OFFICIAL STATEMENT DATED JANUARY 22, 2003

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

Insured Ratings:	
Fitch:	AAA
Moody's:	Aaa
Standard & Poor's:	AAA

Underlying Ratings:	
Fitch:	AA
Moody's:	Aa1
Standard & Poor's:	AA+

$190,000,000
Various Purpose General Obligation Bonds, Series 2003D

$27,530,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E

$75,001,618.40
($178,625,000 Compound Accreted Value at Maturity)
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F

Dated: Date of Delivery (Expected February 5, 2003) **Due: December 1 as shown on pages i, ii and iii hereof**

The Series 2003D Bonds, the Series 2003E Bonds and the Series 2003F Bonds (collectively, the "Bonds") are general obligations of the state of Washington (the "state") to which the state has pledged its full faith, credit and taxing power. The Series 2003E Bonds and the Series 2003F Bonds are first payable from state excise taxes on motor vehicle and special fuels.

Interest on the Series 2003D Bonds and the Series 2003E Bonds is payable semiannually on each June 1 and December 1, beginning December 1, 2003. The principal of the Series 2003D Bonds and the Series 2003E Bonds is payable upon their respective stated maturities on December 1 of each year as set forth on pages i and ii hereof. The Series 2003D Bonds and the Series 2003E Bonds are subject to redemption prior to maturity at the times and prices as set forth herein under "The Bonds—Redemption Provisions."

Interest on the Series 2003F Bonds accrues from the date of their delivery, compounds semiannually on each June 1 and December 1, beginning June 1, 2003, and is payable only at maturity. The principal of the Series 2003F Bonds is payable upon their respective stated maturities on December 1 of each year as set forth on page iii hereof. The Series 2003F Bonds are not subject to redemption prior to their maturity.

The Bonds are issuable as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co. (the "Registered Owner"), as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only. The Series 2003D Bonds and the Series 2003E Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof. The Series 2003F Bonds will be issued in the Compound Accreted Value at maturity of $5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the fiscal agency of the state, as paying agent, registrar, transfer agent and authenticating agent (the "Bond Registrar") (currently The Bank of New York) to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "The Bonds—Book-Entry Bonds."

The Series 2003F Bonds are not suitable for all investors. See "Investment Suitability and Market Risk" herein.

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

MBIA

In the opinion of Bond Counsel to the state, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Tax and Legal Information" herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision. The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.

It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about February 5, 2003.

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

The information set forth herein has been obtained from sources which are believed to be current and reliable. However, the state makes no representation regarding the accuracy or completeness of the information in Appendix F—Book-Entry Transfer System provided by DTC or the information provided by MBIA Insurance Corporation under "Other Bond Information—The MBIA Insurance Corporation Insurance Policies." Estimates and opinions included herein should not be interpreted as statements of fact. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the state, or any agency or instrumentality thereof, 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 Bonds.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER(S) MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED OR RECOMMENCED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement, including but not limited to Appendix A, constitute "forward looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "forecast," "estimate," "budget," or other similar words. The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. The state does not plan to issue any updates or revisions to those forward looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

MATURITY SCHEDULE

$190,000,000

Various Purpose General Obligation Bonds, Series 2003D

Due December 1	Principal Amounts	Interest Rates	Yields	Prices
2003	$ 1,590,000	5.000%	1.110%	103.173%
2004	4,585,000	5.000	1.380	106.490
2005	4,700,000	5.000	1.520	109.575
2006	4,845,000	5.000	1.900	111.374
2007	4,990,000	5.000	2.330	112.108
2008	5,170,000	5.000	2.750	112.025
2009	5,380,000	5.000	3.150	111.273
2010	5,600,000	5.000	3.510	110.110
2011	5,830,000	5.000	3.680	109.862
2012	6,065,000	5.000	3.850	109.326
2013	6,355,000	5.000	4.000	108.383*
2014	6,695,000	5.000	4.110	107.419*
2015	7,060,000	5.000	4.240	106.294*
2016	7,440,000	5.000	4.340	105.438*
2017	7,840,000	5.000	4.420	104.759*
2018	8,265,000	5.000	4.490	104.169*
2019	8,710,000	5.000	4.570	103.500*
2020	9,180,000	5.000	4.650	102.837*
2021	9,670,000	5.000	4.730	102.178*
2022	10,195,000	5.000	4.810	101.524*
2023	10,745,000	5.000	4.860	101.118*
2024	11,325,000	5.000	4.920	100.634*
2025	11,935,000	5.000	4.940	100.473*
2026	12,575,000	5.000	4.950	100.393*
2027	13,255,000	5.000	4.950	100.393*
Total	$ 190,000,000			

* Priced to the June 1, 2013, par call date.

MATURITY SCHEDULE

$27,530,000

Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E

Due December 1	Principal Amounts	Interest Rates	Yields	Prices
2003	$ 230,000	2.000%	1.150%	100.692%
2004	665,000	2.000	1.250	101.346
2005	680,000	2.500	1.500	102.752
2006	700,000	2.500	1.950	102.014
2007	725,000	2.500	2.380	100.541
2008	750,000	3.000	2.800	101.065
2009	780,000	3.000	3.170	98.961
2010	810,000	4.000	3.450	103.738
2011	845,000	4.000	3.700	102.236
2012	880,000	4.000	3.890	100.886
2013	920,000	4.000	4.000	100
2014	970,000	4.000	4.150	98.604
2015	1,025,000	4.200	4.260	99.406
2016	1,080,000	4.300	4.360	99.376
2017	1,135,000	4.400	4.450	99.456
2018	1,200,000	4.500	4.520	99.769
2019	1,260,000	4.500	4.600	98.831
2020	1,330,000	4.600	4.680	99.034
2021	1,400,000	4.700	4.760	99.253
2022	1,475,000	4.750	4.840	98.854
2023	1,555,000	4.750	4.890	98.177
****				
2025	3,370,000	4.750	4.940	97.410
****				
2027	3,745,000	4.800	4.960	97.723
Total	$ 27,530,000			

MATURITY SCHEDULE

$75,001,618.40

($178,625,000 Compound Accreted Value at Maturity)

Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F

Due December 1	Compound Accreted Value at Maturity	Original Principal Amount per $5,000 Compound Accreted Value	Approximate Reoffering Yield to Maturity
2008	$ 3,485,000	$ 4,097.10	3.450%
2009	4,335,000	3,862.35	3.820
2010	5,185,000	3,639.90	4.100
2011	5,015,000	3,423.40	4.340
2012	5,610,000	3,226.40	4.510
2013	6,510,000	3,056.45	4.600
2014	6,480,000	2,877.00	4.730
2015	7,285,000	2,708.05	4.840
2016	8,350,000	2,547.00	4.940
2017	8,470,000	2,394.30	5.030
2018	8,705,000	2,250.30	5.110
2019	9,055,000	2,111.70	5.190
2020	9,180,000	1,978.55	5.270
2021	9,580,000	1,850.90	5.350
2022	9,845,000	1,732.15	5.420
2023	10,000,000	1,628.70	5.460
2024	10,230,000	1,533.45	5.490
2025	10,140,000	1,446.20	5.510
2026	10,120,000	1,366.50	5.520
2027	10,330,000	1,290.95	5.530
2028	10,535,000	1,219.35	5.540
2029	10,180,000	1,151.50	5.550
Total	$ 178,625,000		

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The 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 BONDS

Issuer:	State of Washington (the "state").
Offering:	The Various Purpose General Obligation Bonds, Series 2003D (the "Series 2003D Bonds"), the Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E (the "Series 2003E Bonds"), and the Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F (the "Series 2003F Bonds") (collectively, the "Bonds"), are dated the date of their delivery.
Interest Payments:	Interest on the Series 2003D Bonds and Series 2003E Bonds is payable semiannually on each June 1 and December 1, beginning December 1, 2003. Interest on the Series 2003F Bonds accrues from their date of delivery, compounds semiannually on each June 1 and December 1, beginning June 1, 2003, and is payable only at maturity.
Principal Payments or Mandatory Redemption:	Principal of the Series 2003D Bonds and the Series 2003E Bonds is payable on each December 1 at maturity, or upon mandatory redemption in the case of the Series 2003E Term Bonds, beginning December 1, 2003, through and including December 1, 2027. The Series 2003E Term Bonds maturing in 2025 are subject to mandatory sinking fund redemption on December 1, 2024, and December 1, 2025. The Series 2003E Term Bonds maturing in 2027 are subject to mandatory sinking fund redemption on December 1, 2026, and December 1, 2027. Principal of the Series 2003F Bonds is payable on each December 1 at maturity, beginning December 1, 2008, through and including December 1, 2029.
Optional Redemption:	The Series 2003D Bonds and the Series 2003E Bonds are subject to optional redemption at the times and prices as set forth herein under "The Bonds—Redemption Provisions." The Series 2003F Bonds are not subject to redemption.
Form of Bonds:	The Bonds will be issued in fully registered, book-entry only form. The Series 2003D Bonds and the Series 2003E Bonds will be issued in the denomination of $5,000 each, or any integral multiple thereof within a single maturity. The Series 2003F Bonds will be issued in the Compound Accreted Value at maturity of $5,000 each or any integral multiple thereof.
Bond Registrar:	The fiscal agency of the state (currently, The Bank of New York) will act as paying agent, authenticating agent, transfer agent, and registrar for the Bonds. Payments of principal of and interest on the Bonds will be paid by the state to the Bond Registrar which in turn will remit such payments to DTC. DTC will remit payments to beneficial owners in accordance with the operational arrangements then in effect at DTC.

Security:	The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds. The Series 2003E Bonds and the Series 2003F Bonds are first payable from state excise taxes on motor vehicle and special fuels.
Purpose:	The Series 2003D Bonds are being issued for the purpose of providing funds for financing various capital projects throughout the state and to pay for the costs of issuance of the Series 2003D Bonds. The Series 2003E Bonds and Series 2003F Bonds are being issued for the purpose of providing funds to pay and reimburse the costs of certain state and local road and transportation system improvements and to pay the costs of issuance of the Series 2003E Bonds and the Series 2003F Bonds.
Legal Opinion:	The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.
Suitability and Risk:	The Series 2003F Bonds are not suitable for all investors and have certain risks. See "Investment Suitability and Market Risk."
Bond Ratings:	The Bonds have been rated by Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch, as noted on the cover of this Official Statement.
Continuing Disclosure:	The state has entered into an undertaking for the benefit of the owners of the Bonds 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 "Tax and Legal Information—Continuing Disclosure Undertaking."

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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

BOND COUNSEL TO THE STATE

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This publication will be available in alternative formats upon request to the Office of the State Treasurer. Excerpts from this publication are available via the Internet at the Office of the Washington State Treasurer's Home Page:

http://www.wa.gov/tre

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

CONTACT INFORMATION

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OFFICIAL STATEMENT

STATE OF WASHINGTON

$190,000,000
Various Purpose General Obligation Bonds, Series 2003D

$27,530,000
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E

$75,001,618.40
($178,625,000 Compound Accreted Value at Maturity)
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F

The purpose of this Official Statement, including the cover hereof and the appendices hereto, is to provide certain information, including with respect to the state of Washington (the "state"), in connection with the offering and sale of the above-captioned general obligation bonds.

Numerous state agencies including, in particular, the Office of State Treasurer, the Department of Revenue, the State Attorney General, the Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management have assisted the State Finance Committee in assembling the information contained herein. All references to and summaries of certain provisions of the Constitution and laws of the state and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. Reference should be made to said audited financial statements and other financial reports, and their accompanying notes, for more complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request. Any statements involving estimates, projections or forecasts are to be construed as such, rather than statements of facts or representations that such estimates, projections or forecasts will be realized.

Reference is made to Resolution No. 967 of the State Finance Committee (the "Committee"), as amended by Resolution No. 970 of the Committee, authorizing the issuance of the Series 2003D Bonds (as defined below) and to Resolution No. 968 of the Committee, as amended by Resolution No. 971 of the Committee, authorizing the issuance of the Series 2003E Bonds and the Series 2003F Bonds (as defined below) (collectively, the "Bond Resolutions") for the definitions of capitalized terms not otherwise defined herein. 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 (Section 43.33.030 of the Revised Code of Washington ("RCW")), 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 its official duties in accordance with prescribed policies of the Committee.

THE BONDS

Authority and Purpose

The $190,000,000 principal amount State of Washington Various Purpose General Obligation Bonds, Series 2003D (the "Series 2003D Bonds") are being issued pursuant to ch. 380, Laws of 1999, Reg. Sess., and ch. 9, Laws of 2001, 2nd Sp. Sess., and Resolution No. 967. The Series 2003D Bonds being issued to provide funds for the purpose of financing various capital projects throughout the state, and to pay for the costs of issuance of the Series 2003D Bonds

The $27,530,000 principal amount State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E (the "Series 2003E Bonds") are being issued pursuant to ch. 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), and ch. 7, Laws of 1967, Ex. Sess., as amended (RCW 47.10.761 and .762), and Resolution No. 968. The Series 2003E Bonds are being issued to pay and reimburse state expenditures for construction and improvement of state and local road and transportation system improvements and to pay the costs of issuance of the Series 2003E Bonds.

The $75,001,618.40 principal amount ($178,625,000 Compound Accreted Value at maturity) State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F (the "Series 2003F Bonds") are being issued pursuant to ch. 321, Laws of 1998 (Referendum 49) (RCW 47.10.843) and Resolution No. 968. The Series 2003F Bonds are being issued to pay and reimburse state expenditures for the development and construction under Chapter 47.46 RCW, as amended (the state Public-Private Transportation Initiatives Act), of a new state toll bridge facility, including approaches, adjacent to the existing 1950 Tacoma Narrows Bridge, and to pay the costs of issuance of the Series 2003F Bonds (the "Tacoma Narrows PPI Project").

Together, the Series 2003D Bonds, the Series 2003E Bonds and the Series 2003F Bonds are referred to herein as the "Bonds".

Description

The Bonds are dated their date of delivery. The 2003D Bonds and the Series 2003E Bonds will be issued as fully registered, book-entry only bonds, and will mature on the dates and in the principal amounts shown on pages i and ii hereof. Interest on the Series 2003D Bonds and the Series 2003E Bonds will be calculated on the basis of a 360-day year and twelve 30-day months and will be payable semiannually on each June 1 and December 1, beginning December 1, 2003, at the rates shown on pages i and ii, respectively. Principal of the Series 2003D Bonds and the Series 2003E Bonds is payable on each December 1 beginning December 1, 2003, through and including December 1, 2027, in the amounts shown on pages i and ii.

The Series 2003F Bonds will be dated their date of delivery and will be issued as fully registered, book-entry only bonds in the Compound Accreted Value at maturity of $5,000 or any integral multiple thereof within a single maturity. Interest on the 2003F Bonds will accrue from their date of delivery, will compound semiannually on each June 1 and December 1, beginning June 1, 2003, and is payable only at maturity. The Compound Accreted Value at maturity of the Series 2003F Bonds is payable on each December 1 beginning December 1, 2008, through and including December 1, 2029, in the amounts shown on page iii.

Pursuant to authority granted in chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state, with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the state and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York to act as the fiscal agent for the state of Washington, which contract has a four-year term that began February 1, 2002. Under the terms of the current fiscal agency contract, The Bank of New York will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "Book-Entry Bonds."

Redemption Provisions

Optional Redemption—Series 2003D Bonds. The state has reserved the right to redeem the Series 2003D Bonds maturing on or after December 1, 2013, as a whole or in part on any date on and after June 1, 2013 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar determines), at par plus accrued interest to the date fixed for redemption.

Optional Redemption—Series-2003E Bonds. The state has reserved the right to redeem the Series 2003E Bonds maturing on or after December 1, 2013, as a whole or in part on any date on and after June 1, 2013 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar determines), at par plus accrued interest to the date fixed for redemption.

Optional Redemption—Series 2003F Bonds. The Series 2003F Bonds are not subject to redemption prior to maturity.

Mandatory Redemption—Series 2003E Bonds. The state will redeem the Series 2003E Term Bonds maturing in 2025 and 2027, randomly in the manner determined by the Bond Registrar at par plus accrued interest on December 1 in the years and amounts set forth below.

2025 TERM BONDS		2027 TERM BONDS	
YEARS	**AMOUNTS**	**YEARS**	**AMOUNTS**
2024	$ 1,640,000	2026	$ 1,825,000
2025*	1,730,000	2027*	1,920,000

* Final maturity

Notice of Redemption. Notice of redemption shall be given by the Bond Registrar not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owners of the applicable Series of Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; *provided, however*, as long as the applicable Series of Bonds are in book-entry form, notice of redemption will be given in accordance with the operational arrangements then in effect at DTC. The state will not provide notice of redemption to any beneficial owners of the applicable Series of Bonds.

Book-Entry System

The state makes no representation for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. For information about the DTC book-entry system, see Appendix F—Book-Entry Transfer System.

Termination of Book-Entry System. If DTC resigns as the securities depository and no substitute can be obtained, or if the state has determined that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificates, the ownership of the Bonds may be transferred to any person as described in the Master Assignment of Payments and the Bonds no longer will be held in fully immobilized form. New bonds then will be issued in appropriate denominations and registered in the names of the bond owners.

State and Bond Registrar Responsibilities. Neither the state, the Committee nor the Bond Registrar will have any responsibility or any liability to the Beneficial Owners for any error, omission, action, or failure to act on the part of DTC with respect to the following:

(i) proper recording of beneficial ownership interests of the Bonds;

(ii) proper transfers of such beneficial ownership interests;

(iii) the payment, when due, to the Beneficial Owners of principal of and premium, if any, or interest on the Bonds;

(iv) any notices to Beneficial Owners, or

(v) any other matter pertaining to the Bonds.

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

General. The principal of and interest on the Series 2003E Bonds and the Series 2003F Bonds are first payable from the proceeds of the state excise taxes on motor vehicle and special fuels imposed by Chapters 82.36 and 82.38 RCW and required to be deposited in the motor vehicle fund. In the legislation authorizing the issuance of the Series 2003E Bonds and the Series 2003F Bonds, the State Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in amounts sufficient to pay when due principal of and interest on the Series 2003E Bonds and the Series 2003F Bonds.

There are other general obligation bonds authorized by the State Legislature that are secured by a charge on the excise taxes equal to the charge on those taxes securing the Series 2003E Bonds and the Series 2003F Bonds. See Appendix D—Bonds Outstanding.

The Series 2003D Bonds are not payable from state excise taxes on motor vehicle and special fuels.

Annual Set-Aside of Excise Taxes. At least one year before each interest or principal and interest date on the Series 2003E Bonds and the Series 2003F Bonds, the Committee will estimate the percentage of excise taxes received on motor vehicle and special fuels which are required to be set aside monthly in the highway bond retirement fund to pay maturing installments of debt service on the Series 2003E Bonds and the Series 2003F Bonds. In any month, if it appears that the available funds are insufficient to meet debt service requirements, the Committee will make the necessary adjustments to its percentage estimate to ensure that payment of principal of and interest on the Series 2003E Bonds and the Series 2003F Bonds will be made when due.

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will authorize and issue approximately $320 million various purpose general obligation bonds and $120 million motor vehicle fuel tax general obligation bonds in the summer of 2003. In addition, when and if market conditions allow refunding of higher rate bonds, such refundings will be considered.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington State as a whole is contained in Appendix A. Pursuant to state law the Office of Economic and Revenue Forecast Council (the "Council") provides state economic and tax revenue results and forecasts on a quarterly basis. The most recent release of data occurred on November 15, 2002. A press release summarizing the results of the November 15, 2002, economic results and forecasts is available on the state's website (*www.wa.gov/ofc)*. The next forecast will be released on or about March 19, 2003. Copies of the report and subsequent reports may be obtained for a fee from the Office of Economic and Revenue Forecast Council, P.O. Box 40912,

Olympia, Washington 98504-0912. See Appendix A—General and Economic Information—Revenues, Expenditures and Fiscal Controls—State Economic and Revenue Forecasting Process.

LITIGATION

Except as otherwise disclosed below, there is no litigation now pending against the state to the knowledge of the Deputy State Treasurer based on an inquiry with the Attorney General's Office, in any way restraining or enjoining the sale, issuance, execution, or delivery of the Bonds or in any other manner affecting the validity of the Bonds, the security for the Bonds or the proceedings or authority pursuant to which they are to be sold and issued or the pledge or application of any moneys provided for the payment of the Bonds.

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. 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 $9,000,000 per year 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 heard oral argument on December 3, 2002. 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 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 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. In *Sacred Heart Medical Center v. DSHS* for instance, the Medicaid providers allege that they provided medical care to numerous clients while they were terminated from Medicaid because their Medicaid eligibility had been improperly linked to eligibility for Temporary Assistance to Needy Families. The providers claim breach of contract and seek reimbursement for the care provided to these clients. Some of the plaintiffs who provided mental health services also allege that the improperly terminated individuals should have been included in the state's formula for captivated payments to the Regional Support Networks. Discovery has not been completed, but the damage claim is likely to be in the millions of dollars. 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.

Pending Litigation Regarding Financing of Tacoma Narrows PPI Project. On August 30, 2002, a Washington nonprofit corporation called Citizens Against Tolls ("CAT") filed a lawsuit in the Superior Court for Thurston County, Washington, seeking to prevent the state from issuing any bonds to finance the Tacoma Narrows PPI Project. The named defendants in the lawsuit are the State Treasurer, the State Finance Committee, the State Secretary of Transportation, the Washington State Department of Transportation ("WSDOT"), the Chair of the State Transportation Commission, and the State Transportation Commission.

In its Complaint for Writ of Mandamus, Injunctive and Declaratory Relief (the "Complaint"), CAT makes a number of claims regarding the alleged illegality of certain laws and contractual arrangements for the development and financing of the Tacoma Narrows PPI Project. The Complaint asked the court for the following relief:

(i) a declaration that bonds issued under RCW 47.10.843—47.10.848 ("Referendum 49") fail to comply with the State Constitution and are therefore illegal;

(ii) issuance of an injunction prohibiting the State Finance Committee from issuing Referendum 49 bonds for the Tacoma Narrows PPI Project;

(iii) a declaration that the Transportation Commission's request for issuance and sale of bonds and the State Finance Committee's Resolution No. 960 failed to disclose that certain bond proceeds would be restricted to use for the Tacoma Narrows PPI Project;

(iv) issuance of a *mandamus* that the Transportation Commission's request for the issuance and sale of bonds and the State Finance Committee's Resolution No. 960 be declared null and void;

(v) a declaration that agreements entered into by WSDOT for the design, construction and operation of the Tacoma Narrows PPI Project fail to comply with existing laws regarding competitive bidding and priority programming of state transportation projects and are therefore illegal; and

(vi) a declaration that Engrossed House Bill No. 2723 (Chapter 114, Laws of 2002), entitled "AN ACT Relating to modifying the Public-Private Transportation Initiatives Act by authorizing state financing and administration of toll facilities" (the "2002 Act") fails to comply with Article II, §19, of the State Constitution and is therefore illegal.

The Washington State Attorney General's Office has appeared in the lawsuit for the defendants. On September 5, 2002, the Attorney General's Office filed WSDOT's Motion for Summary Judgment requesting the dismissal of all of CAT's claims and requests for injunctive and declaratory relief.

The 2002 Act, among other things, amended Chapter 47.46 RCW by making certain additional provisions for state financing of any Public-Private Initiatives project ("PPI project"); authorizing WSDOT to provide for the establishment and construction of state toll bridge facilities, including an additional toll bridge adjacent to an existing bridge; and directing the State Transportation Commission to fix rates of tolls for all toll bridges built as a PPI project that are financed primarily by state bonds. The 2002 Act provides that such tolls must be imposed in amounts sufficient to provide for annual operating and maintenance expenses and insurance costs of the toll bridge and to repay the state motor vehicle fund for amounts transferred from that fund to the highway bond retirement fund to provide for principal and interest payments on state bonds issued for a PPI project.

In the 2002 state supplemental transportation budget, the State Legislature appropriated $839,000,000 to the Tacoma Narrows toll bridge account in the motor vehicle fund for the Tacoma Narrows PPI Project, which appropriation includes $800,000,000 in proceeds from the sale of motor vehicle fuel tax general obligation bonds authorized by Referendum 49. The Series 2003F Bonds represent the second series of such motor vehicle fuel tax general obligation bonds being issued at the request of the State Transportation Commission to fund a portion of that legislative appropriation for the Tacoma Narrows PPI Project. The Series 2003E Bonds are also issued, in part, pursuant to Referendum 49, but the proceeds of the Series 2003E Bonds will be used for other state highway improvements.

The Complaint alleged that Referendum 49, which was enacted by the State Legislature, signed by the Governor and approved by a majority vote of the people at the 1998 general election and is the bond authorizing legislation referred to in the 2002 Act as the source of state financing for the Tacoma Narrows PPI Project, is not sufficient under Article VIII of the State Constitution to properly authorize the issuance of any bonds. CAT made this assertion solely on the basis of Art. VIII, §1(i) of the State Constitution, which permits the State Legislature to authorize the issuance of bonds without voter approval if that legislative authorization is approved by a 60 percent vote of each house of the State Legislature. In the opinion of Bond Counsel, this claim is without merit because the bond authorization provisions of Referendum 49 were submitted to and received approval by a majority of the people voting thereon at a general election in accordance with Art. VIII, §3, of the State Constitution, which provides a separate and independent method for authorizing state debt.

CAT's Complaint also raised other issues. First, CAT alleges that the 2002 Act includes more than one subject in violation of the single-subject requirement in Article II, §19 of the State Constitution. If the courts were to so finally hold and the State Legislature were to fail to enact such corrective legislation as might be required in that event, the State Transportation Commission could lose the authority to impose tolls to reimburse the motor vehicle fund in connection with the financing of the Tacoma Narrows PPI Project. As discussed above, the Series 2003E Bonds and Series 2003F Bonds are general obligations of the state to which the state has pledged its full faith and credit and are first payable from proceeds of the state excise taxes on motor vehicle and special fuels, which the State Legislature has agreed to continue to impose in amounts sufficient to pay when due all bonds issued under Referendum 49, including the Series 2003E Bonds and the Series 2003F Bonds.

The Complaint also alleged that certain agreements fail to comply with public works bidding procedures and certain priority programming requirements for state transportation projects. In its motion for summary judgment, the Attorney General's Office argued that these claims were without merit because (i) the State Legislature is permitted to create exceptions to competitive bidding requirements, or to create alternative public procurement processes, and has done so in enacting the Public-Private Transportation Initiatives Act; and (ii) Chapter 47.05 RCW, which requires the State Transportation Commission to prioritize projects on a cost-benefit basis in developing plans and creating budgets required for submission to the State Legislature, does not limit the State Legislature itself in selecting transportation projects that it chooses to fund.

On September 16, 2002, Judge Berschauer of the Thurston County Superior Court granted the state's motion of summary judgment of dismissal of the Complaint. In his written opinion, the judge ruled against CAT on all matters raised in CAT's Complaint and found that each of CAT's assertions were

without merit, including CAT's claim that bonds authorized by Referendum 49 were illegal. The judge stated that the bonds challenged in CAT's Complaint are general obligations of the state to which the state has pledged its full faith and credit. He ruled that Referendum 49 is constitutional and that the bonds challenged in CAT's Complaint are valid. There were no bonds similar to the Series 2003D Bonds challenged in the Complaint.

On September 18, 2002, the state sold $158,000,317 worth of motor vehicle fuel tax general obligation bonds to finance the initial stage of design and construction of the Tacoma Narrows project. The order dismissing the case was entered on September 30, 2002, and CAT filed a notice of appeal to the Court of Appeals.

Bond Counsel expects to deliver its opinions with respect to the Series 2003E Bonds and Series 2003F Bonds in the forms thereof set forth in Appendix C.

INVESTMENT SUITABILITY AND MARKET RISK

Liquidity Considerations and Market Risk—Series 2003F Bonds

Long-term compound interest bonds such as the Series 2003F Bonds are subject to greater market volatility than bonds that pay interest semiannually. An investor who purchases a compound interest bond and holds it until maturity receives an amount equal to the initial investment plus the interest that has accrued over the life of the bond at a semiannual compounded rate. The investor receives this amount at maturity and, therefore, receives no current income.

