

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, 2013. 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 and deferred outflows of the state of Washington exceeded its liabilities by \$21.48 billion (reported as net position). Of this amount, \$(8.96) billion was reported as "unrestricted net position." 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 \$12.43 billion, an increase of 6.8 percent compared with the prior year.
- While the state's capital assets increased by \$1.51 billion and total bond debt increased by \$729.9 million during the current fiscal year, the state's net investment in capital assets is \$20.45 billion.

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 Position. The *Statement of Net Position* presents information on all of the state of Washington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, the guaranteed education tuition program and various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 41-43 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 fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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 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 46-49 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, the Higher Education Student Services Fund, and the Guaranteed Education Tuition Program 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 50-57 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 58-59 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 two major component units, the Washington State Public Stadium Authority and the Health Benefit Exchange, as well as four nonmajor component units. Refer to Note 1 on pages 65-66 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 60-61 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 63-159 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 postemployment

benefits schedules of funding progress and contributions, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 161-180 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 181-233 of this report.

STATE OF WASHINGTON						
Statement of Net Position						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	\$ 19,999	\$ 18,354	\$ 22,119	\$ 21,429	\$ 42,118	\$ 39,783
Capital assets	35,435	34,298	2,761	2,390	38,196	36,688
Total assets	55,434	52,652	24,880	23,819	80,314	76,471
DEFERRED OUTFLOWS OF RESOURCES	-	-	16	-	16	-
LIABILITIES						
Current and other liabilities	4,585	3,446	912	527	5,497	3,973
Long-term liabilities outstanding	24,508	24,116	28,842	27,869	53,350	51,985
Total liabilities	29,093	27,562	29,754	28,396	58,847	55,958
NET POSITION						
Net Investment in capital assets	19,706	19,561	740	797	20,446	20,358
Restricted	6,524	5,296	3,469	3,225	9,993	8,521
Unrestricted	111	233	(9,067)	(8,599)	(8,956)	(8,366)
Total net position	\$ 26,341	\$ 25,090	\$ (4,858)	\$ (4,577)	\$ 21,483	\$ 20,513

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities by \$21.48 billion at June 30, 2013, as compared to \$20.51 billion as reported at June 30, 2012.

The largest portion of the state's net position (95.2 percent for fiscal year 2013 as compared to 99.2 percent for fiscal year 2012) reflects its net investment in capital assets (e.g., land, buildings, equipment and intangible assets), less any 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.

A portion of the state of Washington's net position (46.5 percent for fiscal year 2013 as compared to 41.5 percent for fiscal year 2012) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(8.96) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is caused by deficits in business-type activities.

In governmental activities, net position increased from \$25.09 billion in fiscal year 2012 to \$26.34 billion in fiscal year 2013. The increase reflects increases in charges for services and tax revenues that outpaced the increases in expenses.

In business-type activities, the majority of the deficit 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						
Changes in Net Position						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	2013	2012*	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	\$ 5,749	\$ 5,032	\$ 6,166	\$ 6,393	\$ 11,915	\$ 11,425
Operating grants and contributions	12,027	11,984	870	1,443	12,897	13,427
Capital grants and contributions	997	944	-	1	997	945
General revenues:						
Taxes	17,072	16,341	23	72	17,095	16,413
Interest and investment earnings (loss)	397	169	523	1,150	920	1,319
Other general revenues	-	-	-	30	-	30
Total revenues	<u>36,242</u>	<u>34,470</u>	<u>7,582</u>	<u>9,089</u>	<u>43,824</u>	<u>43,559</u>
EXPENSES						
General government	(1,537)	(1,219)	-	-	(1,537)	(1,219)
Education - K-12	(8,238)	(8,257)	-	-	(8,238)	(8,257)
Education - Higher education	(6,992)	(6,526)	-	-	(6,992)	(6,526)
Human services	(13,181)	(13,168)	-	-	(13,181)	(13,168)
Adult corrections	(844)	(886)	-	-	(844)	(886)
Natural resources and recreation	(1,096)	(982)	-	-	(1,096)	(982)
Transportation	(2,379)	(2,396)	-	-	(2,379)	(2,396)
Interest on long-term debt	(955)	(911)	-	-	(955)	(911)
Workers' compensation	-	-	(3,330)	(1,919)	(3,330)	(1,919)
Unemployment compensation	-	-	(1,983)	(2,817)	(1,983)	(2,817)
Higher education student services	-	-	(1,927)	(1,834)	(1,927)	(1,834)
Liquor control	-	-	-	(566)	-	(566)
Washington's lottery	-	-	(437)	(407)	(437)	(407)
Guaranteed education tuition program	-	-	105	(96)	105	(96)
Other business-type activities	-	-	(126)	(115)	(126)	(115)
Total expenses	<u>(35,222)</u>	<u>(34,345)</u>	<u>(7,698)</u>	<u>(7,754)</u>	<u>(42,920)</u>	<u>(42,099)</u>
Excess (deficiency) of revenues over expenses before contributions						
to endowments and transfers	1,020	125	(116)	1,335	904	1,460
Contributions to endowments	63	47	-	-	63	47
Transfers	114	165	(114)	(165)	-	-
Increase (decrease) in net position	1,197	337	(230)	1,170	967	1,507
Net position - July 1, as restated	25,144	24,753	(4,628)	(5,747)	20,516	19,006
Net position - June 30	<u>\$ 26,341</u>	<u>\$ 25,090</u>	<u>\$ (4,858)</u>	<u>\$ (4,577)</u>	<u>\$ 21,483</u>	<u>\$ 20,513</u>

