OFFICIAL STATEMENT DATED JANUARY 22, 2014

NEW ISSUE, BOOK-ENTRY ONLY

STATE OF WASHINGTON

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

$344,940,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2014D

$265,710,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2014E

$87,880,000
GENERAL OBLIGATION BONDS, SERIES 2014T-2 (TAXABLE)

Dated: Date of Initial Delivery **Due: February 1, as shown herein**

The Series 2014D Bonds, the Series 2014E Bonds and the Series 2014T-2 Bonds referenced above (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 2014E Bonds are first payable from state excise taxes on motor vehicle and special fuels. See "SECURITY FOR THE BONDS."

Interest on the Bonds is payable semiannually on each February 1 and August 1, beginning August 1, 2014. The principal of the Series 2014D Bonds is payable in the stated maturity amounts on each February 1 as set forth on page i. The principal of the Series 2014E Bonds is payable in the stated maturity amounts on each February 1 as set forth on page ii. The principal of the Series 2014T-2 Bonds is payable in the stated maturity amounts on each February 1 as set forth on page iii.

The Series 2014D Bonds and the Series 2014E Bonds are subject to redemption prior to maturity at the times and prices set forth herein under "DESCRIPTION OF THE BONDS—Redemption Provisions." The Series 2014T-2 Bonds are not subject to optional redemption prior to 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 Bonds will be issued in the denomination of $5,000 each or any integral multiple thereof within a single maturity of each Series. Purchasers of the Bonds 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 Mellon), to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "DESCRIPTION OF THE BONDS—Book-Entry System."

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Series 2014D Bonds and the Series 2014E Bonds (together, the "Tax-Exempt Bonds"), interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. While interest on the Tax-Exempt Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Tax-Exempt 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 Tax-Exempt Bonds received by certain S corporations may be subject to tax, and interest on the Tax-Exempt Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Tax-Exempt Bonds may have other federal tax consequences for certain taxpayers. In the opinion of Bond Counsel, interest on the Series 2014T-2 Bonds (the "Taxable Bonds") is not excluded from gross income for federal income tax purposes under Section 103(a) of the Code. See "TAX MATTERS."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The Bonds are offered when, as and if issued, subject to receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the state by Foster Pepper PLLC, Seattle, Washington, as Disclosure Counsel to the state.

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, 2014.

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

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

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

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

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

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

STATE OF WASHINGTON
$344,940,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2014D

Due February 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2022	$ 6,610,000	5.250%	2.370%	120.848%	93974DDE5
2023	13,095,000	5.000	2.590	119.215	93974DDF2
2024	13,745,000	5.000	2.740	119.632	93974DDG0
2025	14,435,000	5.000	2.880	118.288[2]	93974DDH8
2026	15,155,000	5.000	3.010	117.057[2]	93974DDJ4
2027	15,915,000	5.000	3.150	115.748[2]	93974DDK1
2028	16,710,000	5.000	3.270	114.640[2]	93974DDL9
2029	17,545,000	5.000	3.370	113.727[2]	93974DDM7
2030	18,425,000	5.000	3.460	112.912[2]	93974DDN5
2031	19,345,000	5.000	3.550	112.104[2]	93974DDP0
2032	20,310,000	5.000	3.640	111.303[2]	93974DDQ8
2033	21,325,000	5.000	3.710	110.685[2]	93974DDR6
2034	22,395,000	5.000	3.790	109.983[2]	93974DDS4
2035	23,515,000	5.000	3.840	109.548[2]	93974DDT2
2036	24,690,000	5.000	3.860	109.374[2]	93974DDU9
2037	25,925,000	5.000	3.900	109.028[2]	93974DDV7
2038	27,220,000	5.000	3.930	108.769[2]	93974DDW5
2039	28,580,000	5.000	3.960	108.510[2]	93974DDX3
Total	$344,940,000				

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

(2) Priced to the February 1, 2024, par call date.

STATE OF WASHINGTON
$265,710,000
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2014E

Due February 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1]
2015	$ 5,575,000	6.000%	0.150%	105.778%	93974DEG9
2016	5,760,000	6.000	0.330	111.230	93974DEH7
2017	6,105,000	5.000	0.520	113.269	93974DEJ3
2018	6,410,000	5.000	0.890	116.071	93974DEK0
2019	6,730,000	5.000	1.230	118.188	93974DEL8
2020	7,070,000	5.000	1.650	119.028	93974DEM6
2021	7,420,000	5.000	2.030	119.260	93974DEN4
2022	7,790,000	5.250	2.350	121.010	93974DEP9
2023	8,200,000	5.250	2.590	121.209	93974DEQ7
2024	8,630,000	5.250	2.740	121.803	93974DER5
2025	9,085,000	5.000	2.880	118.288[2]	93974DES3
2026	9,540,000	5.000	3.010	117.057[2]	93974DET1
2027	10,015,000	5.000	3.150	115.748[2]	93974DEU8
2028	10,515,000	5.000	3.270	114.640[2]	93974DEV6
2029	11,040,000	5.000	3.370	113.727[2]	93974DEW4
2030	11,595,000	5.000	3.460	112.912[2]	93974DEX2
2031	12,175,000	5.000	3.550	112.104[2]	93974DEY0
2032	12,780,000	5.000	3.640	111.303[2]	93974DEZ7
2033	13,420,000	5.000	3.710	110.685[2]	93974DFA1
2034	14,090,000	5.000	3.760	110.246[2]	93974DFB9
2035	14,795,000	5.000	3.810	109.809[2]	93974DFC7
2036	15,540,000	5.000	3.860	109.374[2]	93974DFD5
2037	16,315,000	5.000	3.900	109.028[2]	93974DFE3
2038	17,130,000	5.000	3.930	108.769[2]	93974DFG8
2039	17,985,000	5.000	3.960	108.510[2]	93974DFF0
Total	$265,710,000				

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(2) Priced to the February 1, 2024, par call date.

STATE OF WASHINGTON
$87,880,000
GENERAL OBLIGATION BONDS, SERIES 2014T-2 (TAXABLE)

Due February 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[(1)]
2015	$11,590,000	0.200%	0.200%	100.000%	93974DDY1
2016	11,405,000	0.480	0.480	100.000	93974DDZ8
2017	11,460,000	0.880	0.880	100.000	93974DEA2
2018	11,560,000	1.330	1.330	100.000	93974DEB0
2019	11,715,000	1.980	1.980	100.000	93974DEC8
2020	11,950,000	2.410	2.410	100.000	93974DED6
2021	12,235,000	2.700	2.700	100.000	93974DEE4
2022	5,965,000	3.050	3.050	100.000	93974DEF1
Total	$87,880,000				

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STATE FINANCE COMMITTEE

OF THE

STATE OF WASHINGTON

JAMES L. McINTIRE .... Treasurer and Chairman

JAY INSLEE .... Governor and Member

BRAD OWEN .... Lieutenant Governor and Member

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

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Seattle, Washington

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

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

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

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

CONTACT INFORMATION

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Bond Counsel and Disclosure Counsel	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Phone: (206) 447-4400
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$87,880,000
GENERAL OBLIGATION BONDS, SERIES 2014T-2 (TAXABLE)

INTRODUCTION

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

The references to and summaries of certain provisions of the Washington State Constitution (the "Constitution") and laws of the state and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. General and economic information about the state is included in Appendix A—"GENERAL AND ECONOMIC INFORMATION," and audited financial statements for the state's fiscal year ended June 30, 2013, are included as Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

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

State Finance Committee

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

By the enactment of Chapter 18, Laws of 2010, 1st Spec. Sess., the Legislature amended RCW 39.42.030(2) to authorize the Committee to delegate to the Treasurer the authority, by resolution, to (1) accept offers to purchase bonds, notes, or other evidences of indebtedness of the state and to sell and deliver such bonds, notes, or other evidences of indebtedness to the purchasers thereof; (2) determine the date or dates, price or prices, principal amounts per maturity, delivery dates, interest rate or rates (or mechanisms for determining the interest rate or rates); and (3) set other terms and conditions as the Committee may deem necessary and appropriate; with each such delegation to be limited to bonds, notes, or other evidences of indebtedness which the Committee has authorized to be issued.

DESCRIPTION OF THE BONDS

Authority and Purpose

The State of Washington Various Purpose General Obligation Bonds, Series 2014D (the “Series 2014D Bonds”), in the principal amount of $344,940,000, are being issued pursuant to Chapter 167, Laws of 2006; Chapter 49, Laws of 2011, 1st Sp. Sess.; Chapter 1, Laws of 2012, 2nd Sp. Sess.; Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1148 of the Committee and Resolution No. 1151 of the Committee acting by and through the Treasurer (collectively, the “Series 2014D Bond Resolution”), to provide funds to pay and reimburse state expenditures for various capital projects, including K-12 school construction and energy efficiency assistance, community college construction, Yakima River Basin water supply development, fish hatchery improvements, and flood and stormwater improvements, and for state programs for Columbia River Basin water supply development, Hood Canal aquatic rehabilitation and riparian protection, and to pay for the costs of issuance of the Series 2014D Bonds.

The State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2014E (the “Series 2014E Bonds”), in the principal amount of $265,710,000, are being issued pursuant to Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005 (RCW 47.10.873); Chapter 39.42 RCW; and Resolution No. 1149 of the Committee and Resolution No. 1152 of the Committee acting by and through the Treasurer (collectively, the “Series 2014E Bond Resolution”).

The Series 2014E Bonds are being issued to provide funds to pay and reimburse state expenditures for construction of selected projects or improvements that are identified as transportation 2003 projects or improvements in the 2003 omnibus transportation budget and construction of selected projects or improvements that are identified as 2005 transportation partnership projects or improvements in the 2005 omnibus transportation budget, and to pay for the costs of issuance of the Series 2014E Bonds. Examples of projects to be financed with proceeds of the Series 2014E Bonds include replacing the SR99 Alaskan Way Viaduct with a bored tunnel, the SR 520 Corridor Program, high occupancy vehicle projects in Pierce County, improvements to I-90 at Snoqualmie Pass East, improvements to the SR522/Snohomish River Bridge, and improvements to I-5 in Cowlitz and Lewis Counties.

The State of Washington General Obligation Bonds, Series 2014T-2 (Taxable) (the “Series 2014T-2 Bonds”), in the principal amount of $87,880,000, are being issued pursuant to Chapter 20, Laws of 2013, 2nd Sp. Sess.; Chapter 39.42 RCW; and Resolution No. 1148 of the Committee and Resolution No. 1153 of the Committee acting by and through the Treasurer (collectively, the “Series 2014T-2 Bond Resolution”), to provide funds to pay and reimburse state expenditures for improvements to local infrastructure, community revitalization, low-income housing, and various energy efficiency and renewable energy projects that cannot be financed with tax-exempt bonds, and to pay the costs of issuance of the Series 2014T-2 Bonds.

Collectively, the Series 2014D Bond Resolution, the Series 2014E Bond Resolution and the Series 2014T-2 Bond Resolution are referred to as the “Bond Resolutions.”

The Series 2014D Bonds and the Series 2014E Bonds are collectively referred to as the “Tax-Exempt Bonds” and the Series 2014T-2 Bonds are referred to as the “Taxable Bonds.”

Description of the Bonds

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

Interest on the Bonds is calculated on the basis of a 360-day year and 12 30-day months. Interest on the Bonds will be payable semiannually on each February 1 and August 1, beginning August 1, 2014, at the rates shown on pages i, ii and iii.

Principal of the Bonds is payable on each February 1 in the years and amounts shown on pages i, ii and iii.

When the Bonds are in book-entry form and held by DTC, payments of principal and interest on the Bonds will be made as provided in the operational arrangements of DTC as referenced in the Letter of Representations. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

Pursuant to authority granted in Chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the state and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York Mellon to act as the fiscal agent for the state for a term that began February 1, 2007, and continues to January 31, 2015. Under the terms of the current fiscal agency contract, The Bank of New York Mellon will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See "DESCRIPTION OF THE BONDS–Book-Entry Bonds."

Redemption Provisions

Optional Redemption. The state may redeem the Series 2014D Bonds or the Series 2014E Bonds maturing on or after February 1, 2025, as a whole or in part on any date on or after February 1, 2024 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

The Series 2014T-2 Bonds are not subject to optional redemption.

Mandatory Redemption. The Bonds are not subject to mandatory redemption.

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

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

Purchase of Bonds

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

Defeasance

Each Bond Resolution provides that if money and/or "Government Obligations" (as defined in Chapter 39.53 RCW, as now in existence or hereafter amended) maturing at such time(s) and bearing such interest to be earned thereon (without any reinvestment thereof) as will provide a series of payments which shall be sufficient, together with any money initially deposited, to provide for the payment of the principal of and interest on all or a designated portion of a Series of the Bonds when due in accordance with their respective terms are set aside in a special fund (the "trust account") to effect such payment, and are pledged irrevocably in accordance with a refunding plan adopted by the state for the purpose of effecting such payment, then no further payments need be made into the appropriate bond fund for the payment of principal of and interest on such Series of Bonds, the Registered Owners thereof shall cease to be entitled to any lien, benefit or security of the respective Bond Resolution, except the right to receive payment of the principal of and interest on such Bonds when due in accordance with their respective terms from the money and the principal and interest proceeds on the Government Obligations set aside in the trust account, and such Bonds shall no longer be deemed to be outstanding under the Bond Resolution.

If the state defeases any Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. See "TAX MATTERS–The Taxable Bonds–Defeasance."

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

Book-Entry System

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

Termination of Book-Entry System

If DTC resigns as the securities depository and no substitute can be obtained, or if the state has determined that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain bond certificates, the ownership of the Bonds may be transferred to any person as described in the Bond Resolutions and the Bonds no longer will be held in fully immobilized form. New bond certificates then will be issued in appropriate denominations and registered in the names of the beneficial owners. Thereafter, interest on the Bonds will be paid by check or draft mailed (or by wire transfer to a Registered Owner) at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date. Principal of the Bonds will be payable upon presentation and surrender of such Bonds by the Registered Owners to the Bond Registrar. See Appendix E—"DTC AND ITS BOOK-ENTRY SYSTEM."

State and Bond Registrar Responsibilities

Neither the state nor the Bond Registrar will have any responsibility or any liability to the beneficial owners for any error, omission, action, or failure to act on the part of DTC or any Direct Participant or Indirect Participant of DTC with respect to the following: (1) proper recording of beneficial ownership interests of the Bonds or confirmation of their ownership interest; (2) proper transfers of such beneficial ownership interests; (3) the payment, when due, to the beneficial owners of principal of and premium, if any, or interest on the Bonds; (4) any notices to beneficial owners; (5) any consent given; or (6) any other DTC or Participant error, omission, action or failure to act pertaining to the Bonds.

SOURCES AND USES OF FUNDS

Sources and Uses

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

	2014D	2014E	2014T-2	Total[1]
Sources				
Par Amount of Bonds	$344,940,000	$265,710,000	$87,880,000	$698,530,000
Original Issue Premium/Discount	42,428,282	34,692,209	-	77,120,491
Total Sources	$387,368,282	$300,402,209	$87,880,000	$775,650,491
Uses				
Deposit to Project Funds	$386,250,788	$299,995,067	$87,723,289	$773,969,144
Costs of Issuance[2]	153,603	118,736	38,855	311,194
Underwriting Spread	963,890	288,406	117,856	1,370,152
Total Uses[1]	$387,368,282	$300,402,209	$87,880,000	$775,650,491

(1) Totals may not add due to rounding.
(2) Includes fees for services of the rating agencies, financial advisor, Bond Counsel and disclosure counsel, and other costs.

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

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

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

Pledge of Excise Tax on Motor Vehicle and Special Fuels

The principal of and interest on the Series 2014E 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 Series 2014E Bond Resolution, the Committee on behalf of the state pledges to the payment of the Series 2014E Bonds and the interest thereon the proceeds of such excise taxes and provides that the charge on such excise taxes for payment of the Series 2014E Bonds shall be equal to the charge on such excise taxes for the payment of the principal of and interest on any other general obligation bonds of the state to which motor vehicle and special fuel taxes are pledged on an equal basis. In the legislation authorizing the issuance of the Series 2014E Bonds, the Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in amounts sufficient to pay, when due, the principal of and interest on all bonds issued under the authority of such legislation, including the Series 2014E Bonds.

The Constitution provides that the excise taxes on motor vehicle and special fuels are to be used only for highway purposes. The Legislature has established a statutory plan for the distribution and expenditure for highway purposes of specified percentages of such excise taxes received in the Motor Vehicle Fund. The Legislature also has provided that nothing in those provisions may be construed to violate the terms and conditions of any bond issues authorized by statute and whose payment is by such statute pledged to be paid from such excise taxes. See Appendix A—"GENERAL AND ECONOMIC INFORMATION—TRANSPORTATION-RELATED REVENUES AND EXPENDITURES" for a description of the permitted uses and distributions of funds on deposit in the Motor Vehicle Fund.

Payment of Bonds

The Committee is required, on or before June 30 of each year, to certify to the Treasurer the amount required to pay principal of and interest on the Bonds in the next fiscal year. The Treasurer, subject to the applicable provisions of the various state statutes authorizing the Bonds, is required to withdraw from any general state revenues received in the state treasury (or from any available funds in the Motor Vehicle Fund, as applicable), and to deposit in the appropriate bond fund on or before each interest or principal and interest payment date such amounts as are required to pay debt service on the Bonds.

Additional Information

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

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will issue approximately $530 million various purpose general obligation bonds and $290 million motor vehicle fuel tax general obligation in summer of 2014. In addition, when and if market conditions allow, refunding of outstanding bonds will be considered.

FINANCIAL STATEMENTS

Audited financial statements for the state for the Fiscal Year ended June 30, 2013, are included as Appendix D. These statements have been audited by the Auditor, an independent elected official. As described under "CONTINUING DISCLOSURE UNDERTAKING," the state is obligated to provide its audited financial statements to the Municipal Securities Rulemaking Board. In an effort to provide more timely reporting, the state released its audited financial statements for Fiscal Years 2010 through 2013 within 150 days of the fiscal year-end.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington as a whole is contained in Appendix A—"GENERAL AND ECONOMIC INFORMATION." Pursuant to state law, the Office of Economic and Revenue Forecast Council (the "Forecast Council") provides state economic and revenue results and forecasts on a quarterly basis, generally in each March (February in even-numbered years), June, September and November. The Forecast Council's next economic and revenue forecast is scheduled to be released in February 2014. As described in Appendix A, state law requires that state budgets and any necessary budgetary actions of the Governor during a fiscal period be based upon the Forecast Council's official economic and revenue forecasts. The Forecast Council's most recent forecast was released in November 2013, and that forecast is summarized in Appendix A. The Forecast Council also provides monthly updates of certain other information, including estimates of collections. In addition, the state prepares transportation forecasts, including forecasts of motor vehicle fuel excise tax collections, and forecasts about the state's entitlement caseloads.

LITIGATION

Based on an inquiry with the Attorney General's Office, there is no litigation now pending against the state in any way restraining or enjoining the sale, issuance or delivery of the Bonds, or in any manner challenging 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 collection of revenues pledged for the payment of the Bonds.

The state and its agencies are parties to routine legal proceedings that normally occur as a consequence of regular governmental operations. At any given point, there are lawsuits involving state agencies that could, depending on the outcome of the litigation or the terms of a settlement agreement, impact the state's budget and expenditures to one degree or another. Some of these lawsuits are discussed in Appendix A and Appendix D. The state operates a self-insurance liability program for third-party claims against the state for injuries and property damage and purchases a limited amount of commercial insurance for these claims. The state maintains a risk management fund and is permitted to reserve up to 50 percent of total outstanding and actuarially determined liabilities. See Notes 7.E, 10 and 13.B in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" and "RISK MANAGEMENT" and "LITIGATION" in Appendix A—"GENERAL AND ECONOMIC INFORMATION."

BALLOT MEASURES

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

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

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

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

LEGAL MATTERS

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

TAX MATTERS

The Tax-Exempt 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 Tax-Exempt Bonds, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of issuance of the Tax-Exempt Bonds in order to maintain the exclusion of the interest on the Tax-Exempt Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Tax-Exempt Bond proceeds and the facilities financed or refinanced with Tax-Exempt Bond proceeds, limitations on investing gross proceeds of the Tax-Exempt Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Tax-Exempt Bonds. The state has covenanted in the Series 2014D Bond Resolution and the Series 2014E Bond Resolution to comply with those requirements, but if the state fails to comply with those requirements, interest on the Tax-Exempt Bonds could become taxable retroactive to the date of issuance of the Tax-Exempt Bonds. Bond Counsel has not undertaken and does not undertake to monitor the state's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Tax-Exempt Bonds is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Tax-Exempt 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.

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

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Tax-Exempt 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 Tax-Exempt Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Tax-Exempt Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

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

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

The state is a governmental unit that, together with all subordinate entities, has issued more than $10,000,000 of tax-exempt obligations during the current calendar year and has not designated the Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt Bonds into account in determining gross income.

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

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Tax-Exempt Bonds set forth above or adversely affect the market value of the Tax-Exempt Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Tax-Exempt Bonds.

Original Issue Premium. All of the Series 2014D Bonds and the Series 2014E Bonds as shown on pages i and ii, respectively, 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.

