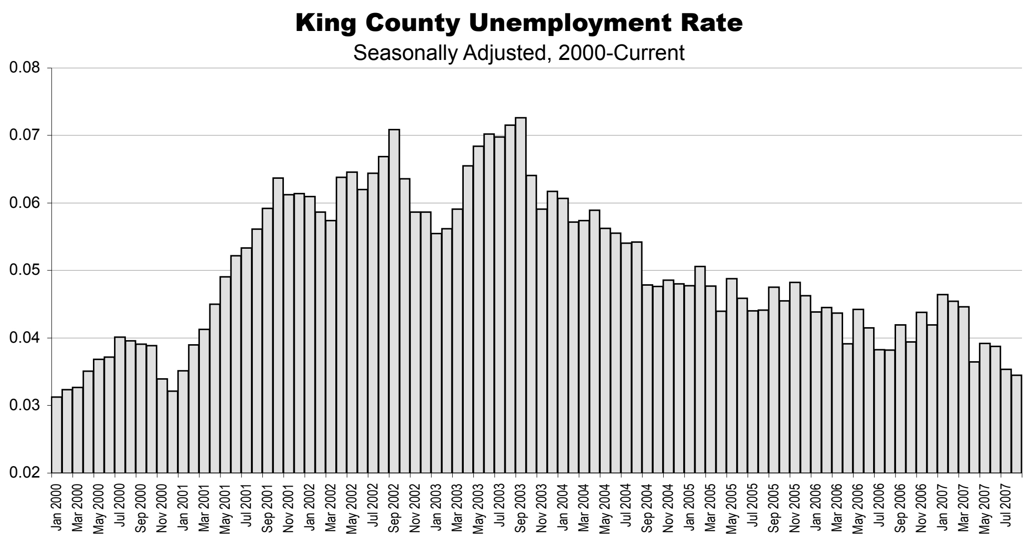
INTRODUCTION

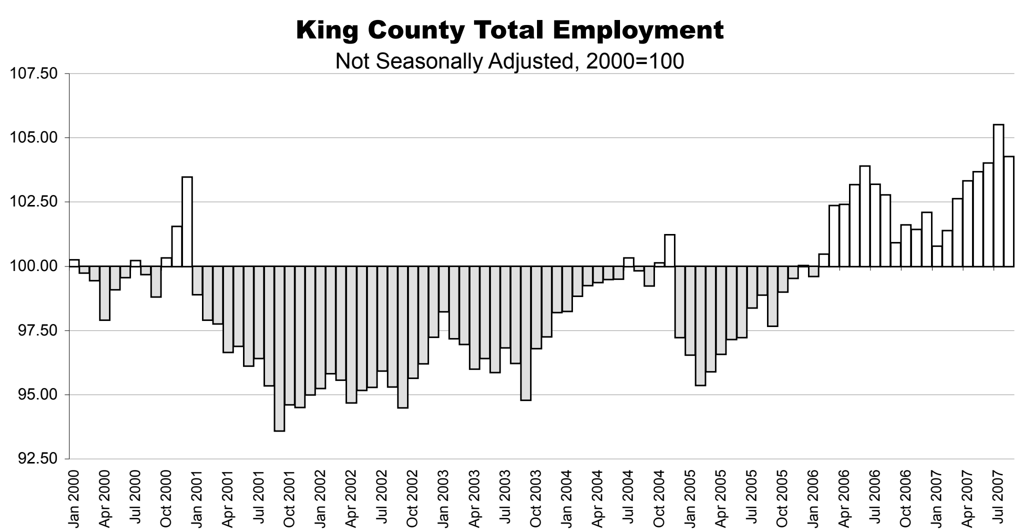
Continued local growth belies increasing national weakness. King County is witnessing a cycle of income and employment change that mirrors the rapid growth of the late 1990s. The region is unlikely to permanently defy national and global trends.

The current recovery began after a four-year economic slowdown in King County. Since mid-2000, the region has weathered a series of setbacks, punctuated by the dramatic collapse in equity market valuations, the September 11, 2001 terrorist attacks, myriad accounting scandals, and the buildup and continued aftermath of war in Afghanistan and Iraq. The turnaround now persists despite turmoil in the housing and asset-backed financial markets. Another year of strong growth in the regional economy allowed many economic indicators to finally surpass pre-2001 levels.

For the third consecutive year the county is experiencing sustained seasonally adjusted unemployment of less than five percent, returning to pre-2001 levels. Local business activity surged in 2005 and continues through the first half of 2007 despite the absence of strong expansion in national markets. The national economy is now increasingly threatened by heightened and sporadic energy costs and financial market illiquidity.

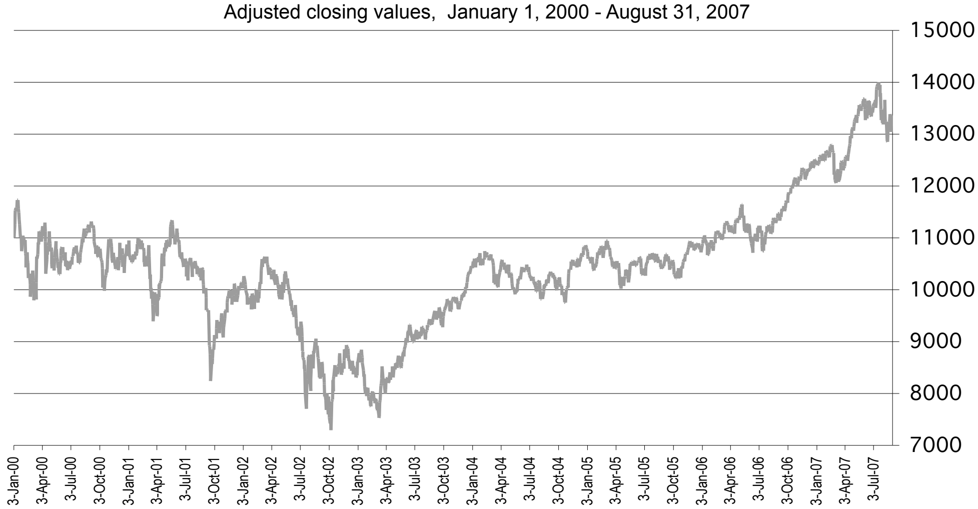
For 2008, the King County Office of Management and Budget anticipates slower growth in both the national and regional economy. This forecast, developed by consulting local economists, published state and national forecasts, and county econometric models, is the basis for 2008 revenue and expenditure projections. Initial estimates of 2009 and 2010 revenues and expenditures are also prepared from this forecast for the out-year Current Expense subfund financial plan.





Dow Jones Industrial Average

Adjusted closing values, January 1, 2000 - August 31, 2007



Standard and Poor's 500 Index

Adjusted closing values, January 1, 2000 - August 31, 2007

REVIEW OF ECONOMIC CONDITIONS

Statistically, the national recession may have ended in November 2001, but the jobless recovery that followed lasted well into 2004, generally resulting in more dislocation than the actual recession.

Steady labor market improvement comes after setting a 22-year seasonally-adjusted high unemployment rate of 7.26 percent in September 2003.[1] Adjusted for education status, age composition, and other demographics, peak unemployment from the 2001 recession rivaled the early 1970s for the highest joblessness since the great depression.

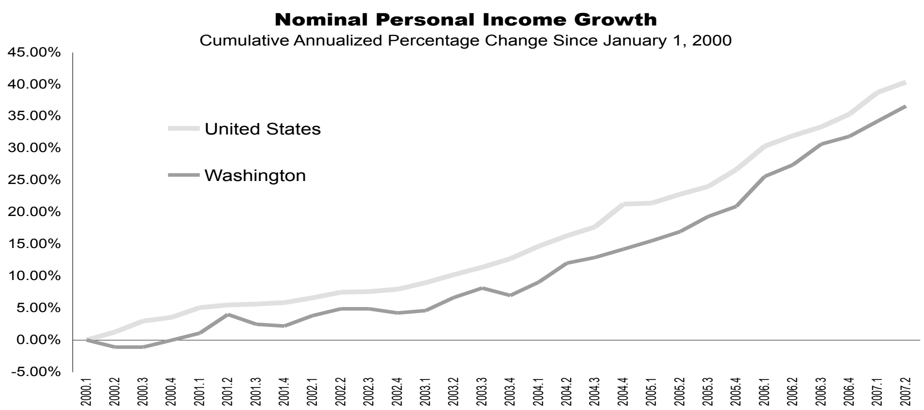
Since mid-2005, total employment in King County has surpassed 1 million, returning to pre-2001 levels. Accounting for natural workforce increases from population growth to new college graduates, labor participation statistics remain low given the overall business cycle. Outside of a few high demand sectors like construction and software development, jobs are considerably more scarce than at almost any point since the mid-1990s. The apparent negative correlation between labor force shares and educational attainment could come to even eclipse the twenty-five year decline in absolute unemployment rates.[2]

1 Washington Department of Labor and Industries, Labor Market and Economic Analysis and King County Office of Management and Budget seasonal adjustment model.