* Prior year balances restated for comparability

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of \$1.20 billion. A number of factors contributed to the increase:

- Tax revenues increased by \$731.0 million in fiscal year 2013 as compared to fiscal year 2012 reflecting positive growth in the economy. Sales and use taxes reported an increase of \$360.5 million. Sales and use taxes are the main tax revenue for governmental activities. Business and occupation tax, the second largest source of tax revenue in governmental activities, increased by \$144.8 million in fiscal year 2013 over 2012. It is a tax on the gross receipts of all businesses operating in Washington. Real estate excise tax revenue increased by \$156.9 million. Real estate excise taxes are levied on the sale of real estate. These tax revenue increases reflect the slowly rebounding economy, recovering housing markets, and improving employment picture in Washington.
- Charges for services increased by \$727.1 million in fiscal year 2013 compared to fiscal year 2012. Tuition and fee increases at higher education institutions accounted for \$308.6 million of the increase.
- Operating and capital grants and contributions, and investment earnings in fiscal year 2013 were fairly consistent with fiscal year 2012.
- Expenses grew moderately in fiscal year 2013 as compared to fiscal year 2012. Higher education activities accounted for \$466.2 million of the increase which is consistent with the tuition and fee revenue increase.

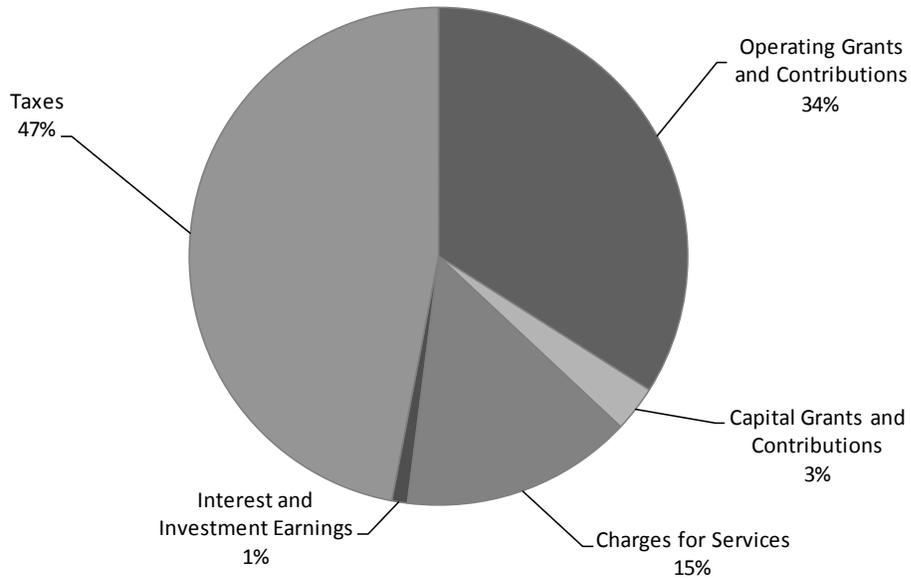
Business-Type Activities. Business-type activities decreased the state of Washington's net position by \$230.1 million which was comprised of a decrease in the workers' compensation activity offset by gains in both the unemployment compensation and guaranteed education tuition activities. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity decrease in net position in fiscal year 2013 was \$925.9 million compared to an increase of \$1.16 billion in fiscal year 2012. Premium revenue increased by \$108.6 million as a result of an increase in the number of hours reported by employers. Claim costs increased by \$1.54 billion in fiscal year 2013 compared with fiscal year 2012 reflecting an increase in the actuarial valuation of the present value of future claims costs. Factors increasing the valuation of the supplemental pension

