

**MD&A**  
**Management's Discussion and Analysis**

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## MD&A

# Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2009. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## Financial Highlights

- Total assets of the state of Washington exceeded its liabilities by \$18.6 billion (reported as net assets). Of this amount, \$(8.3) billion was reported as "unrestricted (deficit) net assets." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of \$9.5 billion, a decrease of 24 percent compared with the prior year.
- Unreserved fund balance for the General Fund was \$189 million, at the end of Fiscal Year 2009, or one percent of total General Fund expenditures.
- The state's capital assets increased by \$2.0 billion while total bond debt increased by \$1.2 billion during the current fiscal year.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

**Statement of Net Assets.** The *Statement of Net Assets* presents information on all of the state of Washington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

**Statement of Activities.** The *Statement of Activities* presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as Washington's lottery, liquor control, and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 37-39 of this report.

## FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Permanent Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 42-45 of this report.

**Proprietary Funds.** The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various

functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, and the Higher Education Student Services Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 46-51 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report.

The fiduciary fund financial statements can be found on pages 52-53 of this report.

**Component Units.** Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports one major component unit, the Washington State Public Stadium Authority, and four nonmajor component units.

Refer to Note 1 on pages 59-60 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 54-55 of this report.

**NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-146 of this report.

employment benefits, funding progress, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 147-171 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 173-223 of this report.

**OTHER REQUIRED INFORMATION**

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plans and other post-

STATE OF WASHINGTON						
Statement of Net Assets						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	2009	2008	2009	2008	2009	2008
<b>ASSETS</b>						
Current and other assets	\$ 15,611	\$ 19,620	\$ 21,027	\$ 21,665	\$ 36,638	\$ 41,285
Capital assets	29,558	27,692	2,099	1,995	31,657	29,687
Total assets	45,169	47,312	23,126	23,660	68,295	70,972
<b>LIABILITIES</b>						
Current and other liabilities	3,593	5,201	2,653	2,973	6,246	8,174
Long-term liabilities outstanding	17,721	16,014	25,689	24,971	43,410	40,985
Total liabilities	21,314	21,215	28,342	27,944	49,656	49,159
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	17,551	17,029	721	521	18,272	17,550
Restricted	4,887	5,524	3,800	4,406	8,687	9,930
Unrestricted (deficit)	1,417	3,544	(9,737)	(9,211)	(8,320)	(5,667)
Total net assets	\$ 23,855	\$ 26,097	\$ (5,216)	\$ (4,284)	\$ 18,639	\$ 21,813

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets exceed liabilities by \$18.6 billion at June 30, 2009 as compared to \$21.8 billion as reported at June 30, 2008.

related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The largest portion of the state's net assets (98.0 percent for Fiscal Year 2009 as compared to 80.5 percent for Fiscal Year 2008) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any

A portion of the state of Washington's net assets (46.6 percent for Fiscal Year 2009 as compared to 45.5 percent for Fiscal Year 2008) represents resources that are subject to external restrictions on how they may be used.

State of Washington

The remaining balance of (\$8.3) billion represents unrestricted (deficit) net assets. The state's overall negative balance is caused by the workers' compensation program that provides time-loss, medical, disability and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