2 The Impact of Young Workers on the Aggregate Labor Market (2001) *Quarterly Journal of Economics*, 116: 969-1007.

Inflation-adjusted median household income increased weakly in 2006 for the second year in a row, countering the small declines experienced each year between 2000 and 2004. The upswing in inflation associated with Hurricane Katrina explains 2005's decline, but not the stagnancy at this point in the business cycle. Real median household income is 2.1 percent below peak 1999 levels.[3] Sluggish household income growth coincides with sustained productivity increases – productivity per worker hour is up nearly 17 percent since 2000.[4] Wage trends, however, reflect slower nominal growth that has lagged inflation.

Contemporary research has almost canonically demonstrated that when labor supply exceeds demand, worker bargaining power is diminished.[5] The conundrum in recent data lies in the apparent coincident decline of both wages and unemployment. The recent decline in the rate of unemployment has been driven less by job growth than by the relative decline in the total labor force – the proportion of the population seeking or holding jobs. Since January 2004, when employment unambiguously emerged from the 2001 recession, total non-farm payrolls have expanded at 215,500 net new jobs per month. This number is reasonable in itself, if tepid compared to previous recoveries (26 percent lower than 1993-1994 recovery). As of August 2007, labor force participation has fallen to 65.8 percent, still well below the pre-recession peak of 67.2 percent in March 2001.[6] With labor markets now contracting, there is little prospect of returning to 2000-2001 levels in the near future. During the first eight months of 2007, an average of 16,500 jobs have been lost each month.



The broader economy is exhibiting mixed signs of strength. Uneven Gross Domestic Product growth can be more a consequence of accounting subtleties rather than larger economic trends, but the average annual growth for the four quarters ending in March 2007 was the lowest in four years.

2007 second quarter growth of 3.8 percent is markedly improved from the same period in both 2005 and 2006, of 2.8 percent and 2.4 percent respectively, although a weak first quarter weighs down 2007 growth year-to-date in comparison with the annual growth rates of 3.1 percent and 2.9 percent, respectively. Outright decreases in residential investment in the past six quarters have negatively impacted GDP. Restrained consumer spending and government expenditures have held down growth as well.

The primary cause for concern has been consumer spending. Automobile and durable good purchases have shown substantial weakness over the past two years and are unlikely to return to any approximation of peak levels in the foreseeable future. Softening consumer demand appears to have also undermined the other linchpin of the recovery: housing. Residential construction and sales of both new and existing homes have declined dramatically from the peak of 2004-2005. Recent turmoil in the sub-prime market has spurred a tightening of credit standards and has resulted in home price deflation in many areas around the country.

Another threat to the economy lies in energy prices. After peaking at roughly $80 per barrel in 2006 and

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3 US Department of Commerce, Bureau of the Census.

4 US Department of Labor, Bureau of Labor Statistics.

5 David G. Blanchflower & Andrew J. Oswald, 2005. "The Wage Curve Reloaded," NBER Working Papers 11338, National Bureau of Economic Research.

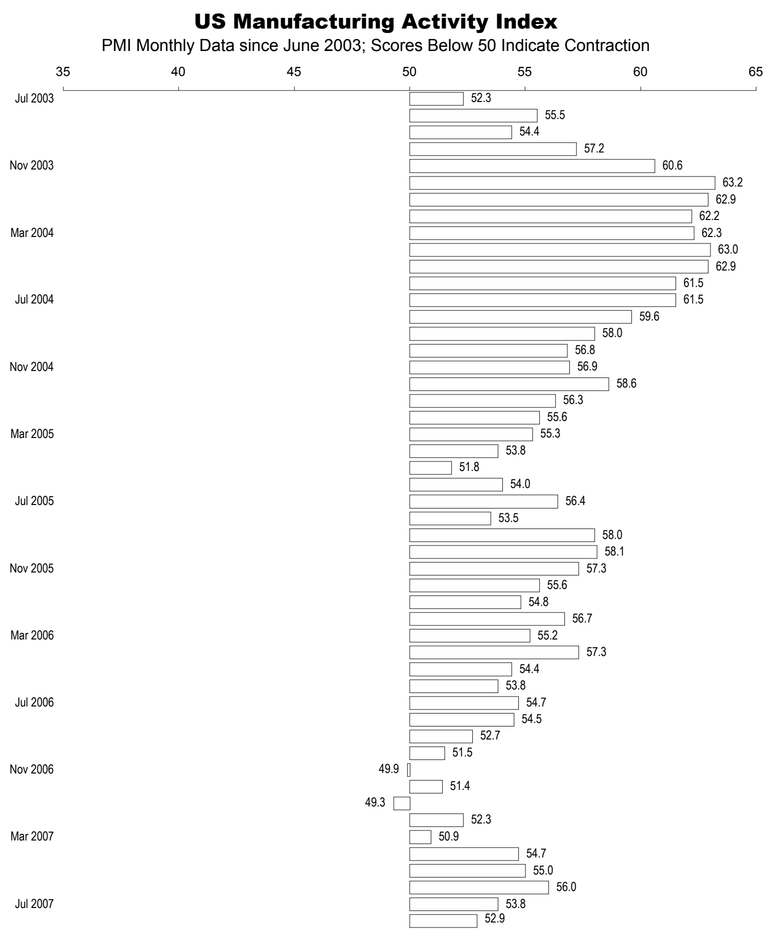
6 US Department of Labor, Bureau of Labor Statistics.

bottoming out in January this year with an average price of $54 per barrel, highly volatile commodity trading in light, sweet crude oil is indicative of unprecedented uncertainty – even by energy market standards. Prices have subsequently risen again to over $80 per barrel, and while there is hope that prices will retreat somewhat from current levels, the variability in the energy market over the past year leaves little forecasting confidence. Any production disturbance – both potential and realized – will clearly influence a hypersensitive market. The fundamental problem, however, is one of demand, as oil consumption expands in developing countries, especially China. Excess production capacity has slipped precariously, and there is simply no margin to cover major supply disruptions.

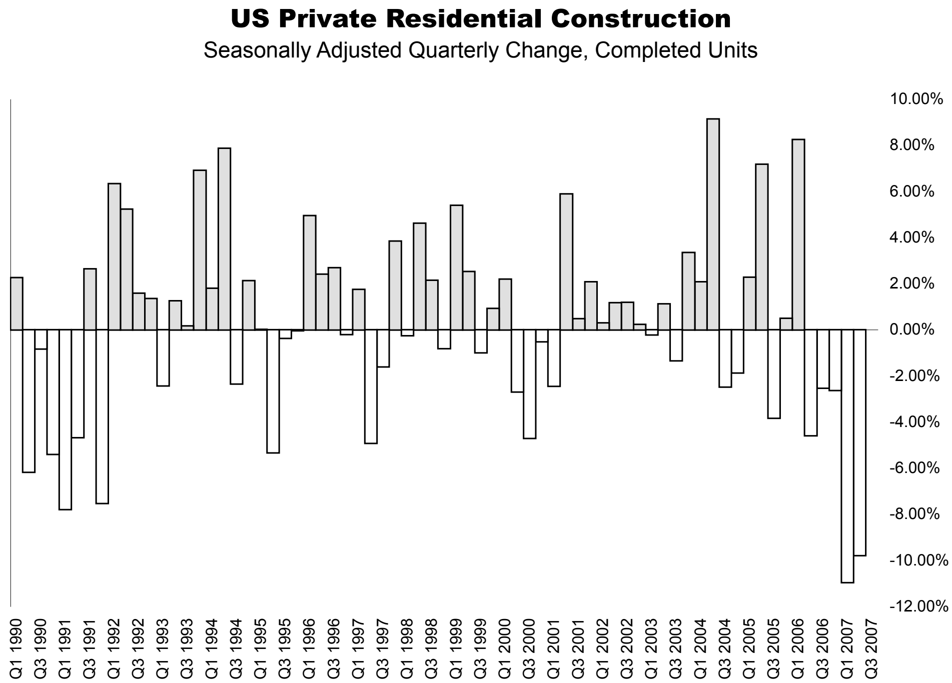
The impact of receding crude oil prices has been slow to show up in recent retail gasoline prices, but the trend is the same. There continues to be a premium associated with limited refinery capacity, highlighted by 2005 disruptions from gulf coast storms, but it also appears to be a simple reflection of significant market power. Seasonal changes like winter heating oil production will be closely watched for effects on gasoline prices, but there is hope that higher refinery inventories will reduce profit-taking.