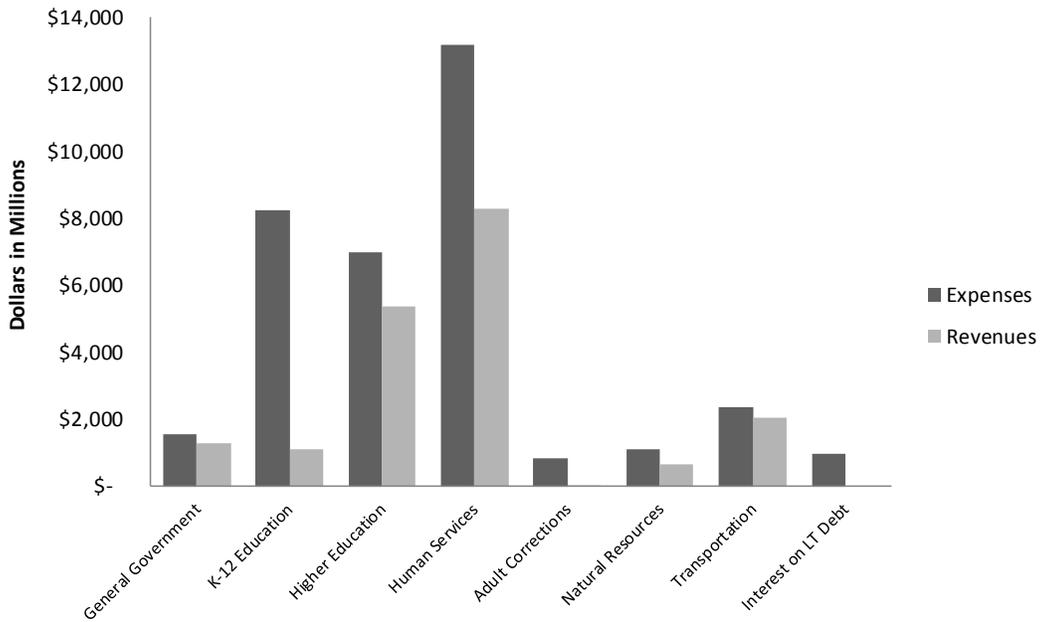
plan included actual mortality experience exceeding expected mortality rates; higher actual cost-of-living increase than assumed coupled with a change in future cost-of-living escalation assumption; and a decrease in the discount rate. The key factor increasing the valuation of future obligations associated with the basic plan was an increase in the expected number of claimants receiving medical benefits at older ages. Nonoperating investment income decreased by \$785.9 million due predominately to decreases in unrealized losses. While the equity markets experienced significant appreciation from the prior year, the fixed income market experienced significant depreciation. The workers' compensation portfolio is 85.4 percent fixed income investments.

- The unemployment compensation activity reported an operating income in fiscal year 2013 of \$174.3 million, compared to \$51.8 million operating loss in fiscal year 2012. Washington's unemployment insurance program is an experience-based system with the largest part of an individual employer's tax rate being based on the employer's layoff history over the past four years. The economic recovery in the state has stabilized employment and resulted in a decline in unemployment insurance benefits of \$833.6 million in fiscal year 2013 over fiscal year 2012. The decrease in benefit costs was the result of a decline in the number of claims and the duration of claims. The unemployment rate for the state for June 2013 was 7.0 percent, down from 8.4 percent in June 2012, and the insured rate declined to 2.2 percent in fiscal year 2013 from 2.4 percent in fiscal year 2012. Since the state's unemployment insurance premiums are experience based, the declining unemployment rate resulted in a 2.8 percent decrease in premium revenue. The \$569.4 million decline in federal aid also reflects the decrease in the unemployment rate.
- The guaranteed education tuition activity reported an increase in net position of \$470.4 million. The increase is the result of the actuarial reduction of the present value of the future tuition obligation. The reduction was caused by a number of factors including: (1) the actual investment rate of return of 9.6 percent exceeded the expected rate of 6.0 percent; (2) the actual annualized rate of tuition growth was 0.0 percent which was less than the assumed rate of 12.0 percent; and (3) tuition unit sales exceeded expectations by 12.0 percent.
- The remaining business-type activities reported relatively proportional increases in both expenses and charges for services when compared to the prior year.