STATE OF WASHINGTON						
<b>Changes in Net Assets</b>						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 4,398	\$ 3,912	\$ 5,640	\$ 5,364	\$ 10,038	\$ 9,276
Operating grants and contributions	10,565	8,725	572	42	11,137	8,767
Capital grants and contributions	706	746	-	-	706	746
General revenues:						
Taxes	16,001	16,894	113	115	16,114	17,009
Interest and investment earnings	(212)	464	291	767	79	1,231
<b>Total Revenues</b>	<b>31,458</b>	<b>30,741</b>	<b>6,616</b>	<b>6,288</b>	<b>38,074</b>	<b>37,029</b>
<b>EXPENSES</b>						
General government	(1,815)	(1,609)	-	-	(1,815)	(1,609)
Education - K-12	(8,549)	(7,476)	-	-	(8,549)	(7,476)
Education - Higher education	(6,044)	(5,710)	-	-	(6,044)	(5,710)
Human services	(12,436)	(11,260)	-	-	(12,436)	(11,260)
Adult corrections	(1,044)	(1,020)	-	-	(1,044)	(1,020)
Natural resources and recreation	(1,062)	(931)	-	-	(1,062)	(931)
Transportation	(1,883)	(1,894)	-	-	(1,883)	(1,894)
Interest on long-term debt	(728)	(643)	-	-	(728)	(643)
Workers' compensation	-	-	(2,544)	(4,068)	(2,544)	(4,068)
Unemployment compensation	-	-	(2,360)	(791)	(2,360)	(791)
Higher education student services	-	-	(1,502)	(1,470)	(1,502)	(1,470)
Liquor control	-	-	(540)	(551)	(540)	(551)
Washington's lottery	-	-	(401)	(418)	(401)	(418)
Other business-type activities	-	-	(391)	(235)	(391)	(235)
<b>Total Expenses</b>	<b>(33,561)</b>	<b>(30,543)</b>	<b>(7,738)</b>	<b>(7,533)</b>	<b>(41,299)</b>	<b>(38,076)</b>
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers	(2,103)	198	(1,122)	(1,245)	(3,225)	(1,047)
Contributions to endowments	57	95	-	-	57	95
Transfers	(190)	272	190	(272)	-	-
Increase (decrease) in net assets	(2,236)	565	(932)	(1,517)	(3,168)	(952)
Net assets - July 1, as restated*	26,091	25,532	(4,284)	(2,767)	21,807	22,765
Net assets - June 30	<u>\$ 23,855</u>	<u>\$ 26,097</u>	<u>\$ (5,216)</u>	<u>\$ (4,284)</u>	<u>\$ 18,639</u>	<u>\$ 21,813</u>
* Beginning Net Assets balances were restated in Fiscal Year 2008 to reflect fund type reclassifications and in Fiscal Year 2009 for prior period adjustments.						

