



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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December 23, 2009

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Citizens of the State
State of Washington
Olympia, Washington 98504

In accordance with Revised Code of Washington 43.88.027, the Office of Financial Management has prepared this Comprehensive Annual Financial Report (CAFR) of the State of Washington for the fiscal year that ended June 30, 2009. Full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose, rests with the state. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unqualified (“clean”) opinion on the Washington State financial statements for the year ended June 30, 2009. The independent auditor’s report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the government-wide financial statements, the fund financial statements, and the notes to the financial statements. The required supplementary information, combining and individual fund financial statements, and the statistical section, complete the CAFR.

Profile of Washington State

Washington State was created in 1889 by an enabling act of Congress. The state is located on the Pacific Coast, in the northwestern corner of the continental United States, and comprises 68,139 square miles. Its current population is 6.7 million. Washington is famous for its breathtakingly beautiful scenery and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the world’s rainiest places. The state’s coastline has hundreds of bays and inlets that make excellent harbors, while in the eastern part, flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and Pacific Rim countries. Ships from all parts of the world dock at Washington ports. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses. Microsoft, a leader in the computer software industry, makes its home in Redmond. Amazon.com, a major internet retailer, is headquartered in Seattle, and the Weyerhaeuser Company, a major producer of wood and related products, is headquartered in Federal Way.

East of the Cascade Mountain range, farmers raise livestock and grow a variety of crops such as wheat, potatoes, and tree fruits. Washington leads the nation in apple production, makes world-class wine, and produces large amounts of lumber, pulp, paper, and other wood products. Western Washington's mild moist climate makes that region excellent for dairy farming and the production of flower bulbs.

GOVERNMENTAL STRUCTURE

As established in the State Constitution, Washington State consists of three branches of government: the Executive Branch, Legislative Branch, and Judicial Branch. The Executive Branch has nine elected officials: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Insurance Commissioner, and Commissioner of Public Lands. Forty-one agency heads are appointed by, and report to, the Governor. Eighty-nine agency heads report to a board appointed, in whole or in part, by the Governor. The Legislative Branch consists of two legislative bodies: the Senate (with forty-nine members) and the House of Representatives (with ninety-eight members). The Judicial Branch consists of the State Supreme Court, the highest court in the state, which has nine Justices. Every two years, three Justices are elected for six-year terms. A Chief Justice is chosen from among the most senior Justices.

TYPES OF SERVICES PROVIDED AND REPORTING ENTITY

The state provides a wide range of services that include education, transportation, environmental and natural resource protection, and social and health services.

The accompanying report includes all funds and subsidiary accounts of the primary government, the State of Washington as legally defined, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

THE BUDGET CYCLE

Washington enacts budgets for a two-year cycle, beginning on July 1 of each odd-numbered year. By law, the Governor must propose a biennial budget in December, the month before the Legislature convenes in regular session. The biennial budget enacted by the Legislature can be modified in any legislative session through changes to the original appropriations. Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget. These revisions are referred to as supplemental budgets.

Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level. The legal level of budgetary control is at the fund/account, agency and appropriation level, with administrative controls established at lower levels of detail in certain instances.

Washington State's Economy and Revenue Outlook

SUMMARY

Since the beginning of the nation's recession that began in December 2007, Washington State has lost almost 151,000 jobs, or about 5.1 percent of nonfarm employment. While the state appeared to lag the nation in this slowdown, local losses accelerated in late 2008 and, for the most part, began to mirror the national trends. By late 2009, national economic indicators were signaling a recovery in economic output, but employment was not expected to begin recovery until mid 2010 or later. Because of Washington's export-dependent economy, and because of indications of economic rebounds in Asia and Europe, this state is expected to lead the nation out of the recession, and employment should begin to recover somewhat earlier.

It is expected that this state's recovery and expansion will build upon the growing diversity within the state's economy, elements of which include a vital export base, the presence of knowledge-based industries such as business, professional, health, and financial services, and a high quality of life. All of these elements should continue to support solid population growth.

Washington State's nonfarm payroll employment fell by 1.8 percent in Fiscal Year 2009, a reversal from the 2.2 percent growth set in Fiscal Year 2008, and the 2.7 percent pace in Fiscal Year 2007. The aerospace industry was able to maintain steady payrolls despite weakness in the global airline industry, thanks primarily to a long backlog of orders. Total manufacturing employment fell 5.5 percent as consumers pulled back on purchases of big-ticket items and sought to pare down their debt rather than add to it.