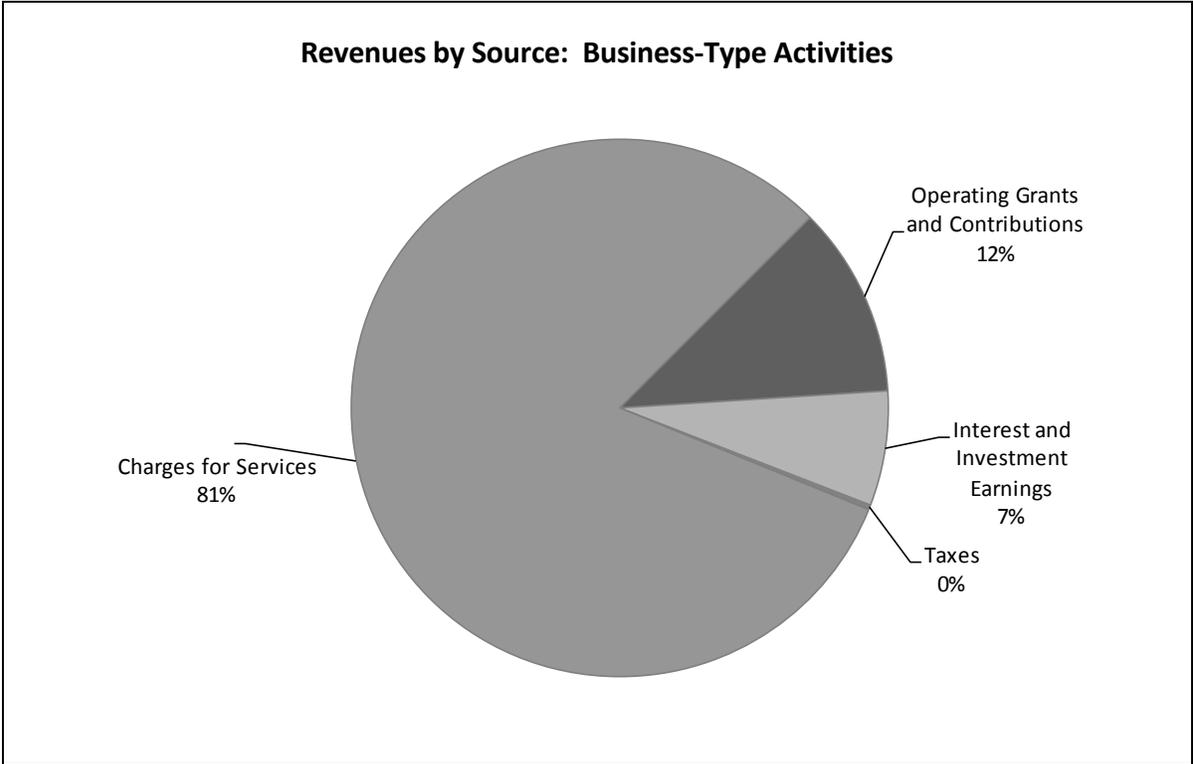
Revenues by Source: Governmental Activities



