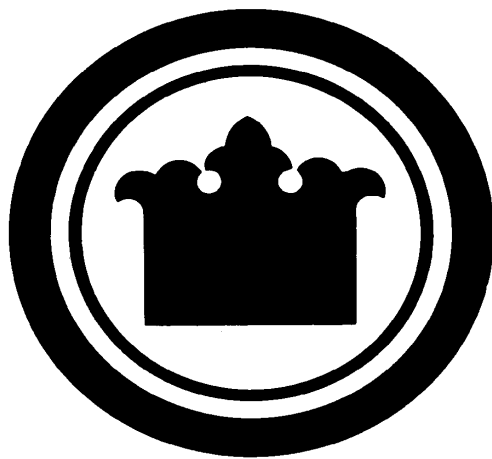


QUARTERLY ECONOMIC REPORT

1st Quarter, 2003



KING COUNTY
OFFICE OF MANGEMENT AND BUDGET

SUMMARY

King County remains mired in an economic downturn. Although conditions remain poor, employment and income numbers suggest that the economy hit bottom in the second half of last year. While recovery remains elusive, business activity appears to have largely stabilized. Local growth is still unlikely without the stimulus of an expanding national economy, which is itself improbable on a sizable scale until the end of the year.

Efforts at the national level to jumpstart the economy will likely continue, but with little short-term impact. While there has been less speculation lately of spring or summer action by the federal reserve, the capital markets are still pricing in some probability of an interest rate reduction over the next six months. Tax cuts contemplated at the federal level are unlikely to have any stimulus effect, but will probably trigger higher interest rates through increased federal budget deficits.

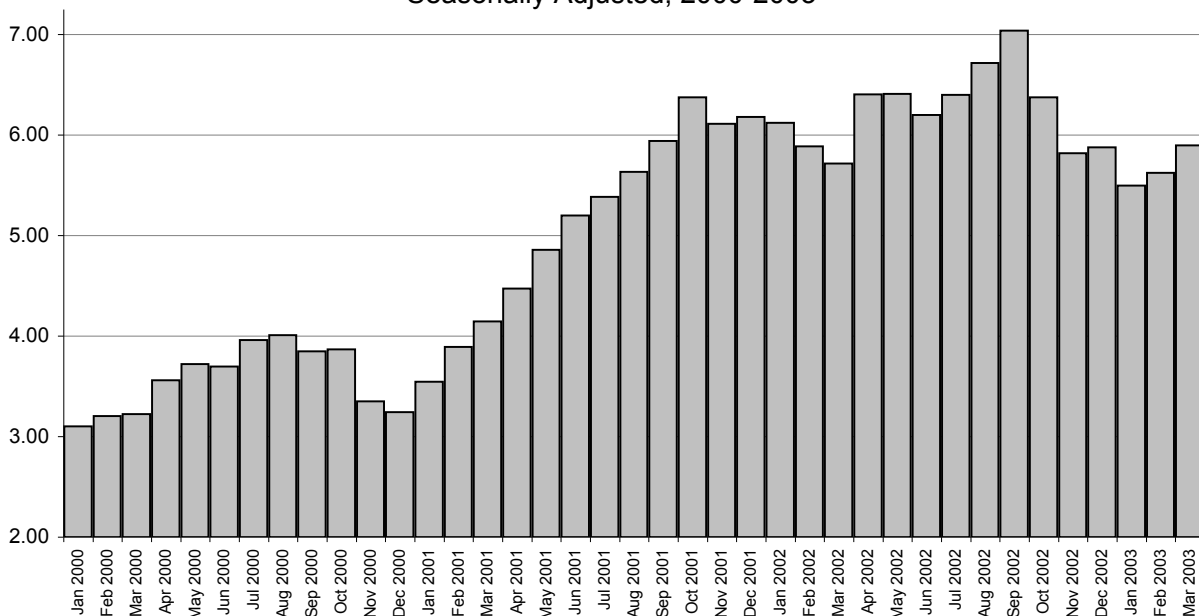
REVIEW OF ECONOMIC CONDITIONS

After a small decline at the start of the year, King County’s seasonally adjusted unemployment rate rose in both February and March to 5.9 percent. Statewide unemployment continues to be among the worst in the country, rising to 7.0 percent, while national unemployment was also up slightly to 5.8 percent.

Non-energy inflation has been kept in check – indeed deflation remains a larger concern. Energy prices, however, have soared in recent months, responding to supply disruptions in Venezuela and Nigeria, heightened Japanese consumption to replace lost nuclear power generation, and most significantly, the war in Iraq. Prices have dropped rapidly since mid-March, but remain above early 2002 levels. With major OPEC meetings not expected until June, prices are unlikely to do anything but decline in the coming months. The inflationary effect of higher energy prices in the second half of 2002 and early 2003 will continue, particularly with oil prices still 10 to 25 percent higher than a year ago.