The Taxable Bonds

THIS ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TAXABLE BONDS. THIS ADVICE IS NOT INTENDED OR WRITTEN TO BE USED, AND MAY NOT BE USED, BY ANY PERSON OR ANY ENTITY FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE

IMPOSED ON ANY PERSON OR ENTITY UNDER THE CODE. PROSPECTIVE PURCHASERS OF THE TAXABLE BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Taxable Bonds who have purchased the Taxable Bonds in the initial offering and who hold the Taxable Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (1) a citizen or resident of the United States, (2) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (3) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (4) a trust, if either (a) a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a United States person under the applicable Treasury Regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase the Taxable Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. ACCORDINGLY, BEFORE DECIDING WHETHER TO PURCHASE ANY OF THE TAXABLE BONDS, PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES, AS WELL AS TAX CONSEQUENCES UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY, OF PURCHASING, HOLDING, OWING AND DISPOSING OF THE TAXABLE BONDS.

In General. Interest on the Taxable Bonds is <u>not</u> excluded from gross income for federal income tax purposes under Section 103(a) of the Code.

Payment of Interest. Interest paid on the Taxable Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement. Upon the sale, exchange or other disposition of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will recognize a capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Taxable Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes.

Defeasance. If the state defeases any of the Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Taxable Bond would recognize a gain or loss on the Taxable Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28 percent, but may change in the future) with respect to interest or original issue discount on the Taxable Bond. This withholding generally applies if the Owner of a Taxable Bond (1) fails to furnish the Bond Registrar or other payor with its taxpayer identification number, (2) furnishes the Bond Registrar or other payor with an incorrect taxpayer identification number, (3) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (4) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Taxable Bonds will be reported to the Owners and to the Internal Revenue Service.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the state has entered into a written undertaking to provide continuing disclosure for the benefit of the holders and beneficial owners of the Bonds (the "Undertaking").

Annual Disclosure Report. The state covenants and agrees that not later than seven months after the end of each Fiscal Year (the "Submission Date"), beginning for the Fiscal Year ended June 30, 2014, the state will provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, an annual report (the "Annual Disclosure Report"), which will consist of the following:

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

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

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

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

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

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

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

Listed Events. The state agrees to provide or cause to be provided, in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB notice of the occurrence of any of the following events with respect to the Bonds (the "Listed Events"): (1) principal and interest payment delinquencies; (2) nonpayment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Series 2014D Bonds or the Series 2014E Bonds; (7) modifications to rights of owners of the Bonds, if material; (8) Bond calls (other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing the repayment of the respective Series of Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the state, as such "Bankruptcy Events" are defined in the Rule; (13) the consummation of a merger, consolidation, or acquisition involving the state or the sale of all or substantially all of the assets of the state, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

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

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

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

Remedies. The right to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Bonds.

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

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

BOND RATINGS

Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Ratings Services, a business unit within Standard & Poor's Financial Services LLC, have assigned ratings on the Bonds of AA+, Aa1 and AA+, respectively. The state 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 will 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 would be maintained for any given period of time or that they may not be raised, lowered, suspended, or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The state undertakes no responsibility to oppose any such change or withdrawal.

FINANCIAL ADVISORS

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

UNDERWRITING

The Series 2014D Bonds are being purchased by J.P. Morgan Securities LLC at a price of $386,404,391.41, and will be reoffered at a price of $387,368,281.75, as reflected by the prices and yields set forth on page i.

The Series 2014E Bonds are being purchased by Morgan Stanley & Co. LLC at a price of $300,113,803.14, and will be reoffered at a price of $300,402,209.30, as reflected by the prices and yields set forth on page ii.

The Series 2014T-2 Bonds are being purchased by Wells Fargo Bank, National Association at a price of $87,762,144.13, and will be reoffered at a price of $87,880,000, as reflected by the prices and yields set forth on page iii of this Official Statement.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the Series 2014E Bonds, has informed the state that it has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2014E Bonds.

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 on pages i, ii and iii, and such initial offering prices may be changed from time to time by the Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

MISCELLANEOUS

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

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

STATE OF WASHINGTON

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

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APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

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

Washington's population was 6,724,540 according to the 2010 U.S. Census, making the state the 13th most populous in the United States. As of July 1, 2013, the state had an estimated population of 6,971,406. The state's capital is Olympia at the southern end of Puget Sound, and the state's largest city, Seattle, also on Puget Sound, is approximately 60 miles north of Olympia.

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

Washington includes an international trade, manufacturing, technology, biotechnology and business service corridor that extends along Puget Sound from the City of Everett at the north end, south to Seattle and Tacoma. This corridor includes approximately 75 percent of the state's population and economic activity. A number of companies have chosen Washington as their headquarters or as a major center of operations, including, among others, Alaska Air Group, Amazon, Amgen, Boeing Commercial Airplanes, Costco, Expeditors International of Washington, Microsoft, Nintendo America, Nordstrom, PACCAR, Starbucks and Weyerhaeuser. Washington is home to some of the leading global health research institutes and non-profits, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center. According to the U.S. Bureau of Economic Analysis, Washington ranked 14th in the United States in terms of real gross domestic product ("GDP") in 2012.

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

Washington is one of the most trade-intensive states in the nation, as measured by the dollar value of per capita exports, and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. The Ports of Seattle and Tacoma, the state's largest ports, are closer to Asian ports than any other continental port in the United States. Seattle-Tacoma International Airport is Washington's primary airport, serving the region's air passengers and cargo. Direct access to midwest and east-coast markets by land is via four major interstate highways and two transcontinental rail service providers.

The state's ferry system, the largest ferry system in the United States and the third-largest ferry system in the world, is owned and operated by the Washington State Department of Transportation ("WSDOT") and connects 15 islands and other areas within and along the coast of Puget Sound.

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

State Government

Under the state Constitution (the "Constitution"), the legislative authority of the state is vested in the Legislature, and general elections are held on the first Tuesday in November in each even-numbered year. The state is divided into 49 legislative districts, each of which elects two representatives and one senator. Senators serve four-year terms, with one-half of the seats open in each general election. Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions of 105 days (beginning the second Monday in January) in odd-numbered years and 60 days (beginning the second Monday in January) in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to 30 days, and the Legislature itself may call special sessions with a two-thirds' vote of the members of each house.

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

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

State Finance Committee

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

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

BUDGETING AND ACCOUNTING

Budget and Appropriation Process

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

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

Under state law, the Governor's budget submitted to the Legislature must include estimates of all anticipated revenues and all proposed operating and capital expenditures, including debt service requirements on state general obligation indebtedness. Revenues are estimated for a fiscal period from the sources, and at the rates, authorized by law at the time of submission of the budget document and are based upon quarterly economic and revenue forecasts as described below. See “GENERAL FUND–Economic and Revenue Forecast” and “–Caseload Forecast.” A “fiscal period” is the Fiscal Year or biennium for which an appropriation is made as specified within the act making the appropriation.

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

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

Legislation adopted in 2012 requires that, beginning with the 2013-15 Biennium, the Legislature must pass a budget that leaves a positive ending fund balance in the General Fund and related funds and the projected maintenance level (the continuing cost of existing programs and services) for the budget in the ensuing biennium may not exceed available fiscal resources.

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

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

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

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

Economic and Revenue Forecasting

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

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

Fiscal Monitoring and Controls

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

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

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

Accounting and Auditing

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

The Auditor, an independent elected official, audits the state-wide combined financial statements for each Fiscal Year. See Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

GENERAL FUND

The state provides for most of its general operations through the General Fund. Most of the state's unrestricted revenues are deposited to the General Fund, and most of the state's general expenditures and general obligation debt service are paid from the General Fund. Debt service on general obligation bonds to which excise taxes on motor vehicle and special fuels are pledged is payable first from the state's Motor Vehicle Fund and, if those funds are insufficient, from the General Fund. Debt service on general obligation bonds to which toll revenue is pledged is payable from toll revenue and, if those revenues are insufficient, from excises taxes on motor vehicle and special fuels and then from the General Fund. As described below and in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS," the state also maintains a number of other funds and several hundred accounts.

General Fund Revenue

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

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

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

Table 1
State and Local Retail Sales and Use Tax Rates

	General	New and Used Vehicles
State	6.5%	6.8%
Local	0.5 to 3.0	0.5 to 3.0

Source: Department of Revenue.

The state business and occupation ("B&O") tax is applied to "gross receipts" (the value of products, gross income from sales or certain other income) from business activities conducted within the state. B&O tax rate reductions and tax credits for specific categories of businesses are enacted from time to time. Certain local taxing jurisdictions also are authorized to impose business and occupation taxes. The state's current B&O tax rates vary, depending upon the classification of business activities, and in general range from 0.138 percent to 1.8 percent of gross receipts; most are under 0.5 percent. See "General Fund–State Operating Budget" and Table 4.

The state imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required by statute to retain 1.3 percent of the proceeds of this tax to defray costs of collection and on a monthly basis to pay over to the Treasurer the balance of the proceeds. Of the proceeds received by the Treasurer, beginning July 1, 2013, and ending June 30, 2019, the Treasurer is required to deposit an amount equal to 2.0 percent into the Public Works Assistance Account, an amount equal to 4.1 percent to the Education Legacy Trust Fund, and an amount equal to 1.6 percent to the City-County Assistance Account. The balance is deposited to the General Fund. After June 30, 2019, an amount equal to 6.1 percent of the proceeds of this tax must be deposited in the Public Works Assistance Account. Certain local taxing jurisdictions are authorized to impose real estate excise taxes. In most areas in which a local real estate excise tax is imposed, the maximum local rate is 0.5 percent of the sales price.

Property Taxes. Property taxes apply to the assessed value of all taxable property, including all real and personal property located within the state, unless specifically exempted. Real property includes land, structures and certain equipment affixed to the structure. Personal property includes machinery, supplies, certain utility property and items owned by businesses and farmers that are generally movable.

The assessed value of most real property is determined by the county assessors, with the goal being to determine the fair market value of the property according to its highest and best use (unless an exemption applies that would permit a lower use to be considered). Property taxes for local taxing districts are levied against this assessed value. The state property tax is levied against the assessed value determined by the county assessors but then is adjusted to the state equalized value (a rate that would be equal across the state) in accordance with a ratio fixed by the Department of Revenue. For property taxes payable in 2013, assessed value against which property taxes were levied averaged 91.2 percent of fair market value as determined by the county assessors.

The Constitution provides that the aggregate of all regular (nonvoted) tax levies upon taxable real and personal property by the state and local taxing districts may not exceed 1.0 percent of the true and fair value of such property unless for the purpose of preventing the impairment of the obligation of a contract when ordered to do so by a court of last resort. Excess property tax levies are subject to voter approval and are not subject to this limitation.

Increases in assessed values of property are not limited; however, by statute, the state property tax levy is limited to the limit factor (the lesser of 101 percent, or 100 percent plus inflation) multiplied by the amount of property taxes levied by the state in the highest of the three most recent years, plus an additional amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The average state levy rate for property taxes due in calendar year 2013 was $2.52 per $1,000 of true and fair property value.

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

Other State Tax Revenue. The state imposes a number of other taxes, including estate taxes, liquor taxes, rental car and telephone taxes, taxes on hazardous substances and taxes on cigarettes and other tobacco products.

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

Federal Revenue. Legislative appropriations for federal programs are designated specifically to be funded from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred. Use of federal funds is subject to audit, and often federal funds are payable only on a reimbursement basis. The state also may be required to appropriate and expend its own funds as a condition to receiving the federal revenue. As shown in Tables 4 and 5, federal funds in Fiscal Years 2009, 2010 and 2011 included funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Federal revenues may be deposited into the General Fund, but are not "general state revenue." See "General Fund Expenditures–Payment of General Obligation Bonds," "General Fund–State Operating Budget," and "TRANSPORTATION–RELATED REVENUES AND EXPENDITURES."

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

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

General Fund Expenditures

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

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

The Legislature enacted legislation in previous sessions intended to improve the stability and predictability of school funding, including legislation that (1) prescribes course offerings, teacher contract hours and core student/staff ratios; (2) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (3) limits local compensation increases to those authorized by the state; (4) provides for state assistance to equalize tax rates for local levies; (5) establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers; and (6) requires school districts to maintain minimum teacher/student ratios. In the past, state voters, through the initiative process, have also affected school expenditures by passing I-732 to provide automatic cost of living adjustments for teachers and I-728 to reduce K-12 class sizes.

The Legislature temporarily suspended these two initiatives as part of an amended 2009-11 Biennium Budget and the 2011-13 Biennium Budget. The 2012 Legislature permanently repealed I-728 pertaining to class size reductions and in 2013 the Legislature then again suspended I-732, which would have given automatic cost of living adjustments to teachers and certain other school employees. See "General Fund–State Operating Budget." In 2012, the Supreme Court found that the state is not making ample provisions for the basic education of Washington's K-12 public school students. The 2013-15 Biennium budget funds approximately $1 billion in reforms for K-12 public education. See "General Fund–State Operating Budget–2013-15 Biennium Budget." See also the discussion of the *McCleary* case in "LITIGATION" for a description of the Supreme Court's 2012 order and a January 2014 Supreme Court order regarding funding K-12 education..

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

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

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

Washington State Health Care Authority. This agency brings together the two largest purchasers of health care in state government – the Public Employees Benefits program and "Apple Health" Medicaid. The Public Employees Benefits program provides health care coverage for more than 350,000 public employees, dependents, retirees and others authorized by the Legislature. The "Apple Health" Medicaid program, financed through state and federal matching dollars, provides health care coverage for more than 1.3 million low-income Washington residents, primarily through contracts with private health plans. Apple Health covers 4.0 percent of children in the state and 50 percent of childbirths. Through Apple Health, medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund, funding is received from the federal government for those people and for services covered under Medicaid. The Apple Health program budget has grown significantly in recent years. Growth in the number of eligible recipient groups, rising health care costs and requirements to provide higher payments to hospitals have resulted in increased expenditures.

Over the next three years, enrollment in Apple Health is expected to grow by more than 325,000 as a result of the state's implementation of the Medicaid Expansion under the federal Affordable Care Act. By 2017, the Health Care Authority is projected to be purchasing health coverage for more than two million state residents, nearly a third of the state's population. In addition to its purchasing duties, state law directs the agency, in collaboration with the private sector, to address health care cost containment, evidence based medicine, common performance measures, access to care, new financial incentives for the delivery system and adoption of health information technology and health information exchange.

Health Benefit Exchange. The state successfully established a health benefit exchange to assist residents to find, compare and enroll in health insurance plans. The Washington Health Benefit Exchange is a "public-private partnership" that is separate from the state, but works closely with several state agencies. As of December 23, 2013, 213,759 individuals had enrolled through the exchange and an additional 179,205 applications were in process.

Corrections. As of June 30, 2013, the Department of Corrections ("DOC") had 12 correctional institutions and 16 work release facilities and leased additional rental beds in-state. As of September 30, 2013, the offender population was approximately 18,000 in the prison system; the prison confinement was 102 percent of operational capacity. In 2010, the state closed Ahtanum View Corrections Center in Yakima and the Pine Lodge Corrections Center for Women in Medical Lake. In 2011, the state closed McNeil Island Corrections Center in south Puget Sound.

Employees and Employee Benefits. The state budgeted for 106,608 full-time equivalents ("FTEs") in the 2013-15 Biennium budget, compared with 107,568 FTEs in Fiscal Year 2013 and 112,546 in Fiscal Year 2009. Approximately half of these FTEs are represented by collective bargaining organizations. There are 29 different collective bargaining organizations currently representing state employees. The largest, the Washington Federation of State Employees, represents approximately 36,000 state employees. State law provides that nothing in the state collective bargaining statute permits or grants to any employee the right to strike or refuse to perform his or her official duties.

The state, through the Public Employees Benefits Board program, provides medical, dental, life and long-term disability coverage to eligible state employees as a benefit of employment. Coverage is provided through private health insurance plans and self-insured products. The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. State employees self-pay for coverage beyond the state's contribution. The average benefit was $1,001 in Fiscal Year 2013, with $865 paid by the state and $136 by the employee. State employees accrue vested vacation leave at a variable rate based on years of service, which in general cannot exceed 240 hours per year. It is the state's policy not to set aside funds for future payments for compensated absences. State employees accrue sick leave at the rate of one day per month without limitation. The state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. For a discussion of the state retirement plans and post employment benefits, see "RETIREMENT SYSTEMS."

Payment of General Obligation Bonds. Statutes authorizing bonds and other general obligations of the state require the Committee to certify to the Treasurer on or before June 30 of each year the amount needed to provide for payment of debt service and require the Treasurer to deposit "general state revenues" in such amount into the Bond Retirement Accounts. The term "general state revenues" is defined in Article VIII of the Constitution and, as described below, not all money deposited in the General Fund constitutes "general state revenues" available for the payment of debt service (e.g., restricted federal funds or local and private revenue are excluded). See the description of general state revenues under "INDEBTEDNESS AND OTHER OBLIGATIONS–General Obligation Debt–Constitutional General Obligation Debt Limitation" and Table 4.

Some general obligation bond statutes provide that the General Fund will be reimbursed for bond debt service from discrete revenues that are not considered "general state revenues." For example, tuition fees charged by institutions of higher education must be used to reimburse the General Fund for payment of debt service for a number of higher education construction bond issues. Similar reimbursement requirements apply to hospital patient fees (for University of Washington hospital construction bonds) and to lease-rental proceeds (for Washington State University research center bonds). All of these required reimbursements have been made to date. In addition, a portion of net lottery and retail sales tax proceeds collected in King County reimburse the state for debt service payable on bonds issued to finance construction of a stadium and exhibition center in Seattle. See "INDEBTEDNESS AND OTHER OBLIGATIONS."

Expenditure Limitations

Since the passage of Initiative 601 in 1993, the state has been prohibited from increasing expenditures from the General Fund during any Fiscal Year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in state personal income for the prior 10 Fiscal Years, adjusted for actual expenditures in the previous year and for certain money transfers and program cost shifts (to take into account federal and local revenue). Under current law, voter approval would be required to exceed the expenditure limit, except in case of an emergency. If revenues collected exceed the amount of revenues that may be expended under the expenditure limitation, the excess revenues are to be deposited to the Budget Stabilization Account as described in the next subsection. See "BALLOT MEASURES" in the front portion of this Official Statement.

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

Budget Stabilization Account

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

Economic and Revenue Forecast

State law requires the Forecast Council to prepare an economic and revenue forecast on a quarterly basis. Additionally, the Forecast Council is required to publish monthly updates that include economic data releases and a report of revenue collections for the previous monthly collection period. The most recent economic and revenue forecast was released on November 20, 2013 (the "November 2013 Forecast"). Certain economic data that was released after the November 2013 Forecast is described in this section. The next forecast is expected to be released in February 2014.

November 2013 Forecast. The November 2013 Forecast was based on the IHS Global Insight Model of the U.S. Economy issued in November 2013, modified according to the Forecast Council's standard practice to reflect the Blue Chip GDP forecast published in the Blue Chip Economic Indicators and oil prices based on futures markets.

The November 2013 Forecast is very similar to the previous two forecasts. The Washington economy continues to outperform the overall U.S. economy, with above average growth in personal income in the first half of 2013, faster employment growth, and an unemployment rate below the national average. The forecast shows Washington employment growing in most sectors (with aerospace the notable exception), growing residential construction, growth in exports, low inflation and higher personal income. Downside uncertainty attributable to economic and financial strains in Europe, China, housing affordability, and federal fiscal policy remains high and downside risks outweigh upside risks.

General Fund Revenues are expected to grow 7.6 percent in the 2013-15 Biennium from the 2011-13 Biennium. A technical change in revenue definitions removed $22 million from reported General Fund-State revenues in the 2011-13 Biennium and approximately $41 million from General Fund-State revenues in the 2013-15 and future biennia. Because this revenue remains available for budget purposes, the relevant forecast change is an increase of $9 million in available resources for the 2011-13 Biennium and an increase of $16 million in available resources for the 2013-15 Biennium.

Washington nonfarm employment grew 1.6 percent from November 2012 to November 2013. Construction, software, and leisure and hospitality were the fastest growing sectors, with each having approximately 3.5 percent employment growth over the same period. Manufacturing employment growth has slowed, primarily because aerospace employment was reduced by 2,600 jobs since the peak in November 2012 due to improvements in productivity rather than reductions in production. The state's unemployment rate declined from 7.5 percent in January 2013 to 6.8 percent in November 2013. The November unemployment rate in Seattle decreased modestly to 5.6 percent.

Washington personal income growth is expected to slow to an annual rate of 3.1 percent in 2013 from the 4.7 percent pace in 2012 due to the negative impacts of the Federal budget sequestration process and income and dividends that were shifted to 2012 to avoid increased taxes.

Washington exports grew 8.6 percent in the first ten months of 2013 compared to the same period of 2012. Exports of transportation equipment (mostly Boeing planes) increased 20 percent over the year, compared to 36 percent growth for all of 2012.

Housing construction dropped in the second quarter of 2013 after rising rapidly throughout 2012 and early 2013; housing permits fell from a seasonally adjusted annual rate of 36,000 units in the first quarter of 2013 to an average of 30,800 in January through October, 2013. The housing permit forecast is for continued growth. The seasonally adjusted S&P/Case-Shiller Home Price Index for Seattle rose in each of the 19 months ending in September 2013, and, in September 2013, was 13.2 percent higher than in September 2012. Seasonally adjusted September Seattle area home prices in September 2013 were 17 percent below their May 2007 peak.