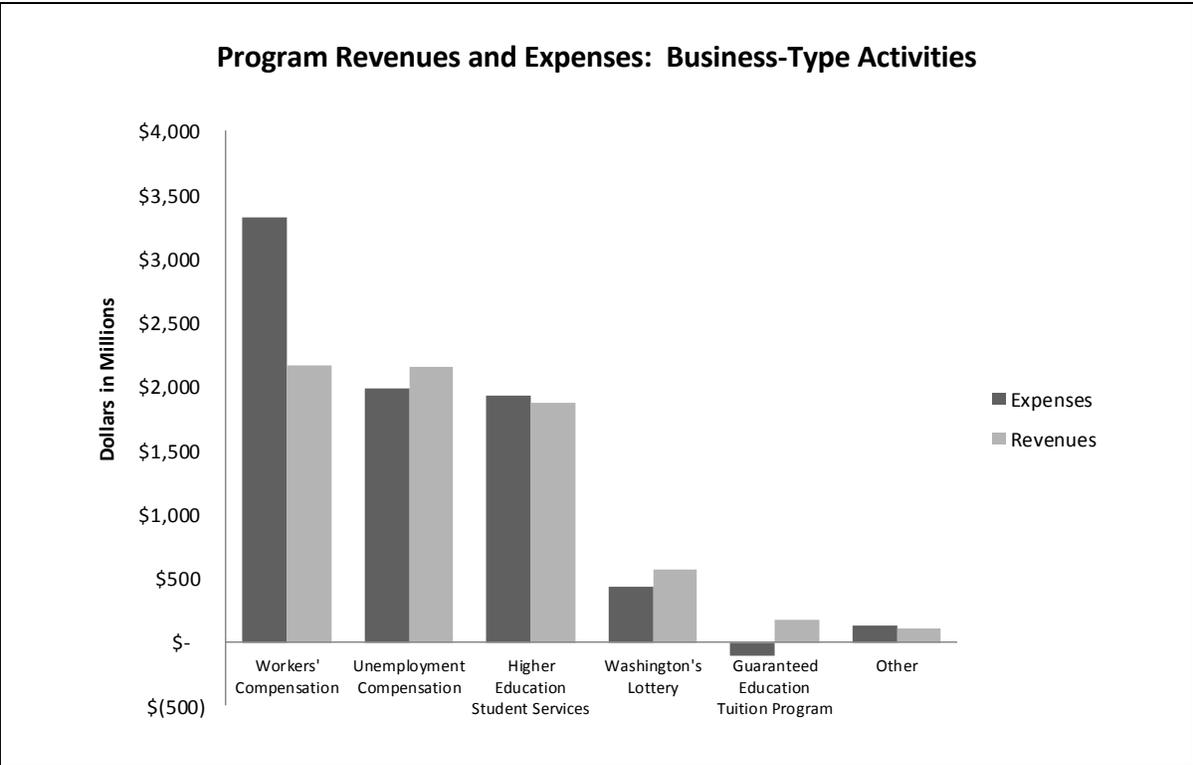
Program Revenues and Expenses: Governmental Activities



Revenues by Source: Business-Type Activities



Program Revenues and Expenses: Business-Type Activities



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 fund balances. Such information is useful in assessing the state of Washington's financing requirements.

Adjustments to Beginning Fund Balances. As described in Note 2 to the financial statements on pages 75 and 76, beginning fund balances of governmental funds were adjusted, including the reclassification of the Liquor Revolving Fund from a business-type activity to a governmental activity.

Fund Balances. At June 30, 2013, the state's governmental funds reported combined ending fund

balances of \$12.43 billion. Of this amount, \$2.34 billion or 18.8 percent is nonspendable, either due to its form or legal constraints, and \$4.19 billion or 33.8 percent is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional \$5.00 billion or 40 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional \$835.2 million or 6.7 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. As noted in the table below, fund balance improved as a result of operations by \$375.0 million in fiscal year 2013, as compared to a \$214.0 million loss in fiscal year 2012. Increased tax revenue and relatively stable expenditures were the key contributing factors. Assigned fund balance of \$835.2 million is reported for fiscal year 2013 and relates to certain accrued revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference Increase (Decrease)
	2013	2012	
REVENUES			
Taxes	\$ 15,295	\$ 14,547	\$ 748
Federal grants	8,780	8,824	(44)
Investment revenue (loss)	(17)	(6)	(11)
Other	644	618	26
Total	<u>24,702</u>	<u>23,983</u>	<u>719</u>
EXPENDITURES			
Human services	13,235	13,209	26
Education	9,115	9,169	(54)
Other	1,392	1,350	42
Total	<u>23,742</u>	<u>23,728</u>	<u>14</u>
Net transfers in (out)	(716)	(560)	(156)
Other financing sources	131	91	40
Net increase (decrease) in fund balance	<u>\$ 375</u>	<u>\$ (214)</u>	<u>\$ 589</u>

General Fund expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education.