A secondary market may not exist for the Series 2003F Bonds. Therefore, it may be difficult for purchasers of the Series 2003F Bonds to liquidate their investments prior to maturity. The state will not provide a secondary market for investors who wish to sell their Series 2003F Bonds. An investor who sells a Series 2003F Bond prior to maturity at a time when interest rates, generally, are higher than at the time the Series 2003F Bond was purchased may realize a loss on the investment. The Series 2003F Bonds are intended, therefore, as a long-term investment. Prospective purchasers of the Series 2003F Bonds who believe they may have to sell the Series 2003F Bonds prior to maturity should consider the market risk associated with compound interest bonds. It is particularly important for the first-time buyer of compound interest tax-exempt bonds to review the suitability of such bonds with a bank, broker or dealer qualified in accordance with the rules of the Municipal Securities Rulemaking Board or such buyer's accountant or financial advisor.

The market value of a Series 2003F Bond prior to maturity will not necessarily be equal to the Compound Accreted Value of such Series 2003F Bond as shown on the Compound Accreted Value table set forth below. The market value of a Series 2003F Bond is determined by a number of factors, including but not limited to the yield on such Series 2003F Bond, the creditworthiness of the state at the time in question, yields available on other investments, and general market conditions.

Compound Accreted Values

For the Series 2003F Bonds, the Accreted Value per $5,000 Compound Accreted Value at maturity is as set forth on the following pages.

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Accreted Value per $5,000
Compound Accreted Value at Maturity

Date	12/01/2008 3.450%	12/01/2009 3.820%	12/01/2010 4.100%	12/01/2011 4.340%	12/01/2012 4.510%	12/01/2013 4.600%	12/01/2014 4.730%	12/01/2015 4.840%	12/01/2016 4.940%	12/01/2017 5.030%	12/01/2018 5.110%
2/5/2003	$4,097.10	$3,862.35	$3,639.90	$3,423.40	$3,226.40	$3,056.45	$2,877.00	$2,708.05	$2,547.00	$2,394.30	$2,250.30
6/1/2003	4,142.50	3,909.75	3,687.85	3,471.10	3,273.10	3,101.55	2,920.65	2,750.10	2,587.35	2,432.95	2,287.20
12/1/2003	4,213.95	3,984.45	3,763.45	3,546.45	3,346.90	3,172.90	2,989.75	2,816.65	2,651.25	2,494.10	2,345.65
6/1/2004	4,286.65	4,060.55	3,840.60	3,623.40	3,422.40	3,245.85	3,060.45	2,884.80	2,716.75	2,556.85	2,405.55
12/1/2004	4,360.60	4,138.10	3,919.30	3,702.05	3,499.55	3,320.50	3,132.85	2,954.60	2,783.85	2,621.15	2,467.05
6/1/2005	4,435.80	4,217.10	3,999.65	3,782.35	3,578.50	3,396.90	3,206.90	3,026.10	2,852.60	2,687.10	2,530.05
12/1/2005	4,512.35	4,297.65	4,081.65	3,864.45	3,659.20	3,475.00	3,282.75	3,099.35	2,923.05	2,754.65	2,594.70
6/1/2006	4,590.15	4,379.75	4,165.35	3,948.30	3,741.70	3,554.95	3,360.40	3,174.35	2,995.25	2,823.95	2,661.00
12/1/2006	4,669.35	4,463.40	4,250.75	4,034.00	3,826.05	3,636.70	3,439.90	3,251.20	3,069.25	2,894.95	2,729.00
6/1/2007	4,749.90	4,548.65	4,337.85	4,121.50	3,912.35	3,720.35	3,521.25	3,329.85	3,145.05	2,967.75	2,798.70
12/1/2007	4,831.85	4,635.55	4,426.80	4,210.95	4,000.55	3,805.90	3,604.50	3,410.45	3,222.75	3,042.40	2,870.20
6/1/2008	4,915.20	4,724.10	4,517.55	4,302.35	4,090.80	3,893.45	3,689.75	3,492.95	3,302.35	3,118.95	2,943.55
12/1/2008	5,000.00	4,814.30	4,610.15	4,395.70	4,183.05	3,983.00	3,777.00	3,577.50	3,383.90	3,197.35	3,018.75
6/1/2009	0.00	4,906.25	4,704.65	4,491.10	4,277.35	4,074.60	3,866.35	3,664.10	3,467.50	3,277.80	3,095.90
12/1/2009	0.00	5,000.00	4,801.10	4,588.55	4,373.80	4,168.35	3,957.80	3,752.75	3,553.15	3,360.20	3,175.00
6/1/2010	0.00	0.00	4,899.55	4,688.10	4,472.45	4,264.20	4,051.40	3,843.55	3,640.90	3,444.75	3,256.10
12/1/2010	0.00	0.00	5,000.00	4,789.85	4,573.30	4,362.30	4,147.20	3,936.60	3,730.85	3,531.35	3,339.30
6/1/2011	0.00	0.00	0.00	4,893.80	4,676.45	4,462.60	4,245.30	4,031.85	3,823.00	3,620.20	3,424.65
12/1/2011	0.00	0.00	0.00	5,000.00	4,781.90	4,565.25	4,345.70	4,129.40	3,917.40	3,711.25	3,512.15
6/1/2012	0.00	0.00	0.00	0.00	4,889.70	4,670.25	4,448.45	4,229.35	4,014.20	3,804.55	3,601.85
12/1/2012	0.00	0.00	0.00	0.00	5,000.00	4,777.65	4,553.65	4,331.70	4,113.35	3,900.25	3,693.90
6/1/2013	0.00	0.00	0.00	0.00	0.00	4,887.55	4,661.35	4,436.55	4,214.95	3,998.35	3,788.30
12/1/2013	0.00	0.00	0.00	0.00	0.00	5,000.00	4,771.60	4,543.90	4,319.05	4,098.90	3,885.05
6/1/2014	0.00	0.00	0.00	0.00	0.00	0.00	4,884.45	4,653.85	4,425.70	4,202.00	3,984.35
12/1/2014	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,766.50	4,535.05	4,307.70	4,086.15
6/1/2015	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,881.85	4,647.05	4,416.00	4,190.55
12/1/2015	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,761.85	4,527.10	4,297.60
6/1/2016	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,879.45	4,640.95	4,407.40
12/1/2016	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,757.65	4,520.00
6/1/2017	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,877.30	4,635.50
12/1/2017	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,753.95
6/1/2018	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,875.40
12/1/2018	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00
6/1/2019	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2019	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2023	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2023	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2025	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2025	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2026	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2026	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2027	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2027	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2028	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2028	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6/1/2029	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12/1/2029	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Accreted Value per $5,000 (continued)
Compound Accreted Value at Maturity

Date	12/01/2019 5.190%	12/01/2020 5.270%	12/01/2021 5.350%	12/01/2022 5.420%	12/01/2023 5.460%	12/01/2024 5.490%	12/01/2025 5.510%	12/01/2026 5.520%	12/01/2027 5.530%	12/01/2028 5.540%	12/01/2029 5.550%
2/5/2003	$2,111.70	$1,978.55	$1,850.90	$1,732.15	$1,628.70	$1,533.45	$1,446.20	$1,366.50	$1,290.95	$1,219.35	$1,151.50
6/1/2003	2,146.85	2,011.95	1,882.65	1,762.25	1,657.20	1,560.45	1,471.75	1,390.70	1,313.85	1,241.00	1,172.00
12/1/2003	2,202.55	2,065.00	1,933.00	1,810.00	1,702.45	1,603.30	1,512.30	1,429.05	1,350.20	1,275.40	1,204.50
6/1/2004	2,259.70	2,119.40	1,984.70	1,859.05	1,748.90	1,647.30	1,553.95	1,468.50	1,387.50	1,310.70	1,237.95
12/1/2004	2,318.35	2,175.25	2,037.80	1,909.45	1,796.65	1,692.55	1,596.75	1,509.05	1,425.90	1,347.05	1,272.30
6/1/2005	2,378.50	2,232.55	2,092.35	1,961.20	1,845.70	1,739.00	1,640.75	1,550.70	1,465.30	1,384.35	1,307.60
12/1/2005	2,440.25	2,291.40	2,148.30	2,014.35	1,896.10	1,786.70	1,685.95	1,593.50	1,505.80	1,422.70	1,343.90
6/1/2006	2,503.55	2,351.80	2,205.75	2,068.90	1,947.85	1,835.75	1,732.40	1,637.50	1,547.45	1,462.10	1,381.20
12/1/2006	2,568.55	2,413.75	2,264.75	2,125.00	2,001.05	1,886.15	1,780.15	1,682.65	1,590.25	1,502.60	1,419.50
6/1/2007	2,635.20	2,477.35	2,325.35	2,182.60	2,055.65	1,937.95	1,829.15	1,729.10	1,634.20	1,544.20	1,458.90
12/1/2007	2,703.55	2,542.65	2,387.55	2,241.75	2,111.80	1,991.15	1,879.55	1,776.85	1,679.40	1,587.00	1,499.40
6/1/2008	2,773.75	2,609.65	2,451.40	2,302.50	2,169.45	2,045.80	1,931.35	1,825.90	1,725.85	1,630.95	1,541.00
12/1/2008	2,845.70	2,678.40	2,517.00	2,364.90	2,228.65	2,101.95	1,984.55	1,876.30	1,773.55	1,676.15	1,583.75
6/1/2009	2,919.55	2,748.95	2,584.35	2,428.95	2,289.50	2,159.65	2,039.25	1,928.05	1,822.60	1,722.55	1,627.70
12/1/2009	2,995.30	2,821.40	2,653.45	2,494.80	2,352.00	2,218.95	2,095.40	1,981.30	1,873.00	1,770.30	1,672.90
6/1/2010	3,073.05	2,895.75	2,724.45	2,562.40	2,416.25	2,279.85	2,153.15	2,035.95	1,924.80	1,819.30	1,719.30
12/1/2010	3,152.80	2,972.05	2,797.30	2,631.85	2,482.20	2,342.45	2,212.45	2,092.15	1,978.00	1,869.70	1,767.00
6/1/2011	3,234.60	3,050.35	2,872.15	2,703.15	2,549.95	2,406.75	2,273.40	2,149.90	2,032.70	1,921.50	1,816.05
12/1/2011	3,318.55	3,130.75	2,949.00	2,776.45	2,619.60	2,472.80	2,336.05	2,209.25	2,088.90	1,974.75	1,866.45
6/1/2012	3,404.65	3,213.25	3,027.85	2,851.65	2,691.10	2,540.65	2,400.40	2,270.20	2,146.65	2,029.45	1,918.25
12/1/2012	3,493.00	3,297.90	3,108.85	2,928.95	2,764.55	2,610.40	2,466.55	2,332.85	2,206.00	2,085.65	1,971.45
6/1/2013	3,583.65	3,384.80	3,192.05	3,008.30	2,840.05	2,682.05	2,534.50	2,397.25	2,267.00	2,143.40	2,026.20
12/1/2013	3,676.65	3,474.00	3,277.40	3,089.85	2,917.55	2,755.70	2,604.30	2,463.40	2,329.70	2,202.80	2,082.40
6/1/2014	3,772.05	3,565.55	3,365.10	3,173.60	2,997.20	2,831.35	2,676.05	2,531.40	2,394.10	2,263.80	2,140.20
12/1/2014	3,869.95	3,659.50	3,455.10	3,259.60	3,079.05	2,909.05	2,749.80	2,601.30	2,460.30	2,326.50	2,199.60
6/1/2015	3,970.35	3,755.90	3,547.55	3,347.95	3,163.10	2,988.90	2,825.55	2,673.10	2,528.35	2,390.95	2,260.60
12/1/2015	4,073.40	3,854.90	3,642.40	3,438.65	3,249.45	3,070.95	2,903.40	2,746.85	2,598.25	2,457.20	2,323.35
6/1/2016	4,179.10	3,956.45	3,739.85	3,531.85	3,338.15	3,155.25	2,983.40	2,822.65	2,670.10	2,525.25	2,387.85
12/1/2016	4,287.55	4,060.70	3,839.90	3,627.55	3,429.30	3,241.85	3,065.60	2,900.60	2,743.90	2,595.20	2,454.10
6/1/2017	4,398.80	4,167.70	3,942.60	3,725.85	3,522.90	3,330.85	3,150.05	2,980.65	2,819.80	2,667.10	2,522.20
12/1/2017	4,512.95	4,277.55	4,048.10	3,826.85	3,619.10	3,422.30	3,236.85	3,062.90	2,897.75	2,741.00	2,592.20
6/1/2018	4,630.10	4,390.25	4,156.35	3,930.55	3,717.90	3,516.25	3,326.00	3,147.45	2,977.90	2,816.90	2,664.10
12/1/2018	4,750.25	4,505.95	4,267.55	4,037.05	3,819.40	3,612.75	3,417.65	3,234.30	3,060.20	2,894.95	2,738.05
6/1/2019	4,873.50	4,624.65	4,381.70	4,146.45	3,923.65	3,711.95	3,511.80	3,323.55	3,144.85	2,975.15	2,814.05
12/1/2019	5,000.00	4,746.55	4,498.90	4,258.85	4,030.80	3,813.80	3,608.55	3,415.30	3,231.80	3,057.55	2,892.10
6/1/2020	0.00	4,871.60	4,619.25	4,374.25	4,140.80	3,918.50	3,707.95	3,509.55	3,321.15	3,142.25	2,972.40
12/1/2020	0.00	5,000.00	4,742.85	4,492.80	4,253.85	4,026.05	3,810.10	3,606.45	3,413.00	3,229.25	3,054.85
6/1/2021	0.00	0.00	4,869.70	4,614.55	4,370.00	4,136.60	3,915.10	3,705.95	3,507.35	3,318.75	3,139.65
12/1/2021	0.00	0.00	5,000.00	4,739.60	4,489.30	4,250.15	4,022.95	3,808.25	3,604.35	3,410.65	3,226.75
6/1/2022	0.00	0.00	0.00	4,868.05	4,611.85	4,366.80	4,133.75	3,913.35	3,704.00	3,505.15	3,316.30
12/1/2022	0.00	0.00	0.00	5,000.00	4,737.75	4,486.70	4,247.65	4,021.35	3,806.40	3,602.20	3,408.35
6/1/2023	0.00	0.00	0.00	0.00	4,867.10	4,609.85	4,364.70	4,132.35	3,911.65	3,702.00	3,502.90
12/1/2023	0.00	0.00	0.00	0.00	5,000.00	4,736.40	4,484.95	4,246.40	4,019.80	3,804.55	3,600.10
6/1/2024	0.00	0.00	0.00	0.00	0.00	4,866.40	4,608.50	4,363.60	4,130.95	3,909.95	3,700.05
12/1/2024	0.00	0.00	0.00	0.00	0.00	5,000.00	4,735.45	4,484.05	4,245.20	4,018.25	3,802.70
6/1/2025	0.00	0.00	0.00	0.00	0.00	0.00	4,865.90	4,607.80	4,362.55	4,129.55	3,908.25
12/1/2025	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,735.00	4,483.20	4,243.95	4,016.70
6/1/2026	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,865.70	4,607.15	4,361.50	4,128.15
12/1/2026	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,734.55	4,482.30	4,242.70
6/1/2027	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,865.45	4,606.45	4,360.45
12/1/2027	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,734.05	4,481.45
6/1/2028	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,865.20	4,605.80
12/1/2028	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,733.60
6/1/2029	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,864.95
12/1/2029	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00

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 776

Initiative Measure No. 776 ("I-776") was approved by voters on November 5, 2002. As written, I-776 reduces combined license tab fees for light trucks from between $37 and $55 per year, depending upon vehicle weight, to $30 per year. I-776 also repeals certain government-imposed excise taxes and fees levied on motor vehicles, including, among others, (i) local option vehicle license fees of up to $15 per year imposed by counties or qualified cities or towns with voter approval, and (ii) voter-approved high capacity transportation motor vehicle excise taxes ("high capacity transportation MVET") imposed by regional transit authorities (including the high capacity transportation MVET of 0.3 percent of vehicle value currently imposed by Sound Transit). While the precise impact of I-776 cannot be predicted, the state does not expect the provisions of I-776 to affect adversely its ability to make payments on the Bonds in the amounts and at the times required under the Bond Resolution. In addition, the constitutionality of I-776 has been challenged by Pierce County, the City of Tacoma, King County, and several individual voters. On December 4, 2002, the superior court granted the plaintiffs' request for preliminary injunction against implementing the repeal of the $15 local option vehicle license fees charged by King and Pierce Counties pending a summary judgment hearing or about January 31, 2003.

Initiative 790

Initiative Measure No. 790 ("I-790") was approved by voters on November 5, 2002. As written, I-790 changes the Law Enforcement Officers' and Firefighters' Retirement System Plan 2 ("LEOFF 2") by transferring program administration authority to an 11-member rule-making board to be appointed by the Governor ("LEOFF 2 Board") and institutes three levels of benefits for members, which may increase levels of contribution by local government employers and the state to the LEOFF 2 retirement system. The LEOFF 2 Board can act to (i) increase statutory contribution rates of local government employers and the state up to six percent and four percent, respectively, unless the State Legislature, in its next session, passes a bill to repeal the LEOFF 2 Board action to authorize such increase, or (ii) increase statutory contribution rates of local government employers and the state beyond six percent and four percent, respectively, with approval of the State Legislature. While the precise impact of I-790 cannot be predicted, the state does not expect the provisions of I-790 to affect adversely its ability to make payments on the Bonds in the amounts and at the times required under the Bond Resolution.

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 State Legislature and/or the voters or, if submitted, would ultimately be approved.

TAX AND LEGAL INFORMATION

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the state are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel to the state. Forms of the opinions of such firm with respect to each series of the Bonds are attached hereto as Appendix C. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption of the Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The state has covenanted in the Bond Resolution to comply with those requirements, but if the state fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

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

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than $5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed $7.5 million.

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

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

Certain Other Federal Tax Consequences

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The state is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

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

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

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

Original Issue Discount. The Series 2003E Bonds maturing on December 1 in the years 2009 and 2014 through 2027, inclusive, and the Series 2003F Bonds have been sold at prices reflecting original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above,

and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The Series 2003E Bonds maturing on December 1 in the years 2003 through 2008, inclusive, and in the years 2010 through 2012, inclusive, and the Series 2003D Bonds have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Finance Committee, on behalf of the state, has agreed in the Bond Resolution to undertake for the benefit of the holders of the Bonds of each Series, the following (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, 2004, for the fiscal year ended June 30, 2003, 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 ("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 any 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 Municipal Securities Rulemaking Board (the "MSRB"). The state will identify clearly each document so included by reference.

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

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

Material Events. The state agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, 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 Bonds;

(vii) modifications to rights of owners;

(viii) optional, contingent or unscheduled Bond calls (other than scheduled sinking fund redemptions 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 Bonds; and

(xi) rating changes.

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.

There is no property securing the repayment of the Bonds nor are there any debt service reserves or credit liquidity providers with respect to the Bonds.

Termination or Modification of Undertaking. The state's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. The Undertaking, or any provision thereof, shall 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 Bonds; and

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

The state may amend the Undertaking without the consent of any holder of any Bond or any other person or entity under the circumstances and in the manner permitted by the Rule. The state 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, 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 is 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 is not a default with respect to the Bonds. The Undertaking inures to the benefit of the state and any holder of the Bonds, 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 BOND INFORMATION

The MBIA Insurance Corporation Insurance Policies

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 policies unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the state to the Bond Registrar 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 Bonds, 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 policies 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 Bonds 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 policies do not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policies do 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 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policies also do not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Bond Registrar or any other paying agent for the Bonds.

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 Bond Registrar or any owner of a Bond 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 Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, 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 Bond Registrar payment of the insured amounts due on such Bonds, less any amount held by the Bond Registrar 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 policies and MBIA set forth under this heading. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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, 2001; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

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 Bonds 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 (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002), 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, 2001, MBIA had admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA had admitted assets of $9.0 billion (unaudited), total liabilities of $5.9 billion (unaudited), and total capital and surplus of $3.1 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 Ratings 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 Bonds, 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 Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Bond Ratings

The Bonds have been rated "AAA" (underlying "AA"), "Aaa" (underlying "Aa1") and "AAA" (underlying "AA+") by Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., respectively. The insured ratings are dependent on the issuance of MBIA's insurance policies at the closing of the Bonds. The state has furnished certain information and materials to the rating agencies regarding the Bonds and the state. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

There is no assurance that such ratings will be maintained for any given period of time or that they may not be raised, lowered, suspended or withdrawn entirely by the rating agencies, or any of them, if in their or its

judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The state undertakes no responsibility to oppose any such change or withdrawal.

Financial Advisors

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

The payment of compensation to Seattle-Northwest Securities Corporation as financial advisor is contingent upon the successful delivery of the Bonds to, and full payment for the Bonds by, the successful bidders. Montague DeRose and Associates, LLC is paid on a retainer basis as financial advisor and its compensation is not contingent upon the successful delivery of the Bonds.

Underwriters of the Bonds

The Series 2003D Bonds and the Series 2003E Bonds are being purchased by Salomon Smith Barney, Inc. (the "2003D and 2003E Underwriter"). The Series 2003D Bonds are being purchased at a price of $197,460,141.90, and will be reoffered at a price of $198,765,441.90, as reflected by the prices or yields set forth on page i of this Official Statement. The Series 2003E Bonds are being purchased at a price of $27,022,857.64, and will be reoffered at a price of $27,342,970.15, as reflected by the prices or yields set forth on page ii of this Official Statement.

The Series 2003F Bonds are being purchased by Morgan Stanley & Co., Incorporated (the "2003F Underwriter" and together with the 2003D and 2003E Underwriter, the "Underwriters") at a price of $74,062,579.39, and will be reoffered at a price of $75,001,618.40, as reflected by the prices or yields set forth on page iii of this Official Statement.

The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth respectively on pages i, ii and iii hereof, and such initial offering prices may be changed from time to time by the Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

Delivery of Bonds

It is expected that the Bond closing will take place in Seattle, Washington, on or about February 5, 2003. The Bonds will be delivered through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer.

Official Statement

The purpose of this Official Statement is to supply information to prospective buyers of interests in the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions.

Excerpts from the state's 2002 Comprehensive Annual Financial Report (the "CAFR") are attached as Appendix E. Copies of the state's entire 2002 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/accounting/financial.htm* or upon request from the Office of the State Treasurer.

Michael J. Murphy, the State Treasurer and Chairman, has reviewed and approved this Official Statement on behalf of the state pursuant to the Bond Resolutions of the Committee.

STATE OF WASHINGTON

By: /s/

State Treasurer and Chairman,
State Finance Committee

Dated: January 22, 2003

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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 2002 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 16.9 percent of total state taxes for the fiscal year ending June 2001. 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 6.1 percent of all state taxes for Fiscal Year 2001. 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 2001, assessed value averaged 89.9 percent of fair market value.

The state property tax levy represented approximately 11.4 percent of all state tax revenues for Fiscal Year 2001. 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 2001 is $2.71 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 Expenditure Limit Committee ("ELC"), which is comprised of members from the Office of Financial Management ("OFM"), legislative fiscal committees and the Office of the Attorney General. The annual adjustment to the limit is 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. However, statutory changes to the expenditure limit adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 ("EHB 3169")).

Initiative 601 also directs the ELC 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 ELC. Restrictions are placed on the addition or transfer of functions to local governments unless there is reimbursement.

The statutory changes to the expenditure limit adopted in the 2000 Legislative Session (EHB 3169) now allow the spending limit to be increased when revenues from another fund or account are transferred to the General Fund-State. As a result of this change, growth in General Fund-State expenditures can exceed the Initiative 601 fiscal growth factors to the extent that surplus revenues in other accounts are available for transfer to the General Fund-State.

Initiative 601 in its original form also limited revenue increases. It required that any action by the Legislature to raise state revenues be taken only if approved by a two-thirds vote of both houses of the Legislature. In the recent 2002 Legislative Session, a change to this provision was adopted (as a part of the Supplemental Budget Bill) which allows revenues to be increased with a simple majority vote. This provision applies to actions taken through June 30, 2003.

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. Initiative 728, adopted by voters in November 2000, added a third fund, the Student Achievement Fund, that captures a portion of 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.

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund ("ERF") based on a two-thirds majority. A measure adopted in the 2002 Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year.

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. However, the Supplemental Budget Bill passed in the 2002 Legislative Session allows revenue increases to occur based on a simple majority vote for any action taken through June 30, 2003.

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 2002 CAFR. The state's fiscal 2002 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2002 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the 2002 Annual Financial Statements are attached as an appendix to the Official Statement. A copy of the 2002 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 2001. 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 deficit; 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 billion to $3 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 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 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 January 2001, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. 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 SEC 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 state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released on November 15, 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 March 19, 2003. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (*www.wa.gov/ofc)*.

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 Supplemental Budget passed by the Legislature in April 2000 and signed by the Governor on May 2, 2000, and the 2001 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 November 2002 Forecast; 2001-03 expenditures are based on the 2002 Supplemental Budget passed by the Legislature in March 2002 and signed by the Governor on April 5, 2002.

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	$ 599
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 11,683	$ 11,781
Real Estate Excise	802	815
Business and Occupation	3,773	3,818
Property Tax	2,693	2,629
Other Taxes	1,729	1,768
Subtotal Tax Revenue	**$ 20,680**	**$ 20,810**
Other Nontax Revenue	472	380
Other Financing	111	(63)
Changes in Reserves/Other Adjustments	(1)	0
TOTAL GENERAL FUND-STATE REVENUE [2]	**$ 21,724**	**$ 21,726**
Federal Revenue	$ 8,211	$ 10,043
Private/Local Revenue	496	549
TOTAL GENERAL FUND-STATE REVENUE	**$ 30,431**	**$ 32,318**

(1) Based on the November 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. The 2002 Supplemental Budget was passed by the Legislature in March 2002 and signed by the Governor on April 5, 2002.

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	$ 9,854
Higher Education	2,549	2,732
Other Education	55	54
Total Education	**$ 12,063**	**$ 12,640**
Human Services		
Department of Social and Health Services	$ 5,300	$ 6,127
Department of Corrections	914	1,073
Other Human Services	187	161
Total Human Services	**$ 6,401**	**$ 7,361**
Natural Resources and Recreation	$ 305	$ 316
Governmental Operations	403	384
Other Expenditures [3]		
Debt Service	$ 1,119	$ 1,251
Other Expenditures	754	499
Total Other Expenditures	**$ 1,873**	**$ 1,750**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 21,045**	**$ 22,451**
Federal	$ 8,211	$ 10,043
Private/Local	496	549
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 29,752**	**$ 33,043**
Preliminary Ending General Fund-State Balance	**$ 677**	**$ (726)**
Transfer to the Emergency Reserve Fund Account	**(198)**	**0**
Changes in Reserves and Other Adjustments	**0**	**40**
Transfer to General Fund from Health Services Account and Other Accounts	**121**	**1,055**
Ending General Fund-State Balance	**$ 599**	**$ 369**
Emergency Reserve Fund Account Including Investment Earnings Not Reflected in the Revenue Forecast	**$ 460**	**$ 55**
Total Ending General Fund-State Balance plus Emergency Reserve Account	**$ 1,059**	**$ 424**

(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 amended by the 2002 Supplemental Budget that was passed by the Legislature and signed by the Governor.
(3) Includes legislative, judicial and transportation agencies.

Note: Totals may not add due to rounding.

Source: Office of Financial Management.

OUTLOOK FOR THE 2001-03 AND 2003-05 BIENNIA

The Economic Outlook

The November 2002 economic and revenue forecast was produced prior to the release of the advance Gross Domestic Product ("GDP") estimate for the third quarter of 2002. According to the forecast, real GDP rose at a 2.7 percent rate in the quarter, slightly lower than the 3.1 percent in the advance estimate. The forecast assumed that final sales of domestic product rose at a 3.3 percent rate, indicating that the inventory cycle, which boosted growth in the first half of the year, was a slight drag in the third quarter. Consumers were once again responsible for nearly all the GDP growth in the third quarter forecast, increasing their spending at a 4.1 percent rate. Consumer spending on durable goods grew at a 20.2 percent rate, mainly on the strength of another increase in vehicle purchases. Government was the only other source of strength in the forecast for the third quarter, with a 2.8 percent growth rate due mainly to a 12.7 percent increase in military spending.

