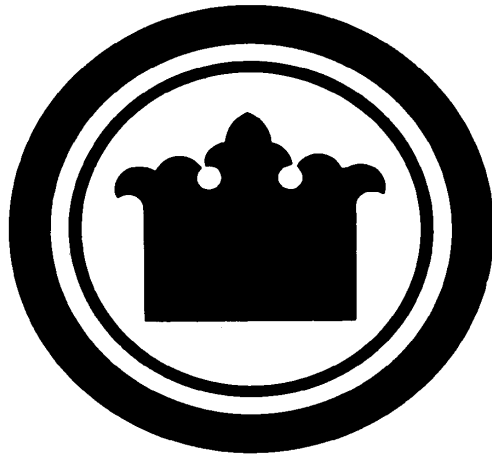


QUARTERLY ECONOMIC REPORT
3rd Quarter, 2003



KING COUNTY
OFFICE OF MANAGEMENT AND BUDGET

SUMMARY

Strong national GDP numbers suggest that the economy is finally recovering from recession, albeit with no improvement in labor markets. Relative stability in energy prices and long-term interest rates appear to form the basis for sustained growth. Low consumer confidence data, however, likely resulting from high unemployment and continued uncertainties surrounding the occupation of Iraq, could undermine nascent business investment.

The local economy has seen no tangible improvement. Announced closure of the Boeing 757 production line punctuated the region’s wait for two key decisions: Congressional action on the Air Force’s lease of 100 Boeing 767 tankers and the company’s selection of a site for 7E7 production. The immediate economic outlook remains largely unchanged, with the prospect of only a marginal decline in unemployment in the next six months.