In addition to the General Fund, the state reports the Higher Education Special Revenue and the Higher Education Endowment Funds as major governmental funds. Significant changes are as follows:

- The fund balance of the Higher Education Special Revenue Fund increased by \$347.5 million in fiscal year 2013. Increases in charges for services offset the increased costs of higher education activities.
- The fund balance for the Higher Education Endowment Fund increased by \$282.5 million compared to a decrease of \$61.9 in fiscal year 2012. Support from donors increased by \$15.4 million and investment earnings increased by \$309.5 million compared to fiscal year 2012.

Proprietary Funds. The state of Washington’s proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Significant changes are as follows:

- The Workers’ Compensation Fund reported a decrease in net position of \$925.9 million in fiscal year 2013. Operating revenues increased by \$107.9 million and operating expenses increased by \$1.41 billion as compared to fiscal year 2012. As previously reported, operating revenues increased due to an increase in reported hours and claims expense increased due to the changes to actuarial projections. Investment income decreased as compared to fiscal year 2012 due to net realized and unrealized capital losses.
- Washington’s Unemployment Compensation Fund reported an increase in net position of \$244.8 million. As reported previously, the decrease in the unemployment rate impacted both revenues and expenses. Premium revenues decreased by \$32.6 million in fiscal year 2013 over 2012, and federal aid decreased by \$569.4 million over the same period. These were offset by a decrease in unemployment benefit claims by \$833.6 million in fiscal year 2013 as compared to 2012.
- The Guaranteed Education Tuition (GET) Program Fund reported an increase in net position of \$470.4 million in fiscal year 2013. As previously reported, the increase is largely the result of an actuarial reduction of the present value of the future tuition obligation.

- The Higher Education Student Services Fund reported increases to tuition and fee revenue, and operating expenses. While net operating income for fiscal year 2013 was \$9.5 million higher than fiscal year 2012, the change in net position for fiscal year 2013 was \$37.3 million less than fiscal year 2012 due to a reduction in transfers in from other funds.
- Nonmajor enterprise funds reported decreased revenue and expenses in fiscal year 2013 compared to fiscal year 2012 largely due to the transfer of liquor distribution and retail sales to the private sector at the end of fiscal year 2012. The net position of the nonmajor enterprise funds declined by \$11.9 million in fiscal year 2013 after reporting an increase of \$19.6 million in fiscal year 2012. The major contributing factor was the decrease in investment income reported by the Lottery Fund which was caused by market value adjustments. The Lottery Fund funds long term prize obligations with U.S. Treasury securities for which changes in interest rates can have a marked effect on current valuations.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustment to a slower paced economic recovery during the biennium ended June 30, 2013. Changes to estimates are summarized as follows:

- Estimated biennial resources decreased by \$1.25 billion over the course of the biennium. The major decrease in estimated resources is reported in taxes reflecting that the pace of the economic recovery was slower than initially anticipated. Actual revenues are \$929.2 million less than the revised estimates.
- Appropriated expenditure authority decreased by \$583.1 million over the course of the biennium in response to the decline in estimated revenues. The major decrease in appropriation authority was in human services. Actual expenditures were \$1.28 billion less than the final appropriation authority.

The state did not overspend its legal spending authority for the 2011-2013 biennium. Actual General Fund revenues and expenditures were 98.1 and 97.3 percent of final budgeted revenues and appropriations, respectively, for the 2011-2013 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, 2013, totaled \$38.20 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangibles, as well as construction in progress.

Washington's fiscal year 2013 investment in capital assets, net of current year depreciation, increased \$1.51 billion over fiscal year 2012, including increases to the state's transportation infrastructure of \$812.4 million. The state's construction in progress includes both new construction

and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total \$2.82 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 104 of this report.

Infrastructure. The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,680 lane miles of pavement, 3,267 bridges, and 48 highway safety rest areas.

STATE OF WASHINGTON						
Capital Assets - Net of Depreciation						
<i>(in millions of dollars)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,388	\$ 2,358	\$ 61	\$ 63	\$ 2,449	\$ 2,421
Transportation infrastructure and other assets not depreciated	21,805	20,991	5	-	21,810	20,991
Buildings	7,610	7,511	1,988	1,402	9,598	8,913
Furnishings, equipment and intangible assets	1,480	1,480	182	162	1,662	1,642
Other improvements and infrastructure	1,218	1,145	83	81	1,301	1,226
Construction in progress	934	813	442	681	1,376	1,494
Total	\$ 35,435	\$ 34,298	\$ 2,761	\$ 2,389	\$ 38,196	\$ 36,687

The state's goal is to maintain 90 percent of pavement, 95 percent of bridges, and 95 percent of safety rest areas at a condition level of fair or better. The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information beginning on page 177.

