):

	Liquor Fund	Workers' Comp. Fund	Convention and Trade Fund	Lottery Fund	Student Services Fund	All Other Enterprise Funds	**Total Enterprise Funds**
Operating Revenues	$ 94,433	$ 1,657,168	$ 9,626	$ 483,906	$ 818,924	$ 26,316	$ 3,090,373
Depreciation and Amortization	177	1,864	4,148	235	31,495	2,473	40,392
Operating Income (Loss)	25,675	(422,674)	(8,507)	130,984	(18,419)	(17,328)	(310,269)
Operating Interfund Transfers (Net)	(54,073)	(11,096)	(13)	(127,337)	13,015	6,110	(173,394)
Tax Revenue	43,519	-	42,271	-	-	445	86,235
Net Income (Loss)	(5,067)	(362,864)	23,988	51,153	(715)	(2,295)	(295,800)
Current Capital Contribution (Return)	-	-	-	-	-	(1,147,658)	(1,147,658)
Net Working Capital	10,691	(1,525,224)	20,144	18,392	266,874	69,991	(1,139,132)
Change in Fixed Assets	10,152	(2,297)	40,325	(113)	78,753	(851,056)	(724,236)
Total Assets	74,915	9,552,333	379,488	624,631	1,269,221	239,090	12,139,678
Bonds and Other Long-Term Liabilities Payable from Operating Revenues	21,711	12,983,876	311,464	476,317	304,082	106,114	14,203,564
Total Equity	13,208	(5,426,175)	54,366	55,386	776,465	68,859	(4,457,891)

Note 19 - Condensed Financial Information - Component Units

The state has five proprietary type component units. Four of these components are financing authorities. They issue nonrecourse revenue bonds to provide low cost capital financing for programs deemed to be in the public interest without using public funds or lending the credit of the state. These component units are as follows:

Housing Finance
The Washington State Housing Finance Commission makes funds available to help provide housing throughout the state and to finance or refinance nursing homes and capital facilities owned and operated by nonprofit corporations.

Higher Education Facilities
The Washington Higher Education Facilities Authority provides funding to qualified, nonprofit higher education institutions in the state.

Health Care Facilities
The Washington Health Care Facilities Authority makes funds available to qualified, nonprofit health care facilities in the state.

Economic Development Finance
The Washington Economic Development Finance Authority makes funds available to qualified small and medium-sized businesses in the state.

The fifth component unit is:

The Public Stadium
The Washington State Public Stadium Authority, was formed to acquire, construct, own and operate a stadium, exhibition center and parking garage.

The tables below present the latest financial information available for the component units (expressed in thousands):

Balance Sheets	Housing Finance	Higher Education Facilities	Health Care Facilities	Economic Development Finance	Public Stadium	**Totals**
Assets:						
Current assets	$ 34,295	$ 677	$ 1,511	$ 153	$ 75,148	$ 111,784
Other nonfixed assets	13,218	1	2,136	-	13,604	28,959
Fixed assets	-	-	-	-	330,798	330,798
Total Assets	$ 47,513	$ 678	$ 3,647	$ 153	$ 419,550	$ 471,541
Liabilities:						
Current liabilities	$ 1,451	$ 104	$ 112	$ 9	$ 21,761	$ 23,437
Long-term liabilities	4,332	-	38	-	28,940	33,310
Total Liabilities	5,783	104	150	9	50,701	56,747
Equity	41,730	574	3,497	144	368,849	414,794
Total Liabilities and Equity	$ 47,513	$ 678	$ 3,647	$ 153	$ 419,550	$ 471,541

Statements of Revenues, Expenses, and Changes in Equity	Housing Finance	Higher Education Facilities	Health Care Facilities	Economic Development Finance	Public Stadium	Totals
Operating revenues	$ 7,606	$ 118	$ 518	$ 290	$ 439	$ 8,971
Operating expenses	6,519	181	605	145	3,914	11,364
Operating income	1,087	(63)	(87)	145	(3,475)	(2,393)
Nonoperating revenue (expenses)						
Earnings on investments	3,108	44	243	-	2,712	6,107
Sales tax	-	-	-	-	1,500	1,500
Interest	(344)	-	-	-	-	(344)
Net income	3,851	(19)	156	145	737	4,870
Equity, July 1	37,916	593	3,341	(1)	199,111	240,960
Contributions of capital	(37)	-	-	-	169,001	168,964
Equity, June 30	$ 41,730	$ 574	$ 3,497	$ 144	$ 368,849	$ 414,794

Note 20 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled $1.5 billion at June 30, 2001.