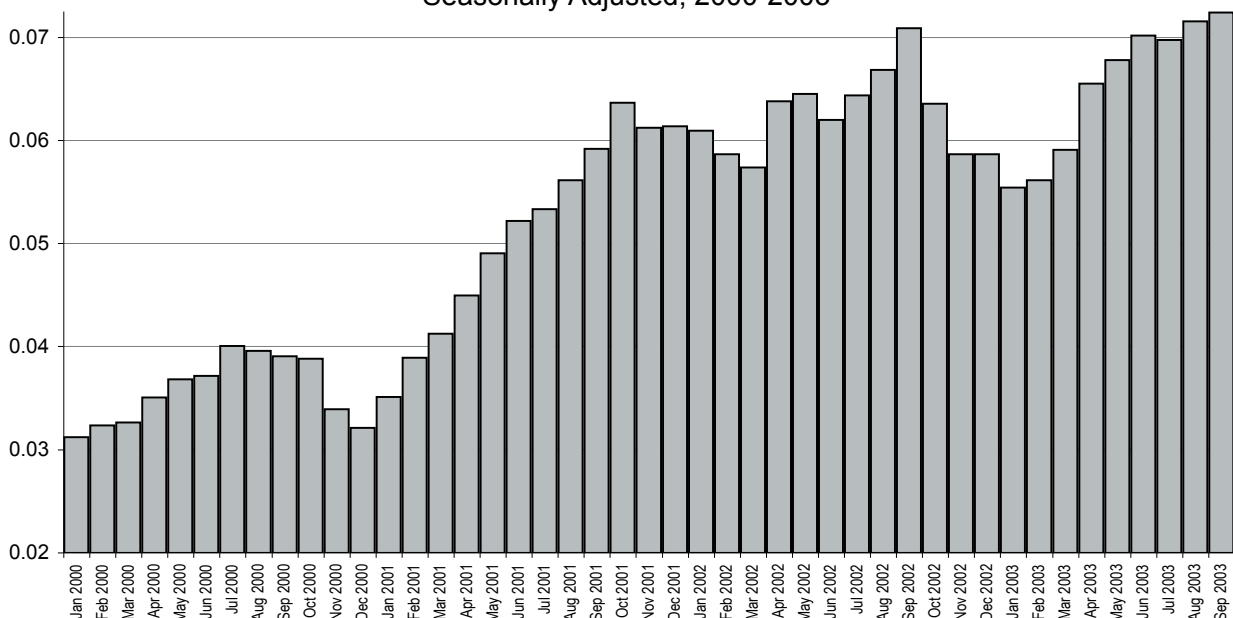
REVIEW OF ECONOMIC CONDITIONS

Although unemployment continues to lag both locally and nationwide, last week’s GDP numbers are the strongest indication yet of economic recovery three years in the making. The preliminary 7.2 percent annualized increase recorded in the third quarter was the highest in 20 years, and was even more significant in the absence of confounding trends. Unlike two of the last three quarters, GDP was not artificially boosted by defense procurement or inventory flows borrowing growth from subsequent quarters. Indeed, the numbers actually appear to understate growth – net of inventory, the economy grew at 7.8 percent.

The strength of these third quarter numbers should not overstate their significance. For calendar year 2003, GDP is still quite unlikely to surpass four percent. In the absence of an unprecedented boom in productivity, total employment will have to improve dramatically if the economy is to even match 2003 levels next year.

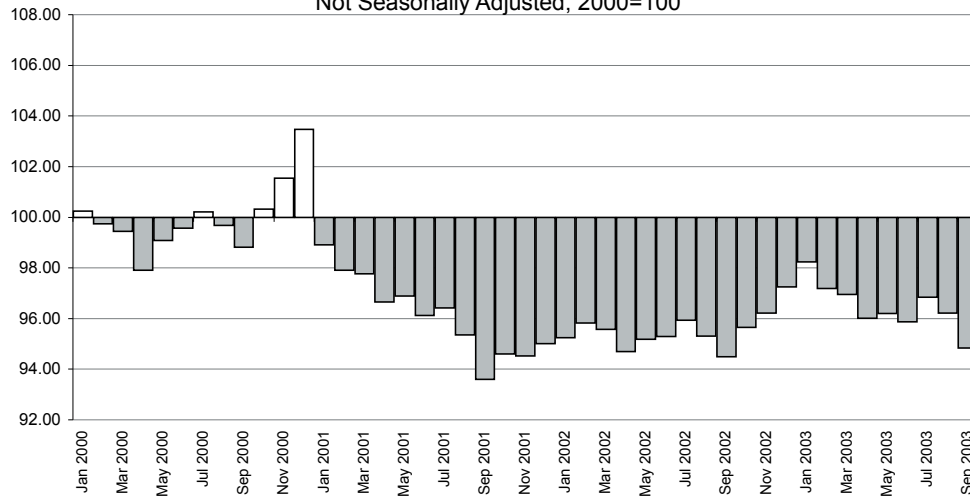
Energy price volatility has swung downward, with futures markets suggesting moderate price stability over the winter. Announcement by the US military of success in bringing Iraqi oil output