Highly inelastic demand for oil requires substantial price increases to bring the market into equilibrium, which has in turn emboldened speculators. The economy's ability to weather prices exceeding $80 is remarkable and unprecedented, but may indicate less visible structural problems. In the long run, insufficient income growth and high consumer debt levels present a much larger danger to the economy than even another $20 per barrel surge in oil prices.

Locally, the impact of the September 11th terrorist attacks is fading. After dropping 6.4 percent between 2000 and 2002, total passenger traffic at Seattle-Tacoma International Airport has completely rebounded. After the first eight months of 2007, traffic is running 8.5 percent above 2000 levels, on track to set a new record.[7] Hotel occupancy rates, buoyed by a resumption of convention activity and burgeoning cruise ship bookings, have improved over the past 5 years. Vacancy rates near 40 percent in 2002 and 2003 have fallen to near 30



7 Port of Seattle, *Airport Activity Report.*



percent in 2006, while discounting has abated and rates have stabilized.[8]

Real per capita personal income experienced declines in both 2001 and 2002, a cumulative change of negative 1.9 percent. Income levels have since rebounded and are up 12.2 percent from 2000. More broadly, the most recent data indicate that Real Per Capita Gross State Product fell 1.6 percent in 2001.[9] Between 2002 and 2005, bankruptcy filings in Western Washington increased by 60 percent, although the surge at the end of 2005 is explained largely by bankruptcy law changes recently enacted by Congress. Over the past six quarters, however, bankruptcy filings in Western Washington are up another 68 percent.[10]

Although the entire state suffered during the 2001-2004 downturn, the worst effects were focused on the Puget Sound region, and King County in particular. For the last two years, however, non-farm employment growth in King County has matched the state growth rate, 5.0 percent and 4.9 percent respectively.[11]

The increase in employment has been unevenly distributed across sectors. After declining by 15.5 percent from 2002 to 2004, manufacturing employment is up 2.7 percent since July 2004. The 2002-2003 decline occurred entirely in non-aerospace manufacturing, while the bulk of the 2004 decline was in aerospace and parts manufacturing. Growth in 2005 and 2006 was fueled by a turnaround in aerospace and parts, currently up 27.0 percent from 2004. Large payroll growth has also occurred in construction – up 7.4 percent since last August after growing 10.0 percent the year before. Government and non-durable goods employment experienced declines while finance and insurance experienced no growth in the previous year. Real estate recorded growth of 1.2 percent, down from growth of 3.0 percent the previous year.

Although health care employment has been strong, there are signs of problems ahead. Medical cost inflation, after abating in the mid-1990s, has returned to the growth rates of the late 1980s and early 1990s. The Bureau of the Census previously reported that the percentage of uninsured persons in Washington State had risen between 2000 and 2005, but updated data stemming from a methodology revision indicate that the percentage of uninsured persons in the state has instead remained fairly steady during those 5 years, and in

8 Seattle Visitors Bureau.

9 US Department of Commerce, Bureau of Economic Analysis.

10 American Bankruptcy Institute.

11 Washington State Employment Security Department.

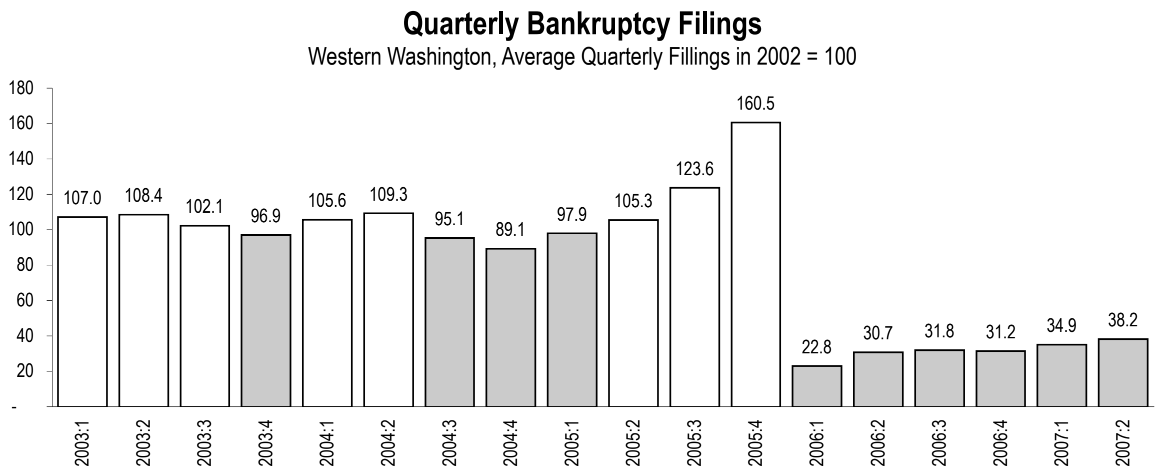
2006 dropped to 11.8 percent, the lowest level in the past 8 years, according to the new data. The market for the direct purchase of insurance, which a decade ago covered 15 percent of Washington residents, now only serves 9.1 percent of the population.[12] Insurance is increasingly limited to employees of large companies and Medicare and Medicaid recipients.

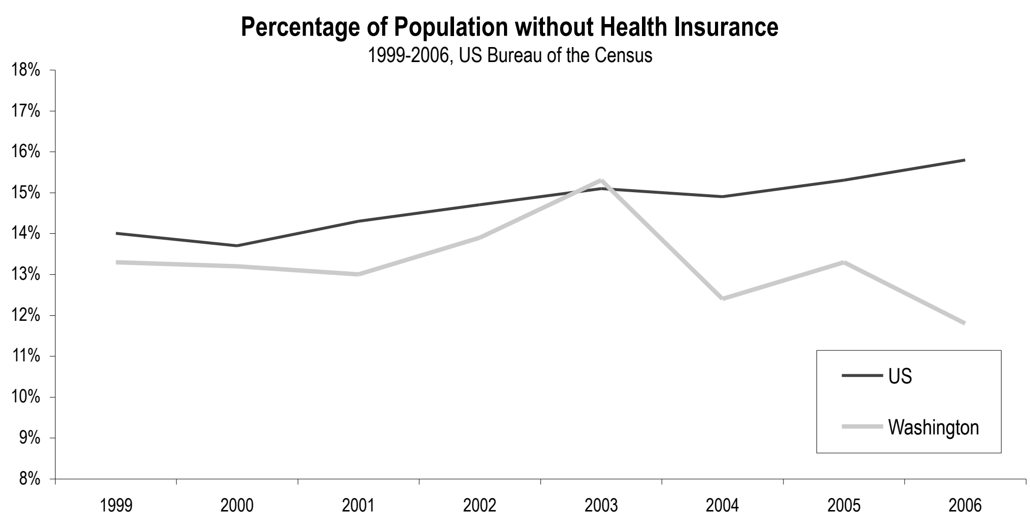
Remarkable strength in residential real estate through 2005 has finally run its course. By virtually every measure – time on market, inventory, and number of competing offers – the market is cooling, or outright declining. Sales have dropped by 12.0 percent from a year ago, with current conditions, accounting for reporting lag, likely to be still lower. This dramatic fall in sales is expected to continue over the next 18 months as the lending market reorganizes, returning to normal levels.

The local market for commercial real estate has stabilized. The commercial office space vacancy rate for Seattle continues to decline, down to 8.2 percent, almost half of 2003's 16.2 percent. Across the region, total vacant office space has also fallen, from 12.1 million square feet in 2003 to 8.1 million square feet as of September 2007.[13] Aside from completion of a handful of long-standing projects predating the recession, relatively few major office space projects have been added in recent years. Commercial construction activity has rebounded sharply, with major projects now underway at South Lake Union, Bellevue, and Renton.

ECONOMIC FORECAST

Entering 2004, Wall Street prognosticators feared that a booming economy would force a rapid increase in interest rates, undermining equity markets. The stock market indeed stalled, but for the opposite reason. While the economy, at least as measured by Gross Domestic Product, has shown continued improvement,





12 US Bureau of the Census.

13 Commercial Space Online, Inc. survey data [http://www.officespace.com] and Cushman and Wakefield.

finally surpassing peak 2000 levels last year, it has not been enough to make up for lingering labor market concerns, or energy price volatility.

