



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

Average balances in Fiscal Year (FY) 2008 were higher for both the state treasury and the LGIP compared to FY 2007. However, a declining interest rate environment led to a reduction in earnings for FY 2008 in both portfolios.

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 2008:

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. From its inception in 1998 through FY 2008, LOCAL has handled 441 equipment financing transactions totaling over \$91 million and 51 real estate financing transactions for \$45 million on behalf of more than 282 local governments.

School Bond Guarantee Program The School Bond Guarantee Program, has grown steadily since its launch in early 2000. The program authorizes the state to guarantee payment on school district general obligation debt, backed by the full faith and credit of the state. Since 2000, bonds totaling nearly \$9 billion have been issued by 199 school districts through the School Bond Guarantee Program.

Local Government Investment Pool (LGIP) Our pool continues to be a sound investment option for local governments and institutions of higher education. The Fed reduced the targeted funds rate from 5.25% to 2.00% during the fiscal year in an effort to spur economic growth. Accordingly, the Fiscal Year 2008 average yield of 4.00 was lower than the 5.21% average for Fiscal Year 2007. The average balance in the LGIP portfolio during the fiscal year was \$6.74 billion, the highest in the 22-year history of the pool. The combination of higher balances and lower yields resulted in earnings of \$274 million, a decrease of \$27 million over Fiscal Year 2007.

The LGIP serves 446 participants in 627 accounts. The total portfolio at the end of the fiscal year was \$6.9 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 2008, the LGIP had a net administrative charge of 0.840 basis points, the lowest in the LGIP's history.

Guaranteed Education Tuition (GET) In GET's ten years of existence, Washington residents have learned the value of purchasing tomorrow's tuition today. As of the close of FY 2008, more than 90,860 future college and university students have all or part of their tuition paid for. These accounts are valued at more than \$1.1 billion.

Statewide Securities Custody Contract – Fiscal Year 2008 marked the eighth 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. The program now has 17 participants with over \$2.0 billion in custody.

Since I will be retiring in January, this will be my last annual report. It has been an honor and privilege to serve as treasurer for the Great State of Washington these past 12 years. During my tenure in office we have made every effort to always do what is in the best interest of the Citizens of our great state – I hope we have succeeded. Thank you.

Sincerely,


MICHAEL J. MURPHY
STATE TREASURER