According to the forecast, the third quarter saw the first increase in payroll employment in a year and a half, an increase of 0.4 percent. At the same time the unemployment rate dipped from 5.9 percent to 5.7 percent. The Consumer Price Index fell from 3.4 percent in the second quarter to 2.2 percent in the third quarter, but the apparent improvement in inflation was due to a spike in energy costs in the second quarter. Core inflation (excluding food and energy) was 2.2 percent in both quarters. The September housing data were not available in time for this forecast, which assumed that housing starts fell at a 15.7 percent rate in the third quarter to 1.597 million units. September activity was strong, as housing starts increased 10.1 percent to 1.707 million units. The mortgage rate fell from 6.81 percent in the second quarter to 6.29 percent in the third. The forecast had assumed that there would be no further cuts in the federal funds rate, but on November 6th the Federal Open Market Committee ("FOMC") reduced its target rate by 50 basis points to 1.25 percent.

Consumers have taken on large amounts of debt and spending is becoming more income-constrained. The housing market is also showing signs of softness. Starts are slipping, as are sales of existing homes. The federal government continues to spend, but strong growth awaits a revival of investment spending. At the present time, a considerable amount of capital sits idle, and more is not being used to capacity. Bankruptcies, liquidations and layoffs have created a glut of underutilized capital that must be absorbed before orders for new equipment and construction can take off. Nonresidential construction spending has dropped in recent quarters and an early recovery is not expected, given the rising office vacancy rate, slow pace of hiring and sluggish spending at hotels and restaurants. The next few quarters should see little drag from trade, since import growth is expected to slow, but state governments are dealing with the mismatch between the cost of maintaining service levels and available revenues. On a calendar year basis, the forecast expects GDP growth to improve from 0.3 percent in 2001 to 2.4 percent in 2002, 3.0 percent in 2003, and 4.0 percent in 2004 before settling back to 3.3 percent in 2005. Though the economy is growing again, it is not creating enough jobs to keep up with labor force growth. The unemployment rate, which has already increased from 3.97 percent at the end of 2000 to 5.73 percent in the third quarter of 2002, is expected to reach 6.10 percent by the second quarter of 2003. The unemployment rate is expected to decline through the remainder of 2003, 2004, and 2005 as the economy recovers, reaching 4.97 percent by the end of 2005. Inflation, as measured by the implicit price deflator for personal consumption expenditures, is expected to decline from 2.0 percent in 2001 to 1.5 percent in 2002. The improvement in 2002 is mainly the result of lower energy costs, but the slumping economy should keep inflation moderate for the next few years. The forecast expects inflation rates of 2.6 percent in 2003 and 2.7 percent per year in 2004 and 2005 and assumes that there will be no further cuts in the federal funds rate during this cycle. However, the FOMC will not begin tightening until early next summer.

Washington payroll employment fell at a 0.9 percent rate in the third quarter of 2002, following a 0.4 percent increase in the second quarter. The monthly data through September suggests another decline in the fourth quarter producing a two-year drop of 3.2 percent. Nationally the peak-to-trough decline was

1.3 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 an 8.1 percent annual rate in the third quarter, the seventeenth consecutive decline in overall manufacturing employment excluding the impact of the February 2000 aerospace labor dispute. Aerospace employment fell at a 17.5 percent annual rate in the third quarter. The cumulative decline since September 11 now stands at 16.1 percent. The declines in manufacturing outside of aerospace are continuing in 2002, though at a more moderate rate than in 2001. Non-aerospace manufacturing employment fell at a 4.8 percent rate in the third quarter, following declines of 5.6 percent and 4.1 percent in the first two quarters of the year. Nonmanufacturing employment increased at a 0.1 percent rate in the third quarter of 2002, but the increase was likely due to a seasonal anomaly in local education employment. Excluding this anomaly, nonmanufacturing employment would have declined at a 0.4 percent rate. Nonmanufacturing employment growth was mixed in the third quarter, with some sectors showing growth led by construction at 4.3 percent and both trade and finance, insurance, and real estate at 0.5 percent. Government employment grew at a 0.2 percent rate but, after adjusting for local education, was down at a 2.0 percent rate in the third quarter. Transportation, communications and public utilities employment fell at a 2.9 percent rate in the third quarter and services employment decreased at a 0.6 percent rate after two quarterly increases.

Washington's personal income in the first quarter of 2002 was $4.423 billion (2.3 percent) higher than expected in the September forecast, and second quarter wages were $2.256 billion (2.1 percent) higher than expected in September. Software wages were on target, $0.004 billion (0.1 percent) lower, but non-software wages were $2.260 billion (2.2 percent) higher. Nonwage personal income was $2.167 billion (2.6 percent) higher than expected in September, due almost entirely to a $2.164 billion upward revision to the historical data resulting from the incorporation of the annual NIPA revisions. In September $2.615 billion was added in anticipation of the revision, but Washington has received a disproportionate share of the national revision.

The number of housing units authorized by building permit fell 2,900 to 40,900 in the third quarter of 2002 after rising in the second quarter to 43,800, which was the highest level in three years. Single family permits increased 900 to 33,100, but the number of multi-family units authorized fell 3,800 to 7,800. The pace of housing activity remains high considering the state of the overall economy.

The disconnect between Washington's economy and the national economy appears to be continuing in the second half of 2002. U.S. employment bottomed out in the second quarter of 2002 though there has been little growth since. It now appears that the bottom for the state will be the fourth quarter, however. The near-term aerospace forecast for Washington remains similar to the forecast adopted in September, but reductions are now expected to continue throughout 2004 and growth in 2005 is expected to be weaker than assumed in September. By the end of 2005 the current aerospace employment forecast (excluding contract employees) is 6,900 lower than assumed in September. The forecast for lumber and wood products employment has also been reduced in response to recent layoff announcements by Weyerhauser, which reduces employment in this sector by about 1,100 by the end of 2004. The software wage assumption is higher due to an improved outlook for Microsoft stock option income. As in September, the forecast assumes there will be no major fluctuations in Microsoft stock option activity. In 2002 the state is experiencing the first ever year-over-year declines in software employment. The forecast assumes a resumption of positive growth of about 350 per quarter beginning in the first quarter of 2003, accelerating to 650 per quarter by the end of the year. As in September, the forecast assumes an increase in employment related to the construction of the nuclear waste vitrification plant at Hanford from about 2,500 earlier this year to a peak of 4,500. Employment is expected to drop off after the peak in mid-2004, reaching 2,500 by the end of 2005.

Washington wage and salary employment fell 0.6 percent in 2001 following a 2.4 percent increase in 2000. The combination of the national recession and severe cutbacks in aircraft manufacturing is expected to result in a 1.9 percent decline in 2002. The recovery in Washington is expected to be slow. The forecast expects a weak national recovery, and no Boeing upturn is expected until 2005. Population

growth has slowed and both wage growth and price growth have been dampened by the prolonged contraction. The forecast calls for an employment growth rate of 0.7 percent in 2003, improving to 2.4 percent and 2.1 percent in 2004 and 2005. Washington personal income growth slowed in 2001 to 2.6 percent from 7.2 percent in 2000. Excluding the volatile software sector, personal income growth slowed from 8.7 percent to 3.3 percent. Personal income growth is expected to remain weak in 2002 and 2003 due to the weak national economy and Boeing layoffs. The forecast expects personal income to grow 3.5 percent in 2002 and 3.6 percent in 2003. Income growth increases in the final two years to 5.5 percent and 6.1 percent as the U.S. recovery takes hold and the aerospace cuts subside. The forecast expects housing permits to increase from 38,300 in 2001 to 39,900 in 2002, mainly as a result of strong second quarter activity. Housing will be relatively flat for the next two years as weak population growth is offset by low interest rates. The forecast expects housing permits of 38,400 in 2003 and 40,500 in 2004. A stronger economy in 2005 will be countered by rising mortgage rages, resulting in a slight decline to 39,700 in the final year of the forecast.

Alternative Economic Forecasts

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

Pessimistic Forecast. Despite rapid first-quarter GDP growth and solid increases in productivity, companies are having trouble generating profits. In an effort to improve the bottom line despite lagging revenues, businesses are likely to delay investment and postpone hiring to an even greater extent than in the baseline forecast. The end of the inventory cycle carries the economy through the second half, but final demand lags as investment stagnates and consumers become more cautious. Fearful that the volatile stock market will drag the economy back into recession, the FOMC lowers the federal funds rate to 1.25 percent. When the United States moves into Iraq next spring to topple Saddam Hussein, oil prices spike and consumer confidence drops. The situation never deteriorates enough to cause a "double-dip" recession, largely because of a steady increase in federal spending, not only to fight the war and increase domestic security, but also to penalize corporate wrongdoing. After the first-quarter increase, real GDP growth maintains in the 0.0-1.6 percent range through summer 2003. The unemployment rate rises to 6.8 percent because most of the growth is achieved through productivity gains, leaving little to absorb the new workers entering the labor force. By mid-2003, with the Middle East quiet and oil prices back down, pent-up demand moves the economy into recovery mode. At the state level, aerospace production and employment cuts are more severe and protracted than assumed in the baseline forecast, with a modest upturn beginning in 2005. Washington's wage growth and inflation are lower than in the baseline and the initial level of Washington personal income is lower. Population growth is also slower in this scenario and the downturn in construction employment extends through the first quarter of 2004. By the end of the 2003-05 Biennium, Washington nonagricultural employment is lower by 64,600 jobs than in the baseline forecast and Washington personal income is $11.9 billion lower. The pessimistic scenario produced $212 million (1.0 percent) less General Fund-State revenue in the 2001-03 Biennium than did the baseline forecast and $1,189 million (5.2 percent) less revenue in the 2003-05 Biennium.

Optimistic Forecast. Despite a slowdown in the second quarter and only a moderate pickup in the third, the economy's fundamentals remain solid. In the optimistic scenario, consumer and business confidence returns to more normal levels, resulting in a stronger rise in the stock market than in the baseline, and an earlier pickup in business investment. Growth registers 3.1 percent in the fourth quarters of 2002, then accelerates to 4.5-5.5 percent in 2003. The economy grows at 3.9 percent, compared with 3.0 percent in the baseline. The stronger economy results in higher inflation in the out years and hence a higher federal funds rate starting in 2004. Congress, the Bush administration, the Financial Accounting Standards Board, and the Securities and Exchange Commission are working to tighten and fine-tune the laws; corporate boards and CEOs are working just as hard to convince stockholders that all is aboveboard. The optimistic forecast assumes that confidence is restored sooner rather than later. Growth is higher than in the baseline, simply because the economy returns to trend growth a few quarters sooner. Locally, the decline

in Washington aerospace employment is less severe than in the baseline forecast and the recovery is stronger. Washington's wages grow faster than in the baseline and the Seattle CPI grows faster relative to the U.S. CPI. The initial level of Washington personal income is also higher in the optimistic scenario. Population growth is stronger in the optimistic scenario and construction employment turns up earlier and more vigorously than in the baseline. By the end of the 2003-05 Biennium, Washington nonagricultural employment is higher by 56,500 jobs than in the baseline forecast and Washington personal income is $10.0 billion higher. The optimistic scenario generated $214 million (1.0 percent) more revenue in the 2001-03 Biennium than did the baseline forecast and $1.126 billion (5.0 percent) more in the 2003-05 Biennium.

Budgetary Outlook

For the 2001-03 Biennium (after the 2002 Supplemental Session), General Fund-State revenues are projected to be $21.126 billion, a decrease of less than one percent from the 1999-01 Biennium, plus a carry-forward of $599 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 2002 Supplemental Budget includes additional net revenue of $88 million, including $24 million for the new Big Game multi-state lottery, recovery of $46 million of existing taxes owed to the state by hiring additional tax auditors, $27 million in additional use taxes, and several small revenue reductions. The revenue outlook for the 2001-03 Biennium is expected to remain low at this time, and the 2002 Supplemental Budget passed by the Legislature and signed by the Governor brings General Fund-State revenue and expenditures back into balance.

With the passage of the 2002 Supplemental Budget, the operating budget for the 2001-03 Biennium calls for an overall expenditure level of $22.45 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 27 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 $625 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 for state employees accounts for $233 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 $369 million for a 3.7 percent increase for the first year, and a 3.6 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	$ 599
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
2002 Legislative Changes	93
June 2002 Forecast	85
September 2002 Forecast	(34)
November 2002 Forecast	20
Total Revenue	$ 21,126
Total Sources	**$ 21,725**
Total Expenditures	**$ 22,451**
Preliminary General Fund-State 2001-03 Balance	**$ (726)**
Transfer from General Fund to Emergency Reserve Account	**0**
Transfer to General Fund from Health Services Account and Other Accounts	**1,055**
Changes in Reserves and Other Adjustments	**40**
Ending General Fund-State Balance	**$ 369**
Emergency Reserve Fund Account Balance	**55**
Projected 2001-03 Balance Including Emergency Reserve Account	**$ 424**

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.

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 obligation bonds that are subject to the state's statutory debt limit.

The 2002 Supplemental Budget includes an economic stimulus package that increases the amount provided for new state projects by $107 million.

Including the 2002 Supplemental Budget, the 2001-03 biennial capital budget provides for $711 million for higher education projects, $400 million for K-12 education, $625 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 funds 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 for purposes of the constitutional limitation 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. For purposes of the statutory limitation, "general state revenues" also includes revenues deposited in the state general fund that are derived from the state real estate excise tax in support of the common schools and the state lottery.

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;"

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

(i) any state guarantee of voter-approved general obligation debt of school districts in 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");

(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;

(d) general obligation debt issued to finance certain improvements to the state capitol east plaza garage pursuant to RCW 43.99Q.070; and

(e) general obligation debt issued to finance the rehabilitation of the state legislative building to the extent such debt is paid from the capitol building construction account pursuant to RCW 43.99Q.140(2)(b).

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, 2000, 2001, and 2002 (1)	$ 8,813,324,614
7% of such arithmetic mean (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 616,932,723
Maximum annual debt service on outstanding general obligation debt (2/5/2003)	$ 571,991,078
Uncommitted portion of debt service limitation (2/5/2003)	$ 44,941,645
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)	$ 574,505,053

(1) Preliminary, subject to change. The arithmetic means of general state revenues for fiscal years ending (a) June 30, 1999, 2000, and 2001, (b) June 30, 1998, 1999, and 2000, (c) June 30, 1997, 1998, and 1999, and (d) June 30, 1996, 1997, and 1998, were $8,655,884,795, $8,305,755,187, $7,918,308,401, and $7,559,859,280, respectively. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2002.

(2) The amount of debt that can be issued under this debt limitation calculation 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 February 5, 2003, there will be outstanding $1,726,251,935 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)	720,305,001	96,092,728	364,429,773

(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 (November 2002).

Revenue Pledge and Distribution Percentages. 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). That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. 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. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. 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.

The Legislature has established a statutory scheme for the distribution and expenditure for various purposes of specified percentages of motor vehicle and special fuels excise taxes received in the motor vehicle fund. However, the Legislature has provided that nothing in those provisions may be construed to violate the terms and conditions of any highway construction bond issues authorized by statute and whose payment is by such statute pledged to be paid from any excise taxes on motor vehicle and special fuels. With the pledge of the aggregate of motor vehicle and special fuels excise taxes for payment of the principal of and interest on all motor vehicle fuel tax bonds currently authorized, that statutory scheme can be characterized as a mandate as to which portion of such excise taxes should first be used to transfer funds to the Highway and Ferry Bond Retirement Funds.

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 1997:

GENERAL STATE REVENUES
(in Millions)

Fiscal Year	General State Revenues
2001	$ 9,049.773
2000	8,655.570
1999	8,252.312
1998	7,999.384
1997	7,503.229

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). All of these required reimbursements have been made to date.

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.

State Bonds Outstanding

The following table summarizes as of December 4, 2002, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	$ 6,856,564,728
Motor Vehicle Fuel Tax General Obligation.....	1,726,251,935
	$ 8,582,816,664

An additional $821,548,029 principal amount of general obligation bonds and $1,514,793,065 principal amount of motor vehicle fuel tax general obligation bonds currently will be authorized but unissued as of February 5, 2003. 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 13.13 times by general state revenues of $9.050 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 bonds is 4.78 times based upon estimated gasoline tax revenues of $720.305 million for the fiscal year ending June 30, 2003.

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.

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

TOTAL BONDS OUTSTANDING AND FEBRUARY 5, 2003 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 2/5/2003 (1)		February 5, 2003 Bond Offering (2)		
	Principal	Interest (4)	Principal	Interest	Total (3)
2003	$ 36,440,000	$ 53,641,822	$ -	$ -	$ 90,081,822
2004	392,485,451	421,352,612	1,820,000	14,045,296	829,703,359
2005	402,172,976	406,338,845	5,250,000	10,448,920	824,210,741
2006	406,309,229	382,949,056	5,380,000	10,201,645	804,839,930
2007	420,433,126	366,665,213	5,545,000	9,945,770	802,589,109
2008	428,664,536	343,216,090	5,715,000	9,682,083	787,277,709
2009	421,469,498	324,194,088	8,775,679	10,037,091	764,476,356
2010	397,756,449	305,417,758	9,508,657	10,107,413	722,790,277
2011	372,777,296	285,358,654	10,184,576	10,229,094	678,549,619
2012	361,210,825	270,013,547	10,108,670	10,081,150	651,414,192
2013	379,724,260	246,612,493	10,565,021	10,157,924	647,059,699
2014	396,522,703	222,551,304	11,254,498	10,351,947	640,680,452
2015	419,824,450	211,370,644	11,393,592	10,208,803	652,797,489
2016	428,307,462	203,546,057	12,030,629	10,411,966	654,296,114
2017	419,982,401	202,224,286	12,773,490	10,761,860	645,742,037
2018	395,006,529	179,665,239	13,030,944	10,649,216	598,351,928
2019	370,987,673	162,284,141	13,382,772	10,567,793	557,222,379
2020	347,824,786	149,172,579	13,794,289	10,531,551	521,323,205
2021	298,788,504	105,062,338	14,142,618	10,342,032	428,335,492
2022	273,092,353	68,128,322	14,616,324	10,293,586	366,130,585
2023	244,792,968	55,461,917	15,080,603	10,129,750	325,465,238
2024	222,145,352	44,063,180	15,557,400	9,842,491	291,608,423
2025	179,775,666	34,017,028	16,102,439	9,564,821	239,459,954
2026	143,740,390	25,559,629	16,597,894	9,017,829	194,915,741
2027	91,556,335	19,387,915	17,165,796	8,467,289	136,577,335
2028	27,846,181	16,316,319	17,842,103	8,040,352	70,044,955
2029	5,552,795	16,387,205	2,569,170	7,965,830	32,475,000
2030	5,094,854	16,100,146	2,344,454	7,835,546	31,375,000
	$ 8,290,285,045	$ 5,137,058,427	$ 292,531,618	$ 269,919,047	$ 13,989,794,138

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) Prior Liens: Retail Sales Tax Revenues	$ 445,000	$ 17,800
(b) General State Revenues	6,666,119,728	4,044,785,368
(c) Motor Vehicle Fuel Tax	1,623,720,317	1,092,255,259
Total Bonds Outstanding	$ 8,290,285,045	$ 5,137,058,427
(2) **February 5, 2003 Bond Offering**		
(a) Series 2003D, dated 2/5/2003	$ 190,000,000	$ 147,072,611
(b) Series 2003E, dated 2/5/2003	27,530,000	19,223,055
(c) Series 2003F, dated 2/5/2003	75,001,618	103,623,382
Total Current Offerings	$ 292,531,618	$ 269,919,047
(3) **Total Bonds Outstanding Following February 5, 2003 Offering**	$ 8,582,816,664	$ 5,406,977,474

(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)

	6/30/1999		6/30/2000		6/30/2001		6/30/2002		2/5/2003 (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	$ 5,842,971	$ ------	$ 6,277,518	$ ------	$ 6,540,745	$ ------	$ 6,786,804	$ ------	$ 6,856,120	$ ------
Retail Sales Tax Revenue	4,325	------	3,425	------	2,485	------	1,490	------	445	------
Subtotal	$ 5,847,296	$ ------	$ 6,280,943	$ ------	$ 6,543,230	$ ------	$ 6,788,294	$ ------	$ 6,856,565	$ ------
Motor Vehicle Fuel Tax Revenue	$ 1,035,315	$ ------	$ 997,215	$ ------	$ 1,135,885	$ ------	$ 1,395,980	$ ------	$ 1,726,252	$ ------
Land Grant and Parking Revenues	------	1,170	------	------	------	------	------	------	------	------
Total	$ 6,882,611	$ 1,170	$ 7,278,158	$ ------	$ 7,679,115	$ ------	$ 8,184,274	$ ------	$ 8,582,817	$ ------
Grand Total - Outstanding	$6,883,781		$7,278,158		$7,679,115		$8,184,274		$8,582,817	
Annual Debt Service Requirements										
Fiscal Year	$694,076		$736,210		$789,213		$825,972		$839,604	
Authorized -- Unissued										
General State Revenues and Components										
General State Revenues	$ 2,003,136	$ ------	$ 1,259,883	$ ------	$ 1,697,723	$ ------	$ 1,196,003	$ ------	$ 821,548	$ ------
Retail Sales Tax Revenue	------	------	------	------	------	------	------	------	------	------
Subtotal	$ 2,003,136	$ ------	$ 1,259,883	$ ------	$ 1,697,723	$ ------	$ 1,196,003	$ ------	$ 821,548	$ ------
Motor Vehicle Fuel Tax Revenue	2,436,820	------	2,409,820	------	2,253,275	------	1,915,200	------	1,514,793	------
Total	$ 4,439,956	$ ------	$ 3,669,703	$ ------	$ 3,950,998	$ ------	$ 3,111,203	$ ------	$ 2,336,341	$ ------
Grand Total - Unissued	$4,439,956		$3,669,703		$3,950,998		$3,111,203		$2,336,341	
Issued (New Money and Refunding)										
Fiscal Year	$711,367		$874,563		$1,345,245		$1,017,470		$1,451,687	

(1) Includes current offering dated February 5, 2003.

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
2003	$689,029,916	$150,573,692	$423,788,923	$415,814,685	$839,603,608
2004	682,110,345	147,593,014	394,305,451	435,397,908	829,703,359
2005	678,831,944	145,378,797	407,422,976	416,787,765	824,210,741
2006	662,356,444	142,483,486	411,689,229	393,150,701	804,839,930
2007	660,561,464	142,027,645	425,978,126	376,610,983	802,589,109
2008	650,959,055	136,318,653	434,379,536	352,898,173	787,277,709
2009	624,939,553	139,536,803	430,245,177	334,231,180	764,476,356
2010	592,913,256	129,877,021	407,265,107	315,525,170	722,790,277
2011	558,347,874	120,201,746	382,961,872	295,587,747	678,549,619
2012	536,711,371	114,702,821	371,319,495	280,094,697	651,414,192
2013	530,538,330	116,521,368	390,289,281	256,770,417	647,059,699
2014	521,376,377	119,304,075	407,777,201	232,903,251	640,680,452
2015	533,557,337	119,240,152	431,218,042	221,579,447	652,797,489
2016	532,523,787	121,772,327	440,338,091	213,958,023	654,296,114
2017	520,990,669	124,751,368	432,755,891	212,986,146	645,742,037
2018	475,034,500	123,317,428	408,037,473	190,314,455	598,351,928
2019	434,728,355	122,494,023	384,370,445	172,851,934	557,222,379
2020	400,041,444	121,281,761	361,619,074	159,704,131	521,323,205
2021	317,536,451	110,799,041	312,931,122	115,404,370	428,335,492
2022	260,100,913	106,029,673	287,708,677	78,421,908	366,130,585
2023	233,175,484	92,289,754	259,873,571	65,591,667	325,465,238
2024	205,475,091	86,133,332	237,702,752	53,905,671	291,608,423
2025	155,124,409	84,335,544	195,878,105	43,581,849	239,459,954
2026	112,741,406	82,174,335	160,338,284	34,577,458	194,915,741
2027	68,975,500	67,601,835	108,722,131	27,855,204	136,577,335
2028	26,409,125	43,635,830	45,688,284	24,356,671	70,044,955
2029	0	32,475,000	8,121,965	24,353,035	32,475,000
2030	0	31,375,000	7,439,308	23,935,692	31,375,000
Total	$11,665,090,400	$3,074,225,524	$8,970,165,587	$5,769,150,337	$14,739,315,924

(1) Includes current offering dated February 5, 2003.

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)
1999	$ 1,183.83	3.96%	0.42%	1.65%
2000	1,247.83	3.94%	0.42%	1.62%
2001	1,286.49	4.01%	0.43%	1.56%
2002*	1,389.88	4.23%	0.42%	1.58%
2003*	1,407.34	4.17%	0.40%	1.61%

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)
1999	5,830.80	$ 174,322	$ 736,210	$ 419,424,340	$ 6,902,685
2000	5,894.10	186,863	789,213	452,962,015	7,354,860
2001	5,974.90	191,763	825,972	492,681,068	7,686,649
2002*	6,041.70	198,549	839,604	532,296,068	8,397,260
2003*	6,098.60	205,666	829,703	532,296,068	8,582,817

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2002," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2002," Table A3.3.

(3) Debt Service -- Reported by the 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 1998 through 2001 -- Department of Revenue, "Tax Statistics 2001," Table 38. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of February 5, 2003.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$5,703,812,253 (1)	
First Payable from Other Sources	2,879,004,410 (2)	
Limited Obligation	0	$8,582,816,664

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	1.36%	0.69%	2.05%
Per Capita Debt.....	$944.07	$476.52	$1,420.60

(1) Outstanding bonds as of February 5, 2003.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($1,152,752,475 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, 2003.

	Outstanding	2001-2003 Debt Service Requirement	Final Maturity
State Equipment Series C, 1994	740,000	1,038,171	2004
Master Installment Program, 1993	18,835,962	10,290,485	2016
Equipment Series, Competitive	72,510,349	42,236,499	2014
Local Real Estate	5,405,000	994,605	2017
Bellingham Technical College Classroom Additions	245,000	94,838	2008
Whatcom, Columbia Basin and Yakima CC, 2000A	5,005,000	810,930	2020
Bates Purch of Land and Improvement, KBTC TV	3,730,000	646,673	2020
Edmonds Community College	3,930,000	744,921	2018
Combined CC's 2001 A	6,015,000	1,486,416	2017
Combined CC's 2001 B	7,030,000	1,125,413	2015
Central Washington Snoqualmie Hall at Edmonds	5,145,000	79,797	2023
Work/Release Financing Agreement	125,000	260,270	2003
State Department of Corrections, 1998	1,991,833	807,323	2009
Department of Corrections Spokane- Brownstone	2,955,000	309,820	2021
State Department of Ecology, 1991	27,820,000	4,917,325	2016
Department of Ecology 2001 Refunding	44,215,000	7,324,762	2012
State Department of Licensing, 1998	6,205,000	1,114,840	2018
State Department of Transportation, 1999	7,820,000	5,644,385	2005
Department of Veterans Administration	3,950,000	339,770	2016
Tacoma Co-location Project, Series 1996	14,235,000	2,597,458	2020
State Department of General Administration, 1999A	9,685,000	1,418,328	2022
State Department of General Administration, 1999B	8,080,000	1,474,343	2019
Kelso Building and Land, 2000	4,365,000	860,441	2015
General Administration, Isabella Bush Building	3,855,000	68,226	2018
Pierce College Classroom Building	515,000	195,694	2008
Cama Beach Historical Cabins	0	0	2016
Seattle Community College Parking Lot Refinancing	0	231,313	2002
Secretary of State Regional Archive Building	12,870,000	0	2018
South Puget Sound Community College, 1999	4,835,000	898,669	2020
University of Washington, 1999	9,900,000	2,179,560	2021
University of Washington, 2001	1,555,000	193,200	2021
University of Washington, 2001B	6,030,000	458,337	2022
University of Washington, 2001C	5,170,000	714,185	2013
UW, Sandpoint Phase 2B	3,565,000	173,718	2022
UW, Sand Point Bldg 29	4,850,000	195,539	2016
UW, Sand Point Bldg 5 Phase IIC 2002E	2,685,000	0	2023
Whatcom Community College Child Care Center	695,000	162,833	2013
State Convention and Trade Center Expansion	181,590,000	21,732,519	2017
Liquor Control Board Distribution Center, 1996	13,625,000	5,590,200	2010
Port Angeles Office Building	465,000	116,748	2012
Washington State University, 1996	7,130,000	1,615,919	2017
Total Certificates of Participation/Financing Contracts	$ 519,373,144	$ 121,144,471	

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 $14,880 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 $496; the minimum is $107.