B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings which normally occur in governmental operations. At any given point in time, there may be numerous lawsuits involving state agencies which could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past two 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.

Social Service Program Administration Litigation

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen v. Western State Hospital*, for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community base services when appropriate. The trial has been stayed pending further review of whether program changes and funding requests to the Legislature by the Department of Social and Health Services will resolve claims. *Arc, et al. v. Quasim* is a class action on behalf of the persons with developmental disabilities seeking access to Medicaid funded services. The trial has been stayed based on a settlement agreement contingent on additional future funding by the Legislature. If these claims are not resolved through settlement and the cases go to trial, it is difficult to estimate with any certainty the potential amount of damages which might be recovered. These lawsuits, however, are not expected to have a material impact on state revenues or expenditures. If relief is granted, there would be a need to reprioritize agency program expenditures in the budget process to provide program support for individuals in these classes.

Social Security Benefits

There is a class action lawsuit challenging the Department of Social and Health Services' authority to use Social Security benefits received on behalf of a foster child when it acts as a representative payee and applies

the benefits toward the costs of the child's foster care. The Department currently receives $600,000 a month in Social Security monies that it uses for this purpose. This is consistent with the practice in other states. The lawsuit sought a declaratory ruling that the state may not obtain and use such funds for foster care services, along with a refund of funds used in the past. The State Supreme Court has determined that the Department may not use the Social Security funds in this manner. A motion for reconsideration has been filed and it is likely the United. States. Supreme Court will be asked to review this decision. If relief is affirmed, there would be a reduction of revenue to the state in the future, resulting in a need to seek additional funding or reprioritize use of existing funding. There also would be a follow-up proceeding to determine to what extent there should be refunds. It is difficult to estimate with any certainty the potential amount of refunds which might be recovered.

Business and Occupation Tax Structure Litigation

Over the past ten years, we have reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of approximately 115 corporate taxpayers for business and occupation tax refunds from periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied certiorari review of an April 1999 decision by the Washington State Supreme Court. *W.R. Grace & Co. - Conn. And Chrysler Motors Corporation v. State of Washington, Department of Rev., and Buffelen Woodworking Co., et al. v. State of Washington, Department of Rev.* The State Supreme Court denied claims for a refund except to the extent the taxpayers could demonstrate entitlement to credits against their Washington State tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. In spite of the case history, the cases were remanded to Thurston County Superior Court, and the taxpayers have waived refunds measured by tax credits. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

Medicaid Reimbursement Litigation

In the past there has been periodic litigation involving Medicaid reimbursement issues. Over the last three years, there has been an increase in the number and types of claims. Currently, there are three lawsuits which raise issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. In the previous cases, these types of claims have been limited and focused by courts through motion practice and eventually resolved through settlement agreements and legislative appropriation. It is difficult to predict whether the current cases might result in any significant amount of reimbursement under the theories presented. If substantial costs are recovered in any of those proceedings, there would be a need to reprioritize agency program expenditures in the budget process to cover any additional costs.

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.

Note 21 - Subsequent Events

A. Bond Issues

In August 2001, the state issued $306.6 million in Various Purpose General Obligation Bonds, Series 2002A, and $31.5 million in State Housing Trust Fund Bonds, Series 2002T.

B. Certificates of Participation

In August 2001, the state issued $2.1 million in Certificates of Participation for various statewide equipment lease purchases, Series 2001D.

In October 2001, the state issued $6.1 million in Certificates of Participation for various statewide equipment lease purchases, Series 2001E.

In October 2001, the state issued $4.1 million in real estate Certificates of Participation for the Department of Veteran Affairs.

In November 2001, the state issued $1 million in Certificates of Participation for various local real estate purchases, Series 2001B.

C. Voter Initiatives

On November 6, 2001, voters approved Initiative 747 that limits any state and local regular property tax increases to 1% per year, unless voters approve a greater increase. The limitation on property taxes is estimated to reduce General Fund-State revenues by $25.1 million in the 2001-2003 Biennium.