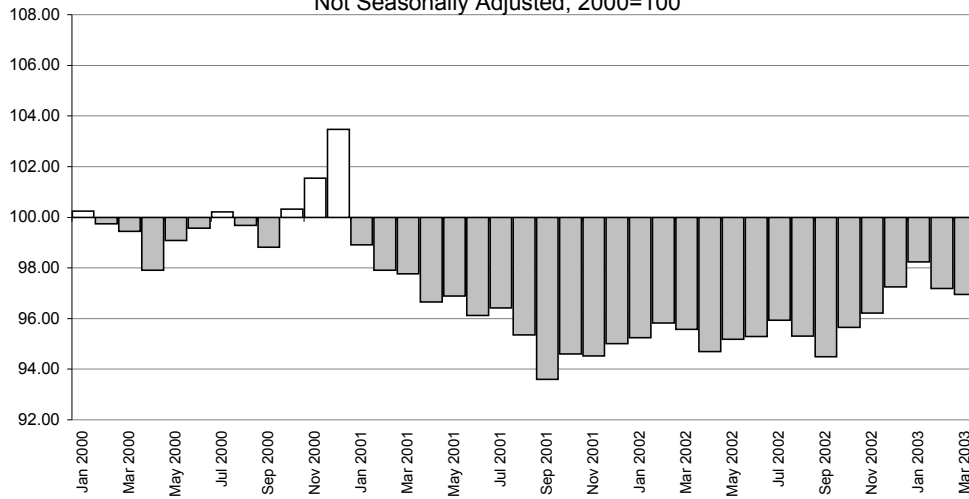
Personal income growth in Washington continues to lag the nation – growing only 75 percent as fast since 1999. Depressed equity markets and the collapse in stock option derived income are largely to blame. Over the past three years, real per capita income in Washington is actually down slightly.