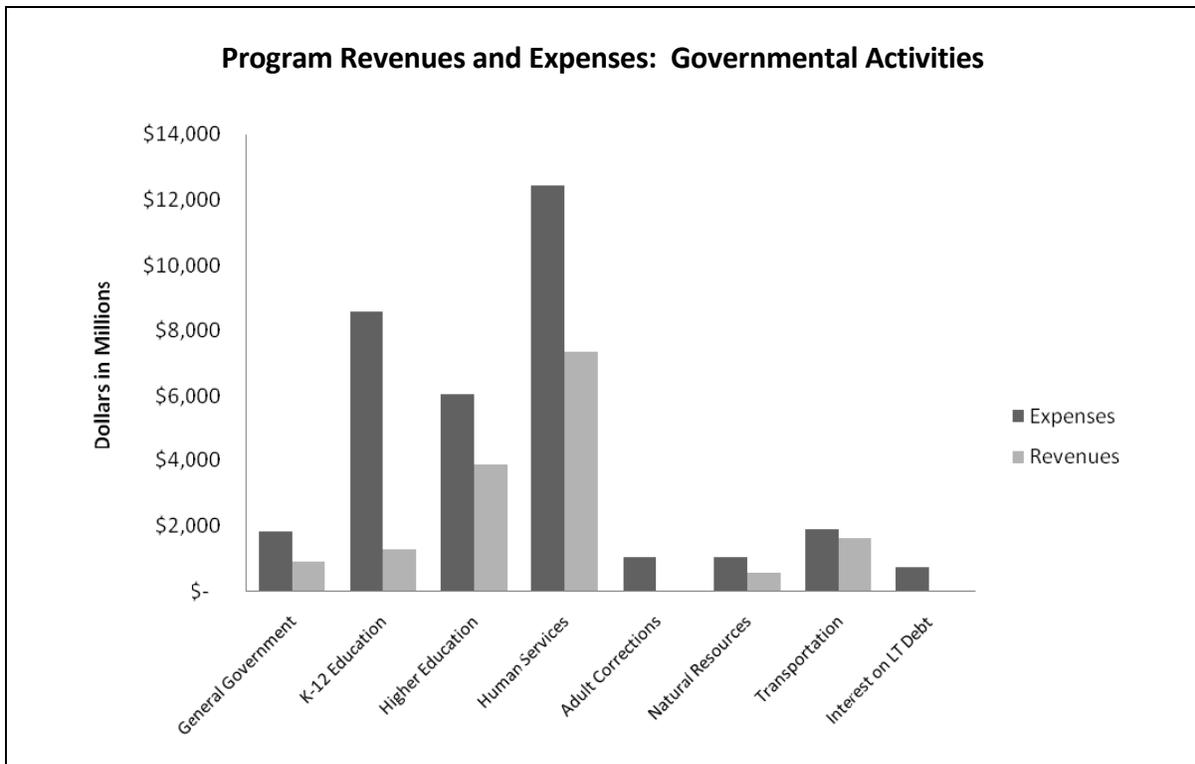
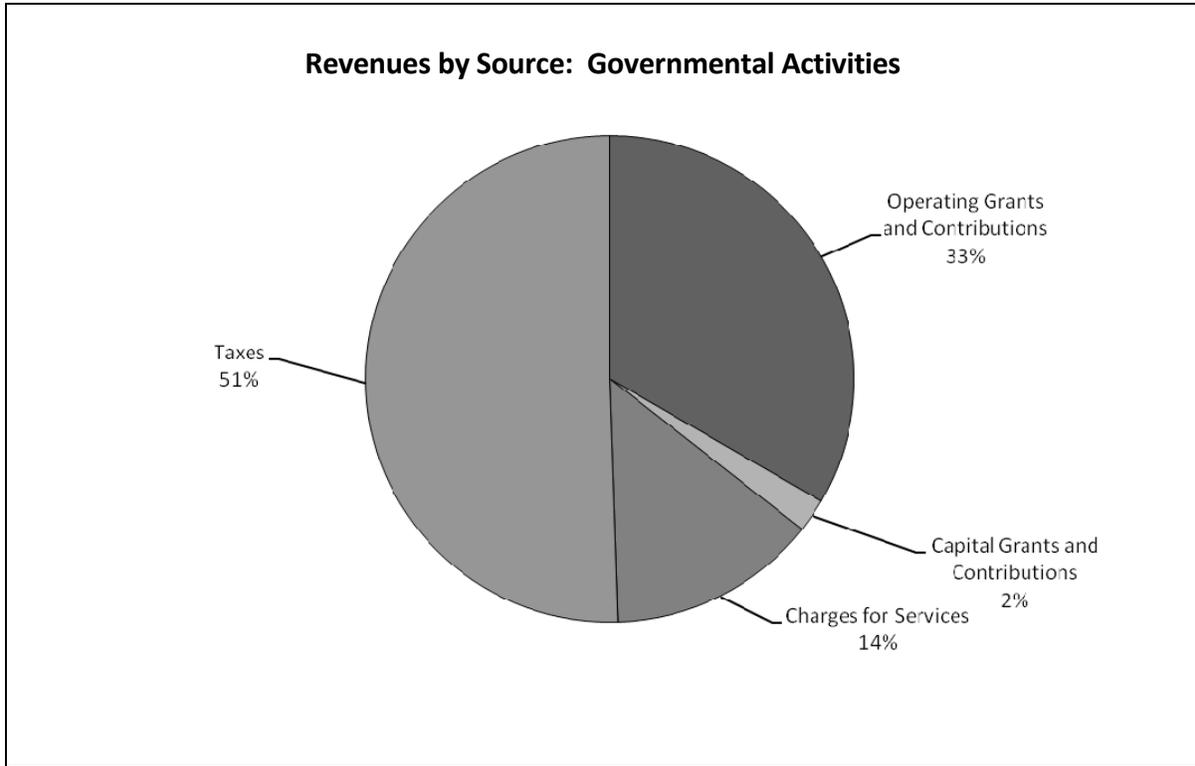
**Governmental Activities.** Governmental activities resulted in a decrease in the state of Washington's net assets of \$2.2 billion. A number of factors contributed to the decrease:

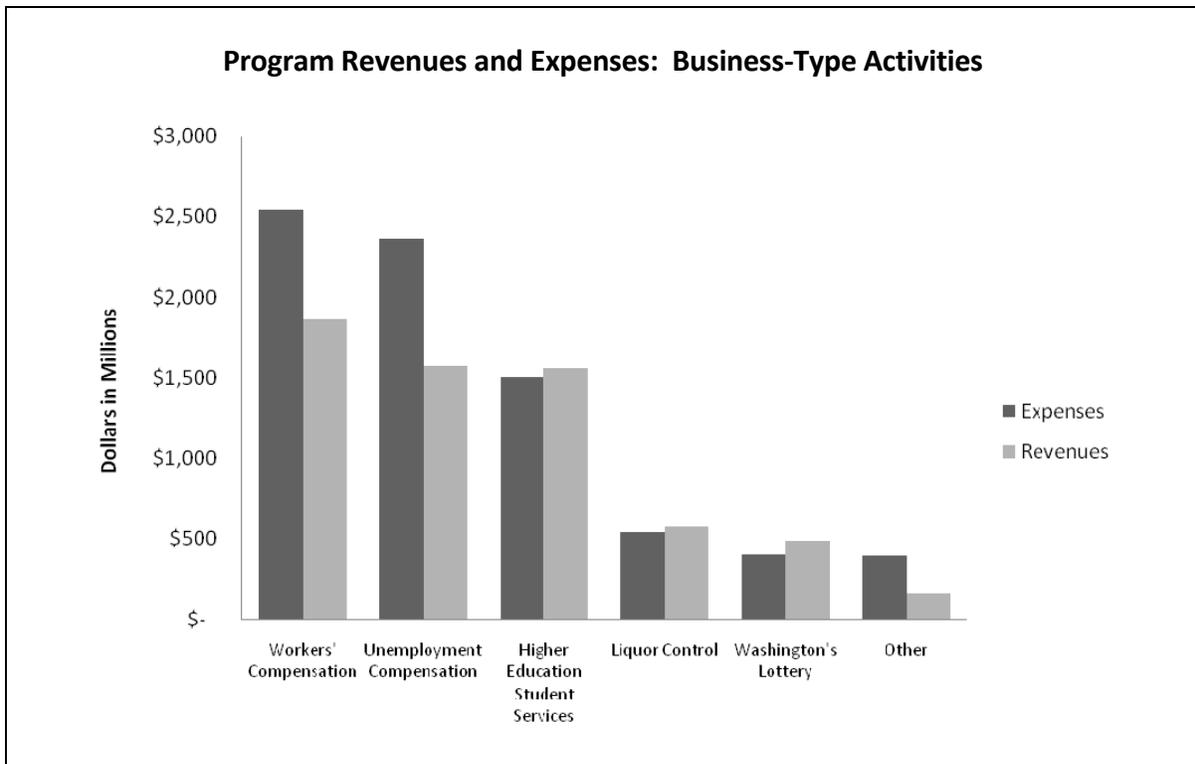
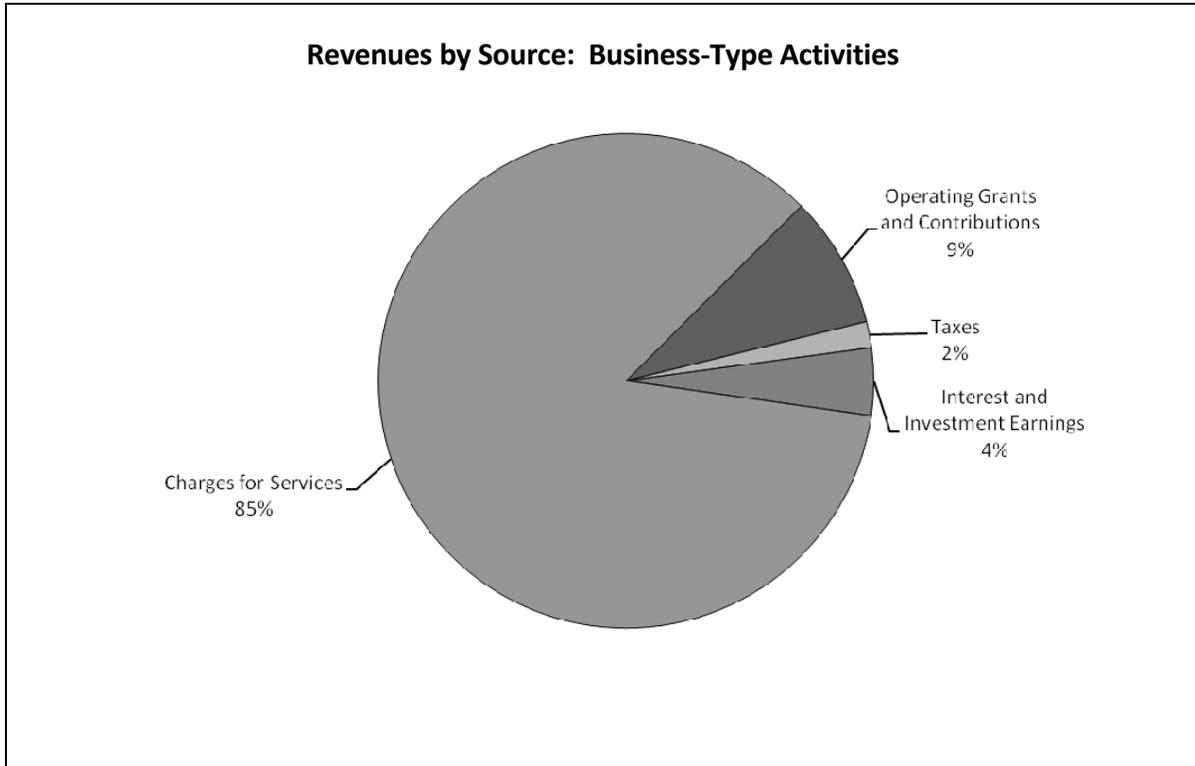
- Tax revenues decreased \$893 million in Fiscal Year 2009 as compared to Fiscal Year 2008. While certain tax sources showed moderate increases, sales and use taxes reported a decrease of \$1.0 billion. Sales and use taxes are the main tax revenue for governmental activities. Taxable sales have declined sharply due to reductions in consumer spending power as a result of job losses as well as weak consumer confidence. Real estate excise taxes also declined by \$294 million reflecting the continued decline in real estate activity as home prices and housing permits continued to decline throughout Fiscal Year 2009.
- Growth in expenses outpaced growth in revenues. The expenses for human services and education comprised 80.5 percent of the total expenses for governmental activities which is consistent with the 80 percent in Fiscal Year 2008. Human services expenses grew by \$1.2 billion or 10 percent in Fiscal Year 2009 over Fiscal Year 2008 reflecting the increased number of citizens seeking assistance from state programs and services due to the economic recession. K-12 education also increased in Fiscal Year 2009 as compared to Fiscal Year 2008 due to increases in enrollment and construction grants to local school districts. Approximately 40 percent of the increased costs of human services and K-12 education were financed with federal fiscal stabilization funds.