Washington's unemployment rate increased markedly in Fiscal Year 2009, as the slowing national economy, weakening housing markets, and accelerating energy costs began to take their toll on the labor markets. Even though the annual unemployment rate jumped to 7.3 percent, Washington's jobless rate fell below the national average in 20 of the previous 24 months.

Personal income grew just 0.5 percent in Fiscal Year 2009, as both wage and non-wage income were impacted by layoffs and retreating financial markets. Real personal income – after factoring out inflation – fell by 1.0 percent; well below the 2.9 percent increase in 2008 and 5.8 percent increase in 2007.

Washington's outlook for Fiscal Year 2010 is for slower economic growth as the impacts of the financial crisis and national and international recessions wind their way through the local economy. Nonfarm payroll employment in Washington is forecasted to decrease in Fiscal Year 2010 by 3.0 percent, marking two consecutive years of declining employment. Personal income is predicted to grow by 0.7 percent in current terms, but decline by 0.5 percent in real terms, in Fiscal Year 2010.

General Fund-State revenues are forecasted to decline 3.3 percent in the 2009-11 Biennium, compared to the 0.1 percent increase in the 2007-09 Biennium, and the 17.3 percent pace in the 2005-07 Biennium. Due to statutory changes during the last legislative session, the General Fund-State now includes several related accounts. The slowing economy and slumping housing markets have had a negative effect on revenue growth. Particularly hard hit have been retail sales and real estate excise taxes.

ECONOMIC CONDITION IN FISCAL YEAR 2009

Washington's nonfarm payroll employment fell by 1.8 percent in Fiscal Year 2009, somewhat better than the 2.3 percent decline in U.S. nonfarm payroll employment. The absolute decrease in Washington's nonfarm payroll employment was 54,600 during Fiscal Year 2009. Personal income in Washington also bested the U.S. pace: up 0.5 percent in Washington compared to a decline of 0.1 percent for the U.S. Because Washington's labor market had been losing jobs at a slower pace than the national average, it holds that the wage income component of personal income would also better the national average in 2009. Real per capita

income fell in Washington by 2.5 percent over the same period, matching the change for the nation as a whole.

Aerospace employment provided a bright spot in Washington's manufacturing sector in Fiscal Year 2009. After reaching a cyclical low point in 2004, aerospace employment made a modest comeback in Fiscal Year 2005, increasing by 1,300 jobs. Growth accelerated in Fiscal Year 2006 with an addition of 5,600 jobs (an 8.8 percent increase); in Fiscal Year 2007, the aerospace industry added 7,300 jobs, more jobs than in the previous two years combined, for a growth rate of 11.1 percent; and in Fiscal Year 2008, the aerospace sector added another 6,400 jobs, a growth rate of 8.3 percent. This increase in aerospace jobs was not as steep as in previous years because of the industry's new "global network" production model that shares design and production processes with overseas partners. While aerospace employment held steady in 2009, this was in large part due to the immense backlog of orders, which kept the sector busy despite the recessionary fall-off in passenger travel and related difficulties faced by airline companies.

Manufacturing employment, other than aerospace, was considerably less vibrant, actually declining by 7.6 percent. Durable manufacturing industries experienced pullbacks in employment as the weakening national economy and housing markets began to hit full force in Fiscal Year 2009. Nondurable manufacturing employment fell 4.1 percent in Fiscal Year 2009 as demand for processed food and paper products began to decline.

Employment in durable manufacturing, other than aerospace, fell by 9.8 percent in Fiscal Year 2009 (a decline of 12,900 jobs), while employment in durable manufacturing declined by 8.6 percent nationally. Employment patterns in durable manufacturing industries were down across the board in Washington during Fiscal Year 2009; employment in lumber and wood products, primary metal, fabricated metal, computers, machinery, other transportation equipment, and other durable goods were all down, though some (wood) fared worse than others (food). Washington's lumber industry is dependent upon local and national home building trends. The housing market in Washington had begun to soften in Fiscal Year 2008 and the national markets had been weak since the end of Fiscal Year 2007, resulting in a fall-off in wood products demand and employment. Employment in other transportation equipment (other than aerospace) fell by 14.7 percent as demand for heavy trucks was impacted by soaring fuel costs. Even though aerospace employment held steady, employment in primary and fabricated metal products – a major supplier to aerospace – fell by 6.7 percent in Fiscal Year 2009; no doubt a result of the more intense use of composite materials in newer aircraft. Machinery manufacturing employment dropped 8.2 percent in Fiscal Year 2009. Computers and electronic products were down 4.3 percent, while employment in other durable manufacturing was down by 9.2 percent.