The following table summarizes some of the historical values and forecasts of the primary economic drivers upon which the November 2013 Forecast was based.

Table 2
Summary of Economic Factors
(% Annual Change)

						Forecast	
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Personal Income[(1)]	4.7	(3.1)	2.1	5.7	4.7	3.1	5.2
Nonfarm Payroll Employment	0.9	(4.6)	(1.3)	1.3	1.7	2.1	1.8
Housing Units[(2)]	(39.0)	(41.2)	21.6	0.8	34.8	8.2	8.9

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

Source: Washington Economic and Revenue Forecast Council Revenue Review: November 20, 2013.

Alternative November 2013 Economic Forecasts. As required by statute, the Forecast Council also adopts an optimistic and a pessimistic forecast. The level of uncertainty in the baseline forecast remains high and downside risks outweigh upside risks.

In the optimistic forecast scenario, the Chinese economic growth is stronger than expected, Congressional gridlock eases, the housing market and construction are assumed to improve faster, hiring picks up and underlying pent-up demand continues to drive the recovery, the Eurozone sovereign debt crisis does not turn into a banking crisis, and other factors help the economy rebound more quickly. In the optimistic scenario, 2013-15 Biennium revenues would be $2.0 billion higher than the baseline forecast.

In the pessimistic forecast scenario, China slows even further, partisan gridlock continues in Washington, D.C., which erodes household and business confidence, rising mortgage rates and house prices slow the housing recovery, the recession in Europe worsens and a European banking crisis affect the U.S. financial sector, while unrest in the Middle East leads to an oil price spike. In the pessimistic scenario, 2013-15 Biennium revenues would be $2.0 billion below the baseline forecast.

Caseload Forecast

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

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

State Budget Outlook

Legislation adopted in 2012 requires the Legislature to adopt a four-year balanced budget that leaves a positive ending fund balance in the General Fund and related funds beginning with the 2013-15 Biennium. In addition, the legislation established a work group that includes the Office of Financial Management, fiscal staff, members of the Legislature, the Caseload Forecast Council and the Economic and Revenue Forecast Council to prepare a budget outlook for state revenues and expenditures for the next biennium. With certain exceptions, the projected continuing cost of existing programs and services and implementing new programs and services called for in existing laws in the ensuing biennium may not exceed projected available fiscal recourses. The work group prepared its first budget outlook in November 2012, which was the starting point for developing the Governor's budget for the 2013-15 Biennium. In January 2013, the Forecast Council prepared a six-year outlook based on the Governor's budget for the 2013-15 Biennium and in July and November 2013 prepared a six-year outlook based on the enacted budget for the 2013-15 Biennium. The outlooks are available on the Forecast Council's website (www.erfc.wa.gov). See "General Fund–Operating Budget."

General Fund-State Operating Budget

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

During the economic downturn that began in 2008, the Governor and Legislature modified the state operating budget several times in response to lower actual and projected general state revenues and higher costs associated with growth in mandatory caseloads, school enrollment and medical assistance costs.

2009-11 Biennium Budget. During the 2009-11 Biennium, quarterly forecast updates of revenues declined while expenses increased due to the cost of providing services such as education, medical assistance and public safety. Several times during the Biennium, the Governor proposed and the Legislature adopted supplemental operating budgets to deal with the shortfalls. In addition, in the fall of 2010, the Governor issued an Executive Order directing across-the-board cuts for General Fund agencies. The supplemental budgets and across-the-board cuts reduced state expenditures in areas including health care and human services, natural resources, higher education, early learning, state prisons and K-12 education (other than basic education). During the 2009-11 Biennium, General Fund expenditures were reduced by $1.059 billion. The General Fund benefited from $2.6 billion in ARRA funds as well as approximately $337 million in federal funds from the extension of the federal Medical Assistance percentage enhancement and $208 million in new education funding. In addition to the expenditure reductions, new revenue was raised through a combination of permanent and temporary tax increases and transfers from the Budget Stabilization Account and other accounts.

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

2013-15 Biennium Budget. The enacted operating budget for the 2013-15 Biennium is $33.5 billion in state general and related funds, including a total reserve of $632 million ($576 million in the Budget Stabilization Account and $56 million in a projected unrestricted ending fund balance). Related funds include the Education Legacy Trust Fund that enhances K-12 schools with funds from the estate tax and Public Works Assistance Account fund balances and on-going revenues and the Opportunity Pathways Account that pays for certain student financial aid programs with revenue from lottery proceeds. As shown in Table 3, the current projected ending balance and reserves for the 2013-15 Biennium is $341 million of unrestricted ending fund balance and $582 million in the Budget Stabilization Account.

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

Proposed Supplemental 2013-15 Budget. In December 2013, Governor Inslee proposed a supplemental budget for the 2013-15 Biennium that proposed modest adjustments to the adopted 2013-15 Biennium budget, primarily to address mandatory spending increases, cover costs or fill holes that were not anticipated when the budget was approved. The supplemental budget includes $150 million in additional General Fund-State expenditures and includes total expenditures of $32.746 billion and total resources of $32.971 billion (including the beginning fund balance), leaving a proposed ending General Fund-State fund balance of $225 million and Budget Stabilization Account balance of $582 million. The Legislature will consider the supplemental budget in its session that began in January 2014.

During a special session held in November 2013, the Legislature authorized expansion of the state's investment in aerospace-related education and workforce development and aerospace tax incentives, which are designed to provide incentives to Boeing to assemble its new 777X jetliner in the state. Boeing recently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the state.

Table 3 summarizes the actions taken by the Legislature and other adjustments made to develop a budget for the 2013-15 Biennium.

Table 3
2013-15 General Fund-State Adjustments
February 2012 through November 2013
($ in millions)

	Adjustments
Beginning Balance[(1)]	168
Revenue	
February 2012 Forecast	32,429
June 2012 Forecast	197
September 2012 Forecast	23
November 2012 Forecast	(88)
March 2013 Forecast	(20)
June 2013 Forecast	121
September 2013 Forecast	345
November 2013 Forecast	16
Transfer to Budget Stabilization Account	(312)
Total Revenue	32,711
Other Resource Changes	
Enacted Revenue Transfers	128
Total Other Resource Changes	128
Total Resources	33,007
Spending	
Enacted Budget	32,796
Governor's Vetoes	(1)
EHB 2088 Aerospace Appropriations	11
Estimated Reversions[(2)]	(140)
Total Spending	32,666
Ending Balance and Reserves	
Unrestricted Ending Fund Balance	341
Budget Stabilization Account Balance	582
Total Reserves	923

(1) Includes Unrestricted Fund Balance and Budget Stabilization Account Balance.
(2) Estimated spending authority that will not be used by the end of the 2013-15 Biennium.
Totals may not add due to rounding.
Source: Office of Financial Management.

Revenues and Expenditures. The state separates its General Fund revenues and expenditures into three categories: General Fund-State, General Fund-Federal and General Fund-Private/Local to indicate the general source of revenues. Tables 4 and 5 summarize such revenues and expenditures for the Fiscal Years 2009 through 2013 and budgeted expenditures for Fiscal Years 2014 through 2015. Table 4 is derived from the Forecast Council's forecast documents, which include forecasts of revenues through Fiscal Year 2015 (other than federal and local and private revenues and fund transfers, which are not part of the forecast). The information in Table 5 is extracted from the state's budget documents. The state budgets revenues on a cash basis and expenditures on a modified accrual basis. Accordingly, revenues reported in the state's financial statement attached as Appendix D are on the modified accrual basis and will not match revenues shown on budgetary schedules. Additionally, certain governmental activities are excluded from budgetary schedules because they are not appropriated. Examples include federal surplus food commodities, electronic food stamp benefits, capital leases acquisitions and the distribution of resources collected on behalf of local governments. Further, certain debt service expenditures are appropriated as operating transfers. These transfers are reported as expenditures on the budgetary schedules and as transfers in the state's financial statement attached as Appendix D. The General Fund balance sheet shown in the financial statements attached as Appendix D has three revenue sources: state, federal and private/local. General Fund-State in Tables 4 and 5 is the portion supported by state revenues (taxes, fees, other state charges, transfers, and other revenues).

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Table 4
General Fund Revenues and Resources
Fiscal Years ended June 30
(Cash Receipts)
($ in millions)

	2009	2010	2011	2012	2013	Forecast 2014[(6)]	Forecast 2015[(6)]
Beginning General Fund Balance	805	279	(561)	(92)	(381)	168	311
General Fund State Revenues							
State Tax Revenues							
Retail Sales Tax	6,870	6,417	6,620	6,745	7,169	7,604	7,976
Business and Occupation Taxes	2,640	2,574	3,010	3,126	3,307	3,236	3,375
Use Taxes (General Fund portion)	460	423	534	480	518	542	559
Property Taxes	1,770	1,822	1,840	1,898	1,936	1,979	2,018
Real Estate Excise Taxes	389	380	373	399	535	577	550
Other Excise Taxes[(1)]	23	17	18	17	16	16	16
Other Taxes[(2)]	1,582	1,535	1,804	1,827	1,875	1,865	1,928
Subtotal State Tax Revenues	13,734	13,168	14,199	14,492	15,356	15,819	16,422
State Non-Tax Revenues							
Licenses, permits and other fees	95	84	87	99	105	102	102
Liquor profits and fees	69	71	117	49	141	114	62
Investment income	63	2	(12)	(10)	(10)	(4)	(5)
Lottery transfers	11	13	9	-	-	11	-
Other Non-Tax Revenue	186	233	248	244	191	188	171
Subtotal State Non-Tax Revenues	424	403	449	382	427	411	330
Adjustments and Transfers							
Enacted Transfers/Prior Period Adjustments	1,043	699	550	246	146	71	97
Adjustment to Working Capital	-	-	-	-	238	-	-
Transfers from Budget Stabilization Account	-	45	223	-	-	-	-
Transfers to Budget Stabilization Account[(3)]	(115)	(119)	(129)	(130)	(139)	(143)	(169)
Subtotal Adjustment and Transfers	928	625	644	116	245	(72)	(72)
Total General Fund-State Resources	15,891	14,475	14,731	14,898	15,647	16,327	16,991
General Fund-State Resources	15,891	14,475	14,731	14,898	15,647	16,327	16,991
General Fund-Federal Revenues[(4) (5)]	6,498	8,339	7,975	7,114	7,037	8,083	8,757
General Fund-Private/Local Revenues[(5)]	220	225	250	273	260	280	289
Total General Fund Resources[(5)]	22,609	23,039	22,956	22,285	22,944	24,690	26,037

(1) Includes liquor, beer and wine, tobacco, boat and timber excise taxes, among others.
(2) Includes estate and inheritance taxes, public utility taxes and insurance premium and other taxes.
(3) The Emergency Reserve Account was abolished, and the Budget Stabilization Account was created, effective July 1, 2009. See "GENERAL FUND—Budget Stabilization Account."
(4) Includes ARRA funding in 2009, 2010 and 2011 of $1.0 billion, $2.1 billion, and $1.9 billion, respectively.
(5) Federal revenues and private/local revenues are not forecast.
(6) Based on November 2013 Revenue Forecast and 2013-15 enacted budget.
Totals may not add due to rounding.

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

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

						Forecast	
	2009	**2010**	**2011**	**2012**	**2013**	**2014[5]**	**2015[5]**
Education							
Public School	6,409	6,512	6,334	6,789	6,735	7,255	7,578
Higher Education	1,593	1,396	1,355	1,185	1,164	1,348	1,354
Other Education	93	82	39	40	42	55	69
Total Education	8,095	7,990	7,728	8,014	7,941	8,658	9,001
Human Services							
Dept. Social and Health Services[1]	4,433	4,303	4,425	2,683	2,648	2,873	2,914
Health Care Authority	285	207	106	2,029	2,071	2,131	2,115
Dept. Corrections	896	708	792	812	788	834	831
Other Human Services[1]	196	163	127	147	143	105	104
Total Human Services	5,810	5,381	5,450	5,671	5,650	5,943	5,964
Natural Resources Recreation	246	198	160	138	161	131	132
Government Operations	293	238	212	204	216	234	227
Transportation	38	40	34	36	41	36	34
Debt Service[2]	714	870	907	941	1,203	769	1,078
Other Expenditures[3]	416	319	332	275	267	245	214
Total General Fund-State Expenditures	15,612	15,036	14,823	15,279	15,479	16,016	16,650
Expenditures from Federal Funds	6,498	8,339	7,975	7,114	7,037	8,083	8,757
Expenditures from Private/Local Funds[4]	220	225	250	273	260	280	289
Total General Fund Expenditures	22,330	23,600	23,048	22,666	22,776	24,379	25,696
Total General Fund Resources	22,609	23,039	22,956	22,285	22,944	24,690	26,037
Total General Fund Expenditures	(22,330)	(23,600)	(23,048)	(22,666)	(22,776)	(24,379)	(25,696)
Unrestricted General Fund Ending Balance/	279	(561)	(92)	(381)	168	311	341
Budget Stabilization Balance	21	95	1	130	270	413	582
Total Reserves	300	(466)	(91)	(251)	438	724	923

(1) The Medical Assistance Program moved from DSHS to the Health Care Authority beginning in Fiscal Year 2012.
(2) Does not include debt service payments reimbursed from sources that are not general state revenues, including motor vehicle and special fuel taxes, tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes. See Tables 11 and 12.
(3) Includes legislative and judicial agencies and other special appropriations. Fiscal Years 2014 and 2015 also assumes $70 million per year in state General Fund reversions.
(4) Includes spending from grants, contracts and other agreements from private/local sources.
(5) Based on November 2013 Revenue Forecast, 2013-15 enacted budget and the legislation adopted in the November 2013 special session.
Totals may not add due to rounding.

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

Impact of Federal Sequestration on the State

On March 1, 2013, the sequestration provision of the Federal Budget Control Act of 2011 went into effect. Sequestration has had both direct and indirect effects on the state. Federal funds typically make up 20 to 25 percent of the state budget. The state estimated that approximately 80 percent of these federal funds are exempt from sequestration, including Medicaid and most transportation programs, but that the state could receive approximately $83 million fewer federal funds in March-December 2013 as a result of sequestration. Among the reductions were an 8.7 percent reduction in the federal subsidy for the state's Build America Bonds (for a total of approximately $1.2 million in calendar year 2013), cuts to high-need schools, special education services, social services, employment security, and unemployment benefits. Effective October 1, 2013, the reduction in the subsidy for Build America Bonds is 7.2 percent, or approximately $2.0 million annually.

Sequestration also impacted the state's economy. Regional Economic Models Inc. estimated that job losses in the state in 2013 would be 43,151 as a result of sequestration. A significant portion of the loss was due to the Pentagon's reduced military training and contracting and its furlough program that impacted thousands of civilian employees at defense facilities in Washington. The Forecast Council initially estimated that sequestration would reduce state revenues by approximately $6 million each month it continues.

Capital Budget

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

Table 6 summarizes the capital budgets for the 2007-09, 2009-11, 2011-13 and 2013-15 Biennia.

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

	2007-2009 Enacted Budget	**2009-2011 Enacted Budget**	**2011-13 Enacted Budget**	**2013-15 Enacted Budget**
Education				
Public Schools	1,254	1,190	1,080	1,065
Higher Education	1,539	1,305	897	890
Other Education	45	30	27	20
Total Education	2,838	2,525	2,004	1,975
Human Services				
Department of Social and Health Services	85	44	33	32
Other Human Services	518	259	263	230
Total Human Services	603	303	296	262
Natural Resources and Recreation	1,721	1,568	2,000	2,397
General Government	1,952	1,270	1,556	1,794
Transportation[(1)]	17	10	1	2
Total Capital Budget Expenditures	7,131	5,676	5,857	6,430

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

Source: Office of Financial Management.

TRANSPORTATION-RELATED REVENUES AND EXPENDITURES

The Washington State Department of Transportation ("WSDOT") is the state department responsible for building, maintaining, and operating the state highway system and the state ferry system and working in partnership with others to maintain and improve local roads, railroads, airports, and multi-modal alternatives to driving. WSDOT operates 18,600 state highway lane miles, over 3,600 bridge structures, including the four longest floating bridges in the United States, 48 safety rest areas, 22 ferry vessels and 20 ferry terminals.

Transportation Revenue

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

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

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

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

Source: Washington State Department of Transportation.

Federal Funds. WSDOT receives substantial federal funds, primarily from the Federal-Aid Highway Program, which encompasses most of the federal programs providing highway funds to the states. The Federal-Aid Highway Program is a reimbursement program that is financed from transportation user-related revenues, primarily excise taxes on motor fuel, deposited in the Highway Trust Fund. The program and the imposition of the taxes dedicated to the Highway Trust Fund must be periodically reauthorized by Congress. Most recently in 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) extended highway-user taxes through September 30, 2016, with no change to the tax rates. Once a project has been approved, the federal government pays a portion of the costs (typically 86.5 percent for the state) of the project as costs are incurred. States also may apply to be reimbursed for debt service on obligations issued to finance an approved project. The SR 520 Project has been approved for debt service reimbursement. See "Transportation Expenditures."

The sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act (BBEDCA) resulted in a loss of less than $1 million in National Highway Performance Program Funds received by the state. The Build America Bonds (BABs) subsidy received by the state in federal fiscal year 2013 for certain motor vehicle fuel tax bonds was also reduced by approximately $1.2 million. In addition, an across-the-board rescission reduced the state's obligation limitation available to the Federal-Aid Highway Program by approximately $1 million.

Tolls. Currently the state is collecting tolls on three facilities: the Tacoma Narrows Bridge, State Route ("SR") 167 High Occupancy Toll ("HOT") Lanes Pilot Project and the SR 520 Corridor. Toll rates on the Tacoma Narrows Bridge are fixed throughout the day, and tolls are collected only in the eastbound direction. Tolling on SR 167 is "dynamic"; cars with two or more people use the HOT lane for free and single occupant drivers have the option to pay the posted toll and use the carpool lane. The Legislature has extended the SR 167 HOT Lanes Pilot Project through June 2015. Toll rates on the SR 520 Corridor vary depending on the time of day and number of axles and tolls are collected electronically. The Legislature designated the Alaskan Way Viaduct (the "Viaduct") and the northern portion of the I-405 Corridor as "eligible toll facilities," but no tolls are currently being collected. See "Transportation Expenditures-The Alaskan Way Viaduct."

Transportation Revenue Forecast Council. The Transportation Revenue Forecast Council (the "Transportation Forecast Council"), comprised of technical staff of the Department of Licensing, WSDOT, OFM and the Economic and Revenue Forecast Council, prepares quarterly forecasts of transportation revenues (including revenues from excise taxes on motor vehicle and special fuels). The transportation 16-year revenue forecasts are based in part upon the economic and demographic forecasts and assumptions made by the Economic and Revenue Forecast Council. Current fuel tax rates are assumed.

In its most recent forecast, released in November 2013, the Transportation Forecast Council projects that gross transportation revenues for the 2013-15 Biennium will total $4.61 billion, an increase of 6.5 percent from the previous biennium's total revenue of $4.33 billion. The revenue forecast for the 2015-17 Biennium is $4.715 billion.

Transportation Expenditures

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

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

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

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

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

Payment of Bonds Payable from Toll Revenue and Other Funds. The state is financing the SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project as part of the SR 520 Corridor Program described below with a combination of (1) general obligation bonds of the state first payable from toll revenue and excise taxes on motor vehicle and special fuels ("Triple Pledge Bonds"), (2) toll revenue bonds that do not pledge state excise taxes on motor vehicle and special fuels or the full faith and credit of the state, and (3) grant anticipation revenue vehicle ("GARVEE") bonds payable from Federal-Aid Highway Program funds and not secured by a pledge of toll revenue. The state issued the first series of bonds for the SR 520 Corridor Program in October 2011, as Triple Pledge Bonds. Under the authorizing legislation, "toll revenue" means only such toll revenue that is pledged to the payment of the bonds. The resolution authorizing the issuance of the Triple Pledge Bonds pledged to those bonds the toll revenue from the SR 520 Corridor and any other "Eligible Toll Facilities" that may become part of a system of Eligible Toll Facilities. If toll revenue is not sufficient to pay the Triple Pledge Bonds, the Triple Pledge Bonds are then payable first from excise taxes on motor vehicle and special fuels and then from a general obligation pledge of other money of the state legally available therefor.

The state issued the second and fourth series of bonds for the SR 520 Corridor Program in June 2012 and September 2013, respectively, as GARVEE bonds, payable solely from Federal-Aid Highway Program funds, including federal reimbursements of debt service on the GARVEE bonds and federal reimbursements to the state for projects or portions of projects not financed with bond proceeds.

The state issued the third series of bonds for the SR 520 Corridor Program in October 2012 as the Transportation Infrastructure Finance and Innovation Act Bond ("TIFIA Bond"), which represents a draw-down loan from the Federal Highway Administration. The state does not expect to draw on the loan until the summer of 2014. The TIFIA Bond is payable solely from toll revenues. See "The SR 520 Corridor Program."