**Business-Type Activities.** Business-type activities decreased the state of Washington's net assets by \$932 million which included losses in both the workers' compensation and unemployment compensation activities.

Key factors contributing to the operating results of business-type activities are:

- The operating loss in the workers' compensation activity in Fiscal Year 2009 was \$1.8 billion less than in Fiscal Year 2008. A number of factors contributed to the decreased operating loss including an increase in premium revenue of \$260 million which resulted when the Fiscal Year 2008 rate holiday did not extend into Fiscal Year 2009 and a decrease in claims costs of \$1.5 billion. The decrease in claims costs is attributable to lower projections of supplemental pension costs related to changes in the forecast of future wage inflation.
- The unemployment compensation activity reported a Fiscal Year 2009 operating loss of \$789 million, compared to \$333 million operating income in Fiscal Year 2008. Washington's unemployment insurance program is an experience-based system. Since Washington had relatively low unemployment until Fiscal Year 2009, unemployment premium revenue had been declining. Fiscal Year 2009 premium revenues were \$146 million less than Fiscal Year 2008. While this decrease was more than offset by an increase in federal aid of \$531 million, which included federal fiscal stabilization funding, costs for unemployment insurance benefits rose \$1.6 billion. The increase in costs was the result of increases in the number of claims, the duration of claims and the benefit amounts. The annualized unemployment rate for the state was 7.3 percent in Fiscal Year 2009, up from 4.7 percent in Fiscal Year 2008, a 55 percent increase.
- The higher education student services activity reported relatively proportional increases in both expenses and charges for services when compared to the prior year. Additionally, both liquor control and Washington's lottery activities reported operating revenues and expenses consistent with the prior year.





## Financial Analysis of the Government's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state of Washington's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the state of Washington. At the end of the fiscal year, total fund balance for the General Fund equaled \$1.2 billion.

Unreserved fund balance included \$898 million designated for working capital purposes. This amount relates to certain accrued revenues and is not considered by management to be available to spend. The remaining unreserved fund balance of \$189 million is undesignated and is considered available to spend.

The fund balance of the state of Washington's General Fund decreased by \$757 million during Fiscal Year 2009. While increases in federal grant revenue approximated the decreases in tax revenue, increased demands for services had a negative impact on fund balance.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference Increase (Decrease)
	2009	2008	
<b>REVENUES</b>			
Taxes	\$12,791	\$ 14,307	\$ (1,516)
Federal grants	8,311	6,557	1,754
Investment revenue	64	123	(59)
Other	421	462	(41)
<b>Total</b>	<b>21,587</b>	<b>21,449</b>	<b>138</b>
<b>EXPENDITURES</b>			
Human services	11,912	10,921	991
Education	9,044	8,235	809
Other	1,223	1,144	79
<b>Total</b>	<b>22,179</b>	<b>20,300</b>	<b>1,879</b>
Net transfers in (out)	(192)	(1,145)	953
Other financing sources	27	12	15
Net increase (decrease) in fund balance	\$ (757)	\$ 16	\$ (773)

Expenditure growth continues to be concentrated in services and programs most vital to citizens – primarily human services and public education. As explained earlier, increased demand for services due to recessionary economic conditions resulted in the expenditure growth reported in the General Fund. The increased costs were supported in part with increased federal grant funding including federal fiscal stabilization funds.

In addition to the General Fund, the state reports the Higher Education Special Revenue and Higher Education Endowment Funds as major governmental funds. The fund balance of the Higher Education Special Revenue Fund decreased by \$346 million in Fiscal Year 2009 largely

due to transfer activity. The fund balance for the Higher Education Endowment Fund decreased by \$533 million. The decrease in the Higher Education Endowment Fund is primarily due to decline in the market value of investments and, to a lesser extent, to a decline in support from donors, both related to the current economic situation.

The fund balance for nonmajor governmental funds decreased by \$1.3 billion. The largest factor contributing to the decrease is an increase in transfers to other funds - \$755 million of which was transferred to the General Fund to cover the revenue shortfall.

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

- The Workers' Compensation Fund reported a loss of \$0.5 billion in Fiscal Year 2009. Operating revenues increased by \$260 million and operating expenses decreased by \$1.5 billion as compared to Fiscal Year 2008. As noted previously, the decrease in operating costs is attributable to lower projections of supplemental pension costs related to changes in the forecast of future wage inflations. The positive changes were partially offset by a decrease in investment income of \$253 million due to the ongoing turmoil in the investment market.
- Washington's unemployment rate increased markedly in Fiscal Year 2009, as the slowing national economy and weakening housing markets took their toll on the labor markets. Despite an increase in federal aid of \$531 million, which included federal fiscal stabilization funding, the Unemployment Compensation Fund incurred a loss of \$607 million.
- Activity for the various nonmajor proprietary funds resulted in a decrease to net assets of \$387 million. The largest component of the decrease is the loss of \$340 million reported by the state's guaranteed college tuition (GET) program which is included in the Other Activities Fund. This loss was primarily caused by a reduction in investment earnings and higher than projected tuition unit payout values. The GET program is proceeding cautiously and analyzing the market for strategic investment opportunities.