Nondurable manufacturing employment in Washington decreased by 4.1 percent in Fiscal Year 2009, a loss of about 3,300 jobs; nationally, nondurable manufacturing employment declined by 4.7 percent over the same period. In Washington, employment in food manufacturing fell 0.7 percent in Fiscal Year 2009 as a result of weakness in the export markets. Printing and paper products employment dropped 6.7 percent in Fiscal Year 2009 due to slumping national demand for magazines and newspapers.

Washington's nonmanufacturing employment fell by 0.5 percent during Fiscal Year 2009. The construction industry posted an 11.8 percent loss in employment as the housing market weakened across the year. Employment in the information sector rose primarily on the continued strength of software publishing, which increased 7.3 percent.

Wholesale trade employment declined by 2.2 percent, and retail trade employment declined by 3.2 percent as consumers pulled back on spending. Professional and business service jobs retreated by 3.3 percent in Fiscal Year 2009, as the employment services component within the sector softened over the year. Education and health services reported solid job growth with an increase of 4.0 percent during Fiscal Year 2009 – the one major sector seemingly unaffected by slumping demand. Leisure and hospitality services recorded a 2.3 percent loss as food and beverage establishments were beset with a declining customer base. Employment

grew in the public sector as state and local government jobs increased by 1.9 percent on the strength of demand for education services.

Several other nonmanufacturing industries also recorded job losses. Employment in the financial activities industry declined by 4.2 percent as credit problems from across the nation were felt at locally headquartered firms. Employment in the natural resources industry fell 12.1 percent in Fiscal Year 2009 as certain mining operations were impacted by recent legal limitations.

ECONOMIC OUTLOOK

The forecast for Washington State for Fiscal Year 2010 reflects the beginning of the end of the recession at both the state and national levels. According to the November 19, 2009, forecast by the state Economic and Revenue Forecast Council, Washington's nonfarm payroll employment is predicted to decrease by 3.0 percent in Fiscal Year 2010, identical to that of the nation. The economic recovery will be characterized by an expansion of existing workers' hours before new hiring takes place. Washington's personal income is expected to grow by 0.7 percent in Fiscal Year 2010, while U.S. personal income growth is predicted to fall by 0.1 percent for the same period.

Manufacturing employment in Washington is projected to decline in Fiscal Year 2010. The aerospace industry is expected to cut 1,700 workers in Fiscal Year 2010, for a loss of 2.0 percent. Though many jobs under the current global production model are found outside of Washington State, those durable manufacturing sectors that have traditionally provided inputs to the aerospace industry will show similar losses in employment in Fiscal Year 2010. As a result, primary and fabricated metal manufacturers are expected to decline 14.9 percent. Computers, machinery, and electrical equipment manufacturers should post job losses of 5.9 percent. The wood products industry is expected to lose another 2,000 jobs in Fiscal Year 2010 as the nation's home-building market remains lethargic and as companies restructure for tax purposes. Other transportation equipment manufacturers are likely to cut payrolls as demand for trucks and boats remains soft because of credit issues.

All sectors of nondurable manufacturing are expected to lose employment in Fiscal Year 2009. Employment in food manufacturing is forecasted to decline by 4.3 percent, and employment in other nondurable manufacturing will fall by 5.5 percent. Employment in paper and paper products manufacturing is expected to fall by 5.9 percent in Fiscal Year 2010, a continuation of the payroll losses in 2008 and 2009.

In the nonmanufacturing sectors, the strongest employment growth in Fiscal Year 2010 is predicted to occur in education and health services (2.6 percent). Software publishing employment is actually expected to decline by 1.7 percent as non-performing divisions are cut and efficiencies are implemented. Modest employment gains will also occur in the federal government (2.0 percent) as a build up to the 2010 Census. The remaining nonmanufacturing sectors are expected to experience job losses. Construction will be particularly hard hit as commercial building projects remain sluggish as office vacancies build and as the residential market pares high levels of foreclosed and new inventory. Employment in professional and business services will remain slow because of slack demand for temporary help services and administrative support services. Slowing international economies will cut into the volume of exports and, thus, affect the demand for transportation and warehousing, and wholesale trade jobs in Fiscal Year 2010.