Transportation Capital Program. Since 2002, WSDOT has completed a series of large projects, including the Tacoma Narrows Bridge for approximately $735 million and the Hood Canal Floating Bridge for approximately $500 million. To date, WSDOT has completed 348 of 421 projects funded by the 2003-2005 gas tax, 88 percent of which projects were completed early or on time and 92 percent of which were on or under budget.

The state's transportation capital plan includes several mega-projects, including the SR 520 Corridor Program and the replacement of the Viaduct. Other major highway projects include the I-405 and SR 520 interchange in Bellevue, the U.S. 395 North Spokane corridor, and the I-5 and SR 16 interchange in Tacoma. Construction of approximately 200 smaller highway projects, including construction of new interchanges, lanes and bridges, is underway. Three 64-auto ferry boats have been constructed and delivered since 2010 and two 144-auto ferries are being constructed and are expected to be delivered in 2014 and be in service in 2014 and 2015. The second ferry is expected to be in service in early 2015 at a total cost of $126 million. Federal funds made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") Inter-City High-Speed Passenger Rail Program will finance the capital improvements necessary to expand the Amtrak Cascades Service, including projects needed to provide two additional daily round trips between Seattle and Portland, reduce travel time between Seattle and Portland and improve on-time performance. As described under "LITIGATION–Other," in March 2013, a U.S. district court issued a permanent injunction that requires WSDOT to repair or replace approximately 847 fish barrier culverts by 2030, which WSDOT has estimated could cost $2.4 billion over the next 17 years. The injunction includes the potential for the state to defer culvert corrections comprising up to 10 percent of habitat gain. All fish blocking culverts, however, are required to be corrected at the end of their useful life.

The SR 520 Corridor Program. The SR 520 floating bridge provides a major east-west link across Lake Washington. It is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond.

Built in the 1960s, the bridge currently is vulnerable to failure in severe windstorms and earthquakes. The SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project (a portion of the SR 520 Corridor Program) is underway and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new floating bridge to replace the Evergreen Point floating bridge that includes the construction of the permanent north half of the west approach bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project and preliminary design and selected right-of-way acquisition for the Westside Project. The state issued $518.8 million in Triple Pledge Bonds in October 2011, $500.4 million in GARVEE bonds in June 2012, a $300 million TIFIA Bond in October 2012 and $285.915 million in GARVEE bonds in September 2013, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.8 billion. Tolling on the SR 520 Corridor began in December 2011. WSDOT is using the design-build delivery method for three major components of the project, which have been awarded. The second cycle of pontoons has been floated out from Tacoma, and all the anchors for the Floating Bridge have been put in place. The design and construction of the north half of the west approach bridge will use the design-bid-build delivery method. The contract is expected to be awarded in summer 2014.

Issues with spalling and end-wall cracking found in the first cycle of pontoons have resulted in a number of change orders that are the responsibility of WSDOT. On January 8, 2014, WSDOT announced that change orders resulting from a WSDOT design error have consumed much of the project’s risk reserve and contingency. As of December 31, 2013, executed changes resulting from this total nearly $131 million. With the execution of a pending change order to address time-related impacts of WSDOT-caused delay from late delivery of pontoons, the total cost of the error is expected to be approximately $208 million. Due to this issue, the execution of other project changes, and the need for a risk reserve, WSDOT has determined that approximately $170 million in additional project funding is required. It is likely that interim project milestones will be delayed several months, including a delay in opening the floating bridge to traffic from mid-2015 to April 2016.

If funded by the Legislature, the Westside Project will construct a new six-lane corridor from I-5 to the new SR 520 floating bridge, a new Portage Bay bridge, a reversible transit/HOV ramp to I-5, and other improvements. If the Westside Project is not funded, the new SR 520 floating bridge will be connected to the existing corridor between the bridge and I-5.

In 2013, the state completed a second annual update to the initial investment-grade traffic and revenue study for the SR 520 Corridor Program that was completed in 2011. The studies forecasted toll traffic and gross revenue through Fiscal Year 2056. The original study projected that toll traffic would initially be approximately 48 percent lower than pre-toll traffic levels. Since tolling began in December 2011, toll traffic has performed better than initial projections and continues to exceed the updated projections from the 2012 and 2013 studies.

The Alaskan Way Viaduct. The Viaduct was built in the 1950s and includes an elevated 2.2-mile portion of SR 99 along the edge of Puget Sound in downtown Seattle. The Viaduct is a main north-south route through Seattle and carries 20 to 25 percent of the traffic through downtown. The elevated structure was damaged during the region’s 2001 Nisqually earthquake. Studies indicate that the Viaduct may collapse if another major earthquake occurs. The total cost of the Viaduct replacement project is estimated to be $3.145 billion, which is expected to be funded by state, federal, and local investments and toll revenue. The Viaduct replacement project has been approved for $822 million in federal funds. The Viaduct’s downtown waterfront section will be replaced with a bored tunnel beneath downtown Seattle using the world’s largest diameter tunneling machine. Tunneling started in the summer of 2013. The SR 99 tunnel is scheduled to open in December 2015. On December 6, 2013, the tunnel boring machine encountered a steel pipe that has temporarily halted boring. It is not known at this time if this issue will affect the project’s schedule and budget.

Columbia River Crossing. Columbia River Crossing was a proposed five-mile project on I-5 between SR 500 in Vancouver, Washington, and Columbia Boulevard in Portland, Oregon. The project would have replaced the current I-5 bridges, extended light rail to Vancouver, and improved closely spaced interchanges and access to the ports of Portland and Vancouver. The Oregon Legislature authorized funding for Oregon’s portion of the project, but the

Washington Legislature did not enact legislation providing the state's contribution to the project and, therefore, Washington pulled out of the project while Oregon is considering options to continue with the project on its own.

Transportation Revenues and Expenditures

Table 8 summarizes transportation-related revenues and other funding for Fiscal Years 2009 through 2013 and forecasted transportation-related revenues and other funding for Fiscal Years 2014 and 2015. The forecasted revenues displayed in the following table are revenues used by WSDOT and do not include forecasted revenues for other transportation agencies such as the Department of Licensing, the Washington State Patrol or local grant agencies. It includes forecast revenues and projected bond proceeds, based upon the current budget, and assumed federal and local funds. The federal funds shown in Table 8 include funds received from all federal transportation agencies that are appropriated by the Legislature. A portion of the funds received in the state's federal program is passed through to local entities and is not appropriated by the Legislature. Table 8 is presented on a state Fiscal Year, which produces different results than when presented on a federal fiscal year basis.

Table 9 summarizes transportation-related expenditures for Fiscal Years 2009 through 2013 and budgeted and projected expenditures for Fiscal Years 2014 and 2015. Expenditures reflected are for WSDOT programs only. During the 2014 legislative session, the Legislature is expected to consider a transportation revenue and capital plan, including potential new transportation revenues.

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

	2009	2010	2011	2012	2013	November 2013 Forecast 2014	2015
Beginning Balance	588	284	1,476	591	1,263	950	717
Gross Fuel Tax Collections include Non-Highway	1,247	1,234	1,255	1,242	1,246	1,257	1,266
Refunds for Non-Highway Use	(79)	(57)	(62)	(81)	(66)	(71)	(70)
Adjusted Gross Fuel Tax Collections	1,168	1,177	1,193	1,161	1,180	1,185	1,196
WSDOT Portion of Licenses, Permits and Fees	295	288	294	302	344	360	367
Ferry Fares	145	147	147	155	161	166	170
Tacoma Narrows Bridge Tolls[1]	46	47	45	47	64	68	73
State Route 167 Hot Lane Tolls[1]	-	1	1	1	1	1	1
SR 520 Corridor Tolls[1]	-	-	-	33	68	73	79
Other Revenues and Adjustments[2]	130	123	123	83	84	99	99
Total State Sources[3]	1,785	1,782	1,804	1,782	1,903	1,952	1,985
Other Funding[4]							
Bond Proceeds (Bonds sold in Fiscal Year)[5]	507	2,082	48	1,134	633	833	936
Bond Proceeds (GARVEE)[6]	-	-	-	602	-	323	-
Federal Aid Highway Funds[6]	-	-	-	-	18	31	39
TIFIA Loan[7]	-	-	-	-	-	-	195
Federal Stimulus Funds (ARRA)[8]	-	195	129	37	36	10	-
Federal High Speed Rail Funds[8]	-	-	2	3	27	159	148
Federal Highway Funds[8]	453	362	385	555	625	605	605
Local Funds[8]	45	48	54	25	40	86	86
Total Other Funding	1,005	2,687	618	2,355	1,379	2,047	2,009
Total Sources	3,378	4,753	3,898	4,727	4,544	4,950	4,711

(1) Includes gross toll revenue, transponder sales, civil penalties, and fees.
(2) Includes other non-forecasted sources (e.g., interest income, transfers from other state accounts, and other miscellaneous sources).
(3) Gross fuel taxes are deposited into the Motor Vehicle Account and distributed to local governments and other state agencies by statute. These distributions and transfers are shown in Table 9. The Total State Sources include WSDOT accounts only and does not include other accounts that support expenditures for agencies such as Department of Licensing, the Washington State Patrol and local grant agencies.
(4) Other funding is based on the appropriated levels of bond proceeds and federal expenditures for 2013-15 in the 2013-15 Enacted Transportation Budget.
(5) The remaining bond authority for the SR 520 Corridor Program has been fully appropriated for 2013-15 in the 2013 Enacted Transportation Budget to allow for flexibility.
(6) The GARVEE bonds for 2013-15 were sold on September 17, 2013. Federal Aid Highway Program funds were used for GARVEE Bond debt service.
(7) TIFIA Loan was appropriated in the 2013 Supplemental Budget, however, the funds were placed in unallotted status. The same amount was appropriated again in 2013-15 when the expenditures are expected to occur.
(8) Federal and local funds in 2013-15 have been annualized from a biennial total. Federal Funds include both formula and allocated funds for all state appropriated accounts managed by WSDOT, including operating and capital programs. Funds are appropriated based on WSDOT's Fiscal Year, July 1 through June 30.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

Table 9

Transportation Expenditures and Ending Fund Balance[1]

Fiscal Years ended June 30

(Modified Accrual Basis)

($ in millions)

						2013-15 Enacted Budget[2]	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Distributions and Transfers							
Debt Service Transfers – Motor Fuel Tax[3]	310	332	409	416	481	525	564
Debt Service Transfers – Toll Revenue[3]	-	-	-	17	26	26	26
Debt Service Transfers – GO[3]	4	8	9	11	11	13	13
Debt Service Transfers – Federal Aid Highway Funds[4]	-	-	-	-	18	31	39
Fuel Tax Distribution to Cities and Counties	233	235	238	231	235	237	238
Fuel Tax Distributions to Support Local Grant Programs[5]	127	128	130	126	128	129	130
Expenditures by Other Agencies[6]	47	45	47	57	57	65	65
Total Distributions and Transfers	722	747	833	858	957	1,026	1,074
WSDOT Operations							
Toll Maintenance and Operations	13	14	11	21	23	31	31
Highway Maintenance and Operations	232	198	214	211	219	230	230
Ferries Maintenance and Operations	215	209	225	231	227	243	243
Aviation, Public Transportation and Rail	74	73	82	65	74	76	76
Local Programs and Economic Partnerships	7	6	6	5	6	6	6
Operational Activities[7]	156	149	149	131	143	153	153
Operating Appropriations Placed in Unallotted Status	-	-	-	-	-	-	(7)
Total Operations	696	648	687	664	692	739	731
WSDOT Capital							
Highway Construction[8]	1,485	1,636	1,553	1,809	1,703	2,088	2,088
Traffic Operations and Facilities	10	6	8	9	8	16	16
Ferry Capital Construction	91	131	158	83	151	146	146
Rail Program	59	59	35	22	55	188	188
Highways and Local Programs	30	50	33	18	29	29	29
Capital Appropriations Placed in Unallotted Status	-	-	-	-	-	-	(350)
Total Capital	1,675	1,881	1,787	1,942	1,945	2,468	2,117
Total WSDOT Transportation Uses	3,094	3,277	3,307	3,464	3,594	4,232	3,923
Ending Fund Balance	284	1,476	591	1,263	950	717	788

(1) Table shows actuals through Fiscal Year 2013. Revenue distributions are based on the November 2013 Transportation Revenue Forecast.

(2) Expenditure for Fiscal Year 2014 and Fiscal Year 2015 are based on the 2013-15 Enacted Transportation Budget. Expenditures have been annualized. Revenue distributions are based on the November 2013 Transportation Revenue Forecast.

(3) Funds are transferred to debt retirements accounts on a monthly basis and include debt service for fuel tax bonds, general obligation bonds and toll revenue bonds. These transfers do not match fiscal year debt service. Debt service in this table is net of the Build America Bonds' subsidy (and reflects reductions in Fiscal Years 2014 and 2015 for federal sequestration). This represents WSDOT debt service only and does not include debt service for the Transportation Improvement Board or other state or local entities.

(4) Represents debt service on GARVEE Bonds, which is reimbursed by Federal Aid Highway Program funds as shown on Table 8.

(5) Grant programs are administered to local users through the County Road Administration Board and the Transportation Improvement Board.

(6) Expenditures by Other Agencies include certain legislative committees and commissions, as well as certain executive agencies.

(7) Operational Activities include administrative services, facilities operations and maintenance, transportation planning, information technology, and insurance fees.

(8) The 2013-15 Enacted Transportation Budget provides appropriation authority for the SR 520 Corridor Program that aligns with the program's remaining bond authorization. Additionally, the corridor improvements are being delivered as a program of projects. This allows appropriations to be distributed between projects that make up the program and to advance federal pay-go funding as needed for project delivery.

Totals may not add due to rounding.

Source: Washington State Department of Transportation.

INDEBTEDNESS AND OTHER OBLIGATIONS

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

Debt Issuance Policy

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

Debt Affordability Study

In January 2014, the Treasurer released the fourth annual Debt Affordability Study to the Legislature. The study presents information about the state's debt obligations to help guide policymakers as they make choices about the amounts, types and uses of debt financing undertaken in the state. The study describes issuance trends, borrowing costs and effective constraints on debt issuance and provides an assessment of the state's overall "debt affordability" by using demographic and financial indicators as well as peer analysis to measure the affordability of the state's existing and projected debt.

Recent Legislation and Ballot Measures

Through 2011 legislation, the Legislature created the Commission on State Debt to examine trends in the use of debt and other long term liabilities, compare debt service to other operating budget expenditures for similar policy objectives, and compare the state's debt limits and policies to other states. This commission recommended certain constitutional and statutory changes regarding the calculation of state debt limits and the creation of a debt policy council to advise the Governor and Legislature regarding the appropriate level of state debt. The 2011 legislation further directed the State Finance Committee to recommend a working debt limit for purposes of budget development for various purpose capital bond appropriations, which is lower than the state constitutional debt limit in order to reserve capacity under the constitutional limit for emergencies and economic uncertainties. In November 2012, voters approved a constitutional amendment that changes the constitutional general obligation debt limitation. See "General Obligation Debt–Constitutional General Obligation Debt Limitation" below.

General Obligation Debt

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

General obligation bonds may be authorized:

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

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

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

    (a) to refund outstanding state obligations; or

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

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

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

Bonds for SR 520 Corridor Program. The Legislature has authorized the issuance of $1.95 billion of bonds to provide the funds necessary for the location, design, right-of-way, and construction of the Floating Bridge and the Eastside plus West Approach Bridge Project portion of the SR 520 Corridor Program. In October 2011, the state issued $518.775 million of Triple Pledge Bonds first payable from toll revenue, then excise taxes on motor vehicle and special fuels, and finally by the full faith and credit of the state. In June 2012, the state issued $500.4 million of GARVEE bonds payable from Federal-Aid Highway Program funds to finance the SR 520 Corridor Program. In October 2012, the state issued a $300 million TIFIA Bond payable solely from toll revenues. The TIFIA Bond is a draw down loan, which is expected to be drawn in 2014 through 2016. In September 2013, the state issued $285.915 million of GARVEE bonds payable from Federal-Aid Highway Program funds. The state expects to issue additional toll-backed bonds for the project in 2014 or 2015. It is expected that the total net proceeds of the various bond issues for the project will be approximately $1.8 billion. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES."

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of state general obligation debt that may be incurred is limited by the Constitution. The constitutional debt limitation prohibits the issuance of new debt if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of general state revenues for the three immediately preceding Fiscal Years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

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

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

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

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

Debt Service Within Constitutional Debt Limitation. The aggregate debt projected to be contracted by the state as of February 5, 2014, will not exceed that amount for which payments of principal and interest in any Fiscal Year would require the state to expend more than 9.0 percent of the arithmetic mean of its general state revenues for the three immediately preceding Fiscal Years. The arithmetic mean of general state revenues for Fiscal Years 2011, 2012 and 2013 is $13,250,701,528. The debt service limitation, 9.0 percent of this mean, is $1,192,563,138. The state's maximum annual debt service as of February 5, 2014, on debt service (including the Series 2014D Bonds and the Series 2014T-2 Bonds) subject to the constitutional debt limitation is $1,125,315,428, or $67,247,709 less than the debt service limitation.

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

Article VIII of the Constitution and Chapter 39.42 RCW also provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the state treasury. Such indebtedness must be retired other than by refunding within 12 months after the date of issue. Principal and interest on certificates of indebtedness are excluded from the constitutional debt limitation. The state has no certificates of indebtedness currently outstanding and does not anticipate any short-term borrowing during Fiscal Year 2014.

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

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

Fiscal Year Ending June 30	Outstanding 2/5/2014[1]								2014D and 2014T-2 [2]		2014E [2]		Total Debt Service Requirements [2][3][4][5]
	General Obligation						Limited Obligation		General Obligation				
	General State Revenues[3]		Motor Vehicle Fuel Tax Revenues		Triple Pledge		GARVEEs		General State Revenues		Motor Vehicle Fuel Tax Revenues		
	Principal	Interest	Principal	Interest[4]	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2014[5]	29,890,000	5,024,038	20,612,972	11,166,453	-	13,012,488	-	18,399,141	-	-	-	-	98,105,092
2015	594,396,564	532,517,931	244,137,993	312,797,342	-	26,024,975	-	39,095,675	11,590,000	18,421,294	5,575,000	13,310,840	1,797,867,614
2016	602,847,077	507,716,025	255,874,493	308,176,478	-	26,024,975	62,600,000	37,544,175	11,405,000	18,605,095	5,760,000	13,125,900	1,849,679,217
2017	602,341,191	498,031,783	268,438,239	303,694,760	10,835,000	26,024,975	65,710,000	34,360,925	11,460,000	18,550,351	6,105,000	12,780,300	1,858,332,524
2018	589,289,950	466,944,496	273,644,188	294,748,764	11,375,000	25,483,225	68,975,000	31,026,150	11,560,000	18,449,503	6,410,000	12,475,050	1,810,381,325
2019	579,141,629	439,410,065	283,331,883	286,647,799	11,945,000	24,914,475	72,380,000	27,519,375	11,715,000	18,295,755	6,730,000	12,154,550	1,774,185,530
2020	574,483,868	415,226,040	290,858,119	277,049,644	12,540,000	24,317,225	75,985,000	23,819,250	11,950,000	18,063,798	7,070,000	11,818,050	1,743,180,992
2021	554,708,505	372,017,785	290,941,687	266,418,491	13,165,000	23,690,225	79,780,000	19,937,625	12,235,000	17,775,803	7,420,000	11,464,550	1,669,554,671
2022	551,740,000	321,318,700	298,657,106	258,135,455	13,825,000	23,031,975	83,750,000	15,869,938	12,575,000	17,445,458	7,790,000	11,093,550	1,615,232,181
2023	554,420,000	293,522,088	297,442,167	247,650,688	14,515,000	22,340,725	87,915,000	11,593,625	13,095,000	16,916,500	8,200,000	10,684,575	1,578,295,368
2024	554,985,000	266,145,913	304,124,322	238,250,029	15,240,000	21,614,975	92,305,000	7,092,125	13,745,000	16,261,750	8,630,000	10,254,075	1,548,648,189
2025	534,855,000	238,445,138	313,424,917	226,907,534	16,005,000	20,852,975	96,915,000	2,392,250	14,435,000	15,574,500	9,085,000	9,801,000	1,498,693,313
2026	521,875,000	211,485,263	323,375,654	213,546,358	16,805,000	20,052,725	-	-	15,155,000	14,852,750	9,540,000	9,346,750	1,356,034,499
2027	506,150,000	186,085,425	322,353,610	200,327,617	17,685,000	19,170,463	-	-	15,915,000	14,095,000	10,015,000	8,869,750	1,300,666,865
2028	489,155,000	163,850,250	312,046,468	189,696,055	18,615,000	18,242,000	-	-	16,710,000	13,299,250	10,515,000	8,369,000	1,240,498,023
2029	487,460,000	141,815,100	311,961,913	178,399,632	19,545,000	17,311,250	-	-	17,545,000	12,463,750	11,040,000	7,843,250	1,205,384,895
2030	466,845,000	120,400,038	307,560,835	165,972,665	20,525,000	16,334,000	-	-	18,425,000	11,586,500	11,595,000	7,291,250	1,146,535,288
2031	442,595,000	100,699,350	276,435,000	93,541,325	21,550,000	15,307,750	-	-	19,345,000	10,665,250	12,175,000	6,711,500	999,025,175
2032	427,475,000	80,617,275	256,850,000	81,269,173	22,625,000	14,230,250	-	-	20,310,000	9,698,000	12,780,000	6,102,750	931,957,448
2033	395,435,000	60,413,588	228,120,000	68,980,983	23,760,000	13,099,000	-	-	21,325,000	8,682,500	13,420,000	5,463,750	838,699,821
2034	316,825,000	42,180,775	184,610,000	58,346,455	24,945,000	11,911,000	-	-	22,395,000	7,616,250	14,090,000	4,792,750	687,712,230
2035	242,155,000	27,346,988	161,935,000	49,522,406	26,195,000	10,663,750	-	-	23,515,000	6,496,500	14,795,000	4,088,250	566,712,893
2036	177,250,000	16,352,688	139,825,000	42,099,606	27,505,000	9,354,000	-	-	24,690,000	5,320,750	15,540,000	3,348,500	461,285,543
2037	120,975,000	8,716,025	145,280,000	35,131,797	28,880,000	7,978,750	-	-	25,925,000	4,086,250	16,315,000	2,571,500	395,859,322
2038	72,705,000	3,942,825	150,775,000	28,040,622	30,325,000	6,534,750	-	-	27,220,000	2,790,000	17,130,000	1,755,750	341,218,947
2039	40,195,000	1,004,875	156,665,000	20,528,888	31,840,000	5,018,500	-	-	28,580,000	1,429,000	17,985,000	899,250	304,145,513
2040	-	-	142,965,000	13,183,012	33,430,000	3,426,500	-	-	-	-	-	-	193,004,512
2041	-	-	117,580,000	6,903,737	35,100,000	1,755,000	-	-	-	-	-	-	161,338,737
2042	-	-	55,245,000	2,957,081	-	-	-	-	-	-	-	-	58,202,081
2043	-	-	30,120,000	968,028	-	-	-	-	-	-	-	-	31,088,028
Total	11,030,193,784	5,521,230,461	6,765,191,568	4,481,058,877	518,775,000	467,722,900	786,315,000	268,650,254	432,820,000	317,441,553	265,710,000	206,416,440	31,061,525,837

(1) Does not include the current bond offerings dated February 5, 2014 (Series 2014D, 2014E and 2014T-2, collectively, the "Bonds"). Does not include the TIFIA Bond, which has not been drawn upon. See "TRANSPORTATION RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–Payment of Bonds Payable from Toll Revenue and Other Funds."