The voters also approved Initiative 773 that increases the tax on tobacco and cigarettes. The tax increase is deposited to the Health Services Account. The General Fund-State is expected to lose cigarette tax revenue because of reduced consumption. The reduced consumption is estimated to decrease General Fund revenues by $9.1 million in the 2001-2003 Biennium.

Initiative 775 was also approved by the voters. I-775 establishes an authority to regulate and improve publicly funded in-home care services for elderly and disabled adults. This new authority is estimated to result in additional expenditures from General Fund-State totaling $1.8 million for the 2001-2003 Biennium.

Required Supplementary Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

	2000	1999	1998	1997	1996	1995
Actuarial Valuation Date	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996	12/31/1995
Actuarial Value of Plan Assets	$ 11,111	$ 10,456	$ 9,219	$ 8,211	$ 7,197	$ 6,440
Actuarial Accrued Liability	11,695	11,636	11,227	10,817	10,339	9,918
Unfunded Actuarial Liability	584	1,180	2,008	2,606	3,142	3,478
Percentage Funded	95%	90%	82%	76%	70%	65%
Covered Payroll	1,132	1,184	1,233	1,271	1,308	1,324
Unfunded Actuarial Liability as a Percentage of Covered Payroll	52%	100%	163%	205%	240%	263%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Fiscal Years 2000 through 1995 (dollars in millions)

	2000	1999	1998	1997	1996	1995
Actuarial Valuation Date	6/30/2000	6/30/1999	6/30/1998	6/30/1997	6/30/1996	6/30/1995
Actuarial Value of Plan Assets	$ 9,372	$ 8,696	$ 7,819	$ 6,844	$ 5,924	**
Actuarial Accrued Liability	9,566	9,529	9,354	9,044	8,796	**
Unfunded Actuarial Liability	194	833	1,535	2,200	2,872	**
Percentage Funded	98%	91%	84%	76%	67%	**
Covered Payroll	957	984	1,046	1,083	1,128	**
Unfunded Actuarial Liability as a Percentage of Covered Payroll	20%	85%	147%	203%	255%	**

** data not available

Source: Washington State Office of the State Actuary

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

	2000	1999	1998	1997	1996	1995
Actuarial Valuation Date	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996	12/31/1995
Actuarial Value of Plan Assets	$ 5,440	$ 5,150	$ 4,568	$ 4,087	$ 3,594	**
Actuarial Accrued Liability	4,002	4,125	3,906	3,767	4,006	**
Unfunded (Assets in Excess of)						
Actuarial Liability	(1,437)	(1,024)	(662)	(320)	412	**
Percentage Funded	136%	125%	117%	108%	90%	**
Covered Payroll	95	106	117	128	137	**
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	301%	**

** data not available

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

	2000	1999	1998	1997	1996	1995
Actuarial Valuation Date	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996	12/31/1995
Actuarial Value of Plan Assets	$ 10	$ 9	$ 8	$ 5	$ 4	**
Actuarial Accrued Liability	93	94	97	95	92	**
Unfunded Actuarial Liability	83	85	89	90	88	**
Percentage Funded	11%	10%	8%	5%	4%	**
Covered Payroll	4.0	4.0	4.0	4.0	5.0	**
Unfunded Actuarial Liability as a						**
Percentage of Covered Payroll	2075%	2125%	2225%	2250%	1760%	**

** data not available

Source: Washington State Office of the State Actuary

Volunteer Fire Fighters' Relief and Pension Fund

Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

	2000	1999	1998	1997	1996	1995
Actuarial Valuation Date	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996	12/31/1995
Actuarial Value of Plan Assets	$ 126	$ 118	$ 102	$ 91	$ 74	$ 69
Actuarial Accrued Liability	96	98	94	69	67	65
Unfunded (Assets in Excess of)						
Actuarial Liability	(30)	(20)	(8)	(22)	(7)	(4)
Percentage Funded	131%	120%	109%	132%	110%	106%
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

*Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

Source: Washington State Office of the State Actuary

Judges' Retirement Fund

Schedule of Funding Progress

Calendar Years 2000 through 1995 (dollars in millions)

	2000	1999	1998	1997	1996	1995
Actuarial Valuation Date	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996	12/31/1995
Actuarial Value of Plan Assets	$ 5	$ 4	$ 4	$ 4	$ 3	**
Actuarial Accrued Liability	6	6	7	7	7	**
Unfunded Actuarial Liability	1	2	3	3	4	**
Percentage Funded	83%	67%	57%	57%	43%	
Covered Payroll	0.1	0.1	0.1	0.2	0.4	**
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	1000%	2000%	3000%	1500%	1000%	**