King County Unemployment Rate
Seasonally Adjusted, 2000-2003



King County Total Employment

Not Seasonally Adjusted, 2000=100



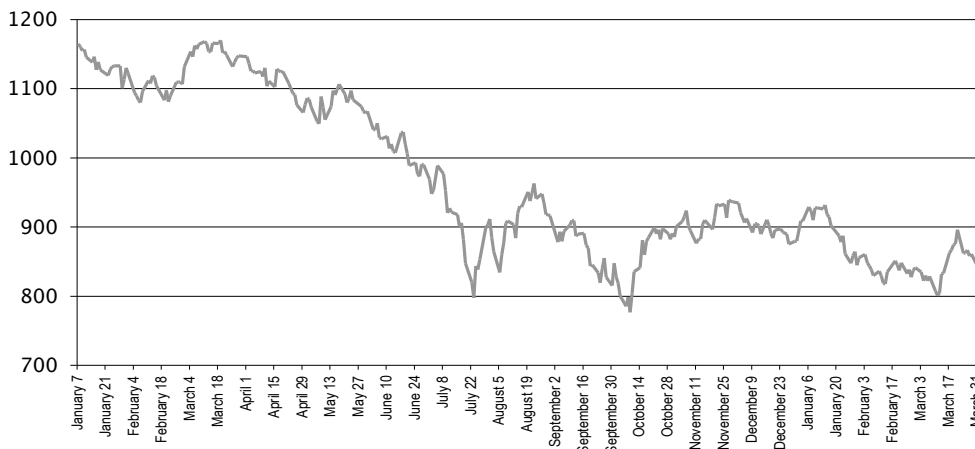
Dow Jones Industrial Average

Closing Values, January 1, 2002 - March 31, 2003



Standard and Poor's 500 Index

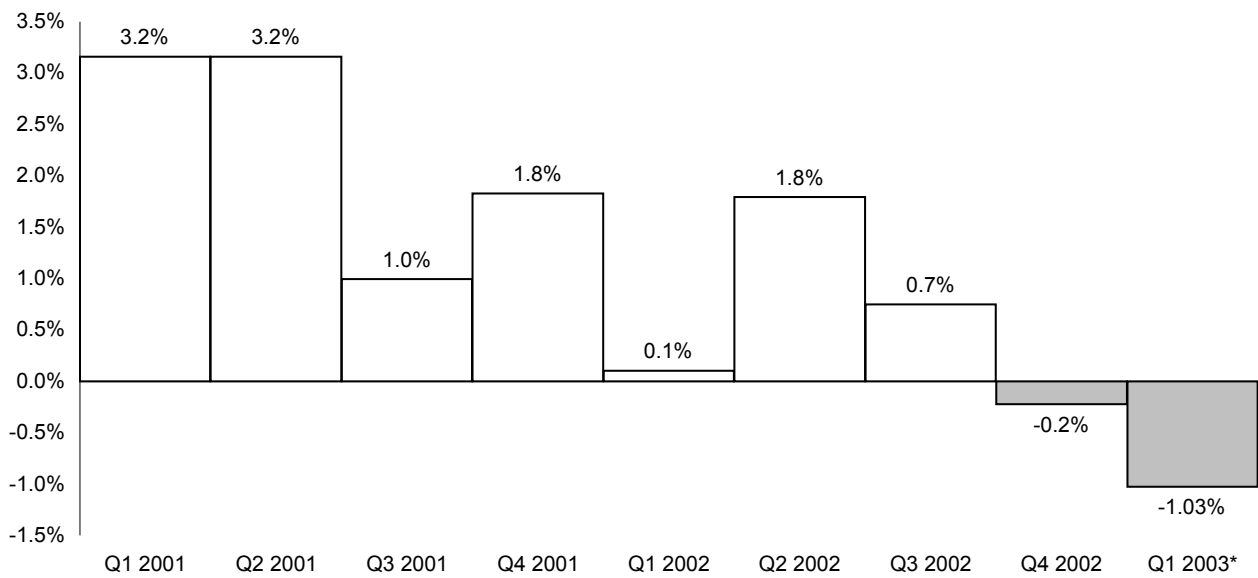
Closing Values, January 1, 2002 - March 31, 2003



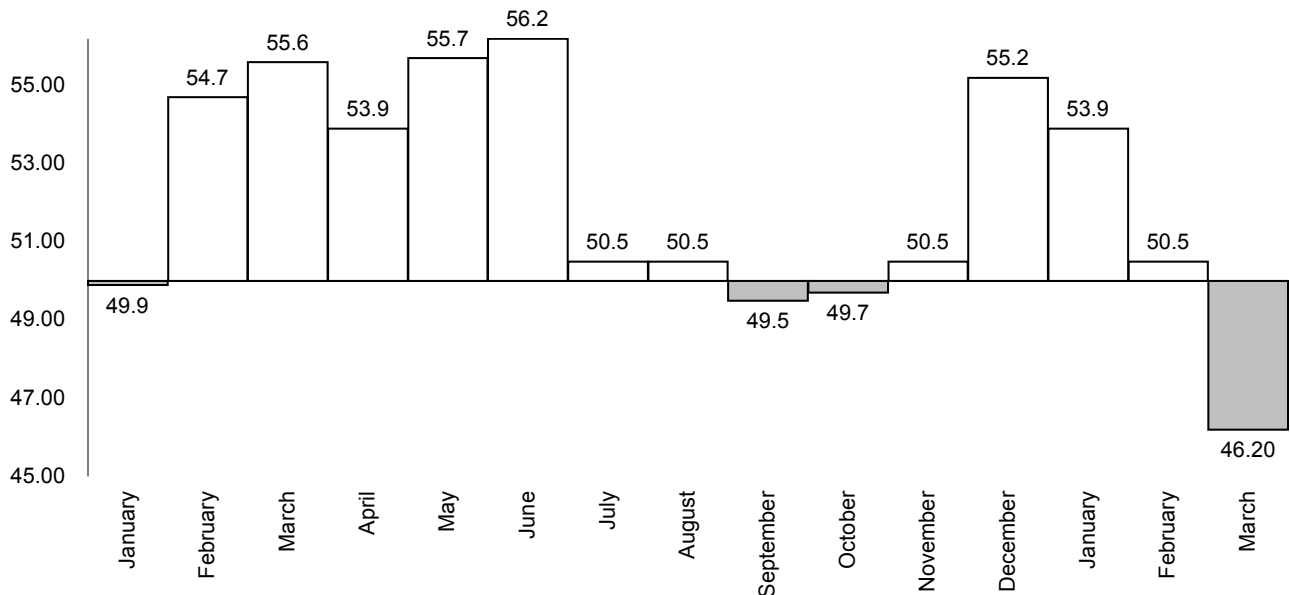
Residential real estate has remained strong, buoyed by low interest rates. Residential construction has also been robust, although it appears to be artificially boosted by the dramatic slowdown in commercial activity. Even relatively conservative estimates of office vacancies by CB Ellis found downtown Seattle’s rate rising to 16.14 percent in the first quarter, with the eastside pegged at 16.81 percent. The same analysis found an even larger increase in industrial vacancies since the start of the year, from 5.87 to 7.51 percent.