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 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
FY 2001	1,932	1,029	1,051	1,910	2.4

* 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 October 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 Thousands)

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[4]	Judicial [1][2]
1997	192,800	313,000	N/A	84,400	3,000	6,800	6,900
1998	212,600	317,200	N/A	70,500	2,000	5,900	8,800
1999	222,300	322,700	N/A	71,000	2,500	5,900	8,800
2000	146,700	258,300	N/A	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. Prior to the 2000 valuation, school employees were members of PERS 2.

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

(4) The retirement system for the State Patrol was actuarially fully funded for Fiscal Years 2000 and 2001 and required no state contribution at this time.

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 private 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 ten years.

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

	Current Dollars[1]				1996 Chained Dollars[2]			
	Washington		United States		Washington		United States	
Year	Amount	Percent[4]	Amount	Percent[4]	Amount	Percent[4]	Amount	Percent[4]
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	163.2	8.6	7,426.0	7.0	158.4	7.5	7,207.5	5.9
1999	174.3	6.8	7,786.5	4.9	166.4		7,435.2	3.2
2000	186.9	7.2	8,406.6	8.0	174.0		7,828.1	5.3
2001[3]	191.8	2.6	8,685.3	3.3	175.0		7,927.4	1.3

(1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).
(2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.
(3) As of November 2002.
(4) 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[1]
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE
(Employment Numbers in Thousands)

	1997	1998	1999	2000	2001
Resident Civilian Labor Force	2,983.3	3,037.9	3,074.6	3,045.3	2,995.7
Unemployment	142.1	144.6	145.4	157.8	191.6
Unemployment Rate [2]	4.8%	4.8%	4.7%	5.2%	6.4%
Total Employment	2,841.2	2,893.3	2,929.2	2,887.5	2,804.1
Nonagricultural Wage and Salary Workers Employed in Washington State					
Wage and Salary Employment	2,514.2	2,594.7	2,648.7	2,711.5	2,696.4
% Change	4.1	3.2	2.1	2.4	(0.6)
Durable Manufacturing Employment	261.3	271.0	255.8	244.5	234.6
% Change	11.2	3.7	(5.6)	(4.4)	(4.0)
Aerospace Employment	105.0	112.4	98.9	86.1	86.8
% Change	21.6	7.1	(12.0)	(12.9)	0.8
Lumber and Wood Employment	35.6	34.2	33.9	33.3	31.1
% Change	1.2	(4.1)	(0.7)	(1.8)	(6.6)
Electrical Machinery Employment	17.0	18.5	18.5	20.3	19.2
% Change	11.0	8.8	(0.3)	10.0	(5.4)
Nondurable Manufacturing Employment	108.8	108.6	108.3	108.7	103.7
% Change	(0.9)	(0.2)	(0.2)	0.3	(4.6)
Nonmanufacturing Employment	2,144.2	2,215.1	2,284.6	2,358.3	2,358.0
% Change	3.5	3.3	3.1	3.2	0.0
Construction Employment	136.3	143.7	153.8	160.2	155.4
% Change	6.6	5.4	7.1	4.1	(3.0)
Transportation, Communication, and Utilities Employment	132.8	135.6	139.7	146.6	146.4
% Change	6.3	2.1	3.0	4.9	(0.1)
Finance/Insurance/Real Estate	127.7	134.6	137.6	137.5	140.7
% Change	3.0	5.4	2.2	(0.1)	2.4
Services Employment	678.8	709.3	739.7	781.9	773.0
% Change	4.6	4.5	4.3	5.7	(1.1)
Retail Trade	457.4	469.6	482.0	493.9	489.6
% Change	2.4	2.7	2.6	2.5	(0.9)
Wholesale Trade	149.6	153.1	154.1	151.3	144.1
% Change	3.6	2.3	0.7	(1.8)	(4.8)
State and Local Government Employment	390.2	398.8	406.9	413.6	437.4
% Change	2.1	2.2	2.0	1.6	5.8
Federal Government Civilian Employment	67.9	67.2	67.6	69.9	67.9
% Change	(1.1)	(0.9)	0.5	3.4	(2.8)

(1) Averages of monthly data. The 2001 figures are based upon the November 2002 Forecast.
(2) Unemployment rate as of June 2002 estimated at 7.2%.

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	0.6	0.6	0.5
Apparel	0.4	0.3	1.7	0.8
Printing	1.0	0.9	1.4	1.1
Other	0.7	0.7	2.0	1.6
Subtotal	4.6	3.8	7.2	5.4
Durable Manufacturing				
Lumber and Wood	1.6	1.2	0.6	0.6
Metals	1.0	0.9	1.9	1.6
Machinery	1.4	1.6	3.2	2.8
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	8.7	9.5	8.1
Total Manufacturing	15.6	12.5	16.7	13.4
Nonmanufacturing				
Mining	0.2	0.1	0.6	0.4
Construction	5.4	5.8	4.1	5.1
Transportation, Communication, Utilities	5.1	5.4	5.3	5.4
Trade	24.2	23.5	23.3	23.0
Services	25.1	28.7	26.7	31.1
Finance, Real Estate and Insurance	5.4	5.2	6.1	5.8
State and Local Government	15.8	16.2	14.4	13.9
Federal Government	3.3	2.5	2.7	2.0
Total Nonmanufacturing	84.4	87.5	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 2002 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. Unemployment as Percent of U.S.
Year	Wash.	U.S.	Wash.	U.S.	Wash.	U.S.	Rate
1993	2,701	130,479	206	9,013	7.6	6.9	110.4
1994	2,707	132,763	174	8,097	6.4	6.1	105.2
1995	2,804	134,506	179	7,521	6.4	5.6	113.9
1996	2,874	136,549	187	7,384	6.5	5.4	120.2
1997	2,983	138,957	142	6,865	4.8	4.9	96.4
1998	3,038	140,800	145	6,347	4.8	4.5	105.6
1999	3,075	142,578	145	6,024	4.7	4.2	111.9
2000	3,045	144,454	158	5,802	5.2	4.0	129.0
2001*	2,996	145,501	192	6,973	6.4	4.8	133.6

* The 2001 figures are based on the November 2002 forecast.

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 2000 REVENUES
(in Millions)

		Revenues			Revenues
1.	The Boeing Co.	$51,321	14.	Starbucks Coffee Co.	$2,169
2.	Costco Cos. Inc.	32,164	15.	VoiceStream Wireless Corp.	1,923
3.	Microsoft Corp.	23,000	16.	Potlatch Corp.	1,809
4.	Weyerhaeuser	15,980	17.	Expeditors International Inc.	1,700
5.	Washington Mutual	15,760	18.	AT&T Wireless Group	1,045
6.	Paccar Inc.	7,919	19.	Labor Ready Inc.	977
7.	Avista	7,911	20.	Longview Fibre Co.	876.3
8.	Safeco Corp	7,118	21.	Immunex Corp.	862
9.	Nordstrom Inc.	5,528	22.	Western Wireless Corp.	835
10.	Puget Sound Energy Inc.	3,442	23.	Zones Inc.	634
11.	Airborne Express	3,276	24.	Washington Federal Savings	509
12.	Amazon.com Inc.	2,762	25.	Esterline Technologies Corp.	491
13.	Alaska Air Group Inc.	2,177			

Source: Puget Sound Business Journal 2002 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2001
(Dollars in Millions)

	Company	Rank	Revenues	Headquarters/Location
1.	The Boeing Co.	16	$ 58,198	Seattle
2.	Costco Cos. Inc.	44	34,797	Issaquah
3.	Microsoft Corp.	72	25,296	Redmond
4.	Washington Mutual Inc.	116	17,692	Seattle
5.	Weyerhaeuser Co.	140	14,545	Federal Way
6.	Safeco Corp.	267	6,953	Seattle
7.	Paccar Inc.	295	6,089	Bellevue
8.	Avista	299	6,021	Spokane
9.	Nordstrom Inc.	314	5,634	Seattle
10.	Puget Sound Energy	464	3,374	Bellevue
11.	Airborne Freight Corp.	479	3,211	Seattle

Source: Fortune Magazine Fortune 500, April 2002

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, Sea-Tac, 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 June 2002, employed approximately 65,300 people state-wide and 173,000 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)
1997	$ 45.8	$ (178)
1998	56.2	1,120
1999	58.0	2,309
2000	51.3	2,128
2001	58.2	2,827

* 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's fiscal year 2002 revenues were $28.4 billion, compared to $25.3 billion in fiscal year 2001.

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 doubled the exhibition space and added a private office tower, hotel and museum was completed 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 5.4 percent of the state's wage and salary employment for 2002.

Construction

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

In 2000-2001, residential housing permits decreased by about two percent. Forecasts for 2002 indicate a decrease of about two percent from 2001, as indicated in the following table.

HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES
1993—2002

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	1,573,333
2001	38,345	1,602,750
2002 (2)	39,928	1,636,614

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

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

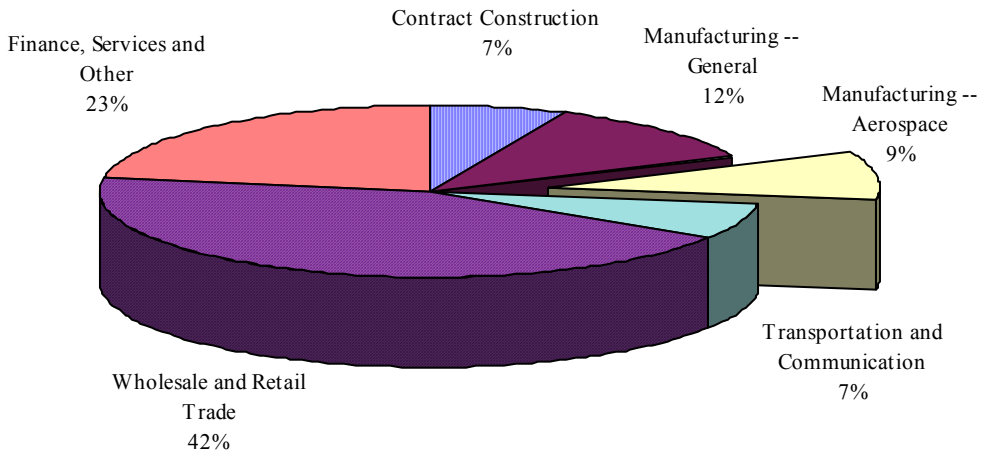
Federal, State and Local Government

On a combined basis, employment in the government sector represents approximately 18.7 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.

Summary

The following diagram provides an overall description of business income by industry sector for 2001.

Gross Business Income by Industry Sector 2001



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2001", Table 1.

APPENDIX B

PRINCIPAL MATURITIES

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Bond Offering No. 1

$190,000,000
State of Washington
Various Purpose General Obligation Bonds
Series 2003D [1]
Dated: 2/5/2003

Due December 1	Principal Amounts	CUSIP Numbers
2003	$ 1,590,000	93974ASL9
2004	4,585,000	93974ASM7
2005	4,700,000	93974ASN5
2006	4,845,000	93974ASP0
2007	4,990,000	93974ASQ8
2008	5,170,000	93974ASR6
2009	5,380,000	93974ASS4
2010	5,600,000	93974AST2
2011	5,830,000	93974ASU9
2012	6,065,000	93974ASV7
2013	6,355,000	93974ASW5
2014	6,695,000	93974ASX3
2015	7,060,000	93974ASY1
2016	7,440,000	93974ASZ8
2017	7,840,000	93974ATA2
2018	8,265,000	93974ATB0
2019	8,710,000	93974ATC8
2020	9,180,000	93974ATD6
2021	9,670,000	93974ATE4
2022	10,195,000	93974ATF1
2023	10,745,000	93974ATG9
2024	11,325,000	93974ATH7
2025	11,935,000	93974ATJ3
2026	12,575,000	93974ATK0
2027	13,255,000	93974ATL8
Total	$ 190,000,000	

(1) Authorized by Chapter 380, Laws of 1999 reg.sess. (Chapter 43.99 RCW), and Chapter 9, Laws of 2001 2nd sp. sess. (Chapter 43.99Q RCW).

Bond Offering No. 2

$27,530,000
State of Washington
Motor Vehicle Fuel Tax General Obligation Bonds
Series 2003E [(1)]
Dated: 2/5/2003

Due December 1	Principal Amounts		CUSIP Numbers
2003	$ 230,000		93974ARM8
2004	665,000		93974ARN6
2005	680,000		93974ARP1
2006	700,000		93974ARQ9
2007	725,000		93974ARR7
2008	750,000		93974ARS5
2009	780,000		93974ART3
2010	810,000		93974ARU0
2011	845,000		93974ARV8
2012	880,000		93974ARW6
2013	920,000		93974ARX4
2014	970,000		93974ARY2
2015	1,025,000		93974ARZ9
2016	1,080,000		93974ASA3
2017	1,135,000		93974ASB1
2018	1,200,000		93974ASC9
2019	1,260,000		93974ASD7
2020	1,330,000		93974ASE5
2021	1,400,000		93974ASF2
2022	1,475,000		93974ASG0
2023	1,555,000		93974ASH8
2025	3,370,000	*	93974ASJ4
2027	3,745,000	*	93974ASK1
Total	$ 27,530,000		

(1) Authorized by Ch. 321, Laws of 1998 (Referendum 49), (RCW 47.10.843); $ 26,630,000
Ch. 7, Laws of 1967, ex. sess., as amended, (RCW 47.10.761 & 762). 900,000
$ 27,530,000

* Term Bonds.

Bond Offering No. 3

$75,001,618.40*
State of Washington
($178,625,000 Compound Accreted Value at Maturity)
Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F [(1)]
Dated: 2/5/2003

Due Dec. 1	Present Value Principal Amounts	Interest at Maturity	Aggregate Accreted Value at Maturity	CUSIP Numbers
2008	$ 2,855,678.70	$ 629,321.30	$ 3,485,000.00	93974ATM6
2009	3,348,657.45	986,342.55	4,335,000.00	93974ATN4
2010	3,774,576.30	1,410,423.70	5,185,000.00	93974ATP9
2011	3,433,670.20	1,581,329.80	5,015,000.00	93974ATQ7
2012	3,620,020.80	1,989,979.20	5,610,000.00	93974ATR5
2013	3,979,497.90	2,530,502.10	6,510,000.00	93974ATS3
2014	3,728,592.00	2,751,408.00	6,480,000.00	93974ATT1
2015	3,945,628.85	3,339,371.15	7,285,000.00	93974ATU8
2016	4,253,490.00	4,096,510.00	8,350,000.00	93974ATV6
2017	4,055,944.20	4,414,055.80	8,470,000.00	93974ATW4
2018	3,917,772.30	4,787,227.70	8,705,000.00	93974ATX2
2019	3,824,288.70	5,230,711.30	9,055,000.00	93974ATY0
2020	3,632,617.80	5,547,382.20	9,180,000.00	93974ATZ7
2021	3,546,324.40	6,033,675.60	9,580,000.00	93974AUA0
2022	3,410,603.35	6,434,396.65	9,845,000.00	93974AUB8
2023	3,257,400.00	6,742,600.00	10,000,000.00	93974AUC6
2024	3,137,438.70	7,092,561.30	10,230,000.00	93974AUD4
2025	2,932,893.60	7,207,106.40	10,140,000.00	93974AUE2
2026	2,765,796.00	7,354,204.00	10,120,000.00	93974AUF9
2027	2,667,102.70	7,662,897.30	10,330,000.00	93974AUG7
2028	2,569,170.45	7,965,829.55	10,535,000.00	93974AUH5
2029	2,344,454.00	7,835,546.00	10,180,000.00	93974AUJ1
Total	$ 75,001,618.40	$ 103,623,381.60	$ 178,625,000.00	

(1) Authorized by Ch. 321, Laws of 1998 (Referendum 49) (RCW 47.10.843).

* Original principal amount.

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APPENDIX C

PROPOSED FORMS OF LEGAL OPINION

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[FORM OF APPROVING LEGAL OPINION]

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

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

$190,000,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2003D
DATED FEBRUARY 5, 2003

The Bonds are issued pursuant to Ch. 380, Laws of 1999, Reg. Sess., and Ch. 9, Laws of 2001, 2nd Sp. Sess., of the State (the "Bond Act"), Resolutions Nos. 967 and 970 of the State Finance Committee of the State adopted on November 21, 2002, and January 22, 2003, respectively (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the General State Projects. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

The Bonds are subject to optional redemption as provided in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide continuing disclosure pursuant to SEC Rule 15c2-12.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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SPOKANE
Washington

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

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

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

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

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

4. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

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

State of Washington
[Date]

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully yours,

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[FORM OF APPROVING LEGAL OPINION]

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

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

$27,530,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX
GENERAL OBLIGATION BONDS, SERIES 2003E
DATED FEBRUARY 5, 2003

The Bonds are issued pursuant to Ch. 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), and Ch. 7, Laws of 1967, Ex. Sess, as amended (RCW 47.10.761 and .762), of the State (the "Bond Act"), Resolutions Nos. 968 and 971 of the State Finance Committee of the State adopted on November 21, 2002, and January 22, 2003, respectively (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the Transportation Projects. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

The Bonds are subject to mandatory and optional redemption as provided in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide continuing disclosure pursuant to SEC Rule 15c2-12.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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Under the Internal Revenue Code of 1986, as amended (the "Code"), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

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

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

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

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

4. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by liens and charges on such taxes as set forth in the Bonds. The State has covenanted that it will continue to levy such taxes in amounts sufficient to pay when due the principal of and interest on the Bonds.

5. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch

profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

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

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully yours,

FOSTER PEPPER & SHEFELMAN PLLC

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[FORM OF APPROVING LEGAL OPINION]

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

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

$75,001,618.40
($178,625,000 COMPOUND ACCRETED VALUE AT MATURITY)
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX
GENERAL OBLIGATION BONDS, SERIES 2003F
DATED FEBRUARY 5, 2003

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The Bonds are issued pursuant to Ch. 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), of the State (the "Bond Act"), Resolutions Nos. 968 and 972 of the State Finance Committee of the State adopted on November 21, 2002, and January 22, 2003, respectively (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds to finance the Transportation Projects. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

The Bonds are not subject to redemption prior to their scheduled maturity.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide continuing disclosure pursuant to SEC Rule 15c2-12.

ANCHORAGE
Alaska

PORTLAND
Oregon

SEATTLE
Washington

SPOKANE
Washington

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State's compliance with such requirements.

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

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

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

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

4. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by liens and charges on such taxes as set forth in the Bonds. The State has covenanted that it will continue to levy such taxes in amounts sufficient to pay when due the principal of and interest on the Bonds.

5. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch

profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

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

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully yours,

FOSTER PEPPER & SHEFELMAN PLLC

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APPENDIX D

BONDS OUTSTANDING

The following table identifies the amounts of authorized, issued and outstanding General Obligation Bonds of the state:

DEBT AUTHORIZATION SECURED BY
GENERAL STATE REVENUE AND/OR COMPONENTS
February 5, 2003

Subject to Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-92C)	$ 195,985,500	$ 195,985,500	$ 11,785,000	$ -
Ch. 138 -- Laws of 1965 (R-93A)	86,305,000	86,305,000	59,695,000	-
Ch. 138 -- Laws of 1965 (R-93B)	172,305,000	172,305,000	77,060,000	-
Ch. 138 -- Laws of 1965 (R-94A)	240,055,000	240,055,000	5,595,000	-
Ch. 138 -- Laws of 1965 (R-95A)	74,860,000	74,860,000	69,170,000	-
Ch. 138 -- Laws of 1965 (R-95B)	107,040,000	107,040,000	12,660,000	-
Ch. 138 -- Laws of 1965 (R-96B)	121,520,000	121,520,000	79,870,000	-
Ch. 138 -- Laws of 1965 (R-96C)	55,960,000	55,960,000	49,635,000	-
Ch. 138 -- Laws of 1965 (R-98A)	86,820,000	86,820,000	84,440,000	-
Ch. 138 -- Laws of 1965 (R-99A)	67,980,000	67,980,000	60,500,000	-
Ch. 138 -- Laws of 1965 (R-2000A)	73,795,000	73,795,000	46,690,000	-
Ch. 138 -- Laws of 1965 (R-2001A)	351,595,000	351,595,000	302,410,000	-
Ch. 138 -- Laws of 1965 (R-2001T)	12,050,000	12,050,000	8,070,000	-
Ch. 138 -- Laws of 1965 (R-2002A)	49,560,000	49,560,000	48,820,000	-
Ch. 138 -- Laws of 1965 (R-2003A)	563,780,000	563,780,000	551,145,000	-
Ch. 133 -- Laws of 1972, 1st Ex. Sess.	29,115,000	29,115,000	445,000	-
Ch. 125 -- Laws of 1988	18,887,360	18,887,360	6,620,880	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended	667,335,000	631,370,569	371,518,881	35,964,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended	471,960,000	460,380,000	273,895,000	11,580,000
Ch. 12 -- Laws of 1993, 1st Sp. Sess.	760,277,000	751,684,716	628,379,630	8,592,284
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended	856,850,000	828,346,667	715,592,862	28,503,333
Ch. 456 -- Laws of 1997, Regular Sess.	943,330,000	919,145,000	838,590,000	24,185,000
Ch. 380 -- Laws of 1999, Regular Sess.	1,025,770,000	987,590,000	966,145,000	38,180,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.	905,575,000	455,795,000	447,900,000	449,780,000
Ch. 240 -- Laws of 2002, Regular Sess.	89,700,000	-	-	89,700,000
Subtotal	$ 8,028,409,860	$ 7,341,924,812	$ 5,716,632,253	$ 686,485,048

(1) Includes current offering dated February 5, 2003.

Excluded From Statutory Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-92C-Ex).....	$ 30,509,500	$ 30,509,500	$ 1,360,000	-
Ch. 138 -- Laws of 1965 (R-93A-Ex).....	119,750,000	119,750,000	71,580,000	-
Ch. 138 -- Laws of 1965 (R-93B-Ex).....	58,645,000	58,645,000	46,850,000	-
Ch. 138 -- Laws of 1965 (R-95A-Ex).....	25,220,000	25,220,000	23,200,000	-
Ch. 138 -- Laws of 1965 (R-95B Ex).....	20,315,000	20,315,000	600,000	-
Ch. 138 -- Laws of 1965 (R-96B Ex).....	36,930,000	36,930,000	27,520,000	-
Ch. 138 -- Laws of 1965 (R-96C Ex).....	28,240,000	28,240,000	24,930,000	-
Ch. 138 -- Laws of 1965 (R-97A Ex).....	25,026,467	25,026,467	25,026,467	-
Ch. 138 -- Laws of 1965 (R-98A Ex).....	37,985,000	37,985,000	36,940,000	-
Ch. 138 -- Laws of 1965 (R-99A Ex).....	25,140,000	25,140,000	22,215,000	-
Ch. 138 -- Laws of 1965 (R-2000A).....	6,775,000	6,775,000	4,285,000	-
Ch. 138 -- Laws of 1965 (R-2001A).....	54,045,000	54,045,000	46,940,000	-
Ch. 138 -- Laws of 1965 (R-2002A).....	12,835,000	12,835,000	12,395,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	42,095,000	42,095,000	41,070,000	-
Ch. 34 -- Laws of 1982 as amended.....	24,567,181	24,567,181	8,202,924	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	62,170,000	47,405,000	32,910,000	14,765,000
Ch. 15 -- Laws of 1990, 1st Ex. Sess.....	10,000,000	10,000,000	3,589,506	-
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	271,615,000	267,602,302	182,838,861	4,012,698
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	1,510,000	1,510,000	1,330,000	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	10,310,000	9,420,000	8,715,000	890,000
Ch. 220 -- Laws of 1997, Regular Sess.....	300,000,000	294,944,718	282,819,718	5,055,282
Ch. 456 -- Laws of 1997, Regular Sess.....	45,670,000	43,635,000	39,515,000	2,035,000
Ch. 380 -- Laws of 1999, Regular Sess.....	178,495,000	159,830,000	156,915,000	18,665,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	128,435,000	38,795,000	38,185,000	89,640,000
Subtotal.....	$ 1,556,283,148	$ 1,421,220,167	$ 1,139,932,475	$ 135,062,981
Total.....	$ 9,584,693,008	$ 8,763,144,979	$ 6,856,564,728	$ 821,548,029

(1) Includes current offering dated February 5, 2003.

BOND AUTHORIZATION AND OUTSTANDING DEBT
MOTOR VEHICLE FUEL TAX REVENUE
February 5, 2003

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-92B)	$ 45,780,000	$ 45,780,000	$ -	-
Ch. 138 -- Laws of 1965 (R-92D)	75,315,000	75,315,000	6,195,000	-
Ch. 138 -- Laws of 1965 (R-93C)	104,075,000	104,075,000	42,660,000	-
Ch. 138 -- Laws of 1965 (R-94B)	99,405,000	99,405,000	1,795,000	-
Ch. 138 -- Laws of 1965 (R-95C)	53,685,000	53,685,000	39,570,000	-
Ch. 138 -- Laws of 1965 (R-96A)	13,475,000	13,475,000	3,680,000	-
Ch. 138 -- Laws of 1965 (R-2000B)	18,740,000	18,740,000	11,785,000	-
Ch. 138 -- Laws of 1965 (R-2001B)	119,640,000	119,640,000	99,165,000	-
Ch. 138 -- Laws of 1965 (R-2002B)	25,580,000	25,580,000	25,200,000	-
Ch. 138 -- Laws of 1965 (R-2003B)	70,325,000	70,325,000	70,325,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23) as amended by Ch 11, Laws of 1993	25,000,000	22,150,000	19,500,000	2,850,000
Ch. 360 -- Laws of 1977, 1st Ex. Sess.	45,845,000	45,845,000	12,605,000	-
Ch. 180 -- Laws of 1979, 1st Ex. Sess.	28,480,000	28,480,000	3,835,000	-
Ch. 212 -- Laws of 1979, 1st Ex. Sess.	80,000,000 [2]	-	-	80,000,000
Ch. 315 -- Laws of 1981	36,860,000	36,860,000	9,570,000	-
Ch. 316 -- Laws of 1981	156,905,000	156,905,000	22,195,000	-
Ch. 293 -- Laws of 1990	15,000,000	13,400,000	10,215,000	1,600,000
Ch. 158 -- Laws of 1992	210,000,000	210,000,000	184,660,000	-
Ch. 6 -- Laws of 1993	200,000,000	-	-	200,000,000
Ch. 431 -- Laws of 1993, as amended	330,000,000	286,000,000	250,540,000	44,000,000
Ch. 432 -- Laws of 1993	96,205,000	21,010,000	17,585,000	75,195,000
Ch. 440 -- Laws of 1993	100,000,000	75,430,000	71,510,000	24,570,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.	25,625,000	19,415,000	17,430,000	6,210,000
Ch. 321 -- Laws of 1998	1,900,000,000	819,631,935	806,231,935	1,080,368,065
Total	$ 3,875,940,000	$ 2,361,146,935	$ 1,726,251,935	$ 1,514,793,065

(1) Includes current offering dated February 5, 2003.

(2) No sale scheduled pending results of toll bridge feasibility studies.