The Federal Reserve's long campaign to increase short-term interest rates was finally suspended last summer after 17 consecutive quarter percentage point increases to the federal funds target rate. During this time period, however, medium to long-term bond yields actually fell. Concern in the mortgage market ballooned amidst revelations of loose lending standards and led to a general flight from risk, pushing short-term yields down even further.

The Federal Reserve Board took action in September 2007 to address diminished liquidity and to spur economic activity. The Board lowered the discount rate by 50 basis points and the target federal funds rate by 50 basis points. The increased incentives have not yet had the impact necessary to restore the status quo, and additional loosening may be required.

Economic Assumption Summary

Percentage Change from Preceding Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010
King County									
Employment	-0.6%	-0.7%	1.4%	2.0%	2.7%	2.5%	1.8%	1.8%	1.8%
Nominal Personal Income	1.5%	2.0%	4.4%	5.9%	6.9%	7.4%	6.6%	6.0%	5.8%
Housing Starts	32.9%	9.9%	5.8%	11.3%	-3.4%	-3.3%	-12.0%	0.2%	2.1%
Population	1.0%	0.3%	0.5%	1.5%	1.4%	1.8%	1.4%	1.4%	1.4%
Consumer Price Index *	1.94%	1.58%	1.25%	2.43%	5.18%	3.32%	3.40%	3.10%	3.00%
COLA **	2.32%	2.00%	2.03%	2.19%	4.66%	2.00%	2.18%	2.38%	2.59%
Washington State									
Employment	1.7%	0.6%	1.7%	2.9%	2.4%	2.1%	2.2%	2.2%	2.2%
Nominal Personal Income	3.4%	3.5%	4.4%	4.9%	6.2%	6.8%	6.4%	6.4%	6.4%
Housing Starts	4.8%	6.5%	15.0%	11.9%	-5.3%	-7.0%	-14.1%	3.8%	2.4%
United States									
Employment	-1.1%	-0.3%	1.1%	1.5%	1.3%	1.2%	1.0%	1.1%	1.1%
Nominal Personal Income	2.7%	3.3%	5.8%	6.5%	5.7%	5.9%	5.0%	5.0%	5.0%
Housing Starts	6.5%	8.2%	5.2%	6.1%	-9.0%	-28.1%	-20.8%	4.4%	4.4%
Three-month Treasury Yield	-47.1%	-11.3%	34.0%	26.0%	12.8%	-5.6%	-6.1%	8.4%	5.5%
Consumer Price Index	1.6%	2.3%	2.7%	3.0%	3.4%	2.5%	2.5%	2.7%	3.0%
Real GDP	2.4%	2.7%	4.4%	3.5%	3.2%	1.9%	1.9%	2.2%	2.0%

* Puget Sound region

** 90 percent of September-September Δ National CPI-W, minimum of 2.0 percent.

Clearly, continued hostilities in Iraq have also played a substantial role in unsettled financial markets. Given the almost certainty of a long-term US military deployment in Iraq for the foreseeable future, market conditions may not improve for some time.

Over time, longer duration bond yields should rise and their prices fall in response to the Federal Reserve's policy of tight short-term monetary policy. The inflationary pressure of higher energy prices may mandate further action, even if economic output falls short of spectacular.

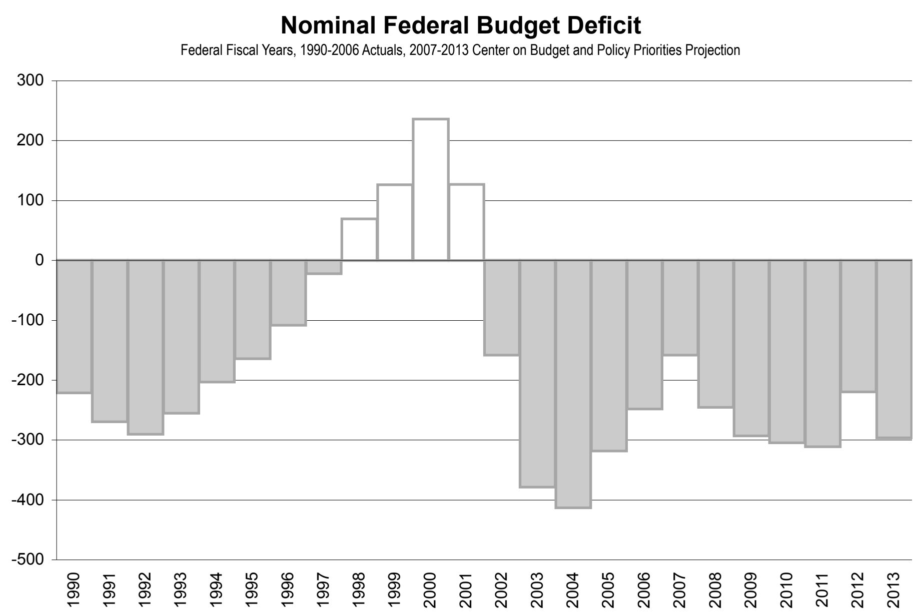
Moderate growth is anticipated in 2008, with business investment continuing to offset slackening consumer demand. Modest employment growth should continue, but at a slower pace than 2005-2006. Residential real estate and construction, carried for four exceptional years by historically low long-term interest rates, is now an area of weakness, with a return to natural levels now the high end of the forecast.

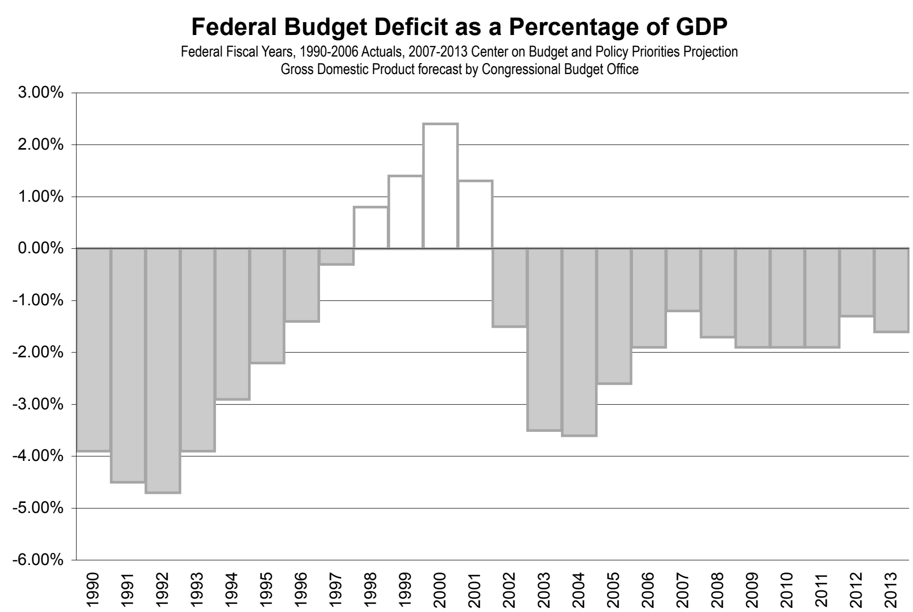
This forecast anticipates a further 25 basis point decrease in the federal funds rate in late 2007 or early 2008. The Fed's stated preference for measured action suggests that no change is equally likely.

Strong regional employment growth should continue in 2008. Washington state recorded the highest increase nationally in personal income for both the second and fourth quarters of 2004, aided by the boost in payroll employment, strong 2003 equity market performance, and the start of Microsoft's unprecedented $75 billion special dividend and stock buyback. Notwithstanding this one time move from Microsoft, the extraordinary personal income growth attained in the late 1990s is unlikely to ever reoccur. The engine of the boom in technology personal income growth was the stock option; both market performance and structural changes suggest little further boost to income levels in the foreseeable future.

Compensation changes at Microsoft and across the industry have significantly reduced the variability – and positive upside – of employee stock ownership. Based on both market performance and the employee compensation policies, this forecast assumes only a limited boost to personal income levels from option and bonus income. Broader market valuations should generally trend higher along the path of the second and third quarters of 2005, with little effect, positive or negative, on local conditions.