The efforts of households to pare down high levels of debt will impact the retail trade sector and employment is expected to decline 3.4 percent in Fiscal Year 2010. Employment losses are expected to continue in the financial services sector as the industry and federal government work to resolve the financial and credit crises. State and local government employment is expected to decline by 0.5 percent in Fiscal Year 2010 in response to the weak revenues from the slowing economy.

Major Initiatives

Washington State entered Fiscal Year 2009 with rising fuel costs and a softening of the national economy. At that time, Governor Gregoire ordered state agencies to reduce fuel consumption by five percent. In addition, the Governor imposed a freeze on (1) hiring to fill new staff vacancies; (2) out-of-state travel and training; (3) purchases of new equipment, and (4) entering into personal services contracts.

However, by November 2008, the State of Washington, along with the nation had officially entered into one of the worst recessions of the past 30 years. As a result of deteriorating economic conditions, General Fund-State revenue collections began to plummet. Two-thirds of that decline was due to consumers buying less. At the same time, the number of citizens seeking assistance from state programs and services continued to increase as unemployment grew. Revenues began to drop \$1 billion a month, and by March 2009, the revenue forecast for Fiscal Years 2009 through 2011 was reduced by an unprecedented \$9 billion.

Led by Governor Gregoire, the 2009 Legislature made the tough decisions needed to enact a responsible 2009-11 biennial spending plan. One of the first actions was to extend the Governor's hiring and spending freeze through Fiscal Year 2009. In addition, the Legislature took early action on the 2009 Supplemental Budget to reduce spending. The \$9 billion shortfall was addressed by a three-part solution as follows:

- \$4.4 billion in spending reductions, including no cost-of-living increases for state employees and teachers, increased cost sharing by state employees for health benefits, and actuarial changes to pensions.
- \$3 billion of federal stimulus monies in the current and next biennia; and
- \$1.6 billion of new resources, including sales tax compliance legislation, use of the Rainy Day Account and capital fund sources, transfers from other funds, and budget-driven revenues such as increased tax enforcement.

In the Governor's words, the 2009-11 biennial budget "required nothing less than great courage and compromise" from elected lawmakers and represented "a responsible budget" to "guide Washington through the next biennium." It included painful cuts in virtually every area of state government. For example, funding for low-income health care was reduced 11 percent, other human services were reduced by 8 percent, and higher education was reduced by 7 percent. Cuts to K-12 education were the least of any state service at 5 percent.

Weathering the economic storm while creating jobs and implementing measures designed for our state to come out of the recession stronger was the major initiative of Governor Gregoire during 2009. The following are highlights of this effort.

GOVERNMENT EFFICIENCY

The Governor recognized that our state's fiscal crisis demanded that we make an even greater commitment to increasing the effectiveness and efficiency of state government. Therefore, she embarked on an aggressive program to eliminate boards and commissions, eliminate duplicative responsibilities within state agencies, and consolidate other responsibilities to cut costs and improve customer service. The Governor eliminated 49 boards and commissions by executive order and eliminated 18 more through executive request legislation. Other legislation included merging commissions, such as moving the Salmon Recovery Office into the Recreation and Conservation Office, and consolidating agricultural commissions.

The Governor also supported innovative ways for the state to do business. For example, the Legislature enacted executive request legislation to allow state agencies to have flexible work weeks to save energy and employee travel costs. She also directed the Department of Licensing to consolidate licensing services offices without reducing customer service by increasing the services provided on the agency's website.

She also used her budget to lay the groundwork for further reform. The enacted 2009-11 Biennial Operating Budget included her provision to create a work group of central service agencies to develop shared services. The work group has been identifying opportunities to improve service and reduce costs, reviewing areas that include human resource management, employee benefits, payroll, accounting, purchasing, information technology, real estate services, and facility and fleet management. Another budget provision convened a work group consisting of representatives from the natural resources agencies to review their organizational structures to identify consolidation opportunities to improve service delivery and reduce costs. Implementing the recommendations of these work groups will be a major part of the Governor's 2010 legislative agenda.

EDUCATION

The 2009-11 budget maintained education as a priority. However, our budget challenges required education to be part of the budget solution.

Governor Gregoire believes that there is no greater return on investment than early learning services and programs. She was grateful that the 2009 Legislature maintained our state's commitment by protecting comprehensive early learning services for preschoolers as well as by continuing the pilot program to rate and improve the quality of child care programs. The appropriation for the Early Childhood Education and Assistance Program (ECEAP) temporarily reduces the number of slots by 173 per year. The Department of Early Learning is directed, to the greatest extent possible, to reduce slots where providers serve both Head Start and ECEAP children. Head Start providers have received approximately \$10 million in federal stimulus funds for Fiscal Year 2009.