The poor financial health of world airlines continues to underscore Boeing’s precarious short-term production position. With some 2,000 still serviceable used jets idling at desert airfields, demand for new aircraft has reached a 30-year low. Reeling in succession from fuel cost instability and war concerns, depressed air travel levels could bring an end to the company’s struggling 757 and 767 lines, with further repercussions for the region. Boeing could be further undermined by the SARS outbreak’s impact on asian carriers, the one

Private Residential Construction
Quarterly Change, Completed Units

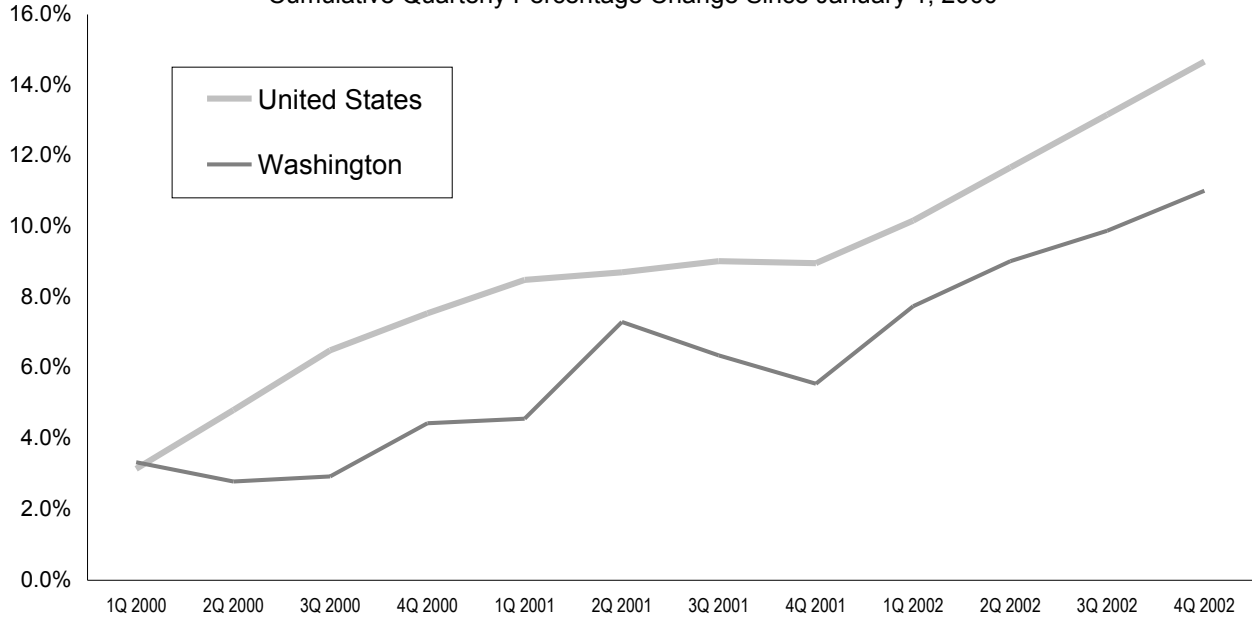


US Manufacturing Activity Index
PMI Monthly Data, 2002 - Present; Scores Below 50 Indicate Contraction