After rising by over 3.6 percent in both 2000 and 2001, growth in the Puget Sound region Consumer Price Index was just 1.9 percent and 1.7 percent in 2002 and 2003, respectively, driven by unchanged housing costs. In the first half of 2005, however, the CPI was up more than 2.4 percent, before rising another 2.6 percent in the third quarter alone due to the aftermath of Hurricanes Katrina and Rita. The ensuing ebb and flow in energy prices has clearly distorted inflation statistics. Obviously local prices remain dependent on





global energy prices, as well as movement in agricultural goods, but core inflation – excluding energy and food – in the Puget Sound region should remain quite low for the next two to three years.

While not yet affecting the economic forecast, the startling rise in the federal budget deficit, and deteriorating outlook for the coming decade could undermine long-term interest rates.

KING COUNTY REVENUES

Total revenue into the county exceeds $2 billion dollars,[14] which King County distributes into over 50 separate funds. The largest funds include those for transit, wastewater, surface water management, roads, and the county general fund. The largest revenue source is taxes, followed by charges for services; together they account for over half of all revenues. Taxes include three major property tax levies, three different sales tax assessments, and taxes on real estate transactions. Charges for services include both direct contracts, interfund payments, and other services provided by the county.

All King County Funds

Major Revenue Sources, 2001-2008

	2001 Adopted	2002 Adopted	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Adopted	2008 Proposed
TAXES	715,108,733	746,850,357	768,926,884	810,477,672	798,565,434	869,190,813	985,603,844	1,153,574,097
LICENSES & PERMITS	18,066,214	18,472,802	20,692,723	24,557,022	25,500,074	24,704,343	26,702,474	27,450,760
INTERGOVERNMENTAL REVENUE	26,756,947	35,829,205	-	-	-	-	-	-
FEDERAL GRANTS-DIRECT	30,207,497	32,359,967	36,380,703	36,012,144	36,048,518	32,801,397	32,694,749	31,681,451
FEDERAL SHARED REVENUES	688,182	699,091	1,069,761	1,080,642	1,094,152	1,322,569	1,266,931	70,000
FEDERAL GRANTS-INDIRECT	62,580,257	65,173,089	87,214,090	87,876,906	85,944,129	91,823,530	118,003,160	112,582,596
STATE GRANTS	103,615,392	100,044,636	122,000,403	131,252,575	50,890,604	50,763,770	36,542,250	39,472,916
STATE SHARED REVENUES	1,301,000	1,045,016	-	14,687	-	-	144,000	118,650
STATE ENTITLEMENTS	53,726,160	30,125,795	30,932,093	35,673,353	31,754,178	33,737,995	39,053,884	39,612,863
GRANTS FROM LOCAL UNITS	1,435,851	4,087,240	1,786,320	797,178	767,704	607,755	694,584	1,191,976
INTERGOVERNMENTAL PAYMENT	135,928,603	124,894,603	117,013,776	140,206,810	243,734,780	253,986,750	293,905,670	330,067,440
CHARGES FOR SERVICES	741,870,293	811,142,004	816,623,983	800,252,718	968,997,287	888,044,394	954,700,898	1,038,234,352
FINES & FORFEITS	7,232,871	7,537,213	7,803,918	9,119,402	8,290,176	7,317,592	7,313,236	8,582,131
STADIUM OPERATING REVENUES	-	-	-	150	-	-	-	-
OTHER*	844,656,259	983,258,002	1,002,896,364	872,875,574	221,775,203	360,263,752	421,615,665	1,061,815,066
ALL FUNDS TOTAL	2,744,603,933	2,964,476,448	3,125,459,912	2,950,196,833	2,473,362,239	2,614,564,660	2,918,241,345	3,844,454,298

*2008 Proposed "Other" includes $623.0 million for the 2008/2009 Biennium for Transit.

King County Current Expense Subfund

Major Revenue Sources, 2001-2008

	2001 Adopted	2002 Adopted	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Adopted	2008 Proposed
TAXES	286,051,603	297,677,856	301,795,404	312,327,426	328,442,601	363,316,557	378,271,605	403,895,792
LICENSES & PERMITS	5,140,510	5,694,121	5,661,661	6,046,253	7,380,384	7,545,549	7,357,349	7,565,653
FEDERAL GRANTS-DIRECT	1,897,000	954,000	2,361,514	1,959,555	1,893,308	1,246,695	661,587	577,664
FEDERAL SHARED REVENUES	39,140	40,314	50,000	60,000	60,000	60,000	65,000	70,000
FEDERAL GRANTS-INDIRECT	5,900,152	4,817,776	6,546,708	6,734,208	7,951,779	8,129,559	8,128,755	7,971,225
STATE GRANTS	1,535,680	1,712,365	1,863,402	2,653,350	2,494,140	2,629,230	1,976,093	2,047,971
STATE SHARED REVENUES	176,000	181,280	-	-	-	-	-	-
STATE ENTITLEMENTS	1,554,125	1,383,967	1,424,505	1,407,505	6,559,055	6,993,579	6,979,749	7,443,249
GRANTS FROM LOCAL UNITS	14,000	2,614,420	-	-	-	-	-	-
INTERGOVERNMENTAL PAYMENT	55,772,028	56,733,723	52,269,056	56,001,858	53,164,198	55,723,169	62,753,888	66,605,911
CHARGES FOR SERVICES	80,258,079	82,639,182	89,547,761	84,746,544	89,803,336	96,915,226	103,067,890	109,533,074
FINES & FORFEITS	7,164,871	7,524,713	7,780,918	9,079,402	8,230,176	7,255,092	7,250,736	8,547,131
OTHER	25,082,650	19,903,635	18,503,578	23,280,217	13,879,035	33,443,713	40,773,308	36,298,014
CURRENT EXPENSE TOTAL	470,585,838	481,877,352	487,804,507	504,296,318	519,858,012	583,258,369	617,285,960	650,555,684

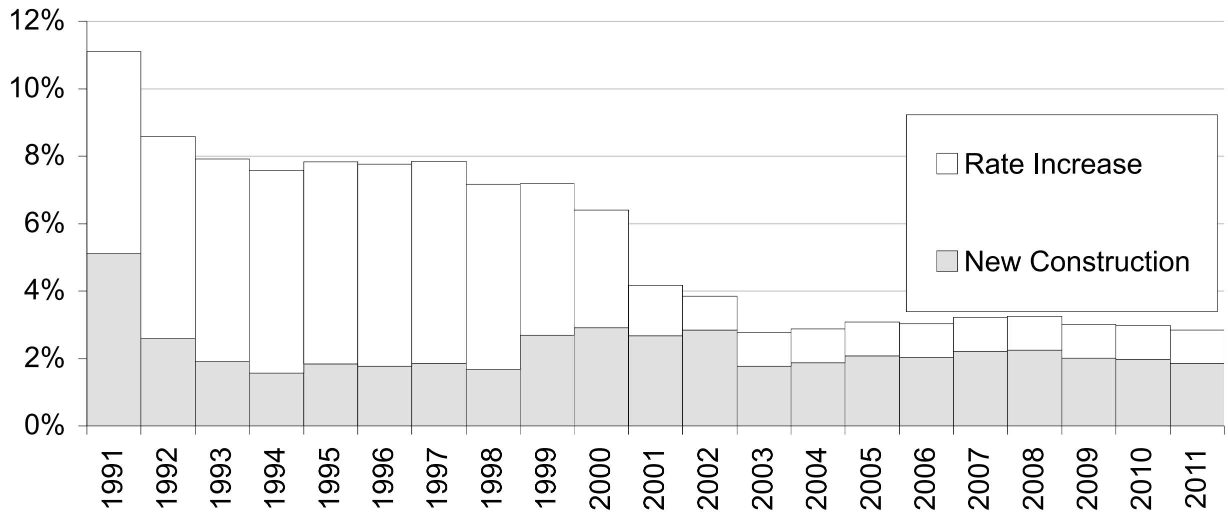
NOTE: Zero values for Grants From Local Units and State Shared Revenues caused by phase-out of Title XIX and Motor Vehicle Excise Tax backfill funds.

14 Interfund transfers, overhead rates, and other transactions duplicate some funds in the total revenue figure of $3.9 billion.

Taxes are the largest source of revenues to King County, accounting for an estimated 44.4 percent of total revenues (excludes 2009 revenue budgeted biennially) and 62.1 percent of current expense subfund revenue. The major tax sources for the county include property taxes, sales and use taxes, hotel and motel taxes, and telephone excise taxes to support the enhanced-911 system. Total King County tax revenue is projected to be $1,153.6 million in 2008, an increase of 17.0 percent from the adopted 2007 budget. These revenues support operating expenses, debt service, and some capital projects. Property taxes are the largest single tax source for the county, with a proposed levy of approximately $574.0 million in 2008, including $97.9 million collected for Emergency Medical Services, $34.8 million of which is disbursed directly to the city of Seattle. The current Emergency Medical Services levy expires at the end of 2007 and the replacement levy will go before voters on the November 2007 general election ballot.