Grand Total	$ 13,460,633,008	$ 11,124,291,914	$ 8,582,816,664	$ 2,336,341,094

APPENDIX E

EXCERPTS FROM 2002 AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

December 17, 2002

The Honorable Gary Locke
Governor, State of Washington

Dear Governor Locke:

We have audited the accompanying basic financial statements of the State of Washington as of and for the fiscal year ended June 30, 2002, 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 did not audit the financial statements of the Department of Retirement Systems and the Local Government Investment Pool. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts audited by others, is based upon their reports. Those fiduciary financial statements do not affect the assets and revenues of the state's government-wide financial statements but are included in total assets and additions of the state's fund financial statements as follows:

Fiduciary Fund Financial Statements:	Percent of Assets	Percent of Revenues
Fiduciary Funds – Local Government Investment Pool	100.0%	100.0%
Fiduciary Funds – Pension and Other Employee Benefit Plans	2.6%	9.2%

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

In our opinion, based on our report and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State of Washington as of June 30, 2002, and the results of its operations and cash flows of its proprietary funds and discretely presented component units for the fiscal year then ended, in conformity with accounting principles generally accepted in the Unites States of America.

As discussed in Note 2 to the basic financial statements, the state adopted Governmental Accounting Standards Board 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*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the State of Washington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund statements and schedules listed in the table of contents, and the budgetary reports (MFS1054) referenced in Note 1.D are for purposes of additional analysis, and are not a required part of the basic financial statements of the State of Washington. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 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

Basic Financial Statements

Government-wide Financial Statements

State of Washington
Statement of Net Assets
June 30, 2002
(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component units
ASSETS				
Cash and pooled investments	$ 3,817,503	$ 2,895,638	$ 6,713,141	$ 43,253
Taxes receivable (net of allowance)	2,435,837	4,101	2,439,938	-
Other receivables (net of allowance)	458,064	896,444	1,354,508	3,001
Internal balances (net)	17,715	(17,715)	-	-
Due from other governments	1,943,015	96,637	2,039,652	-
Inventories	74,210	67,662	141,872	-
Investments, noncurrent	2,795,920	9,383,020	12,178,940	16,216
Other assets	139,751	78,890	218,641	15,488
Capital assets (Note 6):				
Non-depreciable assets	13,402,912	324,962	13,727,874	420,035
Depreciable assets, net of depreciation	5,553,690	789,740	6,343,430	70,234
Total capital assets, net of depreciation	18,956,602	1,114,702	20,071,304	490,269
Total Assets	30,638,617	14,519,379	45,157,996	568,227
LIABILITIES				
Accounts payable	875,171	102,054	977,225	1,353
Contracts and retainage payable	66,845	26,281	93,126	19,190
Accrued liabilities	390,636	228,005	618,641	146
Obligations under securities lending	850,522	830,357	1,680,879	-
Due to other governments	690,181	3,248	693,429	-
Deferred revenue	131,335	44,058	175,393	191
Long-term liabilities (Note 7):				
Due within one year	684,429	1,561,163	2,245,592	-
Due in more than one year	8,806,654	14,898,684	23,705,338	39,073
Total Liabilities	12,495,773	17,693,850	30,189,623	59,953
NET ASSETS				
Invested in capital assets, net of related debt	8,253,041	355,099	8,608,140	436,045
Restricted for:				
Unemployment compensation	-	1,883,659	1,883,659	-
Other purposes	126,755	-	126,755	14,939
Capital projects	172,671	-	172,671	-
Expendable permanent fund principal	575,999	-	575,999	-
Nonexpendable permanent endowments	1,277,718	-	1,277,718	-
Unrestricted (deficit)	7,736,660	(5,413,229)	2,323,431	57,290
Total Net Assets	$ 18,142,844	$ (3,174,471)	$ 14,968,373	$ 508,274

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

State of Washington
Statement of Activities
For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	$ 997,323	$ 439,379	$ 211,725	$ 12,506
Education--elementary and secondary (K-12)	5,747,105	6,345	516,188	-
Education--higher education	3,920,238	986,369	1,027,898	7,002
Human services	8,903,527	523,313	4,704,368	-
Adult corrections	600,331	12,960	6,260	5,379
Natural resources and recreation	563,687	361,866	121,626	16,876
Transportation	1,263,740	576,129	44,101	507,828
Intergovernmental-grants	349,620	-	-	-
Interest on long term debt	578,339	-	-	-
Total governmental activities	22,923,910	2,906,361	6,632,166	549,591
Business-type Activities:				
Workers' compensation	2,146,567	1,069,592	7,432	-
Unemployment compensation	1,871,784	1,161,009	248,395	-
Health insurance programs	809,910	823,482	-	-
Higher education student services	994,047	982,200	12,870	-
Other	923,783	950,334	79	-
Total business-type activities	6,746,091	4,986,617	268,776	-
Total Primary Government	$ 29,670,001	$ 7,892,978	$ 6,900,942	$ 549,591
Total Component Units	$ 11,311	$ 10,054	$ 55,297	$ -

General revenues:
- Taxes - sales and use taxes
- Taxes - business and occupation taxes
- Taxes - property
- Taxes - other
- Contributions to endowments
- Interest and investment earnings

Total general revenues

Excess (deficiency) of revenues over expenses before transfers

Transfers

Change in net assets

Net assets -- beginning

Net assets -- ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (333,713)	$ -	$ (333,713)	
(5,224,572)	-	(5,224,572)	
(1,898,969)	-	(1,898,969)	
(3,675,846)	-	(3,675,846)	
(575,732)	-	(575,732)	
(63,319)	-	(63,319)	
(135,682)	-	(135,682)	
(349,620)	-	(349,620)	
(578,339)	-	(578,339)	
(12,835,792)	-	(12,835,792)	
-	(1,069,543)	(1,069,543)	
-	(462,380)	(462,380)	
-	13,572	13,572	
-	1,023	1,023	
-	26,630	26,630	
-	(1,490,698)	(1,490,698)	
(12,835,792)	(1,490,698)	(14,326,490)	
			$ 54,040
5,879,288	-	5,879,288	1,264
1,934,013	-	1,934,013	-
1,426,242	-	1,426,242	-
2,790,789	82,703	2,873,492	-
29,309	-	29,309	-
189,260	613,213	802,473	3,470
12,248,901	695,916	12,944,817	4,734
(586,891)	(794,782)	(1,381,673)	58,774
147,826	(147,826)	-	-
(439,065)	(942,608)	(1,381,673)	58,774
18,581,909	(2,231,863)	16,350,046	449,500
$ 18,142,844	$ (3,174,471)	$ 14,968,373	$ 508,274

Fund Financial Statements

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2002
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Assets:					
Cash and pooled investments	$ 355,538	$ 50,675	$ 238,587	$ 3,049,781	$ 3,694,581
Investments	-	755,032	1,807,740	199,395	2,762,167
Taxes receivable (net of allowance)	2,348,486	-	-	87,351	2,435,837
Other receivables (net of allowance)	216,462	120,132	31,580	225,229	593,403
Due from other funds	665,164	81,728	10	335,091	1,081,993
Due from other governments	710,243	84,111	-	1,109,175	1,903,529
Inventories	18,682	8,023	-	28,448	55,153
Total Assets	$ 4,314,575	$ 1,099,701	$ 2,077,917	$ 5,034,470	$ 12,526,663
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 627,181	$ 32,567	$ -	$ 184,359	$ 844,107
Contracts and retainages payable	11,054	464	1,484	53,021	66,023
Accrued liabilities	112,228	124,355	11,105	70,506	318,194
Obligations under security lending agreements	244,455	99,272	191,884	312,818	848,429
Due to other funds	694,731	20,919	174,041	689,000	1,578,691
Due to other governments	74,009	15,908	-	79,604	169,521
Deferred revenues	1,198,682	110,228	9,236	235,826	1,553,972
Claims and judgments payable, current	14,677	-	-	1,059	15,736
Total Liabilities	2,977,017	403,713	387,750	1,626,193	5,394,673
Fund Balances:					
Reserved for:					
Encumbrances	38,881	128,812	-	641,639	809,332
Inventories	14,913	8,023	-	28,448	51,384
Permanent funds	-	-	1,690,167	163,550	1,853,717
Other specific purposes	37,237	118,273	-	1,095,815	1,251,325
Unreserved, designated for:					
Working capital	848,153	-	-	-	848,153
Unrealized gains	-	328	-	2,015	2,343
Debt service	-	-	-	101,557	101,557
Other specific purposes	-	155,679	-	137	155,816
Unreserved, undesignated	398,374	284,873	-	-	683,247
Unreserved, undesignated reported in nonmajor:					
Special Revenue Funds	-	-	-	1,343,467	1,343,467
Capital Projects Funds	-	-	-	31,649	31,649
Total Fund Balances	1,337,558	695,988	1,690,167	3,408,277	7,131,990
Total Liabilities and Fund Balances	$ 4,314,575	$ 1,099,701	$ 2,077,917	$ 5,034,470	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,643,417
Some of the State's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and, therefore, are deferred in the funds.	1,423,077
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(37,213)
Long-term liabilities, including bonds payable and interest, are not due and payable in the current period and, therefore, not reported in the funds.	(9,018,427)
Net assets of governmental activities	$ 18,142,844

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

GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	**Total**
Revenues:					
Retail sales and use taxes	$ 5,843,202	$ -	$ -	$ 36,087	$ 5,879,289
Business and occupation taxes	1,889,325	-	-	44,687	1,934,012
Property taxes	1,293,130	-	-	133,112	1,426,242
Excise taxes	431,073	-	-	70,725	501,798
Motor vehicle and fuel taxes	-	-	-	742,699	742,699
Other taxes	885,437	-	-	544,965	1,430,402
Licenses, permits, and fees	75,478	481	-	536,353	612,312
Timber sales	3,646	-	9,071	92,308	105,025
Other contracts and grants	217,351	376,653	-	17,825	611,829
Federal grants-in-aid	5,130,946	659,125	-	784,224	6,574,295
Charges for services	35,060	848,106	-	386,746	1,269,912
Investment income	19,628	32,941	5,211	131,405	189,185
Miscellaneous revenue	81,709	69,057	4,126	591,069	745,961
Contribution and donations	-	-	36,611	-	36,611
Total Revenues	15,905,985	1,986,363	55,019	4,112,205	22,059,572
Expenditures:					
Current:					
General government	526,599	-	-	343,535	870,134
Human services	8,303,812	-	-	1,035,253	9,339,065
Natural resources and recreation	262,934	-	-	377,058	639,992
Transportation	28,628	630	-	1,253,840	1,283,098
Education	6,777,776	1,776,133	-	447,854	9,001,763
Intergovernmental	23,103	-	-	326,517	349,620
Capital outlays	57,470	74,070	-	1,074,060	1,205,600
Debt service:					
Principal	10,525	6,446	-	411,946	428,917
Interest	1,640	4,060	-	395,865	401,565
Total Expenditures	15,992,487	1,861,339	-	5,665,928	23,519,754
Excess of Revenues Over (Under) Expenditures	(86,502)	125,024	55,019	(1,553,723)	(1,460,182)
Other Financing Sources (Uses):					
Bonds issued	-	-	-	929,495	929,495
Refunding bonds issued	-	-	-	87,975	87,975
Payment to refunded bond escrow agent	-	-	-	(92,003)	(92,003)
Notes issued	7,039	2,298	-	605	9,942
Bond issue premium (discount)	-	-	-	12,268	12,268
Transfers in	675,759	148,964	208,318	1,725,310	2,758,351
Transfers (out)	(740,324)	(365,074)	(92,199)	(1,416,078)	(2,613,675)
Total Other Financing Sources (Uses)	(57,526)	(213,812)	116,119	1,247,572	1,092,353
Net change in fund balances	(144,028)	(88,788)	171,138	(306,151)	(367,829)
Fund Balances - Beginning, as restated	1,481,586	784,776	1,519,029	3,714,428	7,499,819
Fund Balances - Ending	$ 1,337,558	$ 695,988	$ 1,690,167	$ 3,408,277	$ 7,131,990

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

State of Washington

Reconciliation of Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2002

(expressed in thousands)

Net change in fund balances--total governmental funds		$ (367,829)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	964,967	
Depreciation expense	(412,304)	
Excess of capital outlay over depreciation expense		552,663
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds and bond anticipation notes issued	(929,495)	
Refunding bonds issued	(87,975)	
Total bond proceeds		(1,017,470)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		(22,850)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement	428,917	
Capital lease payments	5,468	
Payments to the bond refunding agent	92,003	
Total long-term debt repayment		526,388
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.		(119,282)
Because some revenues will not be collected for several months after the State's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred revenues increased by this amount this year.		246,869
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net increase in accrued interest	(178,417)	
Interest accreted on capital appreciation debt	9,214	
Increase in miscellaneous liabilities	(35,109)	
Increase in compensated absences	(21,711)	
Increase in claims and judgments	(11,531)	
Total additional expenditures		(237,554)
Change in net assets of governmental activities		$ (439,065)

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

PROPRIETARY FUNDS
Statement of Fund Net Assets

June 30, 2002
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Total	Internal Service Funds
Assets					
Current Assets:					
Cash and pooled investments	$ 3,316	$ 1,495,373	$ 494,245	$ 1,992,934	$ 117,018
Investments	817,368	-	85,337	902,705	2,202
Taxes receivable (net of allowance)	-	-	4,101	4,101	-
Other receivables (net of allowance)	424,093	342,367	129,984	896,444	2,522
Due from other funds	1,365	4,249	41,599	47,213	53,396
Due from other governments	449	45,954	49,950	96,353	6,112
Inventories	193	-	67,468	67,661	19,056
Prepaid expenses	1	-	7,699	7,700	1,893
Total Current Assets	1,246,785	1,887,943	880,383	4,015,111	202,199
Noncurrent Assets:					
Investments, noncurrent	8,535,515	-	847,504	9,383,019	37,457
Other noncurrent assets	-	-	71,192	71,192	-
Capital Assets:					
Land	3,240	-	21,014	24,254	1,458
Buildings	62,446	-	968,945	1,031,391	69,116
Other improvements and miscellaneous	1,288	-	59,592	60,880	23,727
Furnishings and equipment	25,838	-	259,722	285,560	526,668
Accumulated depreciation	(31,687)	-	(556,404)	(588,091)	(314,171)
Construction in progress	-	-	300,708	300,708	6,386
Total Noncurrent Assets	8,596,640	-	1,972,273	10,568,913	350,641
Total Assets	$ 9,843,425	$ 1,887,943	$ 2,852,656	$ 14,584,024	$ 552,840
Liabilities					
Current Liabilities:					
Accounts payable	$ 5,090	$ -	$ 96,964	$ 102,054	$ 31,065
Contracts and retainages payable	2,054	-	24,226	26,280	815
Accrued liabilities	122,434	-	168,294	290,728	16,651
Obligations under security lending agreements	817,368	-	12,989	830,357	2,095
Bonds and notes payable	2,581	-	54,670	57,251	5,470
Due to other funds	4,315	3	61,027	65,345	28,019
Due to other governments	-	34	2,514	2,548	219
Deferred revenues	15,368	-	28,690	44,058	440
Claims and judgments payable, current	1,357,766	-	47,980	1,405,746	68,049
Total Current Liabilities	2,326,976	37	497,354	2,824,367	152,823
Non-Current Liabilities:					
Claims and judgments payable, long-term	13,525,333	-	2,016	13,527,349	366,861
Bonds and notes payable	45,496	-	656,858	702,354	54,215
Other long-term liabilities	10,105	-	694,320	704,425	16,154
Total Non-Current Liabilities	13,580,934	-	1,353,194	14,934,128	437,230
Total Liabilities	15,907,910	37	1,850,548	17,758,495	590,053
Net Assets:					
Invested in capital assets, net of related debt	13,048	-	356,858	369,906	253,500
Restricted for:					
Unemployment compensation	-	1,887,906	-	1,887,906	-
Unrestricted	(6,077,533)	-	645,250	(5,432,283)	(290,713)
Total Net (Deficit) Assets	$ (6,064,485)	$ 1,887,906	$ 1,002,108	$ (3,174,471)	$ (37,213)

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

PROPRIETARY FUNDS
Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating Revenues:					
Sales	$ -	$ -	$ 507,420	$ 507,420	$ 128,461
Less: Cost of goods sold	-	-	355,787	355,787	112,391
Gross profit	-	-	151,633	151,633	16,070
Charges for services	37	-	875,336	875,373	497,420
Premiums and assessments	1,042,909	972,849	823,441	2,839,199	69,505
Lottery ticket proceeds	-	-	438,600	438,600	-
Miscellaneous revenue	26,944	188,160	88,244	303,348	25,781
Total Operating Revenues	1,069,890	1,161,009	2,377,254	4,608,153	608,776
Operating Expenses:					
Salaries and wages	106,964	-	453,440	560,404	205,989
Employee benefits	25,169	-	79,933	105,102	44,862
Personal services	2,507	-	38,650	41,157	17,485
Goods and services	60,783	-	447,410	508,193	248,650
Travel	2,828	-	14,950	17,778	3,056
Premiums and claims	1,939,151	1,871,783	786,548	4,597,482	167,383
Lottery prize payments	-	-	282,246	282,246	-
Depreciation and amortization	970	-	52,563	53,533	53,498
Miscellaneous expenses	5,538	-	110,650	116,188	10,397
Total Operating Expenses	2,143,910	1,871,783	2,266,390	6,282,083	751,320
Operating Income (Loss)	(1,074,020)	(710,774)	110,864	(1,673,930)	(142,544)
Nonoperating Revenues (Expenses):					
Earnings (loss) on investments	435,356	112,794	65,063	613,213	2,582
Interest expense	(2,657)	-	(76,529)	(79,186)	(3,030)
Distributions to other governments	-	-	(29,033)	(29,033)	-
Other revenue (expenses)	7,134	248,395	118,625	374,154	4,711
Total Nonoperating Revenues (Expenses)	439,833	361,189	78,126	879,148	4,263
Income (Loss) Before Contributions and Transfers	(634,187)	(349,585)	188,990	(794,782)	(138,281)
Capital Contributions	-	-	-	-	3,488
Transfers in	235,340	-	153,992	389,332	34,709
Transfers (out)	(239,462)	-	(297,696)	(537,158)	(19,198)
Net Contributions and Transfers	(4,122)	-	(143,704)	(147,826)	18,999
Change in Net Assets	(638,309)	(349,585)	45,286	(942,608)	(119,282)
Net Assets - Beginning, as restated	(5,426,176)	2,237,491	956,822	(2,231,863)	82,069
Net Assets - Ending	$ (6,064,485)	$ 1,887,906	$ 1,002,108	$ (3,174,471)	$ (37,213)

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

PROPRIETARY FUNDS
Statement of Cash Flows

Continued

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:					
Receipts from customers	$ 1,056,314	$ 947,817	$ 2,635,398	$ 4,639,529	$ 697,898
Payments to suppliers	(1,394,495)	(1,881,650)	(2,001,784)	(5,277,929)	(427,172)
Payments to employees	(131,786)	-	(528,505)	(660,291)	(250,763)
Other receipts (payments)	26,945	188,160	88,245	303,350	25,780
Net Cash Provided (Used) by Operating Activities	(443,022)	(745,673)	193,354	(995,341)	45,743
Cash Flows from Noncapital Financing Activities:					
Transfers in	235,340	-	153,992	389,332	34,709
Transfers out	(239,462)	-	(297,696)	(537,158)	(19,198)
Operating grants and donations received	7,952	223,924	10,256	242,132	52
Taxes and license fees collected	6	-	101,370	101,376	-
Distributions to other governments	-	-	(29,033)	(29,033)	-
Other noncapital financing activity	4	-	220	224	(104)
Net Cash Provided (Used) by Noncapital Financing Activities	3,840	223,924	(60,891)	166,873	15,459
Cash Flows from Capital and Related Financing Activities:					
Interest paid	(2,656)	-	(35,264)	(37,920)	(3,074)
Principal payments on long-term capital financing	(2,451)	-	(39,120)	(41,571)	(5,716)
Proceeds from long-term capital financing	29	-	90,701	90,730	13,037
Proceeds from sale of capital assets	19	-	2,183	2,202	9,983
Acquisitions of capital assets	(1,090)	-	(115,276)	(116,366)	(51,641)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(6,149)	-	(96,776)	(102,925)	(37,411)
Cash Flows from Investing Activities:					
Receipt of interest	436,288	113,123	25,814	575,225	2,710
Proceeds from sale of investment securities	(4,639,769)	-	1,155,464	(3,484,305)	2,503
Purchases of investment securities	4,637,329	-	(1,166,461)	3,470,868	(41)
Net Cash Provided by (Used in) Investing Activities	433,848	113,123	14,817	561,788	5,172
Net Increase (Decrease) in Cash and Pooled Investments	(11,483)	(408,626)	50,504	(369,605)	28,963
Cash and Pooled Investments, July 1	14,799	1,903,999	443,741	2,362,539	88,055
Cash and Pooled Investments, June 30	$ 3,316	$ 1,495,373	$ 494,245	$ 1,992,934	$ 117,018
Cash Flows from Operating Activities:					
Operating Income (Loss)	$ (1,074,020)	$ (710,774)	$ 110,864	$ (1,673,930)	$ (142,544)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:					
Depreciation	970	-	52,563	53,533	53,498
Provision for uncollectible accounts	5,318	2,276	4,719	12,313	5
Change in Assets: Decrease (Increase)					
Receivables (net of allowance)	8,913	(27,309)	(9,781)	(28,177)	2,520
Inventories	(15)	-	(1,563)	(1,578)	539
Prepaid expenses	8	-	(1,263)	(1,255)	112
Change in Liabilities: Increase (Decrease)					
Payables	615,804	(9,866)	37,815	643,753	131,613
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (443,022)	$ (745,673)	$ 193,354	$ (995,341)	$ 45,743

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

PROPRIETARY FUNDS
Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Business Type Activities Enterprise Funds				Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Noncash Investing, Capital and Financing Activities:					
Contributions of capital assets	$ -	$ -	$ -	$ -	$ 3,488
Noncash portion of prior period adjustments	-	-	(32,116)	(32,116)	(32,534)
Amortization of long-term lotto prize liability	-	-	37,001	37,001	-
Increase (decrease) in fair value of investments	(932)	(329)	38,976	37,715	100
Refunding bonds issued	-	-	32,260	32,260	-
Refunded bonds redeemed	-	-	(31,590)	(31,590)	-
Net change in deferred gain on refunding activity	-	-	(490)	(490)	-
Accretion of interest on zero coupon bonds	-	-	2,858	2,858	-

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

FIDUCIARY FUNDS
Statement of Fiduciary Net Assets
June 30, 2002
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Assets:				
Cash and pooled investments	$ 72,602	$ 4,442,148	$ 32,952	$ 142,629
Investments	392	919,117	-	1,519
Other receivables (net of allowance)	298,916	105,753	209,915	53,845
Due from other funds	12,652	-	7,725	518,774
Due from other governments	2,261	-	22,969	25,868
Prepaid expenses	8	-	-	-
Total Current Assets	386,831	5,467,018	273,561	742,635
Noncurrent Assets:				
Investments, noncurrent	28,285	683,155	44,202,839	21,363
Other noncurrent assets	146	-	-	75,139
Capital Assets:				
Land	776	-	-	-
Buildings	7,949	-	-	-
Furnishings and equipment	7,730	-	-	-
Accumulated depreciation	(7,917)	-	-	-
Construction in progress	2,267	-	-	-
Total Noncurrent Assets	39,236	683,155	44,202,839	96,502
Total Assets	$ 426,067	$ 6,150,173	$ 44,476,400	$ 839,137
Liabilities:				
Accounts payable	$ 1,225	$ -	$ -	$ 8,504
Contracts and retainages payable	3	-	-	15,771
Accrued liabilities	17,316	51,549	65,812	290,769
Obligations under security lending agreements	211	683,156	3,041,737	15,052
Due to other funds	2,177	53	10,159	37,309
Due to other governments	161	-	-	391,223
Deferred revenues	179,856	-	-	-
Other long-term liabilities	22,705	-	-	80,509
Total Liabilities	223,654	734,758	3,117,708	$ 839,137
Net Assets:				
Net assets held in trust for:				
Pension benefits	-	-	40,005,772	
Deferred compensation participants	-	-	1,352,920	
Local government pool participants	-	5,415,415	-	
Individuals, organizations & other governments	202,413	-	-	
Total Net Assets	$ 202,413	$ 5,415,415	$ 41,358,692	

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

FIDUCIARY FUNDS
Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
Additions:			
Contributions:			
Employers	$ -	$ -	$ 262,314
Members	-	-	409,882
State	-	-	25,071
Pool participants	-	12,182,766	119,078
Total Contributions	-	12,182,766	816,345
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	(4,077,559)
Interest and dividends	24,626	142,706	1,177,984
Less: Investment expenses	-	-	(93,139)
Net Investment Income	24,626	142,706	(2,992,714)
Transfers from other pension plans	-	-	49,749
Other additions:			
Charges for services	41,152	-	12,062
Federal grants-in-aid	161,602	-	-
Other contracts, grants and miscellaneous	119,660	-	1,014
Total other additions	322,414	-	13,076
Total Additions	347,040	12,325,472	(2,113,544)
Deductions:			
Pension benefits	-	-	1,763,046
Pension refunds	-	-	97,475
Transfers to other pension plans	-	-	49,749
Administrative expenses	28,042	6,982	16,505
Distributions to pool participants	-	11,893,642	77,602
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	306,736	-	-
Total Deductions	334,778	11,900,624	2,004,377
Net Increase (Decrease) Before Transfers	12,262	424,848	(4,117,921)
Transfers in	50,620	-	-
Transfers (out)	(62,981)	-	-
Net Increase (Decrease)	(99)	424,848	(4,117,921)
Net Assets - Beginning, as restated	202,512	4,990,567	45,476,613
Net Assets - Ending	$ 202,413	$ 5,415,415	$ 41,358,692

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

COMPONENT UNITS
Statement of Fund Net Assets
June 30, 2002
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Totals
Assets			
Current Assets:			
Cash and pooled investments	$ 7,567	$ 2,380	$ 9,947
Investments	-	33,306	33,306
Other receivables (net of allowance)	143	2,858	3,001
Prepaid expenses	48	218	266
Total Current Assets	7,758	38,762	46,520
Noncurrent Assets:			
Investments, noncurrent	14,939	1,277	16,216
Other noncurrent assets	-	15,222	15,222
Capital Assets:			
Land	34,677	-	34,677
Buildings	73,726	-	73,726
Furnishings and equipment	3,086	1,041	4,127
Accumulated depreciation	(6,957)	(662)	(7,619)
Construction in Process	385,358	-	385,358
Total Noncurrent Assets	504,829	16,878	521,707
Total Assets	$ 512,587	$ 55,640	$ 568,227
Liabilities			
Current Liabilities:			
Accounts payable	$ 171	$ 1,182	$ 1,353
Contracts and retainages payable	19,190	-	19,190
Accrued liabilities	83	63	146
Deferred revenues	-	191	191
Total Current Liabilities	19,444	1,436	20,880
Non-Current Liabilities:			
Other long-term liabilities	35,034	4,039	39,073
Total Non-Current Liabilities	35,034	4,039	39,073
Total Liabilities	54,478	5,475	59,953
Net Assets:			
Invested in capital assets, net of related debt	435,666	379	436,045
Restricted for deferred sales tax	14,939	-	14,939
Unrestricted	7,504	49,786	57,290
Total Net (Deficit) Assets	$ 458,109	$ 50,165	$ 508,274

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

COMPONENT UNITS
Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	**Total**
Operating Revenues:			
Charges for services	$ 450	$ 9,604	$ 10,054
Total Operating Revenues	450	9,604	10,054
Operating Expenses:			
Salaries and wages	647	3,309	3,956
Employee benefits	90	804	894
Personal services	-	428	428
Goods and services	621	2,804	3,425
Travel	-	16	16
Depreciation and amortization	2,374	134	2,508
Miscellaneous expenses	-	84	84
Total Operating Expenses	3,732	7,579	11,311
Operating Income (Loss)	(3,282)	2,025	(1,257)
Nonoperating Revenues (Expenses):			
Earnings (loss) on investments	1,340	2,581	3,921
Sales tax	1,264	-	1,264
Interest expense	-	(451)	(451)
Total Nonoperating Revenues (Expenses)	2,604	2,130	4,734
Net Income (Loss) before Contributions	(678)	4,155	3,477
Contributions of capital	55,260	37	55,297
Change in Net Assets	54,582	4,192	58,774
Net Assets - Beginning, as restated	403,527	45,973	449,500
Net Assets - Ending	$ 458,109	$ 50,165	$ 508,274

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

COMPONENT UNITS
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
Cash Flows from Operating Activities:			
Receipts from customers	$ 329	$ 8,948	$ 9,277
Payments to suppliers	(601)	(4,044)	(4,645)
Payments to employees	(752)	(4,116)	(4,868)
Net Cash and Pooled Investments Provided (Used) in Operating Activities	(1,024)	788	(236)
Cash Flows from Noncapital Financing Activities:			
Taxes and license fees collected	1,264	-	1,264
Other noncapital financing activity	-	(2,004)	(2,004)
Net Cash and Pooled Investments Provided (Used) in Noncapital Financing Activities	1,264	(2,004)	(740)
Cash Flows from Capital and Related Financing Activities:			
Interest paid	10	(451)	(441)
Capital contributions	55,260	37	55,297
Proceeds from long-term capital financing	3,743	-	3,743
Acquisitions of capital assets	(126,789)	(513)	(127,302)
Net Cash and Pooled Investments Provided (Used) in Capital and Related Financing Activities	(67,776)	(927)	(68,703)
Cash Flows from Investing Activities:			
Investment income	1,340	2,481	3,821
Proceeds from sale of investment securities	-	463	463
Purchases of investment securities	(1,353)	(3,010)	(4,363)
Net Cash Provided (Used) in Investing Activities	(13)	(66)	(79)
Net Increase (Decrease) in Cash and Pooled Investments	(67,549)	(2,209)	(69,758)
Cash and Pooled Investments, July 1	75,116	4,589	79,705
Cash and Pooled Investments, June 30	$ 7,567	$ 2,380	$ 9,947
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating Income (Loss)	$ (3,282)	$ 2,025	$ (1,257)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:			
Depreciation	2,374	134	2,508
Change in Assets: Decrease (Increase)			
Receivables (net of allowance)	(121)	(611)	(732)
Prepaid expenses	(30)	(189)	(219)
Change in Liabilities: Increase (Decrease)			
Payables	35	(571)	(536)
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (1,024)	$ 788	$ (236)
Noncash investing, capital, and financing activities:			
Noncash activity included increase (decrease) in fair value of investments.		$ (25)	$ (25)

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

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2002

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Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. 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 eight retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the 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 ten 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 cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

The financing authorities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 - 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

The WASHINGTON STATE PUBLIC STADIUM AUTHORITY (PSA) was created by the Legislature to acquire, construct, own, and operate a 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. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed

in whole or in part by fees charged to external parties for goods and services.