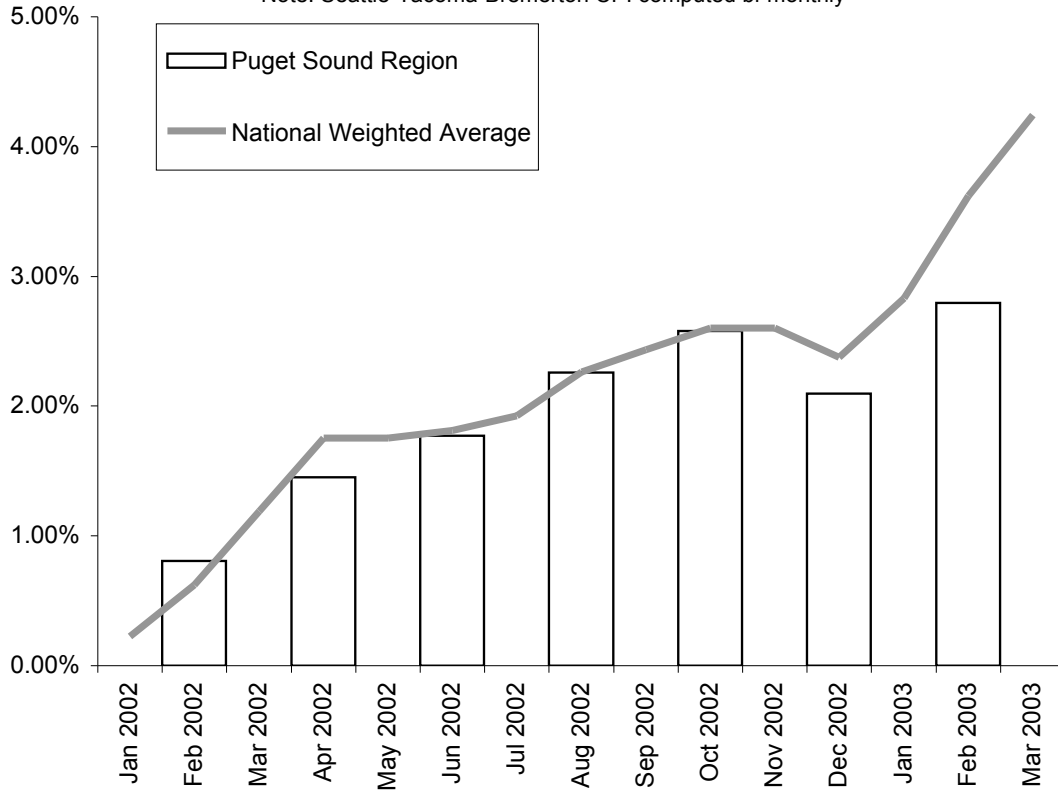
Nominal Personal Income Growth

Cumulative Quarterly Percentage Change Since January 1, 2000

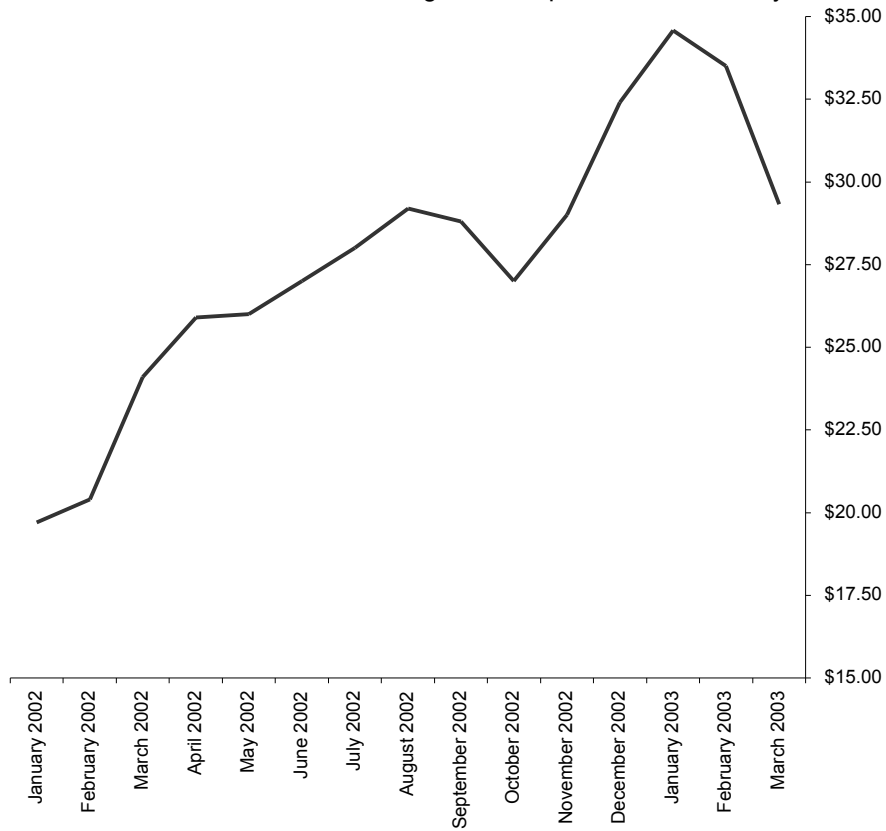


National and Local Inflation Comparison

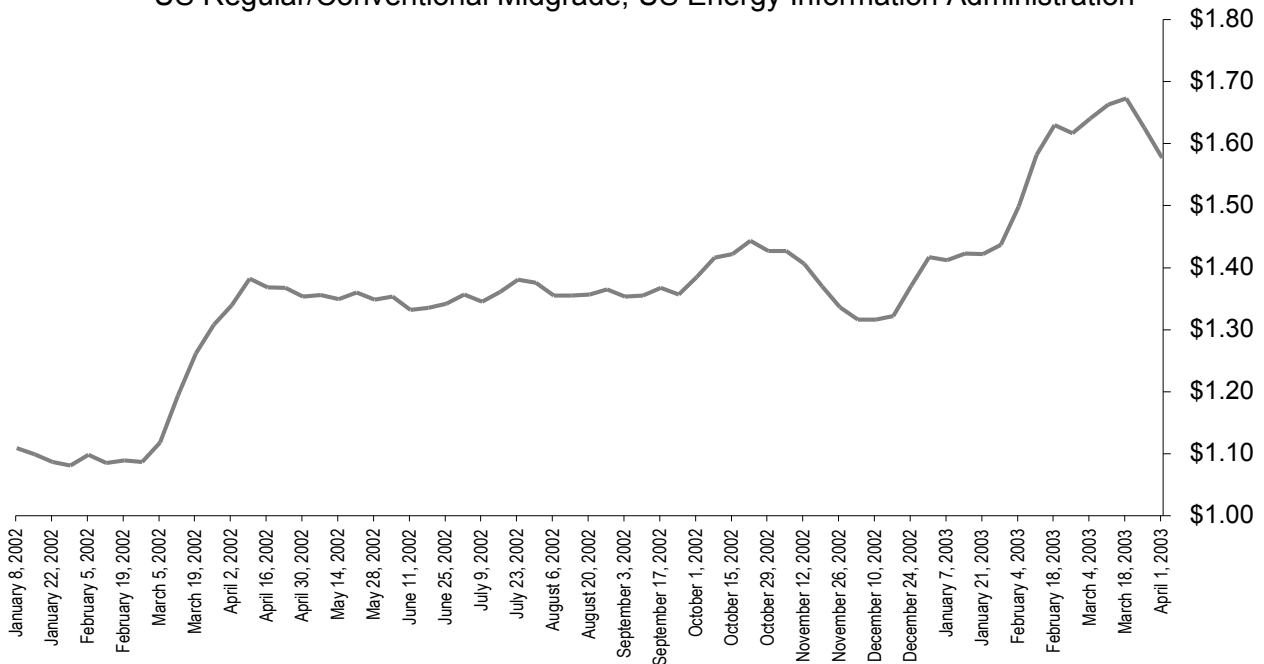
CPI-U, cumulative change since 2001
 Note: Seattle-Tacoma-Bremerton CPI computed bi-monthly



Light, Sweet, Crude Oil Price
New York Mercantile Exchange, Subsequent Month Delivery



Average Retail Gasoline Price per Gallon
US Regular/Conventional Midgrade, US Energy Information Administration



relatively healthy segment of the market. Financial problems at American Airlines, with half of the already low order backlog for the 767 line, are cause for additional concern.

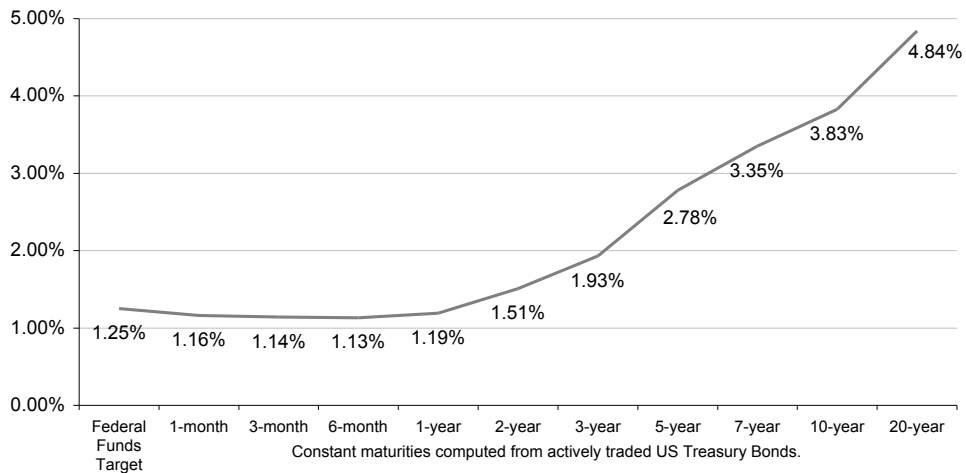
REVIEW OF REVENUE COLLECTIONS

Recent sales tax activity has been mixed. 2002 year-end actuals for the current expense subfund exceeded the forecast by \$1.1 million, largely on the strength of a strong fourth quarter. Collections for the first two months of 2003, however, are down 1.6 percent from a year ago and 12.8 percent from 2001.

Interest earnings have remained surprisingly high. Despite money market rates hovering around 1 percent, the yield from the county investment pool has stayed above 3 percent. With little prospect for higher returns, maturation of current holdings and the deposit of spring and fall property tax collections will push the county pool yield lower, with a return of 2.5 percent forecasted for the year.