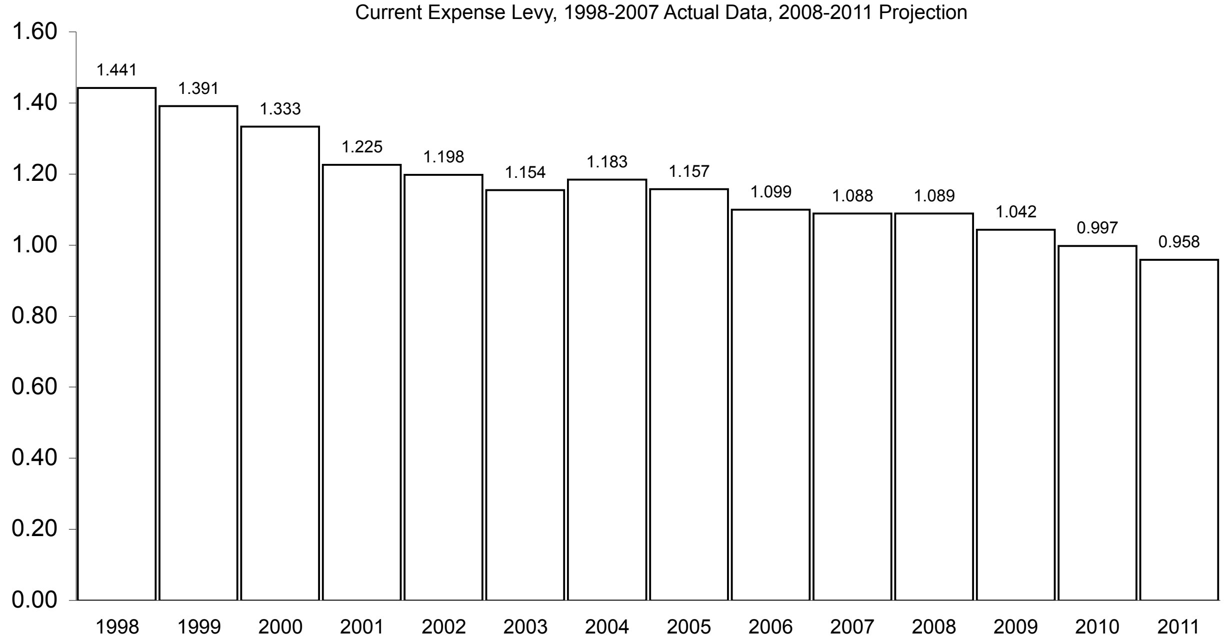
Property Tax Revenue Growth Components

Current Expense Subfund Levy, 1991-2007 Actual Data, 2008-2011 Projection



Property Tax Rate per $1,000 of Assessed Valuation

Current Expense Levy, 1998-2007 Actual Data, 2008-2011 Projection



PROPERTY TAX

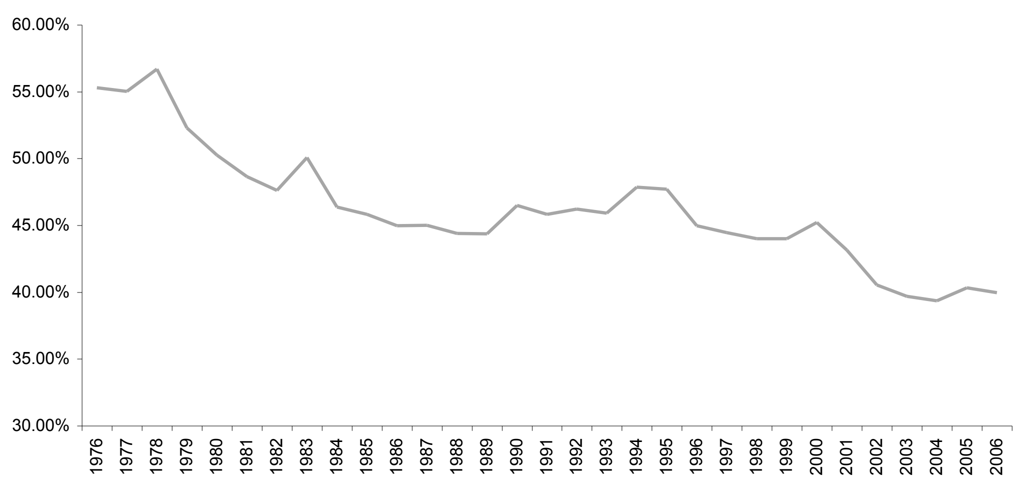
Property taxes are collected through the countywide levy, the unincorporated area levy, the Emergency Medical Services levy, and voter approved debt. These receipts are dedicated to various funds within King County.

Property taxes are limited by both county policy and state law. Under Initiative 747, approved by Washington voters in 2001 (but rejected by a majority of King County voters), the regular levy can grow at only one percent annually, plus the increase in new construction. With inflation typically running two or three percent, this measure is gradually decreasing the effective tax paid by typical property owners, and reducing the dollars available for the Current Expense fund. Notwithstanding lower court rulings invalidating Initiative 747, King County awaits action by the State Supreme Court. The 2008 Executive Proposed Budget fully conforms with the requirements of Initiative 747.

The overall countywide levy is projected to rise to $353.6 million in 2008, up from $323.3 million in 2007.[15] An enhanced parks operating levy, which replaces an expiring levy, and a new parks capital levy were authorized in the August 2007 primary election, however, complicating direct comparison. The two parks levies account for $19.9 million of the 2008 increase, net of the expiring 2004-2007 parks operating levy.

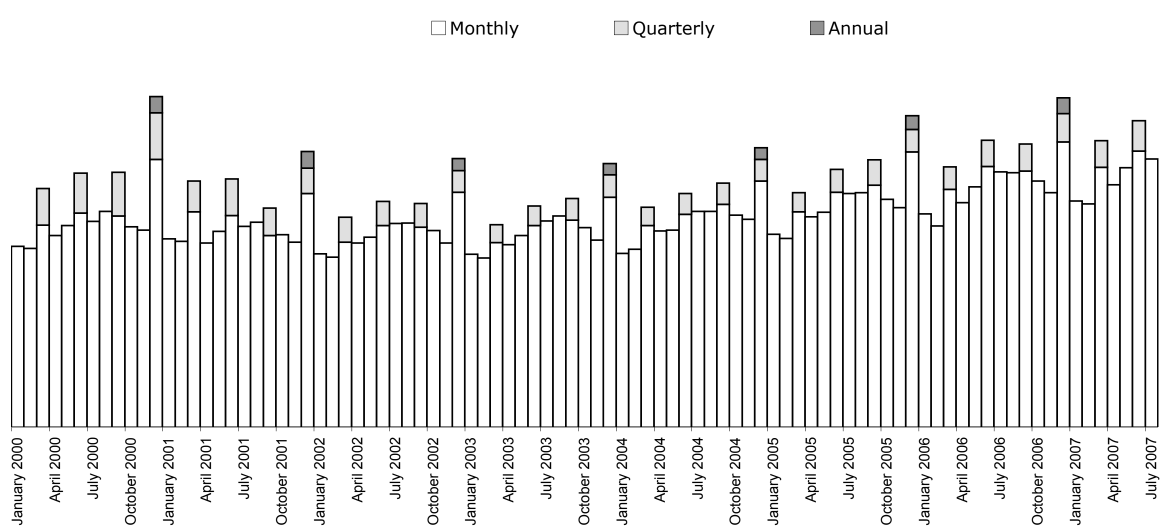
Taxable Retail Sales as a Proportion of Personal Income

Inclusive of Use Tax payments, 1976-2006



Sales Tax Collections by Reporting Frequency

Local Option Revenue from Total King County Taxable Retail Sales, 2000-present



15 The countywide levy includes the Current Expense fund and dedicated millage for mental health/developmental disabilities, river improvement, human services, veterans' aid, intercounty river improvement, limited tax bond redemption, and voter approved lid-lifts.