Statement of Net Assets – The Statement of Net Assets presents the state's non-fiduciary assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

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

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

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

Statement of Activities - The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.

- Amounts received from outside entities that are restricted to one or more specific program. These amounts can be operating or capital in nature.

- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the health insurance and workers' compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

Fund Financial Statements

The State uses 501 accounts that are combined into 55 rollup funds. The State presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund is used to account for all financial resources and transactions not required to be accounted for in other funds.

- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.

- **Higher Education Endowment Fund** is used by the state to account for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.

Major Enterprise Funds:

- **Workers' Compensation Fund** is used to account for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

- **Unemployment Compensation Fund** is used to account for the unemployment compensation program. It accounts for the deposit of funds requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state, and to pay unemployment benefits.

The state includes the following governmental and proprietary fund types within nonmajor funds:

Nonmajor Governmental Funds:

- **Special Revenue Funds** are used to account for a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of non-interstate highway system; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** are used by the state to account for the accumulation of resources for, and the payment of, principal and interest on the state's general obligation bonds.

- **Capital Projects Funds** are used to account for the acquisition, construction, and remodeling of public buildings including higher education facilities.

- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

- **Enterprise Funds** are used to account for the state's business type operations including: the health insurance program; student housing and dining, parking and bookstore operations; the state lottery; state liquor stores; the guaranteed tuition and college savings program; and the convention and trade center.

- **Internal Service Funds** are used to account for the provision of legal, motor pool, data processing, risk management, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** - are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.

- **Local Government Investment Pool (LGIP)** is used to report the external portion of LGIP, which is reported, by the state as the sponsoring government.

- **Private-Purpose Trust Funds** are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. Examples include administration of student grant and loan programs and unclaimed property.

- **Agency Funds** – are used to account for resources held by the state in a purely custodial capacity for other governments, private organizations or individuals.

Operating and Non-operating Revenues and Expenses – The state's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state's workers' compensation and health insurance funds consist of premiums collected and investment earnings. Operating expenses consist of the claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

Application of Restricted/Unrestricted Resources – When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Measurement Focus and Basis of Accounting

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities are included on the 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.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if 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.

The state reports deferred revenues on its governmental fund 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.

All proprietary and 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 statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets. Net assets are presented as 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

D. General Budgetary Policies and Procedures

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules presented as Required Supplementary Information (RSI) are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.112 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 2001-2003 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report MFS1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113. For additional budgetary information, please refer to the notes to RSI presented later in this report.

E. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. 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 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 LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TDD (360) 902-8963.

All other noncurrent investments are reported 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. For information on derivative financial instruments utilized by the state, refer to Note 3.

F. Receivables

Receivables in the state's governmental 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. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Assets, except for the net residual balance that is reported as "internal balances." Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

G. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are reported in the state's financial statements if the annual balance on hand within an agency is estimated to be $25,000 or more. Consumable inventories are generally valued at cost using the first-in, first-out method. All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally valued at cost 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.

For governmental activities, inventories are recorded using the consumption method. For business-type activities, inventories are expensed when used or sold.

For governmental fund reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $70 thousand in food stamps and $3.7 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.

H. Capital Assets

Except as noted below, it is the state's policy to capitalize all land; all additions and improvements to the state highway system; infrastructure, other than the state highway system, with a cost of $100,000 or greater; and all other capital assets with a unit cost of $5,000 or greater.

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state if all of the following conditions are met:

- The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of less than $10,000 are not capitalized.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by

factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In proprietary and trust fund type accounts, net interest costs (if material) incurred during the period of construction are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	5-50 years
Other improvements	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation of capital assets retired from service, or disposed of, are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets,
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale, and
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the Modified Approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Assets. Depreciation expense related to capital assets is also reported in the Statement of Activities. Capital assets and the related depreciation expense are also reported in the proprietary fund financial statements.

For governmental fund reporting, capital assets are not reported on the balance sheet. Instead, capital acquisitions and construction are reflected as expenditures in the year acquired. No depreciation is reported.

I. Compensated Absences

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.

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 compensated absence leave outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

For government-wide reporting purposes, the state reports compensated absence obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Assets.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is paid. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

J. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Assets. Bonds payable are reported net of applicable premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

For governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuance are also reported as other financing sources and uses respectively. Issue costs are reported as debt service expenditures.

K. Fund Equity

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

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.

Health Insurance

The state of Washington administers and provides medical, dental, basic life, and long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, political subdivisions and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is also available on a self-paid basis to eligible retirees, former employees, and employees who are temporarily not in pay status.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. Twenty-nine percent of eligible subscribers were enrolled in the Uniform Medical Plan in Fiscal Year 2002. 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/Interagency Activities

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal.

Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

N. Donor-restricted Endowments

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions.

Generally, the institutions use a 5% spending rate policy for authorizing and spending investment income.

The net appreciation available for authorization for expenditure by the governing board totaled $113.9 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2 - Accounting and Reporting Changes

Fund equity at July 1, 2001, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2001, as previously reported	Fund Reclassification	Accounting Policy Changes	Prior Period Adjustment	Fund equity as restated, July 1, 2001
Governmental Funds:					
General	$ 1,481,586	-	-	-	$ 1,481,586
Higher Education Special Revenue	696,585	88,191	-	-	784,776
Higher Education Endowment	-	1,531,192	(12,163)	-	1,519,029
Nonmajor Governmental	2,899,195	818,014	-	(2,781)	3,714,428
Proprietary Funds:					
Enterprise Funds:					
Workers' Compensation	(5,426,175)	(1)	-	-	(5,426,176)
Unemployment Compensation	-	2,237,491	-	-	2,237,491
Nonmajor Enterprise Funds	968,284	20,653	-	(32,115)	956,822
Internal Service Funds:					
Nonmajor Internal Service Funds	100,481	14,121	(32,533)	-	82,069
Fiduciary Funds:					
Expendable Trust	4,676,184	(4,676,184)	-	-	-
Nonexpendable Trust	1,691,211	(1,691,211)	-	-	-
Private Purpose Trust	-	193,815	8,697	-	202,512
Local Government Investment Pool	4,990,566	1	-	-	4,990,567
Pension and Other Employee Benefit Plans	44,012,695	1,463,918	-	-	45,476,613
Component Units:					
Public Stadium	368,849	-	-	34,678	403,527
Nonmajor Component Units	45,945	-	28	-	45,973

Changes Affecting Equity

Effective for Fiscal Year 2002 reporting, the state implemented several new accounting standards issued by GASB:

Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,*

No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and

No. 38, *Certain Financial Statement Note Disclosures*.

Fund Reclassification - Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. The requirements of these statements represent a significant change in the financial reporting model used by state governments, most significantly new government-wide financial statements. In addition to government-wide financial statements, they require changes to statement formats, changes in fund types, and the elimination of account groups. As a result, certain beginning fund balances were required to be restated for fund reclassifications.

Accounting Policy Changes – GASB Statement No. 34 required the reclassification of most nonexpendable trust funds, which were accounted for as proprietary funds, to permanent funds, which are accounted for as governmental funds. Due to this change, deferred revenue was recorded for amounts not available.

For funds that were reclassified from governmental to proprietary, the following accounting policy changes were needed:

- accrue long-term liabilities;
- record capital assets;
- recognize revenue that was previously deferred; and
- recognize prepaids that were previously expended.

Prior period adjustments – A prior period adjustment was recorded in the Motor Vehicle Account, which is a non-major special revenue fund. This adjustment of $2.8 million properly reflects the accrual of local tax distribution, which was collected in June and distributed in July.

A prior period adjustment was recorded in the Certificates of Participation and Other Financing Fund, which is a non-major enterprise fund. The $3.4 million adjustment is a net reduction to receivables. A $28.7 million prior period adjustment was recorded in the Higher Education Student Services Fund, also a non-major enterprise fund, to reflect a correction of application of an accounting principle.

The Washington State Public Stadium Authority, a discrete component unit, recorded a prior period adjustment of $34.7 million to reflect land that was conveyed from King County last year.

Note 3 - Deposits and Investments

As of June 30, 2002, the carrying amount of Washington's cash and investments was $69.4 billion. Total cash and investments at fiscal year-end amounted to $69.7 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to $57.2 million, deposits with financial institutions amounted to $766 million, and deposits in the federal Unemployment Trust Fund amounted to $1.5 billion. The remaining $67.3 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2002, are as follows (expressed in thousands):

Type of Deposit	Carrying Amount	Bank Balance	Insured/ Collateralized	Uninsured/ Uncollateralized
Demand deposits	$ 66,985	$ 208,993	$ 207,823	$ 1,170
Certificates of deposit	485,974	485,974	485,219	755
Cash with fiscal and escrow agents	71,159	71,069	52,172	18,897
Total Deposits	$ 624,118	$ 766,036	$ 745,214	$ 20,822

DEPOSITS - At fiscal year end, 97.3 percent of the state's deposits with financial institutions were either insured or collateralized, the remaining 2.7 percent were uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits. The Washington Public Deposit Protection Commission (PDPC) provides collateral protection. 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, the Office of the State Treasurer, and the University of Washington manage approximately 95 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.

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, 2002. 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, 2002, the only derivative securities held directly by SIB were collateralized mortgage obligations (CMO's) of $2.1 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 Company (SSB) to act as agent for the SIB in securities lending transactions. As SSB is the custodian bank for the SIB, it is a counterparty to securities lending transactions. Therefore, all cash collateral reinvested by SSB 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, or were securities whose primary trading market was located in the United States, or were sovereign debt that was 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, 2002 approximated $3.9 and $3.8 billion, respectively.

During Fiscal Year 2002, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 49 days.

Cash collateral was invested by the SIBs agents in securities issued or guaranteed by the U.S. government, the SIBs short-term investment pool (average weighted maturity of 162 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 could be returned in the future for exchange of the collateral. SSB 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. SSB 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 2002, there were no significant violations of legal or contractual provisions nor failures by any borrower to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses during Fiscal Year 2002 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, 2002, the state had the following unfunded investment commitments (expressed in thousands):

Private equity partnerships	$ 5,743,629
Real estate	917,495

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 custodian. At June 30,

2002, 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, 2002, the average life of both the loans and the investment of cash received as collateral was one day.

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 2002, 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. There were no losses during the fiscal year due to defaults. 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, 2002, 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. 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. Securities on loan at June 30, 2002, totaled $353 million.

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Such investments are governed by the University's Investment Policies and Guidelines, which effectively constrain their use by establishing (a) duration parameters which limit price sensitivity to interest rate fluctuations (market risk), (b) minimum quality ratings at both the security and portfolio level, and (c) a market index as a performance benchmark.

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, 2002, 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	$ 8,933,901	$ 498	$ -	$ 8,934,399	$ 8,934,399
Corporate stocks	2,621,629	563	-	2,622,192	2,622,192
U.S. government securities	2,905,091	-	-	2,905,091	2,905,108
Government securities	1,642,556	-	-	1,642,556	1,642,556
Collateralized mortgage obligations	3,826,993	-	-	3,826,993	3,826,991
Repurchase agreements	2,260,733	1,982	800,000	3,062,715	3,062,718
Asset backed securities	359,209	-	454,889	814,098	814,098
Commercial paper	5,964	-	248,555	254,519	254,519
Discount notes	4,185,552	-	-	4,185,552	4,185,562
Bankers' acceptances	7,608	-	-	7,608	7,608
Municipal bonds	33,001	119	-	33,120	33,135
Variable rate notes	-	-	1,057,807	1,057,807	1,057,807
Negotiable certificates of deposit	-	-	1,300,279	1,300,279	1,300,279
Other	1,315	-	-	1,315	1,315
	$ 26,783,552	$ 3,162	$ 3,861,530	30,648,244	30,648,287
Mutual funds				3,387,353	3,387,353
Mortgages				649,185	649,185
Real estate				3,681,581	3,681,581
Private equity				5,345,585	5,345,585
Guaranteed investment contracts				467,556	467,556
Investments held by broker-dealers under securities lending programs:					
U.S. government securities				4,347,750	4,347,750
U.S. agency securities				163,181	163,181
Other investments				575,383	575,383
Investments held by broker-dealers under reverse repurchase agreements:					
U.S. government securities				3,800	3,800
U.S. instrumentality securities				2,000	2,000
Commingled investment Funds					
Foreign				3,479,364	3,479,364
Domestic				14,123,982	14,123,982
Other investment types				509,088	509,088
Total Investments				$ 67,384,052	$ 67,384,095

Note 4 - Receivables and Deferred Revenues

A. Governmental Funds

Taxes Receivable

Taxes receivable at June 30, 2002, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 772,281	$ -	$ -	$ 1,491	$ 773,772
Sales	1,137,348	-	-	17,815	1,155,163
Business and occupation	412,746	-	-	-	412,746
Estate	15,729	-	-	-	15,729
Fuel	-	-	-	64,810	64,810
Other	41,724	-	-	3,530	45,254
Subtotals	2,379,828	-	-	87,646	2,467,474
Less: Allowance for uncollectible receivables	31,342	-	-	295	31,637
Total Taxes Receivable	$ 2,348,486	$ -	$ -	$ 87,351	$ 2,435,837

Other Receivables

Other receivables at June 30, 2002, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance	$ 1,123,129	$ -	$ -	$ 1,242	$ 1,124,371
Accounts receivable	12,935	76,234	2,730	52,491	144,390
Interest	-	1,134	9,906	6,858	17,898
Loans	4,504	2,074	-	57,804	64,382
Long-term contracts	6,186	-	9,011	111,955	127,152
Miscellaneous	6,454	45,003	9,996	12,833	74,286
Subtotals	1,153,208	124,445	31,643	243,183	1,552,479
Less: Allowance for uncollectible receivables	936,746	4,313	63	17,954	959,076
Total Other Receivables	$ 216,462	$ 120,132	$ 31,580	$ 225,229	$ 593,403

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.

Deferred Revenues

Deferred revenues at June 30, 2002, consisted of the following (expressed in thousands):

Deferred Revenues	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 751,661	$ -	$ -	$ 525	$ 752,186
Other taxes	379,512	-	-	16	379,528
Timber sales	3,093	-	9,010	102,530	114,633
Charges for services	12,331	12,437	-	17,375	42,143
Food stamps	70	-	-	-	70
Donable goods	3,699	-	-	-	3,699
Miscellaneous	48,316	97,791	226	115,380	261,713
Total Deferred Revenues	$ 1,198,682	$ 110,228	$ 9,236	$ 235,826	$ 1,553,972

B. Proprietary Funds

Taxes Receivable

Taxes receivable at June 30, 2002, consisted of $4.1 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2002, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds				Governmental Activities
Other Receivables	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Accounts receivable	$ 32,860	$ -	$ 188,804	$ 221,664	$ 2,201
Interest	102,458	-	1,892	104,350	337
Loans	-	-	1	1	-
Miscellaneous	307,559	391,295	6,850	705,704	237
Subtotals	442,877	391,295	197,547	1,031,719	2,775
Less: Allowance for uncollectible receivables	18,784	48,928	67,563	135,275	253
Total Other Receivables	$ 424,093	$ 342,367	$ 129,984	$ 896,444	$ 2,522

Deferred Revenues

Deferred revenues at June 30, 2002, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds				Governmental Activities
Deferred Revenues	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	**Total**	Internal Service Funds
Charges for services	$ -	$ -	$ 25,095	$ 25,095	$ 439
Donable goods	-	-	32	32	-
Miscellaneous	15,368	-	3,563	18,931	1
Total Deferred Revenues	$ 15,368	$ -	$ 28,690	$ 44,058	$ 440

C. Fiduciary Funds

Other Receivables

Other receivables at June 30, 2002, consisted of the following (expressed in thousands):

Other Receivables	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Public assistance	$ 4,236	$ -	$ -	$ -
Accounts receivable	31	-	2,963	8,716
Interest	1,574	5,753	165,384	18,575
Loans	302,315	-	-	22
Miscellaneous	1,141	100,000	41,682	26,780
Subtotals	309,297	105,753	210,029	54,093
Less: Allowance for uncollectible receivables	10,381	-	114	248
Total Other Receivables	$ 298,916	$ 105,753	$ 209,915	$ 53,845

Deferred Revenues

Deferred revenues recorded in Private-Purpose Trust funds at June 30, 2002, consisted of $490 thousand related to charges for services and $179.4 million related to other miscellaneous revenues.

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

The following balances at June 30, 2002, represent due from and due to balances among all funds and state agencies (expressed in thousands):

	Due From									
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
General	$ 68,708	$ 5,189	$ -	$ 574,867	$ 5	$ -	$ 1,466	$ 324	$ 14,605	$ 665,164
Higher Educ. Special Revenue	36,526	10,194	19	2,056	33	-	15,905	15,408	1,587	81,728
Higher Education Endowment	-	-	-	-	-	-	-	-	10	10
Nonmajor Governmental Funds	217,940	521	2,534	87,637	52	-	10,714	918	14,775	335,091
Workers' Compensation	64	-	-	286	975	-	-	6	34	1,365
Unemployment Compensation	2,019	2,157	-	73	-	-	-	-	-	4,249
Nonmajor Enterprise Funds	7,897	1,858	-	72	-	-	31,159	364	249	41,599
Internal Service Funds	23,605	10	-	14,165	3,250	3	1,083	10,850	430	53,396
Fiduciary Funds	337,972	990	171,488	9,844	-	-	700	149	18,008	539,151
Totals	$ 694,731	$ 20,919	$ 174,041	$ 689,000	$ 4,315	$ 3	$ 61,027	$ 28,019	$ 49,698	$ 1,721,753

All interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred.

B. Interfund Transfers

Interfund transfers as reported in the financial statements reflect transfers between agencies and accounts reported within the same fund.

Net transfers between funds for the year ended June 30, 2002, consisted of the following (expressed in thousands):

	Transferred To							
Transferred From	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Funds	Total
General Fund	$ -	$ 9,851	$ -	$ 703,732	$ -	$ 11,897	$ 14,785	$ 740,265
Higher Educ. Special Revenue	-	-	149,698	55,526	4,511	5,948	11,520	227,203
Higher Education Endowment	-	87	-	33,482	-	-	302	33,871
Nonmajor Governmental Funds	606,673	1,153	293	-	387	-	4	608,510
Workers' Compensation Fund	-	-	-	4,122	-	-	-	4,122
Nonmajor Enterprise Funds	31,273	2	-	118,279	-	-	1,101	150,655
Internal Service Funds	-	-	-	2,334	-	-	-	2,334
Private Purpose Funds	37,754	-	-	267	2,052	-	-	40,073
Total	$ 675,700	$ 11,093	$ 149,991	$ 917,742	$ 6,950	$ 17,845	$ 27,712	$ 1,807,033

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law.

In the Fiscal Year ended June 30, 2002, the State recorded transfers for $334.9 million from the Emergency Reserve Account to the General Fund. These transfers were made in accordance with budgetary authority granted by the Legislature. The Legislature also directed transfer of $255.7 million from various nonmajor governmental funds to the General Fund to subsidize lower than expected revenues. The net transfers from the Higher Education Special Revenue Fund to the Higher Education Endowment Fund includes a transfer by the University of Washington (UW) to establish an endowment of approximately $200 million as approved by the UW Board of Regents.

Note 6 - Capital Assets

A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June30, 2002 (expressed in thousands):

Capital Assets	Balances July 1, 2001*	Additions	Deletions	Balances June 30, 2002
Capital assets, not being depreciated:				
Land	$ 943,914	176,718	(32,346)	$ 1,088,286
Highway System Infrastructure	10,492,546	607,323	-	11,099,869
Construction in Progress	1,101,573	315,998	(276,854)	1,140,717
Art Collections, Library Reserves, Museum, and Historical Collections	72,240	3,171	(1,371)	74,040
Total capital assets, not being depreciated	12,610,273			13,402,912
Capital assets, being depreciated:				
Buildings	5,272,307	370,515	(60,758)	5,582,064
Accumulated depreciation	(1,724,813)	(145,843)	4,289	(1,866,367)
Net buildings	3,547,494			3,715,697
Furnishings, equipment, and collections	2,714,916	304,362	(219,957)	2,799,321
Accumulated depreciation	(1,367,646)	(261,235)	79,195	(1,549,686)
Net furnishings and equipment	1,347,270			1,249,635
Other improvements	639,872	69,275	(44,543)	664,604
Accumulated depreciation	(202,647)	(47,438)	2,862	(247,223)
Net other improvements and miscellaneous	437,225			417,381
Infrastructure (other)	217,999	26,138	-	244,137
Accumulated depreciation	(61,874)	(11,286)	-	(73,160)
Net other improvements and miscellaneous	156,125			170,977
Total capital assets, being depreciated, net	5,488,114			5,553,690
Governmental activities capital assets, net	$ 18,098,387			$ 18,956,602

*Beginning balances have been adjusted during implementation of GASB Statement No. 34 to reflect accounting for infrastructure and collection/library reserves.

B. Business-type Capital Assets

The following is a summary of business-type capital asset activity for the year ended June 30, 2002, (expressed in thousands):

Capital Assets	Balances July 1, 2001*	Additions	Deletions	Balances June 30, 2002
Capital assets, not being depreciated:				
Land	$ 24,055	164	-	$ 24,219
Art Collections, Library Reserves	35	-	-	35
Construction in Progress	302,487	114,352	(116,131)	300,708
Total capital assets, not being depreciated	326,577			324,962
Capital assets, being depreciated:				
Buildings	937,735	99,359	(5,703)	1,031,391
Accumulated depreciation	(344,362)	(26,008)	793	(369,577)
Net buildings	593,373			661,814
Furnishings, equipment, and collections	262,318	31,425	(8,183)	285,560
Accumulated depreciation	(181,198)	(21,486)	1,969	(200,715)
Net furnishings and equipment	81,120			84,845
Other Improvements	50,260	7,819	(21,418)	36,661
Accumulated depreciation	(9,150)	(2,744)	722	(11,172)
Net other improvements and miscellaneous	41,110			25,489
Infrastructure (other)	20,340	4,618	(738)	24,220
Accumulated depreciation	(4,042)	(3,294)	708	(6,628)
Net other improvements and miscellaneous	16,298			17,592
Total capital assets, being depreciated, net	731,901			789,740
Business-type activities capital assets, net	$ 1,058,478			$ 1,114,702

*Beginning balances have been adjusted during implementation of GASB Statement No. 34 to reflect accounting for infrastructure and collection/library reserves.

C. Construction in Progress

Major construction commitments of the state at June 30, 2002, are as follows (expressed in thousands):

Agency/Project Commitments	Construction In Progress June 30, 2002	Remaining Project Commitments
Department of General Administration:		
Various projects	$ 98,716	$ 473,097
Liquor Control Board:		
Distribution center	28,538	-
Washington State Patrol:		
Seattle crime laboratory and other projects	10,421	8,153
Military Department:		
Emergency operation center and other projects	35,275	6,110
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations, and other projects	125,610	90,125
Department of Corrections:		
Correctional centers construction, improvements, and other projects	236,442	387,750
Eastern Washington State Historical Society		
Museum Addition	20,842	2
Department of Transportation:		
Maintenance facilities, ferry vessels, and terminals	177,341	898,607
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	7,555	18,434
State Convention and Trade Center:		
Center Expansion	181,666	-
Higher Education Facilities:		
University of Washington	300,514	354,540
Washington State University	80,564	174,945
Eastern Washington University	9,473	1,059
Central Washington University	25,031	18,439
The Evergreen State College	57	71
Western Washington University	35,329	53,006
Community and Technical Colleges	63,449	134,966
Other Agency Miscellaneous Projects	4,602	17,689
Total Construction in Progress	$ 1,441,425	$ 2,636,993

Depreciation expense was charged to functions of the primary government as follows (in thousands):

	Amount
Governmental Activities:	
General Government	$ 48,699
Education - elementary and secondary (K-12)	92
Education - higher education	280,608
Human services	20,678
Adult corrections	25,954
Natural resources and recreation	20,388
Transportation	69,383
Total Depreciation Expense - Governmental Activities	$ 465,802
Business-Type Activities:	
Workers' Compensation	$ 970
Unemployment Compensation	-
Health Insurance Programs	147
Higher Education Student Services	45,259
Other	7,157
Total Depreciation Expense - Business-type Activities	$ 53,533

*Includes $53,498 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2002, are reported by the State of Washington within Governmental Activities and Business-Type Activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of State general obligation debt, to which the State's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of 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. The 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.

Legal Debt Limitation
The State Constitution and current statutes generally limit debt authorized in the preceding procedures. 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 that 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 2002 was $5.9 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, 2002, did not exceed the authorized debt service limitation.

Computation of Legal Debt Limitation (expressed in millions)[1]	
Three year mean, general state revenues	$ 8,656
Legal Debt Limitation:	
Debt service limitation (7 percent of above)	$ 606
Less: Projected maximum annual debt service of outstanding bonds	567
Uncommitted Portion of Debt Service Limitation	$ 39
Remaining State general obligation debt capacity	$ 550
Plus: Debt outstanding subject to limitation	5,406
Maximum Debt Authorization Subject to Limitation	$ 5,956

[1] Source: Office of the State Treasurer – Certification of the Debt Limitation of the State of Washington for Fiscal Year 2002.

Authorized but unissued
The State had a total of $3,111,828 of bonds authorized but unissued as of June 30, 2002, for the purpose of public building and schools construction and renovation, higher education purposes, and highways construction and improvement.

Interest rates
Interest rates on fixed rate general obligation bonds ranged from 3.0 to 9.0 percent. Variable rate demand obligations (VRDO) of $191 million are remarketed on a weekly basis. Interest rates on revenue bonds range from 2.94 to 7.0 percent.