** data not available

Source: Washington State Office of the State Actuary

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2001 through 1996

	2001	2000	1999	1998	1997	1996
Public Employees' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 118.8	$ 199.2	$ 237.6	$ 287.2	$ 355.0	$ 372.0
Employers' Actual Contribution	181.7	200.2	234.3	226.1	206.0	201.0
Percentage Contributed	153%	101%	99%	79%	58%	54%
Public Employees' Retirement System - Plan 2 (expressed in millions)						
Employers' Annual Required Contribution	$ 55.6	$ 103.6	$ 86.6	$ 106.3	$ 185.0	$ 195.0
Employers' Actual Contribution	115.0	101.9	238.4	222.8	224.0	195.0
Percentage Contributed	207%	98%	275%	210%	121%	100%
Teachers' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 90.6	$ 176.1	$ 209.7	$ 269.7	$ 338.0	$ 355.0
Employers' Actual Contribution	141.3	183.0	222.5	211.6	210.0	225.0
Percentage Contributed	156%	104%	106%	78%	62%	63%
Teachers' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 40.4	$ 56.2	$ 45.9	$ 59.8	$ 82.0	$ 79.0
Employers' Actual Contribution	69.6	75.3	100.2	105.6	103.0	79.0
Percentage Contributed	172%	134%	218%	177%	126%	100%
School Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 6.7	N/A	N/A	N/A	N/A	N/A
Employers' Actual Contribution	19.9	N/A	N/A	N/A	N/A	N/A
Percentage Contributed	297%	N/A	N/A	N/A	N/A	N/A

Source: Washington State Office of the State Actuary

** data not available

N/A SERS did not exist prior to 9/1/2000

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2001 through 1996

	2001	2000	1999	1998	1997	1996
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 0.0	$ 6.3	$ 6.9	$ 7.5	$ 8.1	**
Employers' Actual Contribution	0.1	6.3	7.2	7.6	8.2	**
Percentage Contributed	NA	100%	104%	101%	101%	**
State Annual Required Contribution	(100.5)	(66.1)	(33.7)	(3.1)	67.1	**
State Actual Contribution	-	-	48.8	50.4	66.7	**
Percentage Contributed	N/A	N/A	N/A	N/A	99%	**
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2 (expressed in millions)						
Employers' Annual Required Contribution	$ 20.3	$ 26.9	$ 22.3	$ 22.5	$ 28.1	**
Employers' Actual Contribution	31.5	26.2	34.3	31.1	28.5	**
Percentage Contributed	155%	97%	154%	138%	101%	**
State Annual Required Contribution	13.5	18.0	14.9	15.0	18.7	**
State Actual Contribution	20.9	17.1	22.2	20.1	17.7	**
Percentage Contributed	155%	95%	149%	134%	95%	**
Washington State Patrol Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ (11.9)	$ (11.4)	$ (6.7)	$ (3.9)	$ 0.5	**
Employers' Actual Contribution	-	-	5.9	6.0	6.8	**
Percentage Contributed	N/A	N/A	N/A	N/A	1360%	**

Source: Washington State Office of the State Actuary

** data not available

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2001 through 1996

	2001	2000	1999	1998	1997	1996
Judicial Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ 13.3	$ 12.5	$ 12.2	$ 11.6	$ 12.7	**
Employers' Actual Contribution	7.3	7.3	8.8	8.8	6.9	**
Percentage Contributed	55%	58%	72%	76%	54%	**
Judges' Retirement Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.2	$ 0.3	$ 0.3	$ 0.4	$ 0.4	**
Employers' Actual Contribution	0.8	0.8	0.8	0.8	0.8	**
Percentage Contributed	400%	267%	267%	200%	200%	**
Volunteer Fire Fighters' Relief and Pension Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.7	$ 0.7	$ 0.8	$ 0.7	$ 0.5	**
Employers' Actual Contribution	0.7	0.7	0.8	0.7	0.6	**
Percentage Contributed	100%	100%	100%	100%	120%	**
State Annual Required Contribution	$ (1.0)	$ 0.1	$ 0.8	$ (0.3)	$ 0.4	**
State Actual Contribution	3.3	2.7	2.5	2.0	3.0	**
Percentage Contributed	N/A	2700%	313%	N/A	750%	**