Pavement is assessed on a two year cycle. The most recent pavement condition assessment indicated that 91.2 percent of pavement was in fair or better condition. The condition of pavement has declined in the last three assessment periods. Over the past five fiscal years, the state has invested fewer resources on preservation and maintenance of pavement than was planned. The average variance between actual and planned was 8.2 percent over the five years, and 20.9 percent for fiscal year 2013.

Bridges are assessed on a two year cycle. The most recent bridge condition assessment indicated that 95.4 percent of bridges were in fair or better condition. The condition of bridges has declined over the last three assessment periods. Over the past five fiscal years, the state has invested fewer resources on preservation and maintenance of bridges than was planned. The average variance between actual and planned was 22.3 percent over the five years, and 11.4 percent for fiscal year 2013.

Bond Debt. At the end of fiscal year 2013, the state of Washington had general obligation bond debt outstanding of \$18.21 billion, an increase of 2 percent from fiscal year 2012. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$6.33 billion general obligation debt that remains unissued.

During fiscal year 2013, the state issued general obligation debt totaling \$2.73 billion for various capital and transportation projects as well as to refund outstanding bonds. Bonds totaling \$2.37 billion were retired during the year. Washington's refunding activity produced a savings of \$213.9 million in future debt service costs.

General obligation debt is subject to the limitation prescribed by the State Constitution. The aggregate debt contracted by the state as of June 30, 2013, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2011, 2012, and 2013 is \$12.53 billion. The debt service limitation, 9 percent of this mean, is \$1.13 billion. The state's maximum annual debt service as of June 30, 2013, subject to the constitutional debt limitation

is \$1.06 billion, or \$71.6 million less than the 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 at: http://www.tre.wa.gov/documents/debt_cdl2013.pdf.

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, 2013, 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.

STATE OF WASHINGTON						
Bond Debt						
<i>(in millions of dollars)</i>						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012*	2013	2012*	2013	2012*
General obligation (GO) bonds	\$ 18,200	\$ 17,838	\$ 11	\$ 15	\$ 18,211	\$ 17,853
Accreted interest on zero interest rate GO bonds	439	415	-	-	439	415
Revenue bonds	1,705	1,650	2,031	1,738	3,736	3,388
Total	\$ 20,344	\$ 19,903	\$ 2,042	\$ 1,753	\$ 22,386	\$ 21,656

* Prior year balances restated for comparability

The state had revenue debt outstanding at June 30, 2013, of \$3.74 billion, an increase of \$347.4 million over fiscal year 2012. This increase is primarily related to revenue bonds issued by state colleges and universities. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exception is the University of Washington which issues general revenue bonds that are payable from general revenues of the university.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 108 of this report.

Additional information on the state's legal debt limit is presented in the statistical section on page 264 of this report.

Conditions with Expected Future Impact

Economic Outlook. The forecast for Washington for the 2013-2015 biennium reflects the continuation of moderate growth. The September 2013 state's revenue forecast of General Fund state revenue increased expected revenue for the 2013 – 2015 biennium by \$222.0 million. Additionally, forecasted revenues increased by \$123.0 million due to legislation passed in the June 2013 special session.

That said, in the coming year, legislative leaders and management will be facing a number of challenges including:

- The state's economy continues to be adversely impacted by violence in the Middle East and weak Asian and European economies.
- The political discord in the nation's capital and uncertainty surrounding U.S. tax and budget policy also threaten the U.S. and Washington economies. Political wrangling around the federal debt ceiling and the federal budget impasse have the potential to dampen recent gains in consumer confidence.
- As the federal stimulus winds down, government spending has been declining which puts additional pressure on state and local governments.
- The state's operating budget for the 2013-2015 biennium included a \$1.03 billion increase in K-12 education funding to address the requirements of the January 2012 Washington Supreme Court's McCleary ruling for the state to fund basic education. The state will be challenged to fully meet the K-12 funding requirements in future biennia.
- Under legislation approved in 2012, and beginning with the 2013-2015 biennium, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four year period.

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). 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.

On June 20, 2013, \$139.2 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. The BSA has a fund balance of \$269.7 million as of June 30, 2013.

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.