



MICHAEL J. MURPHY
State Treasurer

State of Washington
Office of the Treasurer

To: The Honorable Christine Gregoire, Governor
The Honorable Members of the Washington State Legislature and
The Citizens of Washington

Treasury balances in Fiscal Year 2007 reflected the strong economic growth the state of Washington enjoyed throughout the year. Higher balances, together with rising interest rates, led to a dramatic increase in investment earnings over FY 2006. The same pattern occurred at the local government level, so the Local Government Investment Pool (LGIP) generated significantly more money for local entities than last fiscal year.

The Office of the State Treasurer continues to strive to serve all levels of government in the state, not just state government. Continued growth in our outreach programs indicates they are meeting the needs of public entities throughout the state. Some highlights of 2007:

Local Option Capital Asset Lending (LOCAL) The LOCAL program, the only one of its kind in the nation, offers attractive financing rates and convenience to local governments looking to acquire equipment, land or buildings. LOCAL has handled 411 equipment financing transactions totaling over \$84.8 million and 40 real estate financing transactions for \$23.7 million on behalf of more than 248 local governments.

School Bond Guarantee Program We are continuing to spread the word about the School Bond Guarantee Program, which has grown steadily since its launch in early 2000. Bonds totaling nearly \$7.8 billion have been issued by 189 school districts through the School Bond Guarantee Program. The program authorizes the state to guarantee payment on school district general obligation debt, backed by the full faith and credit of the state.

Local Government Investment Pool (LGIP) Our pool continues to be a sound investment option for local governments and institutions of higher education. The yield average of 5.21% was fairly constant as the Fed held the targeted funds rate at 5.25% during the entire fiscal year. This was significantly higher than the 4.20% average for Fiscal Year 2006. The average balance in the LGIP portfolio during the fiscal year was \$5.67 billion, the highest in the 21-year history of the pool. Higher balances and

yields resulted in earnings of \$301 million, an increase of \$102 million over Fiscal Year 2006. The LGIP serves 437 participants in 613 accounts. The total portfolio at the end of the fiscal year was \$6.1 billion. The Treasury Management System (TMS) continues to be a valuable resource for participants. TMS, and the automation it provides, helps keep LGIP administrative costs at a minimum. Approximately 75 percent of daily LGIP transactions are currently initiated via TMS. In FY 2007, the LGIP had a net administrative charge of 0.959 basis points, the lowest in the LGIP's 21-year history.

Guaranteed Education Tuition (GET) In GET's eight years of existence, Washington residents have learned the value of purchasing tomorrow's tuition today. As of the close of FY 2007, more than 78,990 future college and university students have all or part of their tuition paid for. These accounts are valued at more than \$961 million.

Statewide Securities Custody Contract – Fiscal Year 2007 marked the seventh year of the existence of the first-of-its-kind statewide securities custody program for local governments and institutions of higher education. The current provider is Union Bank of California. During the fiscal year, Union Bank added three participants and over \$200 million in asset value. The program now has 14 participants with over \$2.1 billion in custody.

I look forward to working with you in 2008 as we face whatever new challenges come our way. Thank you.

Sincerely,


MICHAEL J. MURPHY
STATE TREASURER