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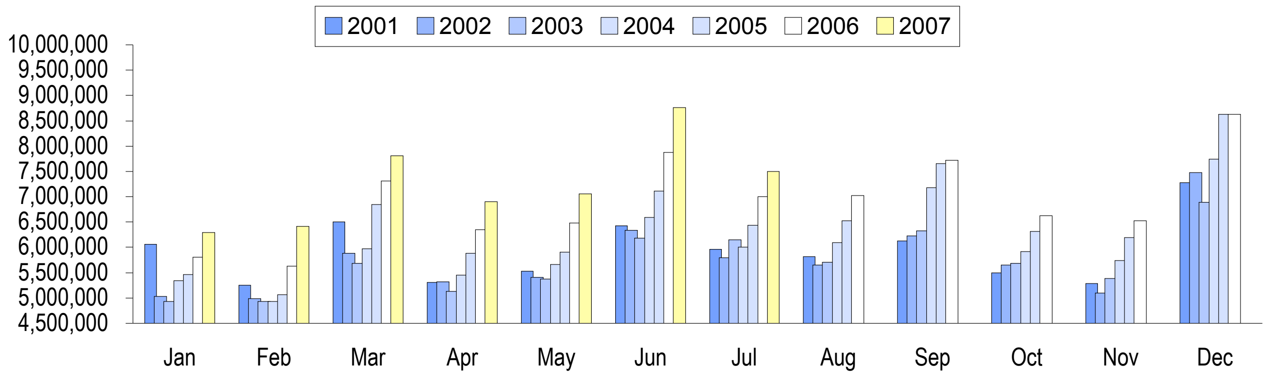
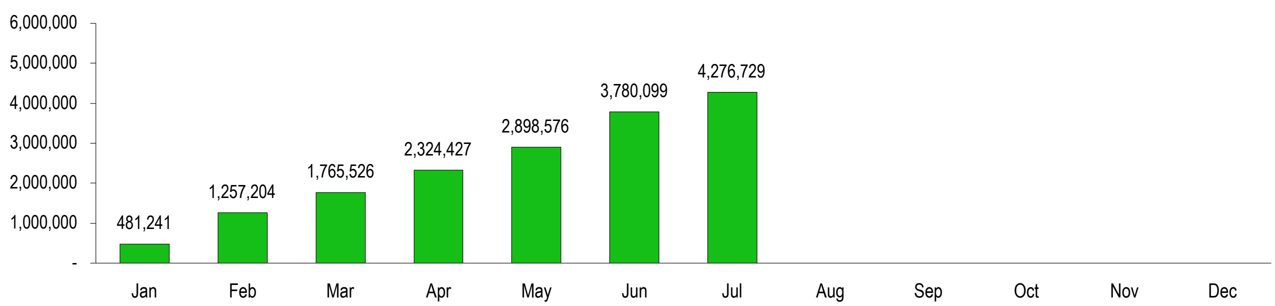
King County Monthly Sales Tax Collections



Monthly Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2001	6,062,931	5,251,282	6,503,883	5,313,379	5,533,086	6,431,011	5,958,177	5,815,392	6,127,737	5,499,377	5,280,576	7,282,334
2002	5,036,669	4,988,719	5,884,638	5,321,370	5,407,187	6,339,046	5,792,913	5,645,463	6,228,228	5,656,303	5,096,438	7,471,553
2003	4,931,954	4,932,061	5,687,259	5,127,102	5,369,033	6,181,570	6,144,228	5,708,742	6,321,403	5,689,569	5,385,641	6,894,946
2004	5,338,022	4,928,659	5,970,150	5,454,094	5,657,854	6,592,828	6,004,537	6,096,735	7,175,660	5,912,824	5,737,184	7,738,012
2005	5,460,791	5,062,926	6,851,104	5,880,954	5,900,685	7,114,004	6,431,306	6,525,074	7,655,107	6,310,149	6,194,818	8,628,252
2006	5,810,621	5,633,087	7,305,744	6,346,432	6,481,989	7,874,877	6,998,672	7,024,854	7,719,276	6,629,777	6,521,686	8,629,028
2007	6,291,861	6,409,051	7,814,065	6,905,333	7,056,138	8,756,401	7,495,302					

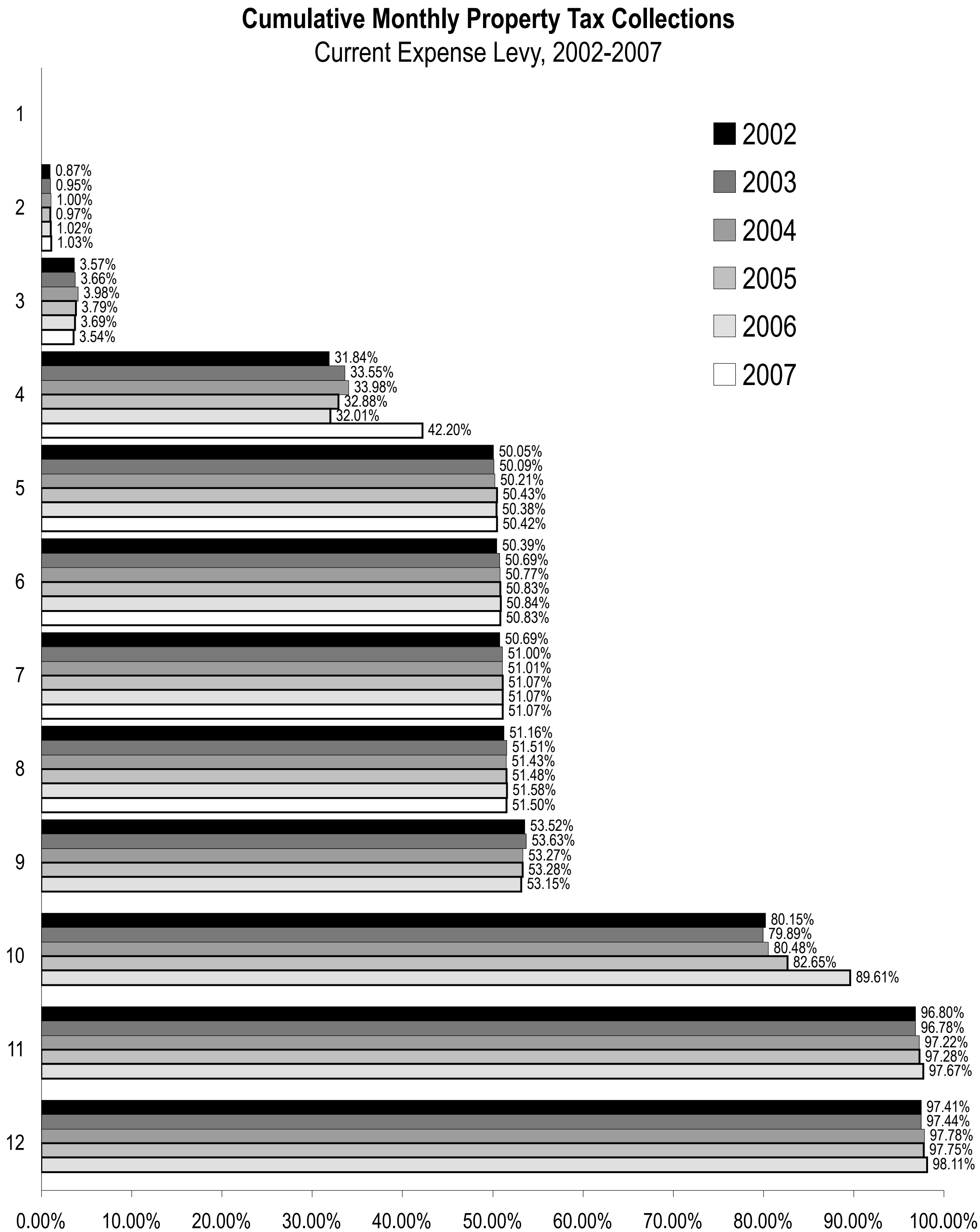
Cumulative 2007 Variance from 2006



Year-to-Date Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2001	6,062,931	11,314,213	17,818,096	23,131,476	28,664,562	35,095,573	41,053,750	46,869,143	52,996,879	58,496,256	63,776,832	71,059,166
2002	5,036,669	10,025,388	15,910,026	21,231,396	26,638,583	32,977,629	38,770,542	44,416,005	50,644,233	56,300,536	61,396,974	68,868,527
2003	4,931,954	9,864,015	15,551,273	20,678,376	26,047,409	32,228,980	38,373,208	44,081,950	50,403,353	56,092,922	61,478,563	68,373,509
2004	5,338,022	10,266,682	16,236,832	21,690,926	27,348,780	33,941,609	39,946,146	46,042,880	53,218,540	59,131,364	64,868,548	72,606,560
2005	5,460,791	10,523,717	17,374,821	23,255,775	29,156,460	36,270,464	42,701,770	49,226,844	56,881,951	63,192,100	69,386,917	78,015,169
2006	5,810,621	11,443,708	18,749,452	25,095,884	31,577,872	39,452,750	46,451,421	53,476,275	61,195,551	67,825,327	74,347,013	82,976,041
2007	6,291,861	12,700,912	20,514,978	27,420,310	34,476,448	43,232,849	50,728,150					

* Data presented are total local option sales tax collections less Department of Revenue 1 percent administration fee. 90.4 percent of County sales tax receipts are deposited in the current expense fund. The remainder are dedicated to the Sales Tax Contingency Reserve (5.0 percent) and the Children and Families Set-Aside (4.6 percent).