## General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the two years ended June 30, 2009. While there were no significant increases or decreases, changes to estimates are summarized as follows:

- Estimated resources increased by \$619 million over the course of the biennium. A decrease of \$1.8 billion was reported for taxes. The decrease in estimated tax revenue was offset by increases to federal grants-in-aid and transfers from other funds of \$1.4 billion and \$842 million, respectively.

- Appropriated expenditure authority increased by \$858 million over the course of the biennium ended June 30, 2009. Increases were recorded in general government, human services and education of \$189 million, \$409 million and \$422 million, respectively. The largest decrease was in transfers to other funds of \$167 million.

The state did not overspend its legal spending authority for the 2007-09 Biennium. Actual General Fund revenues and expenditures were 97 and 98 percent of final budgeted revenues and appropriations, respectively, for the 2007-09 Biennium.

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

**Capital Assets.** The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounted to \$31.7 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings and equipment, as well as construction in progress.

Washington's Fiscal Year 2009 investment in capital assets, net of current year depreciation, was \$2.0 billion, including increases to the state's transportation infrastructure of \$1.3 billion and buildings of \$816 million. The state's construction in progress includes both new construction and major improvements to state and common school capital facilities, transportation projects and assistance to local governments for public works capital projects. Remaining commitments on these construction projects total \$7.8 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 94 of this report.

**Infrastructure.** The state of Washington first reported infrastructure under the requirements of the Governmental Accounting Standards Board in Fiscal Year 2002. Transportation infrastructure reported includes the state highway system, emergency airports, and two short rail lines. While the rail lines are reported net of depreciation, the state highway system and emergency airports are reported using the modified approach. Under the modified approach, rather than recording depreciation, asset condition is reported.

STATE OF WASHINGTON						
Capital Assets - Net of Depreciation						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Land	\$ 1,130	\$ 1,051	\$ 142	\$ 136	\$ 1,272	\$ 1,187
Transportation infrastructure and other assets not depreciated	18,328	17,021	-	-	18,328	17,021
Buildings	6,473	5,731	1,566	1,492	8,039	7,223
Furnishings, equipment, and collections	1,377	1,392	150	135	1,527	1,527
Other improvements and infrastructure	1,065	1,013	88	58	1,153	1,071
Construction in progress	1,185	1,484	153	174	1,338	1,658
<b>Total</b>	<b>\$ 29,558</b>	<b>\$ 27,692</b>	<b>\$ 2,099</b>	<b>\$ 1,995</b>	<b>\$ 31,657</b>	<b>\$ 29,687</b>

The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and airports, and additional detail comparing planned-to-actual preservation and maintenance spending are available in the required supplementary information beginning on page 163.

The Washington State Department of Transportation (WSDOT) accomplished a net addition of 141 lane miles and 21 bridges in Fiscal Year 2009. The state highway system value increased a net of \$1.3 billion during the fiscal year. Amounts spent during Fiscal Year 2009 to maintain and preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget. The state highway system and emergency airports continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges.

Detailed information about targeted and actual condition levels for roads, bridges, rest areas, and airports can be found in the required supplementary information section of this report.

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

The WSDOT's planned highway infrastructure projects for the next four years, fiscal years 2010 through 2013, would commit approximately \$6.5 billion for 460 projects. These projects are either already in progress or are expected to commence within the next four years.

**Bond Debt.** At the end of Fiscal Year 2009, the state of Washington had general obligation bond debt outstanding of \$14.1 billion, an increase of 8.5 percent over Fiscal Year

2008. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$12.7 billion general obligation debt that remains unissued.

The state had revenue debt outstanding at June 30, 2009, of \$1.7 billion, an increase of \$20 million over Fiscal Year 2008. This increase is primarily related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

During Fiscal Year 2009, the state issued general obligation debt, totaling \$1.7 billion, for various capital and transportation projects. The state ranked 13th in a list of the top 100 state and local issuers ranked by amount financed by municipal issuers in calendar year 2008, according to The Bond Buyer's 2009 Yearbook.

