



JAMES L. McINTIRE
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**

I am pleased to report that despite continuing turbulence in the financial sector during Fiscal Year (FY) 2010, the Office of the State Treasurer rose to the challenges and remains in strong position. Notably my office successfully engaged the bond market to continue to provide the capital financing needs of the state.

Debt Management: The state took advantage of historically low interest rates and the federal Build America Bonds program to lock in long-term borrowing costs at unprecedented lows. Two Build America Bonds sales this year provided \$1.6 billion to finance transportation projects at the lowest net effective true interest cost in state history. Overall, Washington saved nearly \$600 million in debt service costs for budgeted capital projects through lower than anticipated interest costs for new bonds and lower rates captured by refunding outstanding bonds.

Cash Management and Warrant Processing: Cash Management administered a cash flow of over \$286 billion in FY 10. Over 4.7 million electronic transfers totaling over \$48.7 billion were processed through the automated clearinghouse (ACH). In FY 10, nearly 3.2 million warrants representing over \$7.5 billion were processed with 108 warrant forgery claims filed compared to 62 last year.

State Treasury and Treasurer's Trust: All accounts in the state treasury and in custody of the treasurer are pooled for investment purposes. The captive nature of these accounts allows the portfolio to be invested in longer maturities, where over time they will achieve a higher yield. The continued low targeted fed funds rate, combined with a decrease in balances due to declining revenues led to a decline in earnings from \$160 to \$71 million. The rate fell from 4.01% to 2.53% and the average balance dropped from \$4.0 to \$2.8 billion.

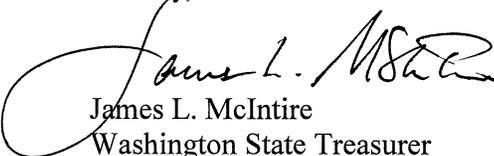
Local Government Investment Pool (LGIP) Our pool continues to be a sound investment option for local governments and institutions of higher education. The Fed kept the targeted funds rate at 0.25% during the fiscal year in an effort to spur economic growth. Accordingly, the FY 2010 average yield of 0.40% was lower than the 1.57% average for FY 09. The average balance in the LGIP portfolio during the fiscal year was \$8.724 billion, the highest in the 24-year history of the pool. The combination of higher balances and lower yields resulted in earnings of \$34 million, a decrease of \$78 million over FY 09. The LGIP serves 460 participants in 657 accounts. The total portfolio at the end of the fiscal year was \$9.0 billion. In FY 10, the LGIP had a net administrative charge of 0.694 basis points.

Other highlights of 2010:

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 \$11 billion have been issued by 211 school districts through the School Bond Guarantee Program.

Guaranteed Education Tuition (GET) In GET's twelve years of existence, Washington residents have learned the value of purchasing tomorrow's tuition today. As of the end of FY 10, more than 119,819 future college and university students have all or part of their tuition pre-paid. These accounts are valued at more than \$1.6 billion.

Sincerely,


James L. McIntire
Washington State Treasurer