More than 40 percent of the state's operating budget is spent on K-12 public schools, and therefore, it was not possible for schools to be spared from budget reductions. While there was no reduction in basic education, reductions were made to some major non-basic education programs and to Initiative 728 (smaller class size) funding by \$600 million.

The budget uses available federal stimulus resources to mitigate the impact of state budget reductions on K-12 public schools. Federal "fiscal stabilization" funds in the amount of \$444 million were used to pay over 24,000 teachers at the end of the 2008-09 school year. Another \$377 million in fiscal stabilization funds will be used in the 2009-10 school year to retain 2,400 teachers that would have otherwise been laid off. School districts in Washington State will receive \$410 million in federal stimulus funding for special education, remedial education, school improvement, and technology that will offset some of the state budget reductions. In keeping with the Governor's commitment to early learning, there are no reductions to the K-4 enhanced staffing ratio.

With the Governor's support, the Legislature also enacted Engrossed Substitute House Bill 2261 to have the Legislature evaluate and revise the definition and funding of basic education in order to continue to fulfill the state's obligation under Article IX of the State Constitution. The Legislature intends that a redefined program of basic education and funding be fully implemented by 2018. This effort is being led by a Quality Education Council of which the Governor's Office is a member.

The Governor's continued goal is to make sure that Washington's colleges and universities can prepare our students for the 21st century economy. However, during Fiscal Year 2009, worker retraining also gained emphasis as the unemployed sought to refresh their skills to be poised for economic recovery.

The budget cut roughly \$556 million in higher education. However, to maintain access to public higher education and allow students to graduate in a timely fashion, Governor Gregoire requested additional tuition revenue to partially offset the reductions in state support. The final legislative budget authorizes the public four-year institutions to increase resident undergraduate tuition by a maximum of 14 percent each year, and the community and technical colleges to increase tuition by up to 7 percent each year. Tuition increases will

be offset for many students through additional federal Pell Grant and Work Study financial aid in the federal stimulus act, as well as, no reduction in funding of the State Need Grant.

HEALTH CARE AND HUMAN SERVICES

Health care remains a priority for Governor Gregoire, especially as costs continue to increase during these economically challenging times. The state provided health care coverage for over one million people at a cost of \$4.5 billion in state funds and \$3.8 billion in federal funds. This coverage is through the Medical Assistance program in the Department of Social and Health Services, and the Basic Health Plan in the Health Care Authority.

Because of federal financial assistance (over \$1 billion) to cover the state's portion of federal Medicaid costs, the budget preserved health care coverage for the most vulnerable populations, such as the Medicaid aged and disabled, and all children up to 300 percent of the federal poverty level.

The Governor also sought legislation to help bring health care costs down. For example, the Governor proposed and the Legislature enacted legislation to increase the state's generic prescription drug utilization rate by 20 percent. She also supported legislation to permit insurance companies operating in the state to offer wellness programs to promote healthy behaviors that, in turn, drive down health care costs.

Governor Gregoire has set a goal of providing access to health insurance to all Washington children by 2010. In 2009, she continued her steady progress toward that goal by maintaining coverage for all children up to 300 percent of the federal poverty level.

Though its importance is recognized we could not sustain funding for the Basic Health Plan (BHP), which provides health care coverage to individuals under 200 percent of the federal poverty level. Funded entirely with state revenue, BHP was reduced by roughly 43 percent to achieve an enrollment level of approximately 60,000. Other smaller reductions were made throughout the health care system to balance the budget in areas that include mental health, chemical dependency treatment, provider rate reductions, and general assistance. The state's safety net remained intact through Fiscal Year 2009; the extent it can be sustained through the 2009-11 Biennium is much less certain.

ECONOMIC DEVELOPMENT

In Fiscal Year 2009, the Governor and the Legislature worked to assist those who had lost their jobs, and to invest in measures to create jobs in Washington State. Governor Gregoire requested, and the Legislature passed, assistance for out-of-work Washingtonians by temporarily extending and boosting unemployment insurance payments. These payments, spent in businesses statewide, will also help to boost our economy.

Another important initiative was legislation to rename the Department of Community, Trade and Economic Development to the Department of Commerce and to refocus its mission on job creation and economic vitality. The legislation required the Department of Commerce to submit a report with analysis and recommendations for statutory changes to ensure that the Department will have a concise core mission that aligns with the state's comprehensive economic development plan and increases local capacity building to respond to opportunities and needs. The report has been delivered. It includes recommendations for creating or consolidating programs important to meeting the Department's core mission, as well as recommendations for terminating or transferring programs that are inconsistent with its core mission. The proposed recommendations will be considered in the 2010 legislative session.