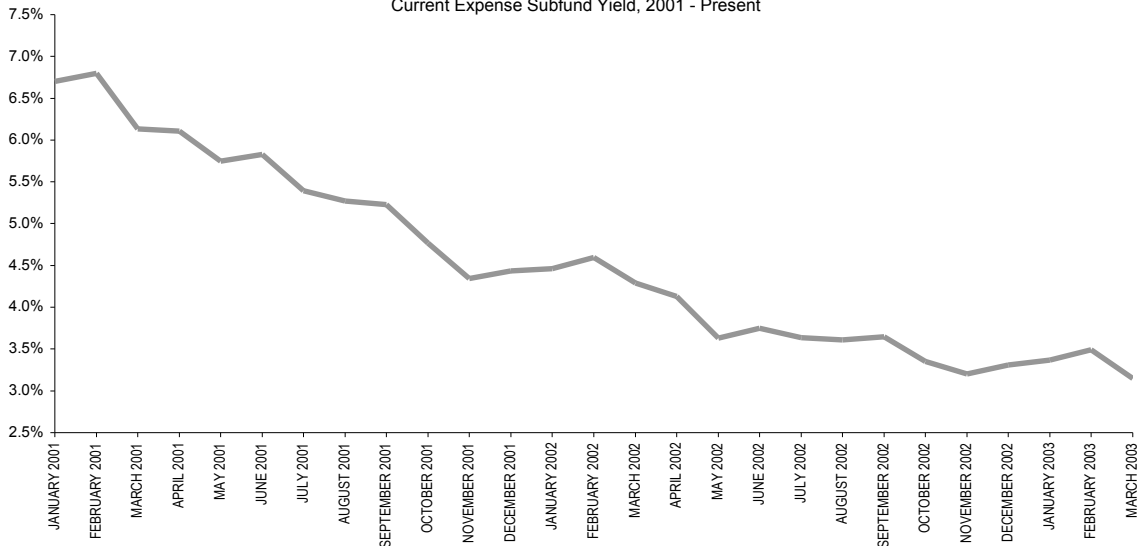
US Government Securities Yield Curve

Close of market bids, March 31, 2003



Net Rate of Return on Pool Fund Balances

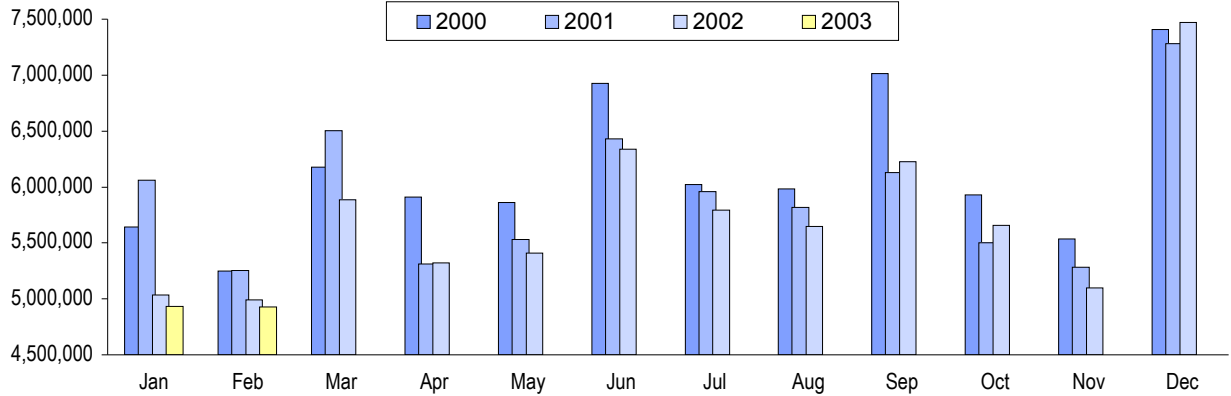
Current Expense Subfund Yield, 2001 - Present