(2) Current offering dated February 5, 2014 (Series 2014D, 2014E and 2014T-2).

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

(4) Debt service does not take into account the receipts of the 35 percent federal credit payments applicable to bonds issued as Build America Bonds. See "GENERAL FUND–Impact of Federal Sequestration on the State."

(5) Remaining debt service on outstanding bonds as of February 5, 2014. Upon the issuance of the Bonds, debt service requirements for entire Fiscal Year 2014 are: principal $791,236,540; interest $897,702,362; total debt service $1,688,938,901.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

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

	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Outstanding by Source of Payment					
General Obligation Bonds					
General State Revenues and Other Sources [(1)]	9,831,964,833	10,410,327,277	10,763,996,170	10,980,895,035	10,980,397,783
Motor Vehicle Fuel Tax Revenue	4,285,988,810	6,189,623,828	6,004,454,495	6,353,055,881	6,712,006,137
Toll Revenue on the SR 520 Corridor	-	-	-	518,775,000	518,775,000
	14,117,953,643	16,599,951,104	16,768,450,665	17,852,725,916	18,211,178,920
Limited Obligation Bonds					
Pledged Federal Aid (GARVEE)	-	-	-	500,400,000	500,400,000
Total – Outstanding	14,117,953,643	16,599,951,104	16,768,450,665	18,353,125,916	18,711,578,920
Annual Debt Service Requirements by Fiscal Year					
General Obligation Bonds					
General State Revenues and Other Sources Debt Service[(1)]					
Payable from General State Revenues	816,725,594	866,032,566	904,457,910	936,976,816	969,603,360
Reimbursed from Other Sources[(1)]	91,360,751	91,743,874	88,239,461	86,327,135	83,775,821
	908,086,345	957,776,440	992,697,370	1,023,303,951	1,053,379,180
Motor Vehicle Fuel Tax Revenue Debt Service					
Payable from Excise Taxes on Motor Vehicle and Special Fuels	291,775,904	319,143,978	379,425,700	399,676,957	420,422,316
Reimbursed from Tolls on the Tacoma Narrows Bridge	26,915,419	34,925,419	42,200,419	43,266,544	45,329,581
	318,691,323	354,069,397	421,626,119	422,943,501	465,751,897
Toll Revenue Debt Service					
Payable from Toll Revenue on the SR 520 Corridor	-	-	-	15,253,527	26,024,975
Limited Obligation Bonds					
GARVEE Bond Debt Service	-	-	-	-	18,282,056
Total – Annual Debt Service by Fiscal Year	1,226,777,668	1,311,845,837	1,414,323,489	1,481,500,979	1,563,438,108

(1) The state may be reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Table 12
Bonds by Source of Payment[1]
(Outstanding as of February 5, 2014)
(in dollars)

General Obligation Bonds		
Various Purpose General Obligation Bonds		
Payable from General State Revenues		10,707,209,066
Reimbursed from Other Sources[2]		755,804,718
Sub Total		11,463,013,784
Motor Vehicle Fuel Tax General Obligation Bonds		
Payable from Excise Taxes on Motor Vehicle and Special Fuels		6,510,135,000
Payable from Tolls on the SR 520 Corridor		518,775,000
Reimbursed from Tolls on the Tacoma Narrows Bridge		520,766,568
Sub Total		7,549,676,568
	Total General Obligation Bonds	19,012,690,352
Limited Obligation Bonds		
Pledged Federal Aid (GARVEE Bonds)	**Total Limited Obligation Bonds**	786,315,000
	Total	19,799,005,352

(1) Includes current bond offerings dated February 5, 2014 (Series 2014D, 2014E and 2014T-2). Does not include the TIFIA Bond, which has not been drawn upon. See “TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures– Payment of Bonds Payable from Toll Revenue and Other Funds.”
(2) The state may be reimbursed from sources that are not general state revenues, including tuition fees, patient fees, admission taxes, parking taxes and certain King County sales and use taxes.

Totals may not add due to rounding.

Source: Office of the State Treasurer.

Certificates of Participation/Financing Contracts for State and Local Agencies

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

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

The state also has entered into two long-term leases with separate nonprofit corporations that issued “63-20” lease revenue bonds on behalf of the state. The first lease, entered into in 2004 with Tumwater Office Properties, is for an office building being used as offices by WSDOT and DOC (now known as the “Edna Lucille Goodrich Building” and formerly the “Tumwater Office Building”). The second lease, entered into in 2009 with FYI Properties, is for a state data center and an office building in Olympia used by the Department of Enterprise Services and Consolidated Technology Services and several smaller agencies (the “1500 Jefferson Building”). The state began making lease payments for the 1500 Jefferson Building in July 2011. The state’s payments under the leases have been assigned to separate trustees as security for the “63-20” bonds issued by each of the lessors. Under each lease, the state’s obligation to make payments of rent is subject to appropriation by the Legislature and subject to Executive Order reduction by the Governor, and neither lease is a "debt" under the Constitution.

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

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

Table 13
Payments of Certificates of Participation in State Financing Contracts for State and Local Agencies by Fiscal Year[1]
(Outstanding as of February 5, 2014)
(in dollars)

	State				Local				State and Local Real Estate & Equipment Total Payments
	Real Estate		Equipment		Real Estate		Equipment		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2014[2][3]	6,260,000	621,856	-	-	-	-	-	-	6,881,856
2015	31,473,057	16,400,216	35,042,488	6,005,657	3,434,810	1,545,197	8,880,878	1,692,015	104,474,317
2016	32,974,795	15,147,437	29,337,563	5,057,904	3,505,118	1,421,055	7,317,227	1,413,043	96,174,142
2017	26,165,000	13,814,375	27,178,218	4,185,027	3,496,682	1,290,127	6,549,122	1,164,243	83,842,795
2018	25,440,000	12,779,717	19,896,420	3,423,522	2,832,758	1,161,396	5,714,042	921,695	72,169,551
2019	25,040,000	11,737,120	16,776,747	2,813,678	2,670,027	1,048,384	4,937,406	698,796	65,722,159
2020	24,690,000	10,714,343	13,569,463	2,299,008	2,600,013	937,169	4,098,171	503,211	59,411,378
2021	24,590,000	9,680,732	12,634,893	1,875,082	2,480,000	828,040	2,271,640	360,797	54,721,185
2022	23,835,000	8,653,026	4,991,784	1,538,441	2,275,000	722,333	1,848,216	267,034	44,130,833
2023	23,825,000	7,624,178	5,118,112	1,306,659	2,365,000	617,938	1,536,888	178,841	42,572,615
2024	22,790,000	6,602,073	5,101,062	1,063,827	1,960,000	521,875	1,363,938	108,573	39,511,348
2025	20,635,000	5,623,971	5,115,000	821,500	2,020,000	434,543	505,000	53,425	35,208,438
2026	20,185,000	4,705,750	5,055,000	584,550	2,110,000	341,153	450,000	32,300	33,463,753
2027	20,160,000	3,779,985	3,950,000	341,225	2,030,000	246,856	180,000	13,800	30,701,866
2028	16,840,000	2,897,274	3,940,000	180,900	2,080,000	153,216	105,000	5,950	26,202,340
2029	16,190,000	2,124,386	4,060,000	60,900	985,000	57,494	95,000	1,900	23,574,680
2030	16,595,000	1,360,614	-	-	230,000	22,936	-	-	18,208,550
2031	10,690,000	755,300	-	-	165,000	14,450	-	-	11,624,750
2032	5,820,000	355,069	-	-	155,000	8,144	-	-	6,338,213
2033	5,250,000	118,578	-	-	100,000	1,981	-	-	5,470,559
2034	295,000	6,822	-	-	-	-	-	-	301,822
Total	399,742,852	135,502,821	191,766,750	31,557,881	37,494,409	11,374,286	45,852,529	7,415,623	860,707,150

(1) Excludes payments on state leases supporting "63-20" lease revenue bonds. See Table 14.
(2) Total payments for Fiscal Year 2014 are $97,705,860.
(3) Debt service is collected from state and local agencies one month prior to the date the state pays debt service. Table shows debt service as it is paid to Certificate of Participation holders, not when collected from state and local agencies.
Totals may not add due to rounding.
Source: Office of the State Treasurer.

Table 14
Payments Under "63-20" Lease Revenue Bonds by Fiscal Year
(Outstanding as of February 5, 2014)
(in dollars)

Fiscal Year	E.L. Goodrich Building Principal	E.L. Goodrich Building Interest	1500 Jefferson Building Principal	1500 Jefferson Building Interest	Total Lease Revenue Bonds
2014	-	-	5,725,000	7,954,313	13,679,313
2015	1,540,000	2,534,188	6,015,000	15,622,375	25,711,563
2016	1,740,000	2,450,013	6,310,000	15,321,625	25,821,638
2017	1,955,000	2,353,019	6,630,000	15,006,125	25,944,144
2018	2,180,000	2,244,475	6,965,000	14,674,625	26,064,100
2019	2,420,000	2,123,725	7,310,000	14,326,375	26,180,100
2020	2,685,000	1,989,719	7,675,000	13,960,875	26,310,594
2021	2,960,000	1,841,538	8,060,000	13,577,125	26,438,663
2022	3,260,000	1,678,263	8,460,000	13,174,125	26,572,388
2023	3,570,000	1,498,975	8,885,000	12,751,125	26,705,100
2024	3,905,000	1,302,756	9,350,000	12,284,663	26,842,419
2025	4,265,000	1,093,625	9,845,000	11,793,788	26,997,413
2026	4,640,000	871,000	10,360,000	11,276,925	27,147,925
2027	5,035,000	629,125	10,905,000	10,733,025	27,302,150
2028	5,480,000	366,250	11,450,000	10,187,775	27,484,025
2029	4,585,000	114,625	12,035,000	9,600,963	26,335,588
2030	-	-	12,665,000	8,969,125	21,634,125
2031	-	-	13,360,000	8,272,550	21,632,550
2032	-	-	14,095,000	7,537,750	21,632,750
2033	-	-	14,870,000	6,762,525	21,632,525
2034	-	-	15,690,000	5,944,675	21,634,675
2035	-	-	16,555,000	5,081,725	21,636,725
2036	-	-	17,465,000	4,171,200	21,636,200
2037	-	-	18,425,000	3,210,625	21,635,625
2038	-	-	19,440,000	2,197,250	21,637,250
2039	-	-	20,510,000	1,128,050	21,638,050
Total	50,220,000	23,091,294	299,055,000	255,521,300	627,887,594

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

Other Debt

See Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS–Note 7A." for a description of revenue bonds issued by certain colleges and universities, which are not debt of the state; tobacco securitization debt; and certain other conduit debt issued by state agencies.

School Bond Guarantee Program

In 1999, the Legislature authorized a state school district credit enhancement program. The program's purpose is to provide savings to state taxpayers by pledging the full faith, credit and taxing power of the state to the payment of voter-approved school district general obligation bonds. The proposed law was approved by a vote of the electorate as a constitutional amendment.

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

As of January 1, 2014, the aggregate total principal amount outstanding on 475 voter-approved bond issues guaranteed under the program was $8.35 billion. The bonds were issued by 174 school districts.

Washington Guaranteed Education Tuition Program

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

According to the June 30, 2012, actuarial valuation prepared by the Office of the Washington State Actuary (OSA), the market value of program assets, totaled $2.31 billion, or 78.5 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.94 billion. The June 30, 2013, actuarial report prepared by OSA showed program assets of $2.57 billion, or 94.1 percent of the "best estimate" of the actuarially determined present value of obligations for future payments of $2.71 billion.

In 2011, the GET Committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011. After two years of experience, the full funding plan remains on track.

INVESTMENTS

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

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

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

For a description of permitted investments, how investments are valued and investments as of June 30, 2013, for the LGIP, Treasurer's Trust Funds, state pension plans and Workers' Compensation Funds, see Note 3 in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

Treasury and Treasurer's Trust Funds

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

Liquidity Portfolio. The objective of the Liquidity Portfolio is to meet daily cash requirements of all Treasury and Treasurer's Trust Funds (which include state operating and capital accounts). Additionally, the Liquidity Portfolio serves as a short-term investment fund for any cash holdings of the Intermediate and Core Portfolios. Balances in the Liquidity Portfolio fluctuate within a wide range (from near zero to more than $2.0 billion), increasing sharply with the receipt of seasonal tax payments and bond proceeds and declining with the pace of operating and capital expenditures. Investment holdings of this portfolio are generally repurchase agreements, reverse repurchase agreements, U.S. agency discount notes, the LGIP and deposits with qualified depositaries. Performance of this portfolio is measured against benchmarks used for the LGIP described below.

Intermediate Portfolio. The Intermediate Portfolio serves as an enhanced cash portfolio, providing the state an opportunity to achieve a higher return than the Liquidity Portfolio by investing a little further out the yield curve. The maximum maturity of this portfolio is two years, with a target duration of 0.75 years. Investment holdings of this portfolio include obligations of the U.S. Government and U.S. agencies. This portfolio acts as a cushion between the Liquidity and Core Portfolios in that it is the first option for potential cash needs of the Liquidity Portfolio.

Core Portfolio. Cash not anticipated to be needed to meet cash flow requirements for the foreseeable future is invested in the Core Portfolio. The maximum maturity for this portfolio is 10 years with a target duration of about 1.75 years. Investment holdings of this portfolio include obligations of the U.S. Government and U.S. agencies. Performance benchmarks of the Core Portfolio are the total return and accrued yield of the Bank of America/Merrill Lynch 1-3 Treasury/Agency Index.

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

	December 2013		December 2012-December 2013(1)	
	$	%	$	%
U.S. Agency	2,033,393	42.6	1,648,028	40.4
U.S. Treasury	936,060	19.6	646,372	15.9
Repurchase Agreements	514,032	10.8	788,518	19.3
Bank Deposits	139,395	2.9	114,702	2.8
LGIP Deposit(2)	993,365	20.8	723,661	17.7
Certificates of Deposit	162,088	3.4	156,387	3.8
	4,778,333	100.0	4,077,668	100.0
Weighted Average Maturity:	516 days			

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

Local Government Investment Pool Funds

The LGIP, authorized by the Legislature in 1986 and managed by the Office of the State Treasurer, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. The LGIP also is intended to offer participants safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The more than 450 local governments that participate in the LGIP are allowed 100 percent liquidity on a daily basis. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity ("WAM") of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The WAM of the LGIP generally ranges from 30 to 60 days. Typical investment holdings of the LGIP are repurchase agreements, U.S. Treasury bills and notes, U.S. agency discount notes, coupons, floating- and variable-rate notes, reverse repurchase agreements and bank deposits. The benchmarks utilized for the LGIP are the Government and Agency money market net and gross yields reported by iMoneyNet. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance. The Treasury and Treasurer's Trust Funds are authorized to invest in the LGIP.

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

	December 2013		December 2012-December 2013[1]	
	$	%	$	%
U.S. Agency	6,711,843	69.7	5,245,763	53.7
U.S. Treasury	880,343	9.1	1,672,740	17.1
Repurchase Agreements	1,243,046	12.9	2,140,040	21.9
Bank Deposits	739,452	7.7	659,915	6.8
Certificates of Deposit	61,098	0.6	44,324	0.5
	9,635,782	100.0	9,762,782	100.0
Weighted Average Maturity:	57 days			

(1) Average balance.
Source: Office of the State Treasurer.

RISK MANAGEMENT

Insurance

The state operates a self-insurance liability program (the "SILP") for third-party claims against the state for injuries and property damage up to $10 million for each occurrence. An excess insurance policy is also purchased for these risks, which covers amounts above a self-insured retention (the "SIR") up to an annual limit of $75 million. The current SIR is $10 million for all agencies except DSHS and DOC, each of which has an $16 million SIR. Insurance is procured annually, and the SIR may change. The SILP is administered by OFM with money available in a statutorily-based Liability Account within the Risk Management Fund. The Liability Account is funded by annual premiums assessed to state agencies based on each agency's loss history (paid claims over the most recent five years and open reserves for pending claims). State statutes do not permit the Liability Account to exceed 50 percent of the state's outstanding liabilities as determined bi-annually by an independent actuary. General and auto claims are investigated and settled through the coordinated efforts of OFM, the Office of the Attorney General and WSDOT with consultation and agreement of the affected agency. Approved claims (including judgments, settlements and related defense costs) are paid by OFM from the Liability Account. As of June 30, 2013, the Liability Account held $58.37 million designated for payment of tortious liability and certain federal due process claims. As of June 30, 2013, outstanding and actuarially determined claims against the state and its agencies (except for the University of Washington), including projected defense costs, that were payable from the Liability Account were $542.7 million.

The SILP covers the state, its agencies, governing bodies, boards and commissions, including all state employees, elected and appointed officials, members of boards or commissions, volunteers and reserve officers, all while acting within the scope of their employment or assigned volunteer activities. Students in state four-year universities and in the community and technical colleges are not covered by the SILP unless they otherwise qualify as state employees or volunteers. The University of Washington does not participate in SILP but operates its own self-insurance program and purchases a variety of commercial insurance, including excess and property policies. See Notes 7(E) and 10 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

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

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

Workers' Compensation Program

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

The main benefits plans of the Workers' Compensation Program are funded based on rates that are designed to keep these plans solvent in accordance with recognized actuarial principles and to limit fluctuations in premium rates. The accrual of future payments for workers that were injured as of June 30, 2013, was estimated to be approximately $23.6 billion as of June 30, 2013. As of June 30, 2013, there were $13.5 billion of invested assets, mainly long-term fixed income securities, to help fund these accrued benefits.

The supplemental pension plan supports cost-of-living adjustments ("COLA") granted for time-loss and disability payments for all injured workers, including those of self-insured employers. The supplemental pension component covers both state funded and self-insured employees. The accrual of these future payments for workers that were injured as of June 30, 2013, was estimated to be approximately $11.29 billion. By statute, the state is permitted to collect only enough revenue to fund the current COLA payments. No assets are allowed to accumulate for the future funding of claims' COLA benefits payable. The programs' actuaries estimate these rates so that yearly premium payments will be sufficient to make these current payments.

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

See Note 7(E) in Appendix D—"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

Washington State Unemployment Insurance Trust Fund

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

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

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

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

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

The average combined unemployment tax rates as a percentage of taxable wages for Fiscal Years 2007 to 2013 are shown in the following table.

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

Year	Average Tax Rate[1]
2009	1.66
2010	1.40
2011	2.25
2012	2.23
2013	1.76

(1) Average Tax Rate on taxable wages as of second quarter of the year.
Source: U.S. Department of Labor-Unemployment Insurance Data Summary.

The trust fund balance as of November 30, 2013, was $3.1 billion, which is estimated to be enough coverage to provide 14.7 months of benefits. The following table shows the unemployment compensation balances for Fiscal Years 2009 through 2013.