Cumulative Monthly Property Tax Collections
Current Expense Levy, 2002-2007
2002
2003
2004
2005
2006
2007
1
2
0.87%
0.95%
1.00%
0.97%
1.02%
1.03%
3
3.57%
3.66%
3.98%
3.79%
3.69%
3.54%
4
31.84%
33.55%
33.98%
32.88%
32.01%
42.20%
5
50.05%
50.09%
50.21%
50.43%
50.38%
50.42%
6
50.39%
50.69%
50.77%
50.83%
50.84%
50.83%
7
50.69%
51.00%
51.01%
51.07%
51.07%
51.07%
8
51.16%
51.51%
51.43%
51.48%
51.58%
51.50%
9
53.52%
53.63%
53.27%
53.28%
53.15%
10
80.15%
79.89%
80.48%
82.65%
89.61%
11
96.80%
96.78%
97.22%
97.28%
97.67%
12
97.41%
97.44%
97.78%
97.75%
98.11%
0.00%
10.00%
20.00%
30.00%
40.00%
50.00%
60.00%
70.00%
80.00%
90.00%
100.00%

The amount remaining for the Current Expense subfund is the total levy capacity less distributions for debt service, river improvement, veterans, and other designations. Current Expense revenues from the property tax levy are estimated at $271.3 million. New construction of 2.25 percent accounts for the increase above 1 percent.

The unincorporated area levy (traditionally known as the road levy) is estimated at $81.7 million for 2008.

SALES TAX

Sales taxes constitute Washington's largest revenue source, and King County's second largest source of tax receipts. A sales tax rate of 8.90 percent is assessed in the county, distributed as follows:

6.50 percent is collected by the state;

1.00 percent is a local option tax divided between cities and the county;[16]

0.90 percent is collected to support Metro Transit;[17]

0.40 percent is collected by the Regional Transit Authority (Sound Transit);[18]

0.10 percent is collected to support criminal justice programs.[19]

In addition to the basic 8.90 percent rate, an additional 0.50 percent tax is imposed on food and beverage sold in restaurants, bars and taverns. Proceeds from this tax are dedicated to funding debt service on county bonds sold to finance the construction costs of Safeco Field.

The sales tax is strongly influenced by changes in the economy and by the geographic areas from which it is collected. The public transportation and criminal justice funds receive revenues from countywide retail sales, with unincorporated areas constituting a little over four percent of the tax base. In contrast, over 17.6 percent of King County's general fund sales tax revenue is collected in unincorporated areas. Differences in the geographical composition of taxable retail sales also complicate analysis of revenue over the course of the business cycle. For example, the relative dominance of the construction sector in unincorporated King County makes the Current Expense subfund more sensitive to economic conditions than countywide taxes for transit and criminal justice.

Sales taxes place a disproportionate burden on lower income households. Over time, the inability to tax internet transactions and a general lag behind personal income growth will also prevent King County sales tax receipts from keeping pace with the cost of delivering most government services.

Purchases by King County residents from firms that do not operate in Washington are typically not subject to sales taxes. The rapid expansion of internet driven electronic commerce and Washington's high sales tax rates have provided a substantial incentive for consumer purchases over the internet to realize significant tax savings. A study published by researchers at the University of Tennessee has attempted to quantify the impact of internet and catalog sales on state and local sales taxes. The study concluded that roughly half a

16 Within cities, 15 percent of revenue is distributed to the county, and 85 percent to the city. King County receives the full 1.00 percent tax collected in unincorporated areas.

17 This tax was approved in April 2001 to replace funds lost with the repeal of the Motor Vehicle Excise Tax by Initiative 695 in November 1999. In November 2006, voters authorized an increase from 0.80 percent to 0.90 percent, effective April 1, 2007.

18 This tax is not collected in the rural part of King County where the sales tax rate is 8.50 percent.

19 90 percent of these funds are allocated to the cities on the basis of population. King County receives a share based on unincorporated population, in addition to the remaining 10 percent. This tax was approved by county voters in 1992.

Sales Tax Forecast Detail

	2001 Actuals	2002 Actuals	2003 Actuals	2004 Actuals	2005 Actuals	2006 Actuals	2007 Estimated	2008 Proposed
General Local Option								
Current Expense	64,237,486	62,258,958	61,813,620	65,636,330	70,525,713	75,010,341	82,258,795	85,425,758
Children and Family	3,268,722	3,168,044	3,145,383	3,339,902	3,588,698	3,816,898	4,185,735	4,346,886
Sales Tax Reserve	3,552,958	3,443,526	3,418,895	3,630,328	3,900,758	4,148,802	4,549,712	4,724,876
Total	71,059,166	68,870,529	67,648,329	68,653,007	78,015,169	82,976,041	90,994,242	94,497,520
Criminal Justice								
Total	10,958,675	10,485,286	10,453,816	11,041,397	11,812,263	12,853,883	13,869,340	14,368,636
Public Transportation								
Total	277,796,000	297,136,000	298,242,497	309,245,898	334,876,629	363,044,613	416,885,067	464,849,390

billion dollars in state and local sales tax revenue was lost in Washington in 2003 due to remote purchases, forecasted to increase to $1.1 billion in 2008. These projections have been built into the outyear sales tax forecast.

Washington State has entered into the national Streamlined Sales Tax agreement and will begin implementation in July 2008. Presently, the sales tax rate is based on the jurisdiction from which a product is shipped, with that jurisdiction receiving its local option sales tax. Under sales tax streamlining, the destination of the product will determine the jurisdiction that receives the local portion of the sales tax. Preliminary estimates indicate that unincorporated King County will be a net beneficiary, while the county as a whole may experience a negative impact. The magnitude of these impacts are unclear at this time as the Department of Revenue continues to refine their plan, although some basic adjustments pertaining to the impact from streamlined sales taxes have been incorporated into this forecast.

Estimated 2007 sales tax revenue to the Current Expense subfund, excluding designated revenue, is $82.3 million, a 9.7 percent increase over 2006 levels. This abnormally high growth reflects revenue from a booming but unsustainable construction sector, and some revenues that are one-time in nature.

Total projected 2008 general fund sales tax revenue is $108.9 million, an increase of 3.8 percent over estimated 2007 receipts. Of the total, $4.3 million will be deposited in the children and family services subfund while $4.7 million is earmarked for the sales tax reserve subfund, the proceeds of which are used to support major maintenance expenses. $14.4 million is dedicated to criminal justice expenses. The remaining $85.4 million is dedicated to the current expense subfund. These subfunds, along with the inmate welfare subfund, comprise King County's general fund.

The 2008 Executive Proposed Budget includes a proposed new 0.1 percent sales tax for mental health. If enacted by the County Council, the new combined sales tax rate in King County would be 9.0 percent (9.5 percent in restaurants).

Real Estate Excise Tax

King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the county. Reflecting unprecedented low interest rates and a high degree of real estate speculation, real estate sales have been remarkably high in recent years. Tax collections have also been boosted in the last three years by three unusually large timber tract transactions.

Year-to-date collections are down 11.7 percent from 2006 levels, with the decline accelerating to 17.4

percent over the last three months. Reflecting the slowdown in construction and tightening of mortgage credit standards, this downward trend is expected to continue in the coming year, with a decline of 32.1 percent forecast for 2008.

REET consists of two 0.25 percent taxes on real estate transactions. Each is forecasted at just over $6.3 million in 2008.

INTEREST EARNINGS

Because of high volatility, attributable to variance in both interest rates and county fund balances, the Office of Management and Budget continues to provide a conservative interest earnings forecast. Interest rates have been projected using futures prices on the New York and London markets and correlating them with historic pool earning performance. For 2008, a rate of return of 5.25 percent is assumed. This forecast will be revised following the Federal Reserve Open Market Committee meeting on October 30, 2007.