Source: Washington State Office of the State Actuary

** data not available

Notes to Required Supplementary Schedules
Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2001

The information presented in the required supplementary schedules 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	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation - date	12/31/2000	12/31/2000	6/30/2000	6/30/2000	12/31/2000
Actuarial cost method	entry age	aggregate**	entry age	aggregate**	aggregate**
Amortization Method:					
Funding	level %	n/a	level %	n/a	n/a
GASB	level $	n/a	level $	n/a	n/a
Remaining amortization period (closed)	6/30/2024	n/a	6/30/2024	n/a	n/a
Asset valuation method	4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value
Actuarial assumptions:					
Investment rate of return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases (5)	(1)	(1)	(2)	(2)	(1)
Includes inflation at	3.50% *	3.50%	3.50% *	3.50%	3.50%
Cost of living adjustments	Uniform COLA* gain sharing COLA*	CPI increase, maximum 3%	Uniform COLA* gain sharing COLA*	CPI increase, maximum 3%	CPI increase, maximum 3%

Significant Assumptions:

(1) 4.7% for the first year grading to zero with 17 years of service
(2) 5.0% for the first year grading to 1.5% with 15 years of service and .5% thereafter
(3) 9.0% for the first year grading to .6% with 18 years of service and .5% thereafter
(4) 6.0% followed by a non-monotonic decrease to zero after 7 years of service
(5) Salary Inflation at 4.5% plus the merit increase described above.

* Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.
The Uniform COLA increase is added every July. On 7/1/1999, it was $0.77 per year of service.
The gain sharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved.
In 1998, it was $0.11. On 1/1/2000, it was $0.28 per year of service.
The next Uniform COLA amount is calculated as the last Uniform COLA amount plus any gain sharing COLA amount, all increased by 3%. On 7/1/2000, it is ($0.77+$0.28)x1.03 = $1.08. On 7/1/2001, it is ($1.08+$0.00)x1.03 = $1.11.

** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

*** Pay-as-you-go for funding

LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	Judges	VFFRPF
12/31/2000	12/31/2000	12/31/2000	12/31/2000	12/31/2000	12/31/2000
entry age	aggregate**	aggregate**	entry age***	entry age***	entry age
level %	n/a	n/a	n/a	n/a	level $
level $	n/a	n/a	level $	level $	level $
6/30/2024	n/a	n/a	12/31/2008	12/31/2008	12/31/2017
4-year smoothed fair value	4-year smoothed fair value	4-year smoothed fair value	market	market	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
(3)	(3)	(4)	4.5%	4.5%	n/a
3.50%	3.50%	3.50%	3.50%	3.50%	n/a
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	3.00%	none	none

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APPENDIX E

CERTIFICATE PAYMENT SCHEDULE AND CUSIP NUMBERS

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STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION

$1,295,000

LOCAL AGENCY REAL PROPERTY, SERIES 2002B

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

CERTIFICATE PAYMENT SCHEDULE

Certificate Payment Date	Principal Component	CUSIP Numbers
July 1, 2003	$ 105,000	939718ZU9
July 1, 2004	115,000	939718YW5
July 1, 2005	120,000	939718ZY1
July 1, 2006	120,000	939718A28
July 1,2007	125,000	939718A44
July 1, 2008	130,000	939718A69
July 1, 2009	135,000	939718A85
July 1, 2010	140,000	939718B27
July 1, 2011	150,000	939718B43
July 1, 2012	155,000	939718B68
Total	$ 1,295,000	

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APPENDIX F

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The state makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered Certificates, registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each principal payment date of the Certificates, each in the aggregate principal amount of represented by such Certificates, and will be deposited with DTC.

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 two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments for over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. 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.

Purchases of Certificates under the DTC system, in denominations of $5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by 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 TDC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not

be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Fiscal Agent to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Certificates 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Certificates will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Fiscal Agent, 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 Fiscal Agent or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the state or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the state and the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The state may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the state believes to be reliable, but the state takes no responsibility for the accuracy or completeness thereof.

APPENDIX G

FINANCIAL GUARANTY INSURANCE POLICY SPECIMEN

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MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

SPECIMEN

Attest:

Assistant Secretary

STD-R-6
4/95

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