The Washington State Constitution and the Revised Code of Washington limit the amount of general obligation (GO) debt that may be issued. The constraining limit for 2009 is the statutory limit. For the fiscal year ended June 30, 2009, the maximum GO debt authorized by the statutory debt limit was \$10.8 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues, such as motor vehicle fuel tax and reimbursable bonds. Of the \$14.1 billion general obligation bond debt outstanding at June 30, 2009, \$8.0 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2009 did not exceed the authorized debt service limitation.

For further information on the debt limit, refer to the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer or at: [http://www.tre.wa.gov/documents/debt\\_cdl2009.pdf](http://www.tre.wa.gov/documents/debt_cdl2009.pdf).

STATE OF WASHINGTON						
Bond Debt						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
General obligation (GO) bonds	\$ 14,049	\$ 12,927	\$ 69	\$ 80	\$ 14,118	\$ 13,007
Accreted interest on zero interest rate GO bonds	328	295	38	34	366	329
Revenue bonds	616	555	1,074	1,115	1,690	1,670
<b>Total</b>	<b>\$ 14,993</b>	<b>\$ 13,777</b>	<b>\$ 1,181</b>	<b>\$ 1,229</b>	<b>\$ 16,174</b>	<b>\$ 15,006</b>

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness.

The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2009, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA by Standard & Poor's Rating Group (S & P), and AA by Fitch Ratings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 98 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 258 of this report.

## Conditions with Expected Future Impact

**Economic Factors.** The forecast for Washington for Fiscal Year 2010 is for the beginning of the end of the recession. That said, in the coming year, legislative leaders and management will be facing a number of challenges.

- Slower economic growth is forecasted as the impacts of the financial crisis and national and international recessions wind their way through Washington's economy.
- Employment will take time to pick up again as it typically lags the upturn in activity. Businesses will first meet demand by ramping up excess capacity and increasing workers' hours. Only after they are sure the recovery is going to be sustained will they start adding to payrolls. Accordingly, unemployment rates are expected

to increase as non-farm payroll employment in Washington is forecasted to decrease in Fiscal Year 2010 by 3.0 percent, marking two consecutive years of declining employment.

- Revenue growth is expected to be negatively impacted as economic changes to the tax system, including aerospace industry tax credits, take full effect by the end of the 2007-09 Biennium. State tax revenue is also expected to be adversely impacted by forecasted continued weak consumer spending.

**Changes to the General Fund.** Effective July 1, 2009, six accounts, previously reported within nonmajor governmental funds, will be consolidated into the General Fund. Because of the close relationship between these accounts and the General Fund, they had been designated as "related funds." They are being consolidated into the General Fund to improve budget transparency.

**Federal Fiscal Stabilization.** Since the American Recovery and Reinvestment Act was signed into law in February 2009, Washington has used fiscal stabilization grants to avoid making significant service and work force cuts in areas such as education, transportation, public health and the environment.

As of September 30, more than \$2 billion in federal fiscal stabilization grants have been awarded to the state. State agencies are using the grants to stabilize the state's budget, stimulate the economy and help citizens hardest hit by the recession. Proposals for additional funding have been submitted for a variety of projects in areas such as green jobs and worker training; broadband deployment; health information technology; high-speed rail development; and energy efficiency.

**Rainy Day Account.** In November 2007, Washington State voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account (BSA).

On July 1, 2008, the balance in the Emergency Reserve Fund of \$303 million was transferred to the newly created BSA. An additional \$115 million was transferred from the General Fund to the BSA in Fiscal Year 2009 in accordance with the provisions of the Constitution.

The Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

During Fiscal Year 2009, Engrossed Substitute House Bill 1244 authorized the transfer of \$400 million from the BSA

to the General Fund. The BSA has a balance of \$21.4 million as of June 30, 2009.

## Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43113, Olympia, WA 98504-3113.