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

Year	Balance
2009	3,398
2010	2,316
2011	2,545
2012	2,626
2013	2,824

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

In November 2013, approximately 101,000 unemployed workers received unemployment insurance benefits. Beginning July 1, 2013, new claimants entering the program may receive up to 26 weeks of regular unemployment insurance benefits from the state, with a maximum state liability of $16,224 (which is the maximum weekly benefit amount times 26). The maximum weekly benefit amount is calculated based on 63 percent of Washington's average weekly wage per unemployed worker.

A state can qualify for extended federal benefits if the state's current year unemployment rate is higher than prior periods. Between February 2009 and April 2012, the state qualified for the federal Extended Benefits Program that allowed up to an additional 20 weeks of benefits. Between August 2013 and December 2013, a maximum of 28 additional weeks of Emergency Unemployment Compensation ("EUC") was available in the state, which was paid in two "tiers" based on the number of weeks in the program. EUC ended at the end of December 2013.

Seismic Activity and Other Natural Disasters

The state is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the state could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake and to ongoing shaking that could follow a major earthquake. The state contains identified geologic faults. In addition to various faults beneath the state, the state is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a large earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the state, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the state also could experience the effects of a tsunami following a major earthquake on the West Coast or in areas outside the United States. WSDOT has determined that, among other infrastructure, the seawall between downtown Seattle and Puget Sound; the Alaskan Way Viaduct, an elevated highway adjacent to the seawall; and the SR 520 Evergreen Point Bridge, one of only two bridges that cross Lake Washington, are likely to be damaged if another major earthquake occurs. Other natural disasters, including volcanic eruptions and tsunamis, are possible. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the state and its economy and financial condition. See "TRANSPORTATION-RELATED REVENUES AND EXPENDITURES–Transportation Expenditures–The SR 520 Corridor Program" and "–The Alaskan Way Viaduct." Seattle voters recently authorized funding to replace the seawall.

RETIREMENT SYSTEMS

Retirement Plans

The state administers 13 defined benefit retirement plans, three of which contain hybrid defined benefit/defined contribution options. As of June 30, 2012, the plans covered 506,236 eligible state and local government employees. These plans are administered through the Department of Retirement Systems and the Board for Volunteer Fire Fighters.

A summary of each of the state retirement plans is provided below.

Table 19
Overview of Retirement Plans (1)

<table>
<tr><th>Retirement System/Plan</th><th>Administered by</th><th>Benefit Type</th><th>Active and Terminated Vested Members(2)</th><th>Members Receiving Benefits(2)</th><th>Closed in</th></tr>
<tr><td colspan="6">Public Employees’ Retirement System (“PERS”) was established in 1947 and is a cost-sharing multiple-employer retirement system.</td></tr>
<tr><td>PERS 1</td><td rowspan="2">Dept. of Retirement Systems</td><td>Defined Benefit</td><td>8,229</td><td>52,672</td><td>1977</td></tr>
<tr><td>PERS 2/3</td><td>Defined Benefit/Hybrid(3)</td><td>172,876</td><td>29,570</td><td>Open</td></tr>
<tr><td colspan="6">Teachers’ Retirement System (“TRS”) was established in 1938 and is a cost-sharing multiple-employer retirement system comprised principally of non-state employees.</td></tr>
<tr><td>TRS 1</td><td rowspan="2">Dept. of Retirement Systems</td><td>Defined Benefit</td><td>3,496</td><td>36,054</td><td>1977</td></tr>
<tr><td>TRS 2/3</td><td>Defined Benefit/Hybrid(3)</td><td>71,406</td><td>6,864</td><td>Open</td></tr>
<tr><td colspan="6">School Employees’ Retirement System (“SERS”) was established in 1998 and is a cost-sharing multiple-employer retirement system comprised principally of non-state employees.</td></tr>
<tr><td>SERS 2/3</td><td>Dept. of Retirement Systems</td><td>Defined Benefit/Hybrid(3)</td><td>62,478</td><td>7,651</td><td>Open</td></tr>
<tr><td colspan="6">Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”) was established in 1970 and is a cost-sharing multiple-employer retirement system comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers as the major exception.</td></tr>
<tr><td>LEOFF 1</td><td rowspan="2">Dept. of Retirement Systems</td><td>Defined Benefit</td><td>186</td><td>7,845</td><td>1977</td></tr>
<tr><td>LEOFF 2</td><td>Defined Benefit</td><td>17,409</td><td>2,344</td><td>Open</td></tr>
<tr><td colspan="6">Washington State Patrol Retirement System (“WSPRS”) was established in 1947 and is a single employer retirement system.</td></tr>
<tr><td>WSPRS 1</td><td rowspan="2">Dept. of Retirement Systems</td><td>Defined Benefit</td><td>832</td><td>915</td><td>2002</td></tr>
<tr><td>WSPRS 2</td><td>Defined Benefit</td><td>362</td><td>0</td><td>Open</td></tr>
<tr><td colspan="6">Public Safety Employees’ Retirement System (“PSERS”) was established in 2004 and is a cost-sharing multiple-employer retirement system.</td></tr>
<tr><td>PSERS 2</td><td>Dept. of Retirement Systems</td><td>Defined Benefit</td><td>4,310</td><td>27</td><td>Open</td></tr>
<tr><td colspan="6">Judicial Retirement System (“JRS”) was established in 1971 and is an agent multiple-employer retirement system. The plan is funded by legislative appropriation.</td></tr>
<tr><td>JRS</td><td>Dept. of Retirement Systems</td><td>Defined Benefit</td><td>2</td><td>119</td><td>1988</td></tr>
<tr><td colspan="6">Judges’ Retirement Fund (“Judges”) was established in 1937 to provide retirement benefits to judges of the Supreme Court, Court of Appeals, and Superior Courts. It is a cost-sharing multiple-employer retirement system. Judges are now covered under PERS. The plan is funded by legislative appropriation.</td></tr>
<tr><td>Judges</td><td>Dept. of Retirement Systems</td><td>Defined Benefit</td><td>0</td><td>12</td><td>1971</td></tr>
<tr><td colspan="6">Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Act (“VFFRPF”) was established in 1945 and is a cost-sharing multiple-employer retirement system. The plan is funded by legislative appropriation.</td></tr>
<tr><td>VFFRPF</td><td>Board for Volunteer Fire Fighters</td><td>Defined Benefit</td><td>16,606</td><td>3,971</td><td>Open</td></tr>
</table>

(1) In addition, there are Higher Education Retirement Plans that are sponsored by two-year colleges and individual universities, are privately administered, and are defined contribution plans with a supplemental defined benefit component. Eligible higher education state employees may participate in the Higher Education Retirement Plans or state-administered plans. The state contributes to these higher education plans.
(2) Member data as of June 30, 2012.
(3) Hybrid = defined benefit/defined contribution.
Source: Department of Retirement Systems.

Funding Policies

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

State law requires systematic actuarial funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. OSA is statutorily required, pursuant to Chapter 41.45 RCW, to provide an actuarial valuation of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS plans every two years. The most recent actuarial report was released in August 2013 for the year ended June 30, 2012.

The state's funding policy goals include fully funding Plans 2 and 3 for the various systems and WSPRS, fully amortizing costs of LEOFF Plan 1 by not later than June 30, 2024, fully amortizing the Unfunded Actuarial Accrued Liability ("UAAL") in PERS Plan 1 and TRS Plan 1 over a rolling 10-year period with minimum contribution rates, and establishing relatively predictable long-term employer contribution rates. To the extent feasible, benefits are funded over the working lifetimes of plan members.

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

The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2013: (1) rate of investment return: 7.9 percent per annum (7.5 percent for LEOFF Plan 2); (2) general salary increases: 3.75 percent per annum; (3) rate of Consumer Price Index increase: 3.0 percent; and (4) growth in membership: 0.95 percent (0.80 percent for TRS, 1.25 percent for LEOFF). The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan. The investment rate of return assumption will decrease to 7.8 percent as of July 1, 2015, and to 7.7 percent as of July 1, 2017. The demographic assumptions were last updated in the 2007 Actuarial Valuation Report. The next review of the demographic assumptions is expected to be completed in 2014.

Actuarial Cost Methods Used for Funding Calculations. Some actuarial cost methods distinguish between (1) normal cost, or the value of future benefits allocated to the current plan year, and (2) UAAL representing the amount of past service liability that exceeds the value of the plan's assets.

For PERS Plan 1 and TRS Plan 1, OSA uses a variation of the Entry Age Normal Cost Method to determine the actuarial accrued liability. In this method, the UAAL is equal to the unfunded actuarial present value of projected benefits less the actuarial present value of future normal costs for all active members and is reset at each valuation date. The present value of future normal costs is based on the employer paying the Aggregate Normal Cost rate for Plans 2 and 3 plus the fixed 6.0 percent member contribution rate. The resulting UAAL is amortized over a rolling 10-year period, as a level percentage of projected system payroll. The projected payroll includes pay from Plans 2 and 3 as well as projected payroll from future new entrants. As a result of this hybrid method, employers are charged the same contribution rate, regardless of the plan in which employees hold membership.

LEOFF Plan 1 has a surplus and no contributions have been required since 2001.

For all Plans 2 and 3 and WSPRS, OSA uses the Aggregate Cost Method to determine the normal cost and the actuarial accrued liability. Under this method, the unfunded actuarial present value of fully projected benefits is amortized over the future payroll of the active group. Plan 2 members pay 50 percent of the normal cost. The entire contribution is considered normal cost and no UAAL exists.

For TRS Plan 2, the maximum employee contribution rate is 6.59 percent plus 50 percent of the contribution rate increases from benefit improvements effective on or after July 1, 1996. The employer pays any employee cost sharing that exceeds the employee rate maximum.

For WSPRS, the maximum employee contribution rate is 7.0 percent plus 50 percent of the contribution rate increases from benefit improvements effective on or after July 1, 2007. The employer pays any employee cost sharing that exceeds the employee rate maximum.

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

Contribution Rates

The following table lists the contribution rates for the state and employees for the retirement plans for September 1, 2012, through June 30, 2013, and the rates adopted by the PFC and LEOFF 2 Board for the 2013-15 Biennium. The rates are expressed as a percentage of current year covered payroll (members' reportable salary, which generally is gross pay).

OSA has projected that employers' and employees' contribution rates in most plans will increase in the 2015-17 Biennium under optimistic, expected and pessimistic scenarios. See the State's Actuary's website (http://osa.leg.wa.gov/Actuarial_Services/Funding/contribution_rates.htm).

Table 20
Contribution Rates
(in percentage)

	Rates Effective September 1, 2013[1]	
	Employer Rate[2]	**Employee Rate[2]**
PERS Plan 1	9.21	6.00
PERS Plan 1 elected state officials[3]	13.73	7.50
PERS Plan 2/3[4][5]	9.21	4.92
TRS Plan 1	10.39	6.00
TRS Plan 1 elected state officials[3]	10.39	7.50
TRS Plan 2/3[4][5]	10.39	4.96
SERS Plan 2/3[5]	9.82	4.64
PSERS Plan 2	10.54	6.36
LEOFF Plan 1	0.18	0.00
LEOFF Plan 2	8.59[6]	8.41
WSPRS Plan 1	8.09	6.59
WSPRS Plan 2	8.09	6.59

(1) TRS and SERS rates are effective September 1 through August 31 for each year; all other plans are effective July 1, 2013. Member rates for PERS Plan 1 and TRS Plan 1 are set by statute.
(2) Includes 0.18 percent (as of September 1, 2013) Department of Retirement Systems administrative expense rate.
(3) Rates are calculated based on a statutory formula and are not adopted by the PFC.
(4) Includes elected state officials.
(5) Plan 3 members do not contribute to the defined benefit plan.
(6) Other than ports and universities, local government employees pay 5.23 percent and the state contributes 3.36 percent for local government members effective July 1, 2013.

Source: Department of Retirement Systems.

State Contributions

State Direct Contributions. The state's total direct contributions to the retirement plans from the General Fund and Non-General Fund are summarized in the following table. LEOFF Plan 1 had no UAAL and, therefore, other than administrative fees, no contributions were required in 2011-2013.

Table 21
State's Direct Contributions
($ in millions)

	State Contributions		
	2011	**2012**	**2013**
PERS Plan 1	72.3	124.0	125.6
PERS Plan 2/3	158.0	182.8	182.9
TRS Plan 1[1]	4.4	3.1	3.7
TRS Plan 2/3[1]	0.7	1.1	1.2
PSERS Plan 2	8.0	7.4	7.5
LEOFF Plan 2[2]	52.9	52.8	54.2
VFFRPF	5.7	5.6	6.0
WSPRS Plan 1/2	5.3	6.5	6.5
JRS	10.9	8.1	10.1
Total	318.2	391.4	397.7

(1) Portion for state employees only.

(2) The state contributes to LEOFF Plan 2 for local government employees.
Totals may not add due to rounding.
Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2013.

In Fiscal Year 2013, General Fund expenditures were $22.776 billion, and the state's direct contributions for pensions as shown above represented 1.7 percent of these expenditures. Less than half of the state's direct contributions for pensions are paid out of the General Fund.

State and Local Government Contributions. In addition to the state's direct contributions shown above, the Legislature allocates money to each K-12 school district for employee salaries and certain associated benefits for basic education programs. This allocation is driven by formula, based on enrollment, state established salary levels, adopted contribution rates and other factors. In Fiscal Year 2013, the state's allocations to school districts for pensions were estimated to be $263 million for TRS, $1.8 million for PERS and $54 million for SERS.

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

Table 22 shows estimates of the allocation of state and local government employer contributions. These estimates include both direct payments made by the state as well as the allocations made by the state to school districts for pensions.

In Fiscal Year 2013, the state's direct payments for pension contributions and allocations made by the state to school districts were approximately 3.1 percent of General Fund expenditures.

Table 22
Estimated State and Local Government
Employer Contribution Ratios by Funding Source[(1)]
(in percents)

System	General Fund-State	Non-General Fund-State	Local Government
PERS	18.8	29.5	51.7
TRS[(2)]	66.3	0.0	33.7
SERS[(2)]	44.6	0.0	55.4
PSERS	67.6	11.0	21.4
LEOFF 2	40.0	0.0	60.0
WSPRS	7.0	93.0	0.0

(1) These splits are used by OSA to model approximate cost allocations for employers by fund or type of employer in actuarial fiscal analysis. The reader should exercise caution when using numbers provided in this table for any other purpose. Estimates are based upon the June 30, 2012, actuarial valuation.
(2) The state has only a few employees in TRS and no employees in SERS.
Source: Office of the State Actuary.

Investments

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

As of June 30, 2013, there was $68 billion invested in the various retirement plans, including the defined benefit plans, defined contribution plans and certain deferred compensation funds, of which 22.63 percent was in fixed income securities, 37.71 percent in public equity, 23.81 percent in private equity, 13.61 percent in real estate, 1.52 percent in tangible assets and 0.71 percent in other investments.

The following table shows the investment returns on the retirement funds for the past 10 years. The 10-year annualized return was 8.32 percent.

Table 23
Historical Investment Returns on Retirement Funds
(in percents)

Fiscal Year	1 Year Annualized Return
2004	16.72
2005	13.05
2006	16.69
2007	21.33
2008	-1.24
2009	-22.84
2010	13.22
2011	21.14
2012	1.40
2013	12.36

Source: Washington State Investment Board.

Notes 3 and 11 of Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" describe the Board's policy regarding permitted investments, how investments are valued, and a break down of investments as of June 30, 2012, and describe the commingled trust fund that is the investment vehicle for 11 separate retirement plans, the securities lending programs the pension trust funds are permitted, and the derivative investments as of June 30, 2012.

Funded Status

Actuarial Methods Used in Financial Reporting of the Funded Status. As described above, the state uses statutorily determined actuarial valuation methods to determine contribution rates. OSA uses the Projected Unit Credit ("PUC") cost method and the Actuarial Value of Assets ("AVA") to report a plan's funded status. PUC is one of several acceptable measures of a plan's funded status under current GASB rules. The PUC cost method projects future benefits under the plan, using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities.

GASB requires that funded status and funding progress for PERS, TRS and SRS Plans 2 and 3, LEOFF Plan 2, WSPRS Plans 1 and 2, and PSERs Plan 2 be calculated based on the "Entry Age Actuarial Cost" method. Note 11.E in Appendix D includes the funded ratios based on this methodology as of June 30, 2012. GASB has adopted new pension accounting standards effective in 2014, which differ from current methodologies.

The AVA is calculated using a methodology that smoothes the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of annual investment gains or losses over a period of up to eight years. This helps to limit fluctuations in contribution rates and funded status that would otherwise arise from short-term changes in the MVA. Each year, OSA determines the amount by which actual investment returns exceed (or fall below) the expected investment return. Additionally, the AVA is capped at 130 percent of the MVA and a floor is set at 70 percent of the MVA.

Table 24 provides a ten-year history of the actuarial value of assets, market value of assets and the percent of actuarial value to market value for the defined benefit plans.

Table 24
Actuarial Value and Market Value of
Defined Benefit Plans
(dollars in millions)

As of June 30	Actuarial Value of Assets	Market Value of Assets	% of Actuarial Value to Market Value
2003	43,858	37,732	116
2004	44,129	41,248	107
2005	45,412	46,673	97
2006	47,771	52,438	91
2007	50,787	60,095	85
2008	54,345	58,040	94
2009	56,991	44,205	129
2010	58,442	48,700	120
2011	60,654	57,350	106
2012	63,122	56,753	111

Source: Office of the State Actuary.

The following table displays the funded status on an actuarial value basis for the PERS, TRS, SERS, PSERS, LEOFF and WSPRS plans by comparing the PUC liabilities to the AVA on the valuation date. The June 30, 2012, actuarial valuation shows that the funded status of all of the state-administered plans combined is 101 percent; although assets from one plan may not be used to fund benefits for another plan. Using this AVA methodology, two funds – PERS Plan 1 and TRS Plan 1 – are underfunded by approximately $5.8 billion as of June 30, 2012. The results in the table reflect legislation that eliminates the annual increase for retirees in PERS Plan 1 and TRS Plan 1 and previous legislation that modified early retirement factors for certain employees. See “Benefits; Recent Legislation” and “LITIGATION.”

Actuarial analysis involves the use of assumptions regarding future events. Actual experience, however, may vary from the assumptions used. In addition, changes to plan provisions or assumptions can occur in the future. As such, actuarial analysis will change with the future experience of the pension plans.

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Table 25
Funded Status on an Actuarial Value Basis[1]

	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	
	Plan 1	**Plan 2/3**	**Plan 1**	**Plan 2/3**	**Plan 2/3**	**Plan 2**	**Plan 1**	**Plan 2**	**Plan 1/2**	**Total[2]**
PUC Liability[3]	12,368	20,347	9,058	6,799	2,820	135	4,121	6,071	859	62,578
Valuation Assets[3]	8,521	22,653	7,145	7,758	3,100	180	5,562	7,222	982	63,122
Unfunded Liability/(Surplus)[3]	3,847	(2,306)	1,914	(959)	(280)	(45)	(1,440)	(1,150)	(123)	(544)
Funded Ratio (%)										
2003	82	142	89	155	138	n/a	112	125	123	107
2004	81	134	88	153	137	n/a	109	117	118	105
2005[4]	74	127	80	134	122	n/a	114	114	113	99
2006[4]	74	121	80	133	125	99	117	116	114	100
2007[4]	71	120	76	130	126	120	123	129	118	99
2008[4]	71	119	77	125	121	127	128	133	121	100
2009	70	116	75	118	116	128	125	128	119	99
2010[5]	74	113	84	116	113	129	127	119	118	102
2011[4]	71	112	81	113	110	132	135	119	115	101
2012[6]	69	111	79	114	110	134	135	119	114	101

(1) Liabilities have been valued using the Projected Unit Credit ("PUC") cost method at an interest rate of 7.9 percent (7.5 percent for LEOFF Plan 2) while assets have been valued using the actuarial value of assets.
(2) Assets from one plan may not be used to fund benefits for another plan.
(3) Dollars in millions. Based on actuarial valuation as of June 30, 2012.
(4) Actuarial assumptions changed.
(5) LEOFF Plan 2 values for 2010 were updated after the 2010 Actuarial Valuation Report was published.
(6) Based on actuarial valuation as of June 30, 2012.
Totals may not add due to rounding.

Source: Office of the State Actuary.

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

Actual Employer Contributions vs. ARC. The following table shows all employers' Annual Required Contributions ("ARC") for 2009-2013, employers' actual annual contributions over the same period and the percentage contributed. ARC is required under generally accepted accounting principles and is based on the most recent valuations. The methods used to derive the ARC for this reporting disclosure differ from the methods used to derive the contributions required by law shown above. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons, the actual contributions will not match the ARCs.