With the challenges faced by homeowners by the recession, the Governor also took action to require that 30 days must pass before the notice of default can be filed. This will give homeowners more time to refinance or explore other options.

The 2009-11 capital budget was a bright spot in an otherwise tough year. The capital budget makes a \$3.3 billion investment in capital projects throughout the state. It preserves key investments in education, safety, natural resources, and technology projects to preserve and add to the state's capital infrastructure. Included in this budget is more than \$224 million in federal stimulus funding for projects related to wastewater treatment plants, small drinking water, weatherization, ecosystem improvements, and environmental cleanup. Due to the recession, the 2009-11 capital budget totals about \$1 billion less than was authorized for the 2007-09 biennium. However, this spending will create or sustain about 10,000 jobs at a time when needed most.

ENVIRONMENT, ENERGY AND CLIMATE CHANGE

The Governor maintained core environmental protection in light of unprecedented budget shortfalls. The 2009-11 biennial budget assumes new revenues (optional \$5 donation at the time of license renewal, and higher hunting and fishing license fees) that will keep state parks open and more fish hatcheries operating. Momentum to restore Puget Sound is maintained despite making deeper reductions in the Puget Sound Partnership's administration and outreach activities.

Governor Gregoire supported efforts to create a platform for an innovative and green economy by creating a clean energy business strategic plan. The plan includes creating and funding the Energy Recovery Act Account to accelerate the use of innovative clean energy technology; supporting legislation to provide for electric vehicle recharging infrastructure; and extending a sales tax exemption for investments in renewable energy.

In May, the Governor issued Executive Order 09-05 to direct state actions to reduce climate-changing greenhouse gas emissions, to increase transportation and fuel conservation options for Washington residents, and to protect our state's water supplies and vulnerable coastal areas. Examples of strategies to reduce our state's greenhouse gas emissions include: (1) continuing to work with six other western states and four Canadian provinces on the Western Climate Initiative to develop a regional emissions reduction program; (2) working with the federal government and Washington's congressional delegation to help design a national program that reflects state priorities; 3) working with companies to develop emission reduction strategies and industry emissions benchmarks to make sure 2020 reduction targets are met; and 4) joining with other West Coast states and the private sector to make alternative fuels, including electricity for plug-in vehicles, available along the West Coast highway and adjoining metropolitan centers.

TRANSPORTATION

The 2009-11 transportation budget is an historic one for our state. Not only will it greatly improve our transportation system, but the estimated 49,000 jobs it supports or creates will help ensure regular employment for tens of thousands of Washingtonians.

The enacted budget includes the largest two-year construction budget ever for the Washington State Department of Transportation (WSDOT). Projects include additional High Occupancy Vehicle (HOV) lanes to be constructed on Interstate 5 and improvements to Pierce County's State Route 16 Nalley Valley Viaduct. The budget funds three 64-car ferries and a fourth that will either be a 64-car or 144-car ferry. There is funding for critical safety, freight, and mobility projects, including I-90/Snoqualmie Pass, I-405, and the North Spokane corridor.

Included in the 2009 supplemental transportation budget was \$492 million in federal stimulus funds for state and local highway projects. Approximately \$336 million, or 70 percent, of the stimulus highway funding will be spent in 28 counties federally defined as economically distressed. This additional funding allowed Washington to accelerate 181 state highway, bridge, and rail projects, creating more than 1 million hours of work for Washington citizens.

In addition to the transportation budget bill, the 2009 Legislature approved a bill to fund the replacement of the Alaskan Way Viaduct with a deep bored tunnel, a project vital to the region's economy. Another piece of legislation authorizing early tolling on the State Route 520 Bridge project will help to generate the revenue needed to begin working on the floating bridge portion of the project. These two projects, combined, will create nearly 10,500 jobs at the height of construction and will ensure a more mobile economy in the future.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washington State for its CAFR for the fiscal year that ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington State has received a Certificate of Achievement for the last twenty-two years. The Office of Financial Management considers this report to be in conformity with the Certificate of Achievement Program requirements, and will submit it to the GFOA.

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency and institution of higher education and the Office of Financial Management. This CAFR reflects the Governor's commitment to the Legislature, the citizens of Washington State, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,



Victor A. Moore
Director