APRIL PRELIMINARY

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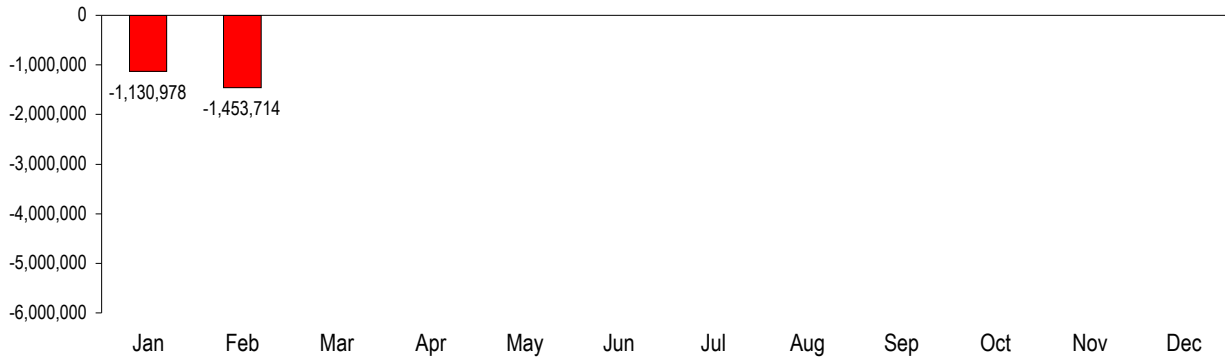
King County Monthly Sales Tax Collections



Monthly Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2000	5,643,746	5,247,801	6,175,848	5,908,357	5,860,285	6,924,611	6,023,919	5,982,095	7,013,757	5,929,100	5,534,585	7,407,359
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	4,928,545										

Year-to-Date 2003 Variance from 2000-2001 Peak



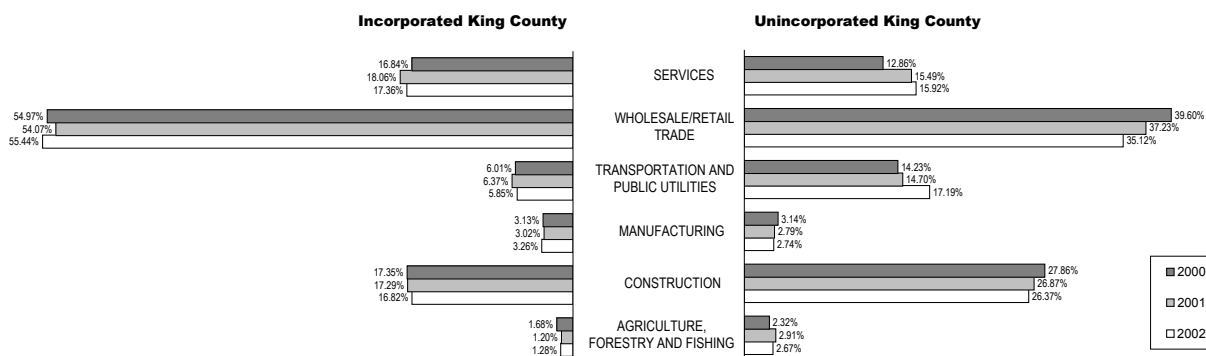
Year-to-Date Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2000	5,643,746	10,891,548	17,067,396	22,975,752	28,836,037	35,760,649	41,784,567	47,766,662	54,780,419	60,709,520	66,244,105	73,651,464
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	9,860,499										

* 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 Cont

Taxable Retail Sales by Standard Industrial Classification

January - December Business Activity (March - February State Department of Revenue Disbursements)

**ECONOMIC FORECAST**

The prognosis has dimmed for a robust national recovery by mid-2003. The recovery first expected in the second half of 2002, then the second half of 2003, now seems more likely to occur in early 2004. Improvement in local conditions have also lagged. We continue to forecast no net change in total regional employment for 2003, but with a somewhat lower starting point and a slower recovery in 2004 and 2005. Slightly higher inflation is expected due to energy cost volatility.

Summary Economic Forecast

Percentage Change from Preceding Year

	2001	2002	2003	2004	2005
Puget Sound Region					
Employment	-0.7%	-2.7%	0.0%	1.2%	2.6%
Nominal Personal Income	2.3%	1.8%	2.1%	4.0%	5.1%
Housing Permits	-5.3%	-3.8%	-4.0%	-2.0%	3.1%
Population	1.1%	1.0%	0.7%	0.6%	0.8%
Consumer Price Index	3.7%	1.9%	2.1%	2.2%	2.2%
Washington State					
Employment	-2.9%	1.7%	1.0%	1.9%	1.9%
Nominal Personal Income	2.6%	3.5%	3.8%	4.7%	5.5%
Housing Permits	-1.7%	11.1%	-13.2%	0.0%	5.0%
United States					
Employment	0.2%	-0.9%	0.7%	1.4%	1.6%
Nominal Personal Income	3.3%	3.1%	5.0%	5.7%	5.8%
Housing Starts	2.0%	4.5%	-3.0%	-1.0%	-0.5%
Three-month Treasury Yield	-22.0%	-47.1%	-9.4%	55.4%	37.0%
Consumer Price Index	2.8%	1.6%	2.3%	2.2%	2.3%
GDP	0.3%	2.4%	2.2%	3.3%	3.6%