DEBT SERVICE REQUIREMENTS TO MATURITY
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 construction and improvements 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. Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2002. 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.

Total debt service requirements to maturity for general obligation bonds, as of June 30, 2002, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2003	$ 393,339	$ 424,800	$ 16,595	$ 8,170	$ 409,934	$ 432,970
2004	365,240	407,699	16,646	7,377	381,886	415,076
2005	373,978	393,562	17,001	6,432	390,979	399,994
2006	377,649	370,580	17,721	5,476	395,370	376,056
2007	390,988	354,897	18,903	4,461	409,891	359,358
2008-2012	1,846,720	1,459,102	55,726	20,642	1,902,446	1,479,744
2013-2017	1,927,051	988,312	30,404	26,144	1,957,455	1,014,456
2018-2022	1,567,754	537,960	14,108	34,682	1,581,862	572,642
2023-2027	754,450	88,928	-	-	754,450	88,928
Total Debt Service Requirements	$ 7,997,169	$ 5,025,840	$ 187,104	$ 113,384	$ 8,184,273	$ 5,139,224

Revenue Bonds are authorized under current state statutes, which empower certain state agencies to issue bonds that are not supported, or 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.

The State's Colleges and Universities issue revenue bonds for the purposes of housing, dining, parking, and student facilities construction.

Total debt service requirements for revenue bonds to maturity as of June 30, 2002, are as follows (expressed in thousands):

	Business-Type Activities	
Revenue Bonds	Principal	Interest
By Fiscal Year:		
2003	$ 8,072	$ 17,388
2004	8,606	16,417
2005	9,875	15,984
2006	10,119	15,521
2007	10,675	15,033
2008-2012	59,221	66,930
2013-2017	63,885	50,235
2018-2022	63,496	33,909
2023-2027	59,281	19,011
2028-2032	34,282	5,060
Total Debt Service Requirements	$ 327,512	$ 255,488

DEBT REFUNDINGS
When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the State refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

CURRENT YEAR DEFEASANCES
Governmental Activities:
On June 15, 2002, the State issued $62.4 million of Various Purpose General Obligation Refunding Bonds (Series R-2002A) with an average interest rate of 4.89 percent to refund $63.0 million of Various Purpose General Obligation Bonds from several different series with an average interest rate of 6.09 percent. The refunding resulted in a $4.0 million gross debt service savings over the next five years and an economic gain of $4.0 million.

On June 15, 2002, the State issued $25.6 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2002B) with an average interest rate of 4.89 percent to refund $25.8 million of Motor Vehicle Fuel Tax General Obligation bonds from two series with an average interest rate of 6.09 percent. The refunding resulted in a $1.6 million gross debt service savings over the next five years and an economic gain of $1.6 million.

Business-Type Activities:
On April 1, 2002, the University of Washington issued $5.1 million in Housing and Dining System Revenue and Refunding Bonds (Series 2002), with an average interest rate of 5.07 percent, to refund $4.9 million in outstanding Housing and Dining System Revenue Bonds with an average interest rate of 6.99 percent. The refunding resulted in an accounting gain of $247,916 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1.3 million. The refunding of the bonds decreased the University's total debt service payments over the next 21 years by $842,794.

On October 1, 2001, the University of Washington Alumni Association issued $19.8 million in Lease Refunding Bonds (2001 issue), with an average interest rate of 5.08 percent, to refund $19.3 million in outstanding Lease Revenue Bonds (1994 issue) with an average interest rate of 6.09 percent. The refunding resulted in an accounting loss of $535,000 and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $889,710. The refunding of the bonds decreased the University's total debt service payments over the next 14 years by $1.1 million.

PRIOR YEAR DEFEASANCES
In prior years, the State defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the prior bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements.

General Obligation Bond Debt:
On June 30, 2002, $142.0 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:
On June 30, 2002, $71.5 million of proprietary revenue bonded debt outstanding is considered defeased.

B. 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 School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2002, the State had guaranteed 83 school districts' voter-approved general obligation debt with a total outstanding principal of $1.6 billion.

C. 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 affect the State's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the State not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2002, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2003	$ 28,106	$ 15,926	$ 21,423	$ 14,785	$ 49,529	$ 30,711
2004	18,497	10,853	14,665	10,636	33,162	21,489
2005	16,179	10,025	13,827	9,974	30,006	19,999
2006	13,942	9,295	12,274	9,342	26,216	18,637
2007	12,636	8,666	11,818	8,779	24,454	17,445
2008-2012	71,648	33,701	71,582	34,500	143,230	68,201
2013-2017	77,940	13,904	80,306	14,327	158,246	28,231
2018-2022	9,710	1,188	10,011	1,224	19,721	2,412
Total Debt Service Requirements	$ 248,658	$ 103,558	$ 235,906	$ 103,567	$ 484,564	$ 207,125

Note: An additional $5 million certificates of participation, related to fiduciary activities, remains outstanding as of June 30, 2002.

On September 1, 1998, the State lease-purchase program was extended to enable local governments to participate in low cost financing of essential equipment (Local Option Capital Asset Lending Program (LOCAL)). The program allows local governments to pool their financing requests together with Washington State agencies for lower tax-exempt interest rates. While these COP's 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, 2002, outstanding certificates of participation notes totaled $26.5 million for 138 local governments participating in LOCAL.

D. Claims and Judgments

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation and health insurance are business-type activities, and risk management is a governmental activity. A description of the risks to which the State is exposed by these activities, and the ways in which the State handles the risks, is presented in Note 1L.

Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2001 and 2002 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2001	$ 13,621,702	1,990,349	(1,368,938)	$ 14,243,113
FY 2002	$ 14,243,113	2,045,466	(1,405,480)	$ 14,883,099

At June 30, 2002, $30.6 billion of unpaid claims and claim adjustment expenses are presented at their net present value of $14.9 billion. These claims are discounted at assumed interest rates of 4.0 percent (time loss and medical) to 6.5 percent (pensions) and are net of third party recoveries.

The claims and claim adjustment liabilities of $14.9 billion, as of June 30, 2002, include $7.2 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining claims liabilities of $7.7 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2001 and 2002 were as follows (expressed in thousands):

Risk Manangement Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
FY 2001	$ 240,247	131,096	(85,425)	(17,181)	$ 268,737
FY 2002	$ 268,737	189,909	(33,638)	(22,538)	$ 402,470

Risk Management 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, 2002, outstanding and actuarially determined claims against the State and its public authorities were $402.5 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, 2002, the Risk Management Fund held $5.4 million in cash and pooled investments designated for payment of these claims under the State's Self Insurance Liability Program.

Health Insurance

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2001 and 2002 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2001	$ 35,266	262,342	(254,461)	$ 43,147
FY 2002	$ 43,147	297,836	(294,057)	$ 46,926

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2002, health insurance claims liabilities totaling $46.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

E. Leases

The State leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Leased buildings and equipment under capital leases as of June 30, 2002, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Buildings	$ 1,600	$ 1,671
Equipment	40,384	1,079
Less: Accumulated Depreciation	(7,311)	(601)
Totals	$ 34,673	$ 2,149

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2002, (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
By Fiscal Year:				
2003	$ 6,204	$ 356	$ 89,709	$ 7,737
2004	6,078	345	79,109	6,614
2005	6,013	326	65,410	5,948
2006	5,801	285	56,562	4,722
2007	5,390	246	44,028	3,812
2008-2012	12,934	516	138,680	8,609
2013-2017	526	250	99,395	228
2018-2022	453	125	91,216	-
2023-2027	-	-	97,729	-
2028-2032	-	-	103,978	-
Total Future Minimum Payments	43,399	2,449	865,816	37,670
Less: Executory costs and interest costs	8,346	691	-	-
Net Present Value of future minimum lease payments	$ 35,053	$ 1,758	$ 865,816	$ 37,670

The total operating lease rental expense for Fiscal Years 2001 and 2002 were $317.2 million and $337.2 million, respectively.

F. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2002 (expressed in thousands) was as follows:

Governmental Activities:	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Amounts Due Within One Year
Long-term Debt:					
Bonds Payable -					
General obligation (GO) bonds	$7,208,450	$1,010,195	$469,695	$7,748,950	$378,340
GO - zero coupon bonds (principal)	264,441	-	18,187	246,254	14,914
Other bonds payable	2,045	-	80	1,965	85
Subtotal	7,474,936	1,010,195	487,962	7,997,169	393,339
GO - zero coupon bonds (accreted interest)	161,319	0	9,214	152,105	13,670
Total bonds payable	7,636,255	1,010,195	497,176	8,149,274	407,009
Other liabilities -					
Certificates of participation	264,686	26,544	42,572	248,658	28,106
Claims and judgments	331,912	171,391	31,920	471,383	89,176
Leases	17,672	22,850	5,469	35,053	6,204
Compensated absences	365,412	338,097	316,016	387,493	35,632
Unfunded pension obligations	40,100	4,600	-	44,700	-
Other	139,803	390,806	376,087	154,522	118,302
Total other liabilities	1,159,585	954,288	772,064	1,341,809	277,420
Total	$8,795,840	$1,964,483	$1,269,240	$9,491,083	$684,429

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 53% by the General Fund, 41% by major Special Revenue Funds, and 6% by various other governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Business-Type Activities	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Amounts Due Within One Year
Long-term Debt:					
Bonds Payable -					
General obligation (GO) bonds	$173,588	$7,275	$23,018	$157,845	$16,595
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Revenue Bonds	283,606	76,256	32,350	327,512	8,072
Less: Deferred amounts on refunding	(2,773)	(555)	-	(3,328)	-
Subtotal	483,680	82,976	55,368	511,288	24,667
GO - zero coupon bonds (accreted interest)	12,190	2,858	-	15,048	-
Less: Deferred amounts for issuance discounts	(1,837)	-	66	(1,771)	(66)
Subtotal	10,353	2,858	-	13,277	(66)
Total bonds payable	494,033	85,834	55,368	524,565	24,601
Other liabilities -					
Certificates of participation	213,660	108,982	86,736	235,906	21,423
Less: Deferred amounts for issuance discounts	(2,625)	-	1	(2,624)	-
Claims and judgments	14,246,313	2,046,615	1,406,760	14,886,168	1,405,746
Lottery prize annuities payable	497,712	879,009	877,724	498,997	25,469
Tuition benefits payable	91,171	121,489	4,760	207,900	-
Leases	1,939	184	365	1,758	356
Compensated absences	34,549	26,521	25,295	35,775	13,928
Other	191,755	131,753	252,106	71,402	69,640
Total other liabilities	15,274,474	3,314,553	2,653,747	15,935,282	1,536,562
Total	$15,768,507	$3,400,387	$2,709,115	$16,459,847	$1,561,163

Note 8 - No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements. These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The 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	$ 2,088,138
Washington Higher Education Facilities Authority	324,307
Washington Health Care Facilities Authority	2,533,582
Washington Economic Development Finance Authority	208,765
Total No Commitment Debt	$ 5,154,792

Note 9 – Fund Balances Reserved or Designated for Other Specific Purposes

The nature and purposes of fund balances reserves and designations for other specific purposes as of June 30, 2002, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:					
Long-term student loans	$ -	$ 16	$ -	$ -	$ 16
Investments with trustees	593	-	-	448	1,041
Long-term receivables	36,041	286	-	959,016	995,343
Long-term investments	-	113,527	-	19,406	132,933
Emergency reserve	-	-	-	116,129	116,129
Petty cash	603	4,444	-	816	5,863
Total Reserved for Other Specific Purposes	$ 37,237	$ 118,273	$ -	$ 1,095,815	$ 1,251,325
Unreserved, Designated for Other Specific Purposes:					
Higher education	$ -	$ 155,679	$ -	$ -	$ 155,679
Miscellaneous	-	-	-	137	137
Total Unreserved, Designated for Other Specific Purposes	$ -	$ 155,679	$ -	$ 137	$ 155,816

Note 10 - Deficit Net Assets

At June 30, 2002, there were two proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of $6.1 billion at June 30, 2002. 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 net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2002, (expressed in thousands):

Workers' Compensation Fund	Net Assets (Deficit)
Balances, July 1, 2001	$ (5,426,176)
Fiscal Year 2002 activity	(638,309)
Balances, June 30, 2002	$ (6,064,485)

The Risk Management Fund, an internal service fund, had deficit net assets of $395.2 million at June 30, 2002. The Risk Management Fund is used to account for the claims, torts, judgments generally arising from automobile 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 net assets.

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.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2002, (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2001	$ (271,152)
Fiscal Year 2002 activity	(124,064)
Balance, June 30, 2002	$ (395,216)

Note 11 - Retirement Plans

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 four 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 three defined contribution plans as follows:

Public Employees' Retirement System (PERS)
- Plan 1 - defined benefit
- Plan 2/3 - defined benefit
- Plan 3 - defined contribution

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 was funded by an employer rate of .23 percent of employee salaries for the period July 1, 2001, through April 30, 2002. The rate decreased to .22 percent as of May 1, 2002. 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 11.B through D respectively. For information related to defined contribution plans, refer to Note 11.I. Details on plan net assets and changes in plan net assets of pension plans administered by the state are presented at Note 11.J.

Membership of each state administered plan consisted of the following at September 30, 2001, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2001.

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	53,538	3,310	22,226	1,755	80,829
PERS 2	8,651	15,102	75,551	53,404	152,708
TRS 1	32,195	1,995	13,594	377	48,161
TRS 2	709	2,342	7,188	,868	11,107
TRS 3	203	1,730	15,772	28,421	46,126
SERS 2	191	929	12,719	11,344	25,183
SERS 3	78	637	12,566	11,718	24,999
LEOFF 1	7,894	29	1,312	3	9,238
LEOFF 2	184	303	9,582	4,003	14,072
WSPRS 1	696	89	768	259	1,812
JRS	134	3	26	-	163
Judges	18	-	1	-	19
JRA	-	11	180	n/a	191
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 June 30, 2002.

Plan	State Agencies	Public Schools	Counties/ Municipalities	Other Political Subdivisions
PERS 1	156	248	216	255
PERS 2	169	2	268	446
PERS 3	118	-	-	-
TRS 1	87	288	-	-
TRS2	40	267	-	-
TRS 3	45	291	-	-
SERS 2	9	290	-	-
SERS 3	10	287	-	-
LEOFF 1	-	-	113	26
LEOFF 2	7	-	225	127
WSPRS 1	1	-	-	-
JRS	3	-	-	-
Judges	1	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	520

B. Plan Description

Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment. Employees in PERS Plan 3 can elect to withdraw total employee contributions and earnings from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college, and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. TIAA/CREF is not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I. of this note for a description of the defined contribution component of PERS Plan 3.

Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for nonduty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC.

Plan 2 and Plan 3 provide non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is one percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2001 session provides a $150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. This legislation is effective for the period of July 1, 2001, through June 30, 2003.

Legislation passed in the 2002 session gives commercial vehicle enforcement officers (CVEO) who became commissioned officers in the Washington State Patrol after July 1, 2000, and prior to June 30, 2001, the option of either remaining a member of PERS Plan 2 or to make an irrevocable choice to transfer their CVEO credit to the Washington State Patrol Retirement System. Those members who transfer service credit would have until December 31, 2010, or the date of retirement (whichever came first) to pay for the difference in employee and employer contributions plus interest. There were no other material changes in PERS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 41.40 RCW.

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996 and those who exercised their transfer option, are members of TRS Plan 3.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. Employees in TRS Plan 3 can elect to withdraw total employee contributions and earnings from the investment of those contributions upon separation from TRS-covered employment.

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 non-state employees. TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is two percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years); capped at 60 percent.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of two percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent 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 three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996, and transferred to Plan 3. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial

reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to Section I. of this note for a description of the defined contribution component of TRS Plan 3.

Plan 1 provides death and duty disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members $400 (if at least 10 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 their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

Plan 2 and Plan 3 provide non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the AFC for each year of service. For Plan 3, the allowance amount is one percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2001 session provides a $150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. This legislation is effective for the period of July 1, 2001, through June 30, 2003. There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapters 41.32 and 41.34 RCW.

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS is comprised of two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. Employees in SERS Plan 3 can elect to withdraw total employee contributions and earnings from the investment of those contributions upon separation from SERS-covered employment.

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent 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 three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12

months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to Section I. of this note for a description of the defined contribution component of SERS Plan 3.

Plan 2 and Plan 3 provide non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the AFC for each year of service. For Plan 3 the allowance amount is one percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2001 session provides a $150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. This legislation is effective for the period of July 1, 2001, through June 30, 2003. There were no other material changes in SERS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 41.35 RCW.

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 who joined on or after October 1, 1977, are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2002, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF 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 primarily of non-state employees. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. 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 three percent annually.

Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus five percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to Plan 1 and Plan 2 members.

The Plan 1 disability allowance is 50 percent of the FAS plus five 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.

Plan 2 provides non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

There were no material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer retirement system comprised of one defined benefit plan. WSPRS participants who join the system by December 31, 2002, are Plan 1 members.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the WSPRS defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2002, 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 separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

Retirement benefits are vested after an employee completes five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is two percent of average final salary (AFS) per year of service (AFS is based on the average of your two highest-paid years), capped at 75 percent.

Benefit provisions include death benefits; however, the system contains no disability benefits. Death benefits for members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of $150,000 is provided to WSPRS members.

Legislation passed in the 2001 session created a Washington State Patrol Plan 2 for employees commissioned after January 1, 2003. Existing WSPRS members would receive an adjustment to their contribution rate and their COLA, and a change in how some overtime is considered as salary. Current retirees, who retired before June 30, 2000, will receive the new COLA (CPI-based up to 3%) on July 1, 2001, and every year thereafter. A member who retired between July 1, 2000, and June 30, 2001, received a 2% COLA on July 1, 2001, and a new COLA (CPI-based up to 3%) on July 1, 2002, and every year after. A member who retires after July 1, 2001, will receive the 3% COLA on the next July 1, after being a retiree for one year. The definition of "average final salary" for new members is changed from a two-year average to a five-year average. For existing members, the definition of "salary" is amended to prospectively exclude voluntary overtime. For new members, the definition is amended to exclude both voluntary overtime and cash-outs of annual leave and holiday leave.

Legislation passed in the 2002 session gives commercial vehicle enforcement officers (CVEO) who became commissioned officers in the Washington State Patrol after July 1, 2000, and prior to June 30, 2001, the option of either remaining a member of PERS Plan 2 or to make an irrevocable choice to transfer their CVEO credit to the Washington State Patrol Retirement System. Those members who transfer service credit would have until December 31, 2010, or the date of retirement (whichever came first) to pay for the difference in employee and employer contributions plus interest. There were no other material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 43.43 RCW.

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 in which 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. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

Judges 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 in which 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 RCW 2.12, 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. Judges' retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2002.

Pension benefit provisions have been established by chapter 2.12 RCW.

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 firefighter 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 $152,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110. 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 material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2002.

C. Funding Policies

During the 2002 Session, the Legislature decided to adopt rates effective April 1, 2002, based on the 2000 valuation and the new demographic assumptions that resulted from the six-year review of that experience.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2002 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates:			
State agencies*	1.32%	1.32%	1.32%**
Local governmental units	1.32%	1.32%	1.32%**
State gov't elected officials*	1.87%	1.32%	1.32%**
Employee Rates:			
State agencies	6.00%	0.65%	***
Local governmental units	6.00%	0.65%	***
State gov't elected officials	7.50%	0.65%	***

*Includes an administrative expense rate of 0.22 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. TRS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of TRS Plan 3 do not contribute to the defined benefit portion of TRS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2002 were as follows:

TRS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates *	1.27%	1.27%	1.27%**
Employee Rates:			
State agencies	6.00%	0.15%	***
Local governmental units	6.00%	0.15%	***
State gov't elected officials	7.50%	0.15%	***

* Includes an administrative expense rate of 0.22 percent.
** Plan 3 defined benefit portion only.
*** Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. SERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of SERS Plan 3 do not contribute to the defined benefit portion of SERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2002 were as follows:

SERS Actual Contribution Rates

	PLAN 2	PLAN 3
Employer Rates:		
State agencies*	1.18%	1.18% **
Local governmental units*	1.18%	1.18%
Employee Rates:		
State Agencies	0.35%	***
Local Governmental Units	0.35%	***

*Includes an administrative expense rate of 0.22 percent.
**Plan 3 defined benefit portion only.
***Variable from 5% to 15% based on rate selected by the member.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the 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 2002 were as follows:

LEOFF Actual Contribution Rates

	PLAN 1	PLAN 2
Employer Rates:		
Ports and Universities*	NA	4.61%
Local governmental units*	0.22%	2.86%
Employee Rates:		
Ports and Universities	NA	4.39%
Local governmental units	NA	4.39%
State of Washington	NA	1.75%

*Includes an administrative expense rate of 0.22 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 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 2 percent for Fiscal Year 2002. The Pension Funding Council in accordance with chapter 41.45 RCW adopts contribution rates for the employee and the state. The employee and the state 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 2002 were as follows:

WSPRS Actual Contribution Rates

Employer Contributions	0.00%
Employee Contributions	2.00%

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

state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2002, the state contributed $6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2002, the state contributed $.25 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.

	2002	2001	2000
PERS Plan 1	$35.3	$94.0	$102.6
PERS Plan 2/3	26.2	58.2	44.1
TRS Plan 1	1.7	3.5	4.7
TRS Plan 2/3	0.4	0.3	.3
SERS Plan 2/3	0.0	0.0	NA
LEOFF Plan 1	0.0	0.0	0
LEOFF Plan 2	0.2	21.1	17.3
VFFRPF	0.0	3.3	2.7

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	$0.0	$14.2	$0.2
Interest on NPO	(2.5)	3.2	(0.2)
Adjustment to annual required contribution	3.8	(6.7)	0.5
Annual Pension Cost	1.3	10.7	0.5
Less Contributions Made	0.0	6.2	0.3
Increase (decrease) in NPO	1.3	4.5	0.2
NPO at beginning of year	(30.9)	40.1	(3.0)
NPO at end of year	(29.6)	44.7	(2.8)

The valuation date for the plans is September 30, 2001. 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 December 31, 2008, for JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to the Required Supplementary Information – Defined Benefit Pension Plans."

F. Three Year Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2002	2001	2000
WSPRS			
Annual Pension Cost	$1.3	$1.4	$0.3
% of APC contributed	0.0	0.0	0.0
NPO	$(29.6)	$(30.9)	$(32.3)
JRS			
Annual Pension Cost	$10.7	$10.6	$10.3
% of APC contributed	57.9	68.9	70.9
NPO	44.7	$40.1	$36.8
Judges			
Annual Pension Cost	$0.5	$0.4	$0.5
% of APC contributed	60.0	200.0	160.0
NPO	$(2.8)	$(3.0)	$(2.6)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions

The contribution rates effective April 1, 2002, reflect the revised demographic assumption. Demographic assumptions are updated after completion of a six-year review of the experience of the plan. These changes were reflected in the valuation.

H. Changes in Benefit Provisions

Refer to Section B. of this note for a description of the benefit provision changes in Fiscal Year 2002.

I. Defined Contribution Plans

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on age. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2002, employee contributions required and made were $960,409, and plan refunds paid out were $6,318.

Teachers Retirement System Plan 3 (TRS 3)

The Teachers Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include certificated employees in grades K-12 in the public schools. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to Section B of this note for TRS plan descriptions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on age. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2002, employee contributions required and made were $142.8 million and plan refunds paid out were $18.4 million.

The School Employees' Retirement System (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who are SERS Plan 2 members on or after September 1, 2000, and who

elect to transfer. Refer to Section B of this note for SERS plan descriptions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on age. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2002, employee contributions required and made were $36.6 million and plan refunds paid out were $10.9 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state 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 $21.33 million for the fiscal year ended June 30, 2002. For Fiscal Year 2002, the contribution requirement for JRA was $1,066,000 . Actual employer and employee contributions were $533,000 each, for a total of $1,066,000. Plan benefits paid out for Fiscal Year 2001 totaled $205,982.

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.

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 2002, covered payroll for TIAA/CREF employees was $1.1 billion and the contribution requirement for TIAA/CREF was $186 million. Actual employer and employee contributions were $93 million each, for a total of $186 million. These contribution amounts represent approximately eight 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 and Changes in 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 five 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.