King County Unemployment Rate
Seasonally Adjusted, 2000-2003



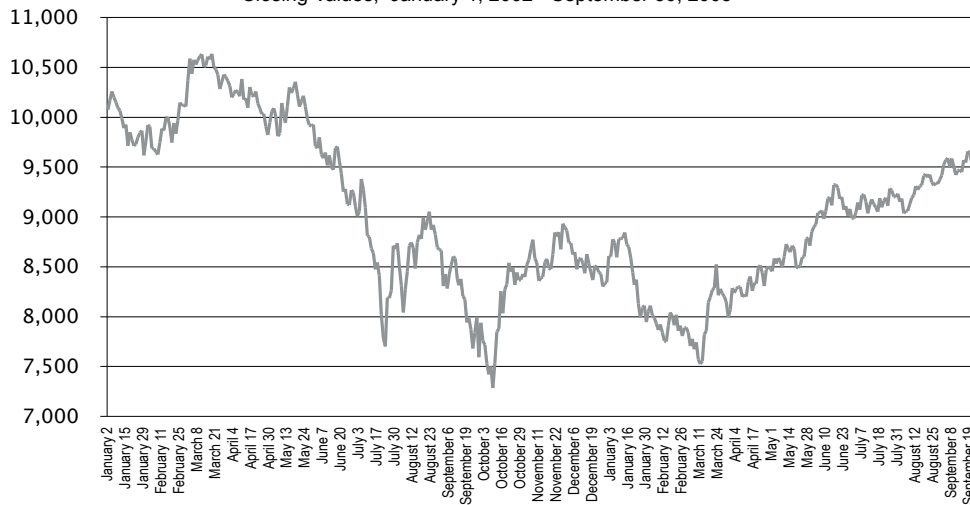
King County Total Employment

Not Seasonally Adjusted, 2000=100



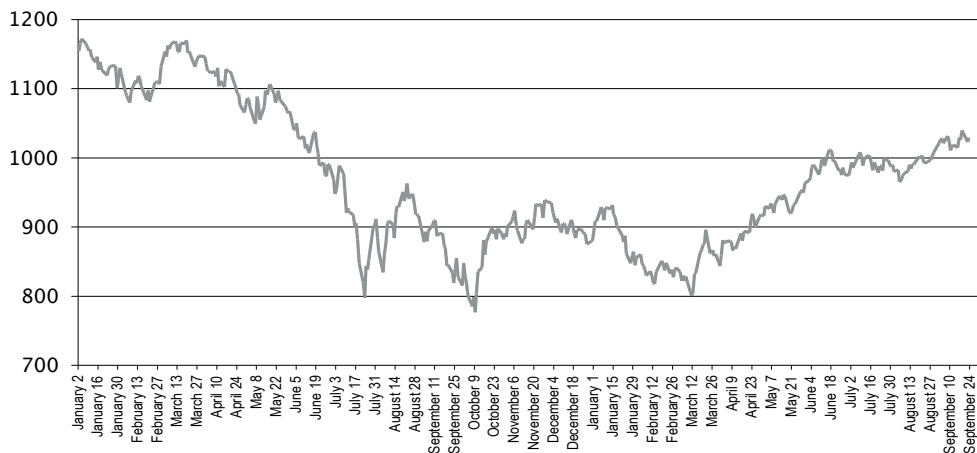
Dow Jones Industrial Average

Closing Values, January 1, 2002 - September 30, 2003

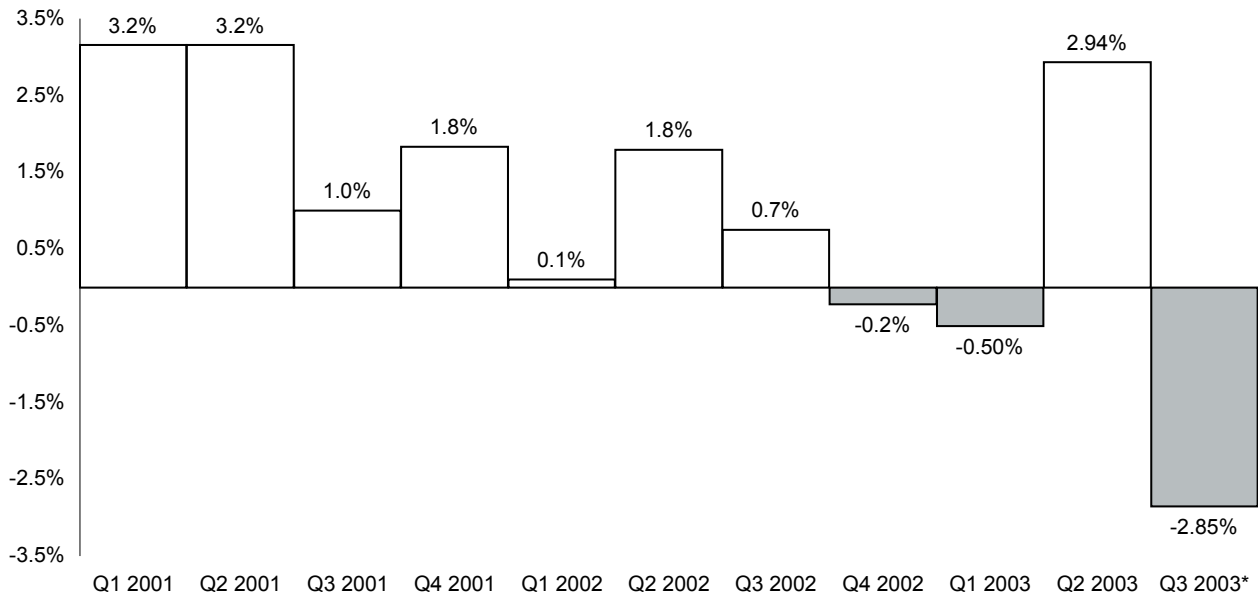