Table 26
Contributions From Employers and
State Direct Payments(1)
(For the Fiscal Years ending June 30, 2009 through 2013)
(dollars in millions)

	2009	2010	2011	2012	2013
PERS PLAN 1					
Employers' annual required contribution (ARC)	620.2	627.8	439.3	508.0	534.2
Employers' actual contribution	325.2	154.0	145.6	257.2	266.3
Percentage of ARC contributed	52%	25%	33%	51%	50%
PERS PLANS 2/3					
Employers' ARC	369.7	383.1	408.6	407.7	408.3
Employers' actual contribution	439.7	327.5	328.3	385.3	389.0
Percentage of ARC contributed	119%	85%	80%	95%	95%
TRS PLAN 1					
Employers' ARC	391.0	406.1	205.9	254.0	275.4
Employers' actual contribution	178.9	112.7	96.8	111.9	118.6
Percentage of ARC contributed	46%	28%	47%	44%	43%
TRS PLANS 2/3					
Employers' ARC	186.9	221.1	232.3	232.2	231.6
Employers' actual contribution	160.8	165.0	168.3	213.9	229.0
Percentage of ARC contributed	86%	75%	72%	92%	99%
SERS PLANS 2/3					
Employers' ARC	71.5	82.3	88.6	85.2	86.6
Employers' actual contribution	63.5	62.1	62.3	74.6	78.4
Percentage of ARC contributed	89%	75%	70%	88%	91%
LEOFF Plan 2(2)					
Employers' ARC	63.2	67.3	50.4	59.1	56.8
Employers' actual contribution	77.8	77.0	79.7	80.5	82.4
Percentage of ARC contributed	123%	114%	158%	136%	145%
State ARC	42.1	44.4	33.6	38.2	37.9
State actual contribution	51.1	51.4	52.0	52.8	54.2
Percentage contributed	121%	116%	155%	138%	143%
WSPRS					
Employers' ARC	5.0	6.6	2.3	2.9	2.5
Employers' actual contribution	6.4	5.3	5.3	6.5	6.5
Percentage of ARC contributed	128%	80%	230%	224%	260%
PSERS PLAN 2					
Employers' ARC	14.3	14.8	14.7	14.7	15.1
Employers' actual contribution	14.5	15.2	15.6	15.3	15.6
Percentage of ARC contributed	101%	103%	106%	104%	103%
JRS					
Employers' ARC	21.2	20.4	18.6	22.6	21.7
Employers' actual contribution	10.2	11.6	10.9	8.1	10.1
Percentage of ARC contributed	48%	57%	59%	36%	47%
VFFRPF(2)					
Employers' ARC	1.1	1.0	1.1	1.0	0.9
Employers' actual contribution	1.0	1.0	1.1	1.0	1.9
Percentage of ARC contributed	91%	100%	100%	100%	100%
State ARC	1.4	1.8	4.2	3.7	3.7
State actual contribution	5.2	5.7	5.8	5.6	6.0
Percentage of ARC contributed	371%	317%	138%	151%	162%

(1) No contributions were made for LEOFF Plan 1 and almost no payments for the Judges' Pension Plan. The Annual Required Contribution ("ARC") changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic experience gains and losses. The methods used to derive the ARC for this reporting disclosure are different from the methods used to derive the actual

contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the ARCs. Starting in 2009, the ARC for PERS and TRS Plans 1 was calculated using the Entry Age Normal cost method with a rolling 10-year amortization (excluding the temporary rate ceilings). Starting in 2011, the calculation of the ARC reflects the underlying actuarial cost method (excluding minimum contribution rates).

(2) The ARC for the LEOFF Plan 2 presented is OSA's recommended figure. For VFFRPF and LEOFF Plan 2, the state is not an employer but makes payments directly to the retirement plans.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2013.

Additional Information. Additional information on the state's defined benefit plans, including the benefits to retirees, information on the state's smoothing method used in the rate setting process, and the UAAL as a percentage of covered payroll of each plan, is presented in Note 11 and in the Required Supplemental Information–Pension Plan Information in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS." Note 3 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" describes eligible investments for the state's pension plans.

Benefits; Recent Legislation

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

Legislation adopted in 2011 ended the automatic, annual, service-based adjustments, which had been paid annually to eligible PERS and TRS Plans 1 retirees since 1995. This elimination of the annual increase reduced the UAAL in PERS and TRS Plans 1 from $6.884 billion in 2009 to $4.439 billion in 2010.

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

Litigation. Litigation was filed challenging the legislation described in the previous subsection. There have been recent superior court rulings regarding the legislation. One ruling held that the Legislature improperly repealed the annual increase for most retirees in PERS and TRS Plans 1. For a description of the litigation and the recent decisions, see "LITIGATION–Employment and Pensions." If both the cost of service-based adjustments and the modification of early retirement factors are reinstated in full by the Supreme Court, OSA has estimated that the funded status of PERS Plan 1 would drop from 69 percent to 57 percent and the funded status of TRS Plan 1 would drop from 79 percent to 63 percent. The Supreme Court could affirm the legislative changes or reinstate the benefits in whole or in part.

Bankruptcy of Participating Local Government

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

Federal Benefits

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

Other Post-Employment Benefits

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

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

The relationship between the PEBB Plan and its member employers and their employees and retirees is not formalized in a contract or plan document; rather, the benefits are provided in accordance with a substantive plan, which the Governmental Accounting Standards Board (GASB) defines as the plan as understood by employers or employees. For additional information on the state's PEBB Plan, see Note 12 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS."

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

Table 27
Membership in PEBB Plan
(As of June 30, 2013)

	Active Employees	Retirees[1]	Total
State	107,003	28,633	135,636
K-12 Schools and ESDs[2]	1,838	30,354	32,192
Political Subdivision	11,840	1,392	13,232
Total	120,681	60,379	181,060

(1) Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
(2) In Fiscal Year 2013, there were 101,189 full-time equivalent active employees in the 243 K-12 schools and educational service districts (ESDs) that elected to limit participation in PEBB only to their retirees.

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Year Ended June 30, 2013.

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

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

(1) Explicit Subsidy. Retirees enrolled in Medicare Parts A and B receive an explicit subsidy which lowers the monthly premium. The amount of the subsidy is determined annually by PEBB. For 2013 this amount was $150 monthly for each participant.

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

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

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

The most recent valuation for the PEBB Plan prepared by the Office of the State Actuary and published in October 2013, determined the plan's liabilities as of January 1, 2013 ("2013 OPEB Report"). Small changes in the assumptions or methods or changes in the plan provisions could result in relatively large changes in OPEB liabilities and the state's ARC, NOO and annual OPEB cost.

Valuation Assumptions and Methods. Valuations in the 2013 OPEB Report are based on methods selected by the Office of Financial Management and on assumptions detailed in the 2013 OPEB Report and summarized below. The actuarial method chosen to allocate costs and the AAL for the 2013 OPEB Report is the Projected Unit Credit ("PUC"), one of six methods permitted by GASB. The PUC cost method is a standard actuarial funding method. The annual cost of benefits under the PUC is comprised of two components: normal cost (the estimated present value of projected benefits current plan members will earn in the year following the valuation date; represents today's value of one year of earned benefits) and amortization of the unfunded actuarial liability.

The assumed return on investment earnings and the discount rate used in calculating the AAL (4.0 percent, which was reduced from 4.5 percent) were selected in consultation with the Office of the State Treasurer to represent a long-term average of short-term investment rates, and annual inflation is assumed to be 3.0 percent (reduced from 3.5 percent). Annual growth in membership is assumed to be at a rate of 0.95 percent (0.80 percent for K-12 Teachers), and annual salary increases were assumed to be at a rate of 3.75 percent. Assumptions underlying the medical inflation trend rates (ranging from 6.3–9.7 percent in 2013 to 5.0 percent through 2093) were provided by health care actuaries at Milliman, Incorporated. The unfunded AAL is amortized over a closed 30-year period as a level percent of payroll. Participation level is assumed to be 65 percent (50 percent for K-12 School and Education Service Districts) of eligible employees and 45 percent of spouses of eligible employees. It is assumed that all employees will get Medicare coverage after becoming eligible.

Table 28 shows annual OPEB costs and net OPEB obligations for the Fiscal Years ended June 30, 2011, June 30, 2012, and June 30, 2013. OSA performs a full valuation every two years. In 2012 and other years when a full valuation was not prepared, consistent with GASB requirements and at the direction of OFM, OSA prepared estimated results using a roll-forward method. As of January 1, 2013, the AAL and UAAL of the PEBB Plan that is attributed to the state was $3.706 billion. UAAL was 64.06 percent of covered state payroll. Because the plan is pay-as-you-go, it has no assets.

Table 28
Annual OPEB Cost and Net OPEB Obligation
($ in thousands)

	2011	2012	2013
a. Beginning Net OPEB Obligation (NOO)(1)	777,872	1,027,767	1,279,381
b. Annual Required Contribution (ARC)(2)	320,991	320,991	342,283
c. Interest on the NOO	35,004	46,250	53,434
d. Amortization of the NOO	(27,427)	(36,954)	(48,684)
e. Annual OPEB Cost (b+c+d)	328,568	330,286	347,033
f. 2012 Adjustment	-	-	56,476
g. Contributions for Fiscal Year(3)	(78,673)	(78,673)	(69,114)
h. Ending NOO (1) (a+e+f+g)	1,027,767	1,279,381	1,613,775

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

Source: Washington State Comprehensive Annual Financial Reports ("CAFR") for Fiscal Years Ended June 30, 2011, June 30, 2012, and June 30, 2013.

LITIGATION

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

In addition to the regular damages claims, there are currently a number of lawsuits challenging the management and administration of state programs, some arising as a result of recent state budget cuts. The potential impact of this type of litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of state budgeting and expenditures. No such ruling has yet to occur nor is such a court ruling currently anticipated. Most of these cases involve programs administered by the Department of Social and Health Services ("DSHS"). Only a few of these cases are called out specifically because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know ahead of time what state or federal legislative responses could be taken to mitigate such impacts.

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

In *McCleary v. State of Washington*, judgment for petitioners was entered on February 24, 2010, by the King County Superior Court. The court found that the state is not meeting its constitutional mandate to make ample provision for the education of all K-12 public school children. The court ordered the Legislature to conduct a study of what state funding was needed to "amply provide" all Washington public school students with the "education" required by Article IX of the Constitution. The court also ordered the Legislature to indicate how the state will fund that cost with "stable and dependable" state funding sources. Prior to the trial, in the 2009 legislative session, the Legislature enacted a sweeping reform of the substance of and funding for K-12 education. That program of reform is scheduled to be fully implemented no later than 2018. The state appealed the superior court decision to the Supreme Court and the Supreme Court issued its opinion on January 5, 2012. The Supreme Court affirmed the trial judgment that the state is not making ample provisions for the basic education of Washington's K-12 public school students. However, it agreed with the state that the Legislature has already identified areas that need more funding and embarked on a reform program to be implemented no later than 2018. The Supreme Court reversed the trial court remedy ordering a cost study, but retained jurisdiction to facilitate the full implementation of the reforms and funding as dictated by legislation passed in 2009. This result preserves the Legislature's prerogative to reform, define and provide full funding for K-12 education. It does not require changes, financially or otherwise, that the Legislature has not already committed to make. On July 18, 2012, the Supreme Court issued an additional ruling in the case, essentially adopting the state's position regarding the process for the court's monitoring of the implementation of the 2009 reform legislation. The court rejected the plaintiffs' request for a different procedure and rejected plaintiffs' request for attorneys' fees and costs to be borne by the state. This ruling calls for annual reporting by the Legislature to the court with the opportunity for plaintiffs to submit their position in response to the report. This process will continue through the expected full implementation of reforms in 2018. Pursuant to a December 2012 court order, the report the state submits at the conclusion of the 2013 state legislative session must include a phase-in plan for achieving the state's basic education mandate. The 2013 legislative session concluded on June 30, 2013, with enhanced education funding enacted that adds $1 billion dollars in state funding to K-12 schools. See "GENERAL FUND–General Fund State Operating Budget–2013-15 Biennium Budget." The Legislature filed its 2013 report with the court and plaintiffs filed a response.

On January 9, 2014, the Supreme Court issued an order that, although meaningful steps were taken in the 2013 legislative session, the state is not on target to meet the funding requirements outlined in the *McCleary* decision by the 2017-2018 school year. The Supreme Court ordered the state to submit by April 30, 2014, a complete plan for implementing its school funding program for each year between now and the 2017-2018 school year. The plan must address each of the areas of K-12 education identified in ESHB 2261, as well as the implementation plan called for by SHB 2776, and must include a phase-in schedule for fully funding each of the components of basic education. The Court may also require more periodic reports detailing the state's strategy for fully meeting the constitutional mandate.

Perez, Secretary of Labor, USDOL v. Washington Department of Social and Health Services is a U.S. Department of Labor ("USDOL") lawsuit filed in U.S. district court seeking back overtime wages and liquidated damages on behalf of approximately 2,000 social workers with the Children's Administration of DSHS. The initial district court's order granting summary judgment in favor of the state was reversed by the Ninth Circuit's Court of Appeals, which court also denied the state's petition for rehearing, and remanded the case to the district court for trial. Presently, the district court proceedings are stayed pending the resolution of the USDOL's petition for writ of mandamus to the Ninth Circuit Court of Appeals in which the USDOL is asking the court to reverse the district court's ruling compelling USDOL to answer interrogatories that the USDOL argues violate the government informant's privilege. Oral argument on this motion is scheduled for March 4, 2014. If plaintiff prevails on all issues, the estimated potential liability for the state is $60 million, with liquidated damages doubling that amount.

Programs and Services

In the matter of *Rekhter v. DSHS* and two other consolidated cases (*Pfaff* and *SEIU 775NW*), plaintiffs argue that pursuant to DSHS's methodology ("shared living rule") for computing the number of hours of paid care available to the recipient class, those with live-in providers received approximately 15 percent less than those recipients who use live-out providers. This rule was invalidated by the Supreme Court ruling (*Jenkins v. DSHS*) issued on May 3, 2007, and was subsequently repealed by DSHS. Plaintiffs seek reimbursement by way of "money damages" for the recipient and provider classes for the approximately 15 percent fewer authorized hours, and injunctive relief barring application of the rule in the future. The trial court ruled the recipient class is entitled to "retroactive compensatory relief" back to April 2003. The jury found that DSHS had not breached the express terms of the contracts, but did find violation of the "duty of good faith and fair dealing" when entering into the contracts. The jury awarded the provider class plaintiffs $57 million. Subsequently, the trial court granted plaintiffs' motion for pre- and post-judgment interest. On December 2, 2011, the trial court entered the final judgment for the Client Class claims and two final judgments, one for the Client Class and one for the Provider Class. The court did not award the Client Class any monetary or other remedies. For the Provider Class, the court entered a judgment in the amount of $96 million, which includes the jury verdict of $57 million and prejudgment interest of $39 million. The court also awarded post-judgment interest at $18,780.43 per day beginning on December 3, 2011. The judgment reserved ruling on the claims administration and residual funds process pending the outcome of any appeal. Both parties filed cross-appeals with the State Supreme Court, which accepted direct review of the case. Oral argument occurred on May 14, 2013, and an opinion is pending.

Taxes

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

In the matter of *Wall v. State of Washington*, plaintiffs allege the Legislature transferred funds from the Education Legacy Trust Account in 2008 and 2010 into the General Fund in violation of Article VII, Section 5 of the Washington State Constitution. Plaintiff contends the amounts transferred exceed $100 million and asks that the money be restored to the Education Legacy Trust Account and the defendants enjoined from any further unconstitutional diversions. The court denied the state's motion for summary judgment; however, it held the Legislature's 2008 change to the statute is constitutional. This ruling limits the case to the factual determination of whether any funds transferred in June 2009 were collected before the 2008 statutory amendment. Plaintiffs moved for reconsideration of the court's ruling that the 2008 change to the statute is constitutional. In response, the state again requested summary judgment. The court held a hearing on the motions on September 9, 2013, and on October 2, 2013, the court filed a letter ruling holding the transfer of funds from the Education Legacy Trust Account to the General Fund did not violate Article VII, Section 5 or Article II, Section 19 of the Constitution and granted summary judgment to the state defendants. Plaintiffs have filed a direct appeal to the Supreme Court of the trial court's order.

Employment and Pensions

In *WEA, et al. v. Department of Retirement Services and State of Washington*, a King County Superior Court was asked to overturn the Legislature's repeal of "gain sharing" benefits for various retirement system plans based on alleged constitutional impairment of contracts, due process, and estoppel theories. Four separate lawsuits were filed, which were consolidated under one case; one of those lawsuits was voluntarily dismissed in June 2009 leaving only three cases in the consolidated case. Summary judgment arguments were heard in Phase 1 of the litigation in July 2010. The plaintiff's motion for summary judgment was granted on the contract and estoppel claims, and the state's cross-motion was denied. Summary judgment arguments were heard in Phase 2 of the litigation in December 2011, regarding whether the benefits enacted to replace gain sharing could be repealed as a matter of law once gain sharing was restored by court order. The trial court issued an order holding that the replacement benefits could be repealed as a matter of law. Both parties appealed the decisions to the State Supreme Court, which by order dated May 1, 2013, were accepted by the Court for Direct Review. The state is appealing the trial court's Phase I decision and plaintiffs are appealing the Phase 2 decision to the extent it impacts PERS, TRS and SERS Plan 2 members. If plaintiffs ultimately prevail on all issues before the court, there could be a significant fiscal impact potentially requiring the Legislature to pursue additional funding of the plans or other remedies. The Supreme Court heard oral argument on October 24, 2013, and a decision is pending. See "RETIREMENT SYSTEMS."

Washington Federation of State Employees v. State of WA/Dept of Retirement Systems, Washington Education Association v. State of WA/Dept of Retirement Systems and *Retired Public Employees' Council v. State of WA/Dept of Retirement Systems* were filed in Thurston County Superior Court in October 2011 and January 2012. The three plaintiff groups challenge the 2011 Legislature's repeal of what is termed the Uniform Cost of Living Adjustment ("COLA") as described under "RETIREMENT SYSTEMS–Benefits; Recent Legislation." This COLA (which is not a COLA per se, but, instead, was a guaranteed annual increase) was provided to retirees of PERS Plan 1 and TRS Plan 1 on an annual basis by increasing the retirees' monthly retirement benefit in July of every year. Plaintiffs ask for declaratory and injunctive relief seeking, inter alia, the restoration of the COLA. The court granted class action status for the plaintiffs. In November 2012, the court issued a memorandum opinion that was followed with a final order on February 19, 2013, holding: (1) the repeal of the COLA constituted an unconditional impairment of contract and (2) certain groups of members should be dismissed. The State Supreme Court granted the state's Motions for Direct Review, Discretionary Review, and Companion Case Status (companion case to *WEA, et al. v. Department of Retirement Services and State of Washington* (gain sharing case)) and heard oral argument on October 24, 2013, and a decision is pending.

The matter of *Moore v. Washington Health Care Authority* involves two related class action lawsuits alleging that the state has wrongfully denied medical benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the applicable statutes and regulations. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact. The trial court ruled against the state on most liability issues and in December 2011 certified a damages class on the breach of statute claim. Following the court's denial of plaintiffs' class certification on the breach of contract claim, plaintiffs dismissed the claim without prejudice. The Court of Appeals, Division One granted defendant's motion for discretionary review of the trial court's decision on the measure of damages issue, which favored plaintiffs. The trial court has stayed the trial pending a decision in the appellate matter, which is expected sometime in mid-2014. In addition, plaintiffs re-filed their breach of contract claim as a separate action. This matter is in the very early stages.

Other

In *US v. WA* (culverts/phase II), plaintiff Tribes and the United States allege that state-owned culverts that block fish passage violate Tribes' treaty rights. On March 29, 2013, the US District Court (Washington Western District) issued a permanent injunction requiring three state agencies to remediate fish passage meeting the standards of the injunction at specified barrier culverts by October 31, 2016, and requiring the Washington State Department of Transportation to provide remediation within 17 years of the date of the injunction. The state appealed the decision to the United States Court of Appeals for the Ninth Circuit and the Tribes filed a cross-appeal. Briefing to the court is expected to be completed by February 2014.

See Note 13 in Appendix D–"THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS" for a description of certain litigation and estimates of the potential magnitude of certain litigation.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Business in Washington

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

Table 29
Gross Business Income by Industry Sector (NAICS[(1)])
(Calendar Year 2012)
(in dollars)

	Gross Business Income	Percent of Total
Wholesale Trade	133,362,593,486	20.6
Business, Personal and Other Services	127,019,580,703	19.7
Retail Trade	114,442,466,533	17.7
Manufacturing–General	104,211,615,932	16.1
Manufacturing–Aerospace	51,433,415,016	8.0
Construction	35,874,256,453	5.6
Finance, Insurance, Real Estate	33,935,400,286	5.3
Information	17,544,023,679	2.7
Utilities	12,242,115,704	1.9
Transportation	11,088,160,714	1.7
Agriculture, Forestry, Fishing	3,628,588,601	0.6
Warehousing & Storage	795,031,142	0.1
Mining	557,482,317	0.1

(1) North American Industry Classification System.

Source: Washington State Department of Revenue, "Quarterly Business Review Calendar Year 2012" Table 1.