The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets

Pension and Other Employee Benefit Funds

June 30, 2002

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2 & 3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2 & 3 Defined Benefit
Assets:							
Cash and pooled investments	$ 1,378	$ 1,009	$ 32	$ 4,833	$ 694	$ 2,223	$ 5,103
Receivables:							
Interest and dividends	38,169	40,093	74	32,569	13,005	3,571	5,200
Due from other funds	11	261	-	10	1,660	-	5,740
Due from other governments	6,613	6,208	-	4,320	728	-	640
Other (net of allowance)	10,382	10,280	19	8,748	4,266	900	1,578
Total Receivables	55,175	56,842	93	45,647	19,659	4,471	13,158
Investments, Noncurrent:							
Asset backed securities	117,595	123,690	229	100,315	40,101	11,011	16,023
Collaterialized mort oblig	479,713	504,576	934	409,221	163,588	44,918	65,364
Commercial paper	44,552	46,861	87	38,005	15,193	4,172	6,071
Corporate bonds	1,029,315	1,082,661	2,005	878,060	351,008	96,380	140,251
Corporate stock	480,614	505,523	936	409,989	163,895	45,003	65,487
Govt securities domestic	179,657	188,968	350	153,257	61,265	16,822	24,479
Govt securities foreign	30,326	31,898	59	25,870	10,342	2,840	4,132
Government bonds	2,664	2,802	5	2,272	908	249	363
Repurchase agreements	143,394	150,826	279	122,323	48,899	13,427	19,538
Certificates of deposit	233,066	245,388	210	198,817	79,730	21,571	31,828
Mutual funds	3,743,763	3,937,792	7,290	3,193,629	1,276,667	350,548	510,112
Mortgages	106,366	111,878	207	90,735	36,272	9,960	14,493
Real estate	830,874	873,936	1,618	708,780	283,338	77,799	113,212
Private equity	1,182,335	1,243,612	2,302	1,008,595	403,190	110,708	161,101
Investments on loan	685,747	721,287	1,335	584,978	233,848	64,210	93,437
Short term investments	364,420	389,884	715	319,370	132,376	36,315	55,453
Other noncurrent investments	1,161	621	11,403	1,509	617	781,664	1,089
Total Investments, Noncurrent	9,655,562	10,162,203	29,964	8,245,725	3,301,237	1,687,597	1,322,433
Total Assets	$ 9,712,115	$ 10,220,054	$ 30,089	$ 8,296,205	$ 3,321,590	$ 1,694,291	$ 1,340,694
Liabilities:							
Obligations under security lending agreements	$ 700,871	$ 736,612	$ 1,363	$ 598,396	$ 239,229	$ 65,521	$ 96,424
Accrued liabilities	19,966	11,769	252	16,568	3,624	1,005	1,384
Due to other funds	6,298	972	-	1,914	501	-	196
Total Liabilities	727,135	749,353	1,615	616,878	243,354	66,526	98,004
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits	8,984,980	9,470,701	28,474	7,679,327	3,078,236	1,627,765	1,242,690
(Schedule of funding progress by plan begins on page 112)							
Deferred Compensation Participants							
Total Net Assets	$ 8,984,980	$ 9,470,701	$ 28,474	$ 7,679,327	$ 3,078,236	$ 1,627,765	$ 1,242,690

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ 624	$ 1,936	$ 488	$ 508	$ 371	$ 6	$ 4,746	$ 8,620	$ 381	$ 32,952
1,411	18,744	9,585	2,525	13	-	-	425	-	165,384
-	5	3	1	1	-	11	21	1	7,725
-	-	4,387	54	18	-	1	-	-	22,969
355	4,780	2,473	636	7	-	-	107	-	44,531
1,766	23,529	16,448	3,216	39	-	12	553	1	240,609
4,347	57,761	29,564	7,784	-	-	-	1,312	-	509,732
17,732	235,628	120,601	31,752	-	-	-	5,351	-	2,079,378
1,647	21,883	11,200	2,949	-	-	-	497	-	193,117
38,048	505,583	258,773	68,129	-	-	-	11,483	-	4,461,696
17,766	236,070	120,828	31,811	-	-	-	5,361	-	2,083,283
6,641	88,245	45,166	11,891	-	-	-	2,004	-	778,745
1,121	14,895	7,624	2,007	-	-	-	338	-	131,452
98	1,308	670	176	-	-	-	30	-	11,545
5,300	70,433	36,050	9,491	-	-	-	1,600	-	621,560
8,544	114,478	58,593	15,427	-	-	-	2,600	-	1,010,252
138,386	1,838,876	941,193	247,796	-	-	-	41,764	-	16,227,816
3,932	52,245	26,741	7,040	-	-	-	1,186	-	461,055
30,713	408,112	208,884	54,995	-	-	-	9,269	-	3,601,530
43,704	580,744	297,242	78,258	-	-	-	13,190	-	5,124,981
25,348	336,828	172,399	45,389	-	-	-	7,650	-	2,972,456
15,027	180,193	97,502	24,519	8,165	-	-	4,065	-	1,628,004
142,110	823	149	119	81	9,307	915	1,669	1,353,000	2,306,237
500,464	4,744,105	2,433,179	639,533	8,246	9,307	915	109,369	1,353,000	44,202,839
$ 502,854	$ 4,769,570	$ 2,450,115	$ 643,257	$ 8,656	$ 9,313	$ 5,673	$ 118,542	$ 1,353,382	$ 44,476,400
$ 25,866	$ 344,509	$ 176,057	$ 46,433	$ 78	$ 1	$ 879	$ 9,409	$ 89	$ 3,041,737
423	6,520	2,611	1,055	145	-	11	115	364	65,812
-	79	181	4	-	-	-	5	9	10,159
26,289	351,108	178,849	47,492	223	1	890	9,529	462	3,117,708
476,565	4,418,462	2,271,266	595,765	8,433	9,312	4,783	109,013		40,005,772
								1,352,920	1,352,920
$ 476,565	$ 4,418,462	$ 2,271,266	$ 595,765	$ 8,433	$ 9,312	$ 4,783	$ 109,013	$ 1,352,920	$ 41,358,692

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
Additions:							
Contributions:							
Employers	$ 68,631	$ 50,954	$ -	$ 59,435	$ 46,360	$ -	$ 11,312
Members	72,562	52,557	960	51,835	5,604	142,774	5,270
State	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-
Total Contributions	141,193	103,511	960	111,270	51,964	142,774	16,582
Investment Income:							
Net appreciation (depreciation) in fair value	(887,209)	(907,524)	(753)	(755,813)	(309,314)	(147,991)	(124,199)
Interest and dividends	264,800	270,210	112	226,106	93,239	19,853	37,483
Less: Investment expenses	(21,898)	(22,248)	(7)	(18,659)	(7,097)	(1,952)	(3,138)
Net Investment Income	(644,307)	(659,562)	(648)	(548,366)	(223,172)	(130,090)	(89,854)
Charges for Services	-	6,131	1,035	-	3,034	306	1,109
Transfers from other pension plans	113	1	28,419	46	5	1,539	17,884
Other additions	-	-	-	-	-	-	-
Total Additions	(503,001)	(549,919)	29,766	(437,050)	(168,169)	14,529	(54,279)
Deductions:							
Pension benefits	718,730	60,553	-	679,009	8,669	-	2,048
Pension refunds	7,446	42,087	6	2,313	4,511	18,395	2,397
Transfers to other pension plans	3	30,891	18	-	1,340	244	1,454
Administrative expenses	381	6,040	1,268	176	4,519	175	1,617
Distributions to participants	-	-	-	-	-	-	-
Total Deductions	726,560	139,571	1,292	681,498	19,039	18,814	7,516
Net Increase	(1,229,561)	(689,490)	28,474	(1,118,548)	(187,208)	(4,285)	(61,795)
Net Assets - Beginning	10,214,541	10,160,191	-	8,797,875	3,265,444	1,632,050	1,304,485
Net Assets - Ending	$ 8,984,980	$ 9,470,701	$ 28,474	$ 7,679,327	$ 3,078,236	$ 1,627,765	$ 1,242,690

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	JRA	Judges	VFFRPF	Deferred Compensation	**Total**
$ -	$ 98	$ 23,996	$ -	$ 229	$ 532	$ 8	$ 759	$ -	$ 262,314
36,569	100	39,486	1,246	229	532	8	150	-	409,882
-	-	15,551	-	6,000	-	250	3,270	-	25,071
-	-	-	-	-	-	-	-	119,078	119,078
36,569	198	79,033	1,246	6,458	1,064	266	4,179	119,078	816,345
(33,575)	(433,823)	(213,499)	(57,906)	(2)	(1,199)	(3)	(9,864)	(194,885)	(4,077,559)
8,486	129,561	63,658	17,273	255	290	232	3,193	43,233	1,177,984
(501)	(10,710)	(5,218)	(1,426)	(10)	-	(14)	(261)	-	(93,139)
(25,590)	(314,972)	(155,059)	(42,059)	243	(909)	215	(6,932)	(151,652)	(2,992,714)
447	-	-	-	-	-	-	-	-	12,062
1,448	44	1	249	-	-	-	-	-	49,749
-	-	-	-	-	9	-	6	999	1,014
12,874	(314,730)	(76,025)	(40,564)	6,701	164	481	(2,747)	(31,575)	(2,113,544)
-	252,625	2,743	22,316	8,060	206	656	7,431	-	1,763,046
10,871	92	9,143	199	-	-	-	15	-	97,475
15,735	16	48	-	-	-	-	-	-	49,749
175	236	11	14	-	12	-	61	1,820	16,505
-	-	-	-	-	-	-	-	77,602	77,602
26,781	252,969	11,945	22,529	8,060	218	656	7,507	79,422	2,004,377
(13,907)	(567,699)	(87,970)	(63,093)	(1,359)	(54)	(175)	(10,254)	(110,997)	(4,117,921)
490,472	4,986,161	2,359,236	658,858	9,792	9,366	4,958	119,267	1,463,917	45,476,613
$ 476,565	$ 4,418,462	$ 2,271,266	$ 595,765	$ 8,433	$ 9,312	$ 4,783	$ 109,013	$ 1,352,920	$ 41,358,692

Note 12 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled $2.6 billion at June 30, 2002.

B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving state agencies that 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 based 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 $9 million a year 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 accepted review of this case and argument is scheduled for December 2002. 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.

Higher Education

Institutions of higher education occasionally have lawsuits based on program services or salary and benefits. In *McGowan v. State* and *Public School Employees of Washington v. State*, the plaintiffs argue that the State must fund cost of living increases for all school district employees. It is estimated the additional cost to the state for the 2001-02 school year would be about $99 million. The Thurston County Superior Court denied the relief requested and granted a summary judgment motion in favor of the state's position. This ruling was appealed to the State Supreme Court. The *Mader, et.al v. State* lawsuit is a class action lawsuit by certain part-time faculty at community colleges seeking to establish eligibility under certain pension programs and payment of employer contribution for previous time periods.

The 2002 Legislation appropriated $12 million to settle these claims and the settlement has received court approval. In a companion case, part-time faculty are also seeking state-paid health care benefits during summer quarter. This case was dismissed in the Court of Appeals, but review and argument are pending before the State Supreme Court.

Tax Refund Litigation

There is a recurring volume of lawsuits seeking refunds of taxes paid to the state. The Department of Revenue is a litigant in more than 100 cases, the large majority of which are excise tax refund claims by corporate taxpayers. None of these cases individually or collectively will likely have a material impact on state revenues or expenditures.

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. Despite 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 that raise issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. For instance, *Sacred Heart Medical Center v. DSHS* involves Medicaid providers who allege that they provided medical care to numerous clients while they were terminated from Medicaid because their Medicaid eligibility had been improperly linked to eligibility for Temporary Assistance to Needy Families. In this suit, the providers claim breach of contract and seek reimbursement for the care provided to these clients. Some of the plaintiffs who provided mental health services also allege that the improperly terminated individuals should have been included in the state's formula for captivated payments to the Regional Support Networks. The Department will have a better estimate of potential damages on the breach of contract claim once discovery is completed, but we now anticipate that the damages will be in the millions of dollars.

In the past, 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 13 - Subsequent Events

A. Bond Issues

In August 2002, the state issued $159.6 million in Various Purpose General Obligation Bonds, Series 2003A, and $24.9 million in General Obligation Bonds (State Housing Trust Fund), Series 2003T (Taxable).

In October 2002, the state issued $140.5 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003B, $158 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003C, and $605.9 million in Various Purpose General Obligation Refunding Bonds, Series R2003A.

In December 2002, the state issued $70.3 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R2003B.

B. Certificates of Participation

In August 2002, the state issued $3.9 million in real estate Certificates of Participation for the Department of General Administration, Series 2002C, and $5.1 million in real estate Certificates of Participation for Central Washington University, Series 2002D.

In September 2002, the state issued $6.4 million in Certificates of Participation for various state and local government equipment purchases, Series 2002D, and $2.7 million in real estate Certificates of Participation for the University of Washington, Series 2002E.

In December 2002, the state issued $10.5 million in Certificates of Participation for various state and local government equipment purchases, Series 2002E, and $12.9 million in real estate Certificates of Participation for the Secretary of State, Series 2002F.

C. Tobacco Settlement Securitization

On November 5, 2002, the state of Washington securitized a portion of the revenue stream from the Master Settlement Agreement between the state and certain tobacco manufacturers. The state received $450 million upon execution of a sales agreement with the Tobacco Settlement Authority (TSA). The TSA was created by the Washington State Legislature as a public instrumentality separate and distinct from the state.

D. Voter Initiatives

On November 5, 2002, voters approved Initiative 776 that reduces state and local transportation funding generated by vehicle license fees. The reduction to state revenues is estimated to be $9 million in the 2001-2003 Biennium.

The voters also approved Initiative 790 that increases state and local government costs for the law enforcement officers' and fire fighters' pension system. The actual fiscal impacts depend on how provisions for increased benefits are implemented. The minimum cost is estimated to decrease General Fund revenues by $1 million in the 2001-2003 Biennium.

Required Supplementary Information

Budgetary Information

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	General Fund			
	Original Budget 2001-03 Biennium	Final Budget 2001-03 Biennium	Actual 2001-03 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 410,520	$ 564,950	$ 564,950	$ -
Resources:				
Taxes	21,535,714	20,739,562	10,319,064	(10,420,498)
Licenses, permits, and fees	161,284	155,358	75,478	(79,880)
Other contracts and grants	480,967	452,498	217,352	(235,146)
Timber sales	7,255	7,352	3,646	(3,706)
Federal grants-in-aid	9,725,433	9,935,955	4,716,193	(5,219,762)
Charges for services	69,918	72,404	35,060	(37,344)
Interest income	91,500	92,507	30,894	(61,613)
Miscellaneous revenue	97,261	100,910	37,406	(63,504)
Transfers from other funds	351,964	1,198,178	675,759	(522,419)
Total Resources	32,931,816	33,319,674	16,675,802	(16,643,872)
Charges to appropriations:				
General government	2,367,753	2,266,485	1,155,664	1,110,821
Human services	16,292,131	16,186,918	7,932,359	8,254,559
Natural resources and recreation	509,265	480,021	243,740	236,281
Transportation	47,217	46,574	30,036	16,538
Education	13,863,237	13,757,902	6,789,096	6,968,806
Capital outlays	294,045	235,269	34,803	200,466
Transfers to other funds	140,142	140,650	99,803	40,847
Total Charges to appropriations	33,513,790	33,113,819	16,285,501	16,828,318
Excess available for appropriation Over (Under) charges to appropriations	(581,974)	205,855	390,301	184,446
Reconciling Items:				
Changes in reserves (net)	-	-	16,332	16,332
Entity adjustments (net)	-	-	30,622	30,622
Accounting and reporting changes (net)	-	-	-	-
Total Reconciling Items	-	-	46,954	46,954
Budgetary Fund Balance, June 30	$ (581,974)	$ 205,855	$ 437,255	$ 231,400

Budgetary Information

Budgetary Comparison Schedule

Budget to GAAP Reconciliation

General Fund

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Available for Appropriation" from the Budgetary Comparison Schedule	$ 16,675,802
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(675,759)
Budgetary fund balance at the beginning of the year	(564,950)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and food stamps	347,840
Unanticipated receipts	69,271
Noncash revenues	30,622
Revenues collected for other governments	23,159
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 15,905,985

Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 16,285,501
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(640,520)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(99,803)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and food stamps	347,840
Expenditures related to unanticipated receipts	69,271
Capital lease acquisitions	7,039
Distributions to other governments	23,159
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 15,992,487

Budgetary Information

Notes to Required Supplementary Information

General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

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 schedules presented as required supplementary information (RSI) 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 budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain activities are excluded from the budgetary schedules because they are not appropriated. These activities include: activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Unemployment Compensation Fund, Institutional Fund, Higher Education Student Services Fund, Printing Services Fund, Higher Education Revolving Fund, Risk Management Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments. Further,

certain expenditures are appropriated as operating transfers.

These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance consists of unreserved, undesignated fund balance; unreserved fund balance, designated for other specific purposes; and reservation for encumbrances on the Balance Sheet.

Pension Plan Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2001 through 1996 (dollars in millions)

	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996
Actuarial Value of Plan Assets	$ 10,990	$ 11,111	$ 10,456	$ 9,219	$ 8,211	$ 7,197
Actuarial Accrued Liability	12,088	11,695	11,636	11,227	10,817	10,339
Unfunded Actuarial Liability	1,098	584	1,180	2,008	2,606	3,142
Percentage Funded	91%	95%	90%	82%	76%	70%
Covered Payroll	1,085	1,132	1,184	1,233	1,271	1,308
Unfunded Actuarial Liability as a Percentage of Covered Payroll	101%	52%	100%	163%	205%	240%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2001 through 1996 (dollars in millions)

	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/2001	6/30/2000	6/30/1999	6/30/1998	6/30/1997	6/30/1996
Actuarial Value of Plan Assets	$ 9,342	$ 9,372	$ 8,696	$ 7,819	$ 6,844	$ 5,924
Actuarial Accrued Liability	9,895	9,566	9,529	9,354	9,044	8,796
Unfunded Actuarial Liability	553	194	833	1,535	2,200	2,872
Percentage Funded	94%	98%	91%	84%	76%	67%
Covered Payroll	800	957	984	1,046	1,083	1,128
Unfunded Actuarial Liability as a Percentage of Covered Payroll	69%	20%	85%	147%	203%	255%

Source: Washington State Office of the State Actuary

Pension Plan Information

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Valuation Years 2001 through 1996 (dollars in millions)

	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996
Actuarial Value of Plan Assets	$ 5,369	$ 5,440	$ 5,150	$ 4,568	$ 4,087	$ 3,594
Actuarial Accrued Liability	4,153	4,002	4,125	3,906	3,767	4,006
Unfunded (Assets in Excess of)						
Actuarial Liability	(1,216)	(1,437)	(1,024)	(662)	(320)	412
Percentage Funded	129%	136%	125%	117%	108%	90%
Covered Payroll	87	95	106	117	128	137
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	301%

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2001 through 1996 (dollars in millions)

	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996
Actuarial Value of Plan Assets	$ 10	$ 10	$ 9	$ 8	$ 5	$ 4
Actuarial Accrued Liability	91	93	94	97	95	92
Unfunded Actuarial Liability	81	83	85	89	90	88
Percentage Funded	11%	11%	10%	8%	5%	4%
Covered Payroll	3.0	4.0	4.0	4.0	4.0	5.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	2700%	2075%	2125%	2225%	2250%	1760%

Source: Washington State Office of the State Actuary

Pension Plan Information

Volunteer Fire Fighters' Relief and Pension Fund

Schedule of Funding Progress

Valuation Years 2001 through 1996 (dollars in millions)

	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	12/31/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996
Actuarial Value of Plan Assets	$ 129	$ 126	$ 118	$ 102	$ 91	$ 74
Actuarial Accrued Liability	99	96	98	94	69	67
Unfunded (Assets in Excess of) Actuarial Liability	(30)	(30)	(20)	(8)	(22)	(7)
Percentage Funded	130%	131%	120%	109%	132%	110%
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

Valuation Years 2001 through 1996 (dollars in millions)

	2001	2000	1999	1998	1997	1996
Actuarial Valuation Date	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997	12/31/1996
Actuarial Value of Plan Assets	$ 5	$ 5	$ 4	$ 4	$ 4	$ 3
Actuarial Accrued Liability	6	6	6	7	7	7
Unfunded Actuarial Liability	1	1	2	3	3	4
Percentage Funded	83%	83%	67%	57%	57%	43%
Covered Payroll	0.1	0.1	0.1	0.1	0.2	0.4
Unfunded Actuarial Liability as a Percentage of Covered Payroll	1000%	1000%	2000%	3000%	1500%	1000%

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2002 through 1997

	2002	2001	2000	1999	1998	1997
Public Employees' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 164.3	$ 118.8	$ 199.2	$ 237.6	$ 287.2	$ 355.0
Employers' Actual Contribution	68.6	181.7	200.2	234.3	226.1	206.0
Percentage Contributed	42%	153%	101%	99%	79%	58%
Public Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 72.0	$ 55.6	$ 103.6	$ 86.6	$ 106.3	$ 185.0
Employers' Actual Contribution	51.0	115.0	101.9	238.4	222.8	224.0
Percentage Contributed	71%	207%	98%	275%	210%	121%
Teachers' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ 119.8	$ 90.6	$ 176.1	$ 209.7	$ 269.7	$ 338.0
Employers' Actual Contribution	59.5	141.3	183.0	222.5	211.6	210.0
Percentage Contributed	50%	156%	104%	106%	78%	62%
Teachers' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 66.7	$ 40.4	$ 56.2	$ 45.9	$ 59.8	$ 82.0
Employers' Actual Contribution	46.4	69.6	75.3	100.2	105.6	103.0
Percentage Contributed	70%	172%	134%	218%	177%	126%
School Employees' Retirement System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	$ 19.5	$ 6.7	**	**	**	**
Employers' Actual Contribution	11.3	19.9	**	**	**	**
Percentage Contributed	58%	297%	**	**	**	**

** SERS did not exist prior to 9/1/2000

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2002 through 1997

	2002	2001	2000	1999	1998	1997
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	$ -	$ -	$ 6.3	$ 6.9	$ 7.5	$ 8.1
Employers' Actual Contribution	0.1	0.1	6.3	7.2	7.6	8.2
Percentage Contributed	NA	NA	100%	104%	101%	101%
State Annual Required Contribution	-	-	-	-	-	67.1
State Actual Contribution	-	-	-	48.8	50.4	66.7
Percentage Contributed	N/A	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	$ 26.2	$ 20.3	$ 26.9	$ 22.3	$ 22.5	$ 28.1
Employers' Actual Contribution	24.0	31.5	26.2	34.3	31.1	28.5
Percentage Contributed	92%	155%	97%	154%	138%	101%
State Annual Required Contribution	17.5	13.5	18.0	14.9	15.0	18.7
State Actual Contribution	15.6	20.9	17.1	22.2	20.1	17.7
Percentage Contributed	89%	155%	95%	149%	134%	95%
Washington State Patrol Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ -	$ -	$ -	$ -	$ -	$ 0.5
Employers' Actual Contribution	-	-	-	5.9	6.0	6.8
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	1360%

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2002 through 1997

	2002	2001	2000	1999	1998	1997
Judicial Retirement System (expressed in millions)						
Employers' Annual Required Contribution	$ 14.2	$ 13.3	$ 12.5	$ 12.2	$ 11.6	$ 12.7
Employers' Actual Contribution	6.2	7.3	7.3	8.8	8.8	6.9
Percentage Contributed	44%	55%	58%	72%	76%	54%
Judges' Retirement Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.2	$ 0.2	$ 0.3	$ 0.3	$ 0.4	$ 0.4
Employers' Actual Contribution	0.3	0.8	0.8	0.8	0.8	0.8
Percentage Contributed	150%	400%	267%	267%	200%	200%
Volunteer Fire Fighters' Relief and Pension Fund (expressed in millions)						
Employers' Annual Required Contribution	$ 0.8	$ 0.7	$ 0.7	$ 0.8	$ 0.7	$ 0.5
Employers' Actual Contribution	0.8	0.7	0.7	0.8	0.7	0.6
Percentage Contributed	100%	100%	100%	100%	100%	120%
State Annual Required Contribution	-	-	0.1	0.8	-	0.4
State Actual Contribution	3.3	3.3	2.7	2.5	2.0	3.0
Percentage Contributed	N/A	N/A	2700%	313%	N/A	750%

Source: Washington State Office of the State Actuary

Pension Plan Information

Notes to the Required Supplementary Information
Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2002

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 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation - date	9/30/2001	9/30/2001	9/30/2001	9/30/2001	9/30/2001
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					
Salary Inflation at 4.5%, plus the merit increases described below:					
initial salary merit (grades down to 0%	6.1%	6.1%	6.2%	6.2%	7.0%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at	3.50%	3.50%	3.50%	3.50%	3.50%
Cost of living adjustments	Uniform COLA* Gainsharing COLA*	CPI increase, maximum 3%	Uniform COLA* Gainsharing COLA*	CPI increase, maximum 3%	CPI increase, maximum 3%

* 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 Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved.
For 2000, the gain sharing COLA was $0.28 per year of service. On 1/1/2002, no Gainsharing COLA was added.
The Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%. On 7/1/2000, it was ($0.77+$0.28)x1.03 = $1.08. On 7/1/2001, it was ($1.08+$0.00)x1.03 = $1.11. On 7/1/2002, it was ($1.11+$0.00)x1.03 = $1.14.

** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

*** pay-as-you-go basis funding

LEOFF Plan 1	LEOFF Plan 2	WSPRS	JRS	Judges	VFFRPF
9/30/2001	9/30/2001	9/30/2001	9/30/2001	9/30/2001	12/31/2001
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%
					n/a
11.7%	11.7%	6.0%	0.0%	0.0%	n/a
21 yrs	21 yrs	20 yrs			none
3.50%	3.50%	3.50%	3.50%	3.50%	
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	3.00%	none	

Information about Infrastructure Assets Reported Using the Modified Approach

Condition Assessment

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 19,164 lane miles of highway, including ramps and collectors. WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting. In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost, which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown slight decreases in the percent of pavements in poor or worse condition.

WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5% of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 - 80	Early stage deterioration. Example: Flexible pavement with 15% of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 - 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25% of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 - 20	Advanced structural deterioration. Example: Flexible pavement with 40% of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. See above table for examples for flexible pavements such as asphalt. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to ¼ inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. Rutting is measured in millimeters. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement which is assigned the lowest category of any of the three ratings. The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rut
Very Good	100 – 80	<= 95	<= 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Notes: Based on WSPMS 2002 database. Ramps are not included. Based on all three indices: PSC, IRI and Rut. A section of pavement is assigned the lowest category based on the three indices. The following table lists the explanatory categories and the ranges of the underlying indices. From 1991 - 1998, previous year IRI and rut values were used for those sections that were not surveyed in a particular year.

Beginning in 1999, the pavement distress survey procedure changed from a visual survey to an automated survey. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year, then analyzed during the winter and spring, with the previous year's results available by July each year. The chart below shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

Condition Rating of Washington State Department of Transportation's Pavement

Percentage of Pavement in Fair or Better Condition

	2001*	2000*	1999*	1998*	1997*
Statewide - Chip Seals	89	92	91	76	76
Statewide - Asphalt	92	95	93	90	89
Statewide - Concrete	92	92	90	92	92
Statewide - All Pavements (based on total lane miles rated)	91	94	92	87	86

Percentage of Pavement in Poor or Very Poor Condition

	2001*	2000*	1999*	1998*	1997*
Statewide - Chip Seals	11	8	9	24	24
Statewide - Asphalt	8	5	7	10	11
Statewide - Concrete	8	8	10	8	8
Statewide - All Pavements (based on total lane miles rated)	9	6	8	13	14

* Calendar year data. Assessments are typically made in the fall of each year, and verified during the winter and spring, with final results released in June. Years indicated are when the physical assessment was done in the fall.

More information about pavement management at the Department of Transportation may be obtained at:
http://www.wsdot.wa.gov/fossc/mats/pavement/pave_management_main.htm

Bridge Condition

There are 3,063 state-owned bridges with a total deck area of 45,261,272 square feet. All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Underwater bridge components are inspected by divers at least once every five years. Special emphasis is given to the ongoing inspection and maintenance of major bridges which represent a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Notes: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition	2002	2001	2000	1999	1998
Reinforced Concrete (1283 bridges in FY 2002)	97	96	95	na	na
Prestressed Concrete (1271 bridges in FY 2002)	99.5	99	99	na	na
Steel (344 bridges in FY 2002)	92	91	91	na	na
Timber (65 bridges in FY 2002)	70	71	71	na	na
Statewide - All Bridges (2963 bridges out of 3063 in FY 2002)	96.7	96	95	na	na

Percentage of Bridges in Poor Condition	2002	2001	2000	1999	1998
Reinforced Concrete (38 bridges in FY 2002)	3	4	5	na	na
Prestressed Concrete (6 bridges in FY 2002)	0.5	1	1	na	na
Steel (28 bridges in FY 2002)	8	9	9	na	na
Timber (28 bridges in FY 2002)	30	29	29	na	na
Statewide - All Bridges (100 bridges out of 3063 in FY 2002)	3.3	4	5	na	na

na - data not available

Notes: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 14 posted bridges and 152 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. Refer to http://www.wsdot.wa.gov/fossc/maint/motor/ for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT has no closed bridges at the present time.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at:
http://www.wsdot.wa.gov/eesc/bridge/index.cfm or
http://www.wsdot.wa.gov/accountability/GrayNotebookDec-01.pdf

Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports. Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The prime task of the airfields is to provide emergency facilities. Two airfields are in operational condition twelve months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. Maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings which follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

Washington State Emergency Airfields

Condition Rating	Number of Airports
Owned airports:	
Acceptable for general use as a community airport	2
Acceptable for limited use as a community airport	1
Acceptable for general recreation use	4
Limited search and rescue forward operating location	1
Total owned airports	8

	2002	2001	2000	1999	1998
Percentage of airports acceptable for general recreational use or better	88	88	88	88	na
Percentage of airports not acceptable for general recreational use or better	12	12	12	12	na

na - data not available

Notes: One airport is open only as a limited search and rescue operating location and is expected to remain in that status.

For pictures of specific airfields, see our website at: http://www.wsdot.wa.gov/Aviation/airports/airport-default.htm

Information about Infrastructure Assets Reported Using the Modified Approach

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Budget	Actual	Variance with Budget
Pavement:			
Preservation	$ 134,810	$ 127,946	$ 6,864
Maintenance	23,746	19,485	4,261
Total	$ 158,556	$ 147,431	$ 11,125
Bridges:			
Preservation	$ 24,270	$ 16,307	$ 7,963
Maintenance	11,430	11,012	418
Total	$ 35,700	$ 27,319	$ 8,381
Emergency air fields:	$ 70	$ 28	$ 42

Notes: Numbers for the Pavement and Bridges budget amounts came from the 2001-2003 biennial plan as shown in the WSDOT December 2001 *Monthly Financial Report* for sub-programs P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel maintenance). For FY 2002, the annual budget amount was calculated as half the biennial amount. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2002.

The emergency airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one fourth of the biennial amount budgeted as half of the biennial budget is assigned for airfields not owned by WSDOT.

The Maintenance Accountability Process (MAP) measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/fossc/maint/htm/accountability.htm

The state implemented the requirements of Statement No. 34 of the Governmental Accounting Standards Board (GASB), including the provisions related to capitalizing and reporting infrastructure on the modified approach, in Fiscal Year 2002. While budget to actual information is not available for years prior to Fiscal Year 2002 using the GASB definitions of preservation and maintenance, historical budget to actual information for the entire Construction and Maintenance programs is available by contacting the WSDOT Budget Office at (360) 705-7500.

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 for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity 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 from 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 LLC, 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 Bonds under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds 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 the Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar 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 Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the state. Under such circumstances, in the event that a successor securities depository is not obtained, new 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, Bond certificates will be printed and delivered.

APPENDIX G

MUNICIPAL BOND 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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