Standard and Poor's 500 Index

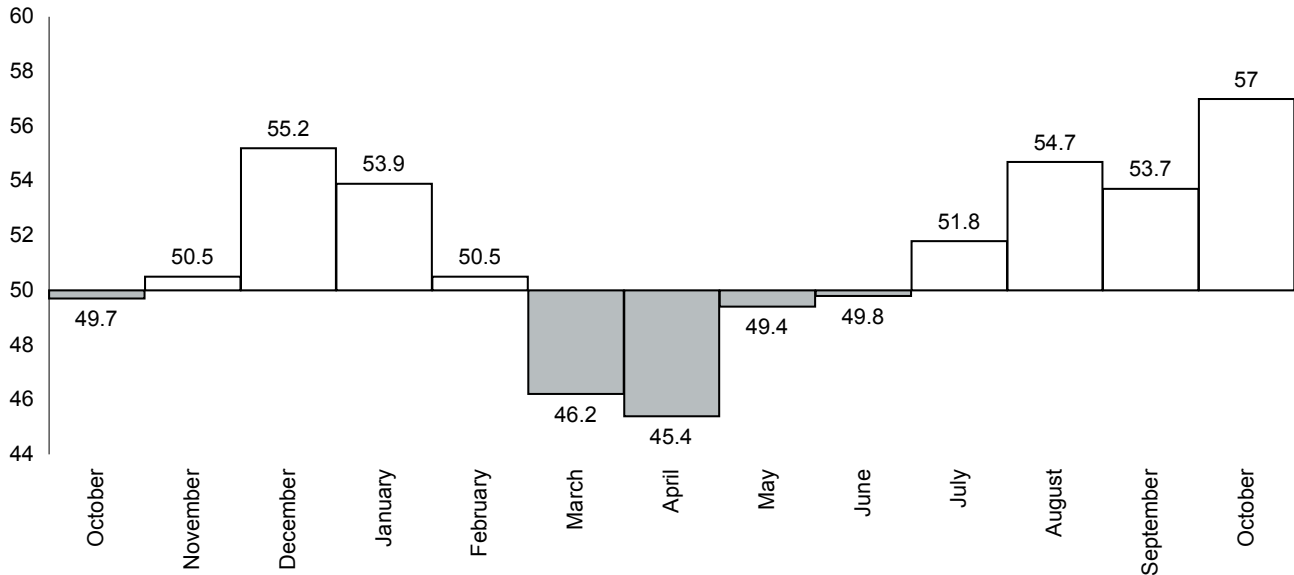
Closing Values, January 1, 2002 - September 30, 2003



US Private Residential Construction
Seasonally Adjusted Quarterly Change, Completed Units



US Manufacturing Activity Index
PMI Monthly Data since October 2002; Scores Below 50 Indicate Contraction



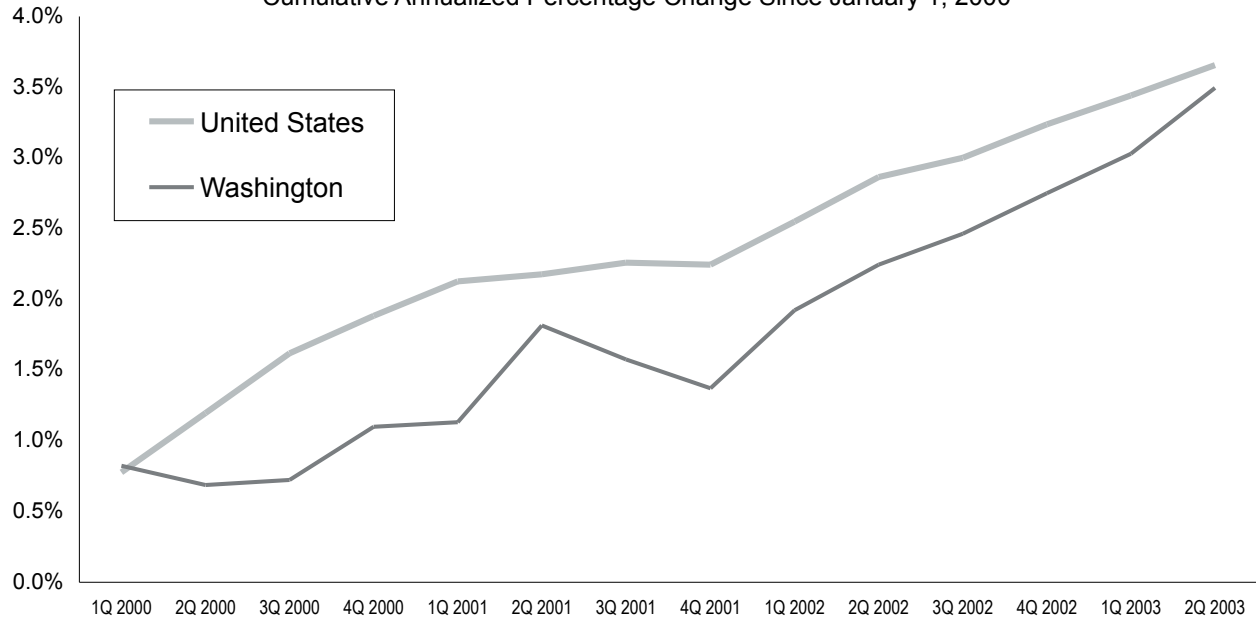
to pre-war levels has undoubtedly eased market concerns. Ongoing violence and unrest, however, could easily disrupt production and push prices higher, which in any event remain almost 50 percent above January 2002 levels.

REVIEW OF REVENUE COLLECTIONS

County revenue collections are largely tracking forecasted levels. Despite an accounting adjustment that boosted July receipts, sales tax collections through August are still running a full percentage point below 2002 levels. With roughly 36 percent of 2003 revenue, and the volatile December filings yet to be processed, sales tax levels remain shrouded in uncertainty.

Nominal Personal Income Growth

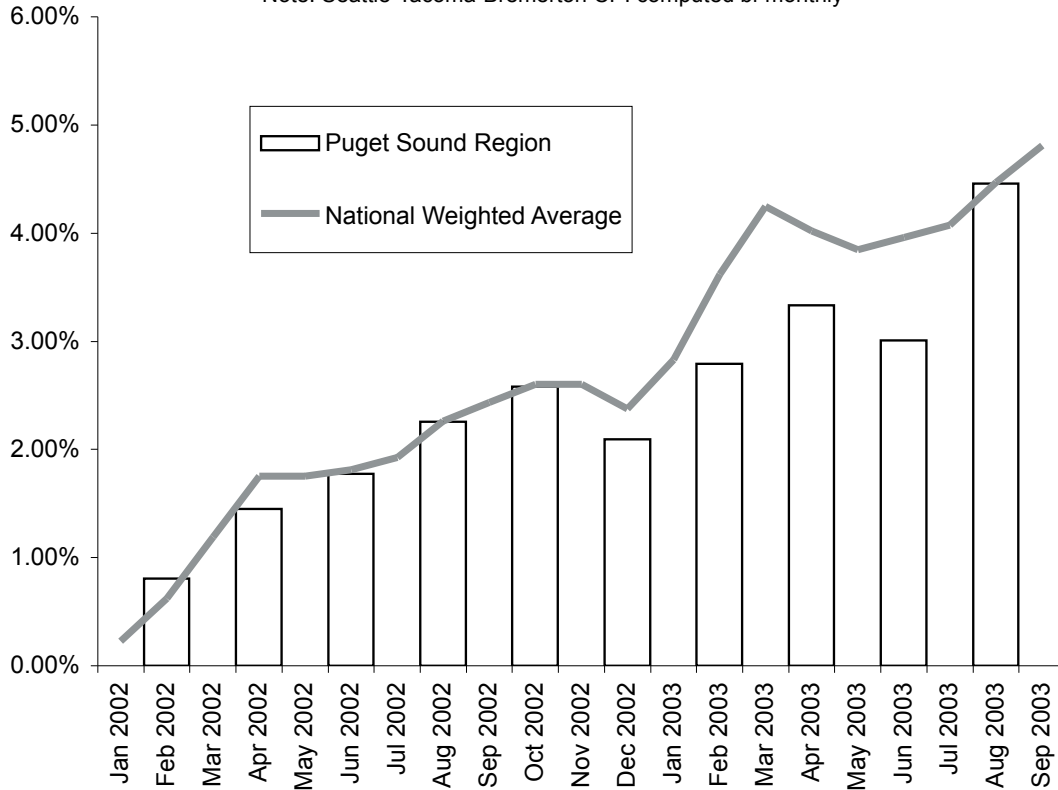
Cumulative Annualized Percentage Change Since January 1, 2000



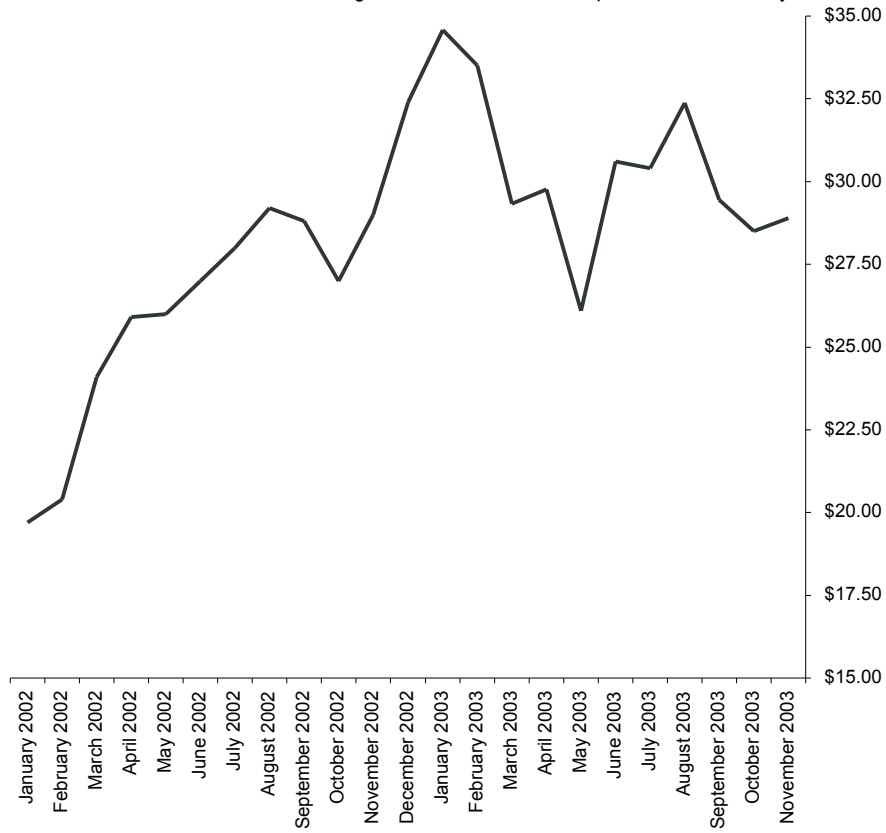
National and Local Inflation Comparison

CPI-U, cumulative change since 2001