Table 30
Twenty-Five Largest Employers in Washington[1]
(as of July 2013)

		Full Time Washington Employees[2]			Full Time Washington Employees[2]
1	The Boeing Co.	85,000	14	Franciscan Health System	9,869
2	Joint Base Lewis-McChord	56,000	15	Nordstrom Inc.	9,281
3	Navy Region Northwest	43,000	16	Costco Wholesale Corp.	8,912
4	Microsoft Corp.	41,664	17	PeaceHealth	8,800
5	University of Washington	29,800	18	Swedish	8,586
6	Providence Health & Services	20,240	19	Group Health Cooperative	7,833
7	Wal-Mart Stores Inc	18,000	20	Alaska Air Group Inc.	6,667
8	Fred Meyer Stores	14,590	21	Fairchild Air Force Base	6,020
9	King County Government	12,993	22	Target	5,773
10	United States Postal Service	11,914	23	Seattle Public Schools	5,696[3]
11	Starbucks Corp.	10,837	24	Virginia Mason Medical Center	5,611
12	City of Seattle	10,479	25	United Parcel Service	5,554
13	MultiCare Health System	10,257			

(1) Amazon.com Inc. did not participate in the survey, but if it had participated, the Puget Sound Business Journal believes Amazon.com Inc would have been ranked in this list of 25 Largest Employers. The Book of Lists does not include total employment figure for state employees or federal employees.
(2) Employment totals are as of December 31, 2012.
(3) Does not include substitutes.

Source: Puget Sound Business Journal, 2014 Book of Lists, December 26, 2013.

Trade

Washington is one of the most trade-intensive states in the nation and is an important gateway for trade with Asia and Canada and for domestic trade with Alaska and Hawaii. In 2012, Washington had $84.2 million in exports, and based on U.S. Department of Commerce Census Bureau statistics through September 2013, Washington was the 6th largest exporter in the United States.

Ports. Washington has seven deep-draft ports on the Puget Sound, one on the Pacific Coast and three on the Columbia River. The ports of Seattle and Tacoma, on Puget Sound, are the state's largest ports and are closer to Asian ports than is any other continental United States port. According to the U.S. Department of Commerce Bureau of Census, the port of Tacoma nationally ranked 11th and the port of Seattle nationally ranked 13th in 2012 when measured by total dollar value of foreign imports and exports.

Airport. Seattle-Tacoma International Airport is Washington's primary airport and, measured by total passengers, was the 15th busiest airport in the country in 2012 according to the Federal Aviation Administration Air Carrier Activity Information System database. The airport also ranks as the 19th busiest cargo airport in the United States based on all-cargo landed weight.

Aerospace

There are approximately 1,250 aerospace-related companies in the state employing over 130,000, with Boeing being the largest aerospace employer in the state with approximately 85,000 full-time employees. Washington aerospace companies produce more than 1,200 aircraft annually. In 2012, aerospace and related industry employment was 4.6 percent of state non-farm employment and wages were 7.1 percent of state non-farm wages. Boeing is currently manufacturing five models of jets in the state. Boeing has opened a second 787 production line in South Carolina. Boeing recently announced that it will assemble the new 777X jetliner and build its new carbon fiber wing in the state.

Forest Products

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

Agriculture and Food Processing

The state's food and agriculture industry supports an estimated 130,000 jobs. Nearly 300 agricultural commodities are produced commercially in Washington, and in 2012 the state's top 10 agricultural commodities (in commodities value) were apples, wheat, milk, potatoes, hay, cattle, cherries, nursery, grapes and pears. Washington ranked first in United States production of apples and hops. The agricultural and food processing sector is export-oriented.

Information and Communications Technology

The state has approximately 3,000 software companies involved in software publishing, ecommerce, gaming and microcomputers. Microsoft and Amazon are headquartered in the state. Google, Facebook, Twitter, Cray, Attachmate and Nintendo, among others, have established engineering and operations bases in the state.

Global Health and Biotechnology

The state is a global center for the advancement of medicine and life sciences. More than 26,000 workers are directly employed in the nearly 500 life sciences and global health organizations in the state. The life sciences sector in Washington includes the development and manufacture of medical devices, cancer research, therapeutics and the prevention and treatment of infectious diseases. Washington is also home to some of the leading global health research institutes and non-profit organizations, including the Bill and Melinda Gates Foundation, PATH, Seattle BioMed and the Fred Hutchinson Cancer Research Center. The University of Washington Medical Center is the largest public university recipient of federal research dollars, receiving approximately $1.2 billion in federal grants and contacts each year.

Services/Tourism

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

Military

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

Construction

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

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

Year	Washington: Single Family	Multi-Family	Total	United States
2004	36,489	13,600	50,089	2,070,077
2005	41,407	11,581	52,988	2,155,316
2006	35,611	14,422	50,033	1,838,903
2007	30,390	17,007	47,397	1,398,415
2008	17,440	11,479	28,919	905,359
2009	12,991	4,020	17,011	582,963
2010	14,702	5,989	20,691	604,610
2011	13,159	7,705	20,864	624,061
2012	16,508	11,610	28,188	829,658

Source: U.S. Bureau of the Census.

Other Employment Information

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

	2009	2010	2011	2012	2013
Resident Civilian Labor Force	3,523.7	3,516.0	3,482.2	3,481.5	3,481.5
Unemployment	329.5	349.1	320.4	284.2	246.1
WA Unemployment Rate (Percent)(2)	9.4	9.9	9.2	8.2	7.1
U.S. Unemployment Rate (Percent)(2)	9.3	9.6	8.9	8.1	7.6
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,822.4	2,786.4	2,821.3	2,871.3	2,922.5
Durable Manufacturing	190.6	184.3	193.5	204.5	208.9
Aerospace	82.9	80.8	86.6	94.2	95.9
Computer and Electronic Products	20.1	19.1	19.7	20.2	20.1
Nondurable Manufacturing	74.9	73.9	75.4	75.7	77.7
Mining and Logging	6.0	5.9	6.0	5.9	6.0
Construction	159.5	140.7	137.5	138.5	142.7
Trade, Transportation, Communication, Utilities	522.4	517.0	526.0	536.1	550.8
Information	103.9	103.0	103.7	104.7	105.2
Software Publishers	51.5	50.9	51.7	52.4	53.2
Financial	142.9	137.9	137.8	142.9	142.9
Professional and Business Services	324.4	326.4	338.2	348.5	354.3
Education and Health Services	372.4	375.4	381.7	385.7	393.1
Leisure and Hospitality	269.6	266.5	271.8	276.7	286.0
Other Services	106.3	105.5	107.5	110.8	113.2
Government	549.5	550.0	542.2	541.1	541.9

(1) Averages of monthly data (not seasonally adjusted); 2013 averages through October 2013.
(2) Seasonally adjusted. As reported by Washington Department of Employment Security in November 2013, the October 2013 unemployment rate (seasonally adjusted) was 7.0 percent in Washington and 7.3 percent in the U.S. as a whole.

Source: Department of Employment Security and U.S. Bureau of Labor Statistics as of November 20, 2013.

Table 33
Composition of Employment by Industry Sector(1)
(percents)

	State of Washington		United States	
	2002	**2012**	**2002**	**2012**
Manufacturing				
Nondurable Manufacturing				
Food Manufacturing	1.3	1.2	1.2	1.1
Pulp and Paper	0.5	0.3	0.4	0.3
Other	1.4	1.1	2.8	2.0
Subtotal	3.2	2.6	4.4	3.3
Durable Manufacturing				
Lumber and Wood	0.7	0.4	0.4	0.3
Primary and Fabricated Metals	0.9	0.8	1.6	1.4
Machinery	0.6	0.6	1.3	1.1
Computers	1.0	0.7	1.2	0.8
Transportation Equipment	3.3	3.6	1.4	1.1
Other	1.1	0.9	1.4	1.0
Subtotal	7.5	7.1	7.3	5.6
Total Manufacturing	10.8	9.8	11.7	8.9
Nonmanufacturing				
Natural Resources and Mining	0.4	0.2	0.4	0.6
Construction	5.8	4.8	5.2	4.2
Trade, Transportation and Utilities	19.2	18.7	19.6	19.1
Information	3.5	3.7	2.6	2.0
Financial	5.5	5.0	6.0	5.8
Professional and Business Services	10.9	12.1	12.3	13.4
Education and Health Services	11.6	13.4	12.4	15.2
Leisure and Hospitality	9.2	9.6	9.2	10.3
Other Services	3.7	3.9	4.1	4.1
Government	19.5	18.8	16.5	16.4
Total Nonmanufacturing	89.2	90.2	88.2	91.1
Total(2)	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage-and-salary employment.
(2) Numbers may not add due to rounding.
Source: Washington State Office of the Economic and Revenue Forecast Council.

The state's population has increased approximately 11.6 percent since 2004. Based upon the 2010 Census, the state is the thirteenth most populous in the nation. The following table summarizes the state's population for 2004-2013.

Table 34
State of Washington Population

April 1	Population
2004	6,167,800
2005	6,256,400
2006	6,375,600
2007	6,488,000
2008	6,587,600
2009	6,668,200
2010	6,724,540
2011	6,767,900
2012	6,817,770
2013	6,882,400

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

Income Characteristics

The state's per capita income consistently has exceeded the national level and has increased approximately 25.4 percent since 2004. Table 35, derived from U.S. Bureau of Economic Analysis ("BEA") statistics, provides a comparison of personal income and per capita income for the state and the nation. BEA also calculates that per capita disposable personal income (personal income less personal taxes) in Washington ($41,259 in 2012) has consistently been higher than the average per capita disposable personal income in the United States as a whole ($38,000 in 2012).

Table 35
Personal Income Comparisons
Washington and United States

	Total Income ($ in billions)				Per Capita Income (in dollars)	
	Washington		United States			
Year	Amount	Percent Change	Amount	Percent Change	Washington	United States
2004	226.8	-	10,043.3	-	36,715	34,300
2005	235.6	3.9	10,605.6	5.6	37,651	35,888
2006	255.7	8.5	11,376.5	7.3	40,139	38,127
2007	276.8	8.3	11,990.2	5.4	42,845	39,804
2008	289.8	4.7	12,429.3	3.7	44,162	40,873
2009	280.8	-3.1	12,073.7	-2.9	42,112	39,357
2010	286.7	2.1	12,423.3	2.9	42,521	40,163
2011	303.1	5.7	13,179.6	6.1	44,420	42,298
2012	317.6	4.8	13,729.1	4.2	46,045	43,735
2013(1)	323.9	2.0	13,939.3	1.5	N/A	N/A

(1) Average, through second quarter only.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2004 through first quarter 2013 statistics were revised as of September 30, 2013; second quarter 2013 statistics released on September 30, 2013.

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APPENDIX B

BONDS OUTSTANDING

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Debt Authorization and Outstanding Debt
Various Purpose General Obligation Bonds
As of February 5, 2014

Subject to Constitutional Debt Limitation

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued [2]
Ch. 138 -- Laws of 1965 (R-93B).................................	230,950,000	230,950,000	22,220,000	-
Ch. 138 -- Laws of 1965 (R-2005A).............................	343,600,000	343,600,000	239,140,000	-
Ch. 138 -- Laws of 1965 (R-2006A).............................	405,650,000	405,650,000	286,680,000	-
Ch. 138 -- Laws of 1965 (R-2007A).............................	321,050,000	321,050,000	193,545,000	-
Ch. 138 -- Laws of 1965 (R-2007C).............................	375,895,000	375,895,000	208,035,000	-
Ch. 138 -- Laws of 1965 (R-2010A).............................	386,380,000	386,380,000	304,290,000	-
Ch. 138 -- Laws of 1965 (R-2010B).............................	215,500,000	215,500,000	182,960,000	-
Ch. 138 -- Laws of 1965 (R-2011A).............................	365,605,000	365,605,000	313,660,000	-
Ch. 138 -- Laws of 1965 (R-2011B).............................	401,435,000	401,435,000	391,525,000	-
Ch. 138 -- Laws of 1965 (R-2012A).............................	461,380,000	461,380,000	395,705,000	-
Ch. 138 -- Laws of 1965 (R-2012C).............................	733,705,000	733,705,000	733,705,000	-
Ch. 138 -- Laws of 1965 (R-2013A).............................	352,220,000	352,220,000	350,365,000	-
Ch. 138 -- Laws of 1965 (R-2013C).............................	666,680,000	666,680,000	657,100,000	-
Ch. 138 -- Laws of 1965 (R-2014A).............................	117,905,000	117,905,000	117,905,000	-
Ch. 34 -- Laws of 1982 as amended............................	19,771,750	19,771,750	-	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended......	579,189,431	548,020,000	77,305,000	31,169,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended......	608,542,302	608,542,302	85,520,000	-
Ch. 12 -- Laws of 1993, 1st Sp. Sess..........................	330,344,716	330,344,716	12,720,696	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	424,401,667	424,401,667	129,238,369	-
Ch. 456 -- Laws of 1997, Regular Sess..........................	18,340,000	18,340,000	5,085,000	-
Ch. 9 -- Laws of 2001, 2nd Sp. Sess..........................	216,425,000	216,425,000	615,000	-
Ch. 3 -- Laws of 2003, 1st Sp. Sess..........................	287,805,000	287,805,000	70,375,000	-
Ch. 18 -- Laws of 2003, 1st Sp. Sess..........................	445,965,000	387,425,000	306,210,000	58,540,000
Ch. 147 -- Laws of 2003, Regular Sess..........................	211,145,000	173,095,000	152,895,000	38,050,000
Ch. 487 -- Laws of 2005, Regular Sess..........................	1,037,590,000	1,037,590,000	784,130,000	-
Ch. 167 -- Laws of 2006, Regular Sess..........................	265,960,000	174,120,000	164,570,000	91,840,000
Ch. 521 -- Laws of 2007, Regular Sess..........................	1,833,805,000	1,833,805,000	1,582,760,000	-
Ch. 179 -- Laws of 2008, Regular Sess..........................	50,000,000	5,405,000	4,820,000	44,595,000
Ch. 6 -- Laws of 2009, Regular Sess..........................	133,000,000	124,325,000	108,615,000	8,675,000
Ch. 498 -- Laws of 2009, Regular Sess..........................	2,219,000,000	2,029,230,000	1,870,120,000	189,770,000
Ch. 49 -- Laws of 2011, 1st Sp. Sess..........................	1,122,000,000	980,340,000	969,215,000	141,660,000
Ch. 1 -- Laws of 2012, 1st Sp. Sess..........................	505,466,000	418,505,000	417,140,000	86,961,000
Ch. 20 -- Laws of 2013, 2nd Sp. Sess..........................	2,036,000,000	99,645,000	99,645,000	1,936,355,000
Subtotal...	17,722,705,865	15,095,090,434	11,237,814,066	2,627,615,431

(1) Includes current offering dated February 5, 2014.

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

Excluded From Constitutional Debt Limitation

Chapter and Laws	**Bonds Authorized**	**Issued**	**Bonds Outstanding**	**Unissued**
Ch. 138 -- Laws of 1965 (R-2013T)..............................	78,295,000	78,295,000	33,225,000	-
Ch. 220 -- Laws of 1997, Regular Sess..........................	217,074,718	217,074,718	101,904,718	-
Ch. 179 -- Laws of 2008, Regular Sess..........................	100,000,000	95,370,000	90,070,000	4,630,000
Subtotal...	395,369,718	390,739,718	225,199,718	4,630,000
Total...	18,118,075,582	15,485,830,151	11,463,013,784	2,632,245,431

Debt Authorization and Outstanding Debt
Motor Vehicle Fuel Tax General Obligation Bonds
and Limited Obligation Bonds
As of February 5, 2014

Motor Vehicle Fuel Tax Revenue

Chapter and Laws	Bonds Authorized	Issued [1]	Bonds Outstanding [1]	Unissued
Ch. 138 -- Laws of 1965 (R-2005B).............................	95,800,000	95,800,000	60,100,000	-
Ch. 138 -- Laws of 1965 (R-2007B).............................	63,810,000	63,810,000	36,265,000	-
Ch. 138 -- Laws of 1965 (R-2007D).............................	73,030,000	73,030,000	50,885,000	-
Ch. 138 -- Laws of 1965 (R-2010C).............................	121,235,000	121,235,000	103,145,000	-
Ch. 138 -- Laws of 1965 (R-2011C).............................	393,950,000	393,950,000	365,105,000	-
Ch. 138 -- Laws of 1965 (R-2012B).............................	42,330,000	42,330,000	41,685,000	-
Ch. 138 -- Laws of 1965 (R-2012D).............................	271,055,000	271,055,000	271,055,000	-
Ch. 138 -- Laws of 1965 (R-2013B).............................	380,390,000	380,390,000	373,495,000	-
Ch. 138 -- Laws of 1965 (R-2013D).............................	159,405,000	159,405,000	159,405,000	-
Ch. 138 -- Laws of 1965 (R-2014B).............................	105,975,000	105,975,000	105,975,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23).....				
as amended by Ch 11, Laws of 1993............	6,290,000	6,290,000	65,000	-
Ch. 83 -- Laws of 1967, 1st Ex. Sess..........................	103,890,000	61,320,000	6,765,000	42,570,000
Ch. 180 -- Laws of 1979, 1st Ex. Sess..........................	28,480,000	28,480,000	1,260,000	-
Ch. 315 -- Laws of 1981...	36,860,000	36,860,000	2,780,000	-
Ch. 316 -- Laws of 1981...	148,375,000	148,375,000	3,480,000	-
Ch. 293 -- Laws of 1990...	15,000,000	13,400,000	3,730,000	1,600,000
Ch. 431 -- Laws of 1993, as amended...........................	357,705,000	131,872,709	42,437,709	225,832,291
Ch. 432 -- Laws of 1993...	81,280,000	6,085,000		75,195,000
Ch. 440 -- Laws of 1993...	31,900,000	24,390,000	890,000	7,510,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.........................	11,200,000	4,990,000		6,210,000
Ch. 321 -- Laws of 1998...	1,242,970,000	1,152,876,712	757,741,646	90,093,288
Ch. 147 -- Laws of 2003...	2,638,500,000	2,219,373,877	1,895,663,877	419,126,123
Ch. 315 -- Laws of 2005...	5,248,695,000	2,915,533,336	2,748,973,336	2,333,161,664
Ch. 498 -- Laws of 2009 (2)...	1,163,685,000	518,775,000	518,775,000	644,910,000
Total..	12,821,810,000	8,975,601,634	7,549,676,568	3,846,208,366

Pledged Federal Aid (GARVEE)

Chapter and Laws	Bonds Authorized	Issued	Bonds Outstanding	Unissued
Ch. 498 -- Laws of 2009 (2)...	786,315,000	786,315,000	786,315,000	-
Subtotal..	786,315,000	786,315,000	786,315,000	-
Total..	13,608,125,000	9,761,916,634	8,335,991,568	3,846,208,366

(1) Includes current offering dated February 5, 2014.

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

Grand Total.......................................	31,726,200,582	25,247,746,785	19,799,005,352	6,478,453,797

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APPENDIX C

PROPOSED FORMS OF LEGAL OPINIONS

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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”):

$344,940,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION BONDS, SERIES 2014D
DATED FEBRUARY 5, 2014

The Bonds are issued pursuant to Ch. 167, Laws of 2006; Ch. 49, Laws of 2011, 1st Sp. Sess.; Ch. 1, Laws of 2012, 2nd Sp. Sess.; and Ch. 20, Laws of 2013, 2nd Sp. Sess., of the State (collectively, the “Bond Act”), Ch. 39.42 RCW, Resolution No. 1148 of the State Finance Committee (the “Committee”) of the State adopted on November 25, 2013, and Resolution No. 1151 of the Committee acting by and through the State Treasurer adopted on January 22, 2014 (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.

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. 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 submitted,

[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"):

$265,710,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION BONDS, SERIES 2014E
DATED FEBRUARY 5, 2014

The Bonds are issued pursuant to Ch. 147, Laws of 2003, and Ch. 315, Laws of 2005, of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1149 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1152 of the Committee acting by and through the State Treasurer adopted on January 22, 2014 (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.

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.

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SEATTLE WASHINGTON SPOKANE WASHINGTON

4. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by charges on such taxes as set forth in the Bonds and the Bond Resolution. 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 submitted,

[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"):

$87,880,000
STATE OF WASHINGTON
GENERAL OBLIGATION BONDS, SERIES 2014T-2 (TAXABLE)
DATED FEBRUARY 5, 2014

The Bonds are issued pursuant to Ch. 167, Laws of 2006; Ch. 49, Laws of 2011, 1st Sp. Sess.; Ch. 1, Laws of 2012, 2nd Sp. Sess.; and Ch. 20, Laws of 2013, 2nd Sp. Sess., of the State (collectively, the "Bond Act"), Ch. 39.42 RCW, Resolution No. 1148 of the State Finance Committee (the "Committee") of the State adopted on November 25, 2013, and Resolution No. 1153 of the Committee acting by and through the State Treasurer adopted on January 22, 2014 (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.

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.

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. Interest on the Bonds is not excludable from gross income for federal tax purposes.

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

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

Respectfully submitted,

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APPENDIX D

THE STATE'S 2013 AUDITED FINANCIAL STATEMENTS

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APPENDIX E

DTC AND ITS BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been obtained from DTC's website. The state takes no responsibility for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity within a series of the Bonds in the principal amount of such maturity and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com (which website is not incorporated by reference).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 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.

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

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

6. Redemption notices will be sent to DTC. If less than all of the Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. 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, the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) are the responsibility of the state or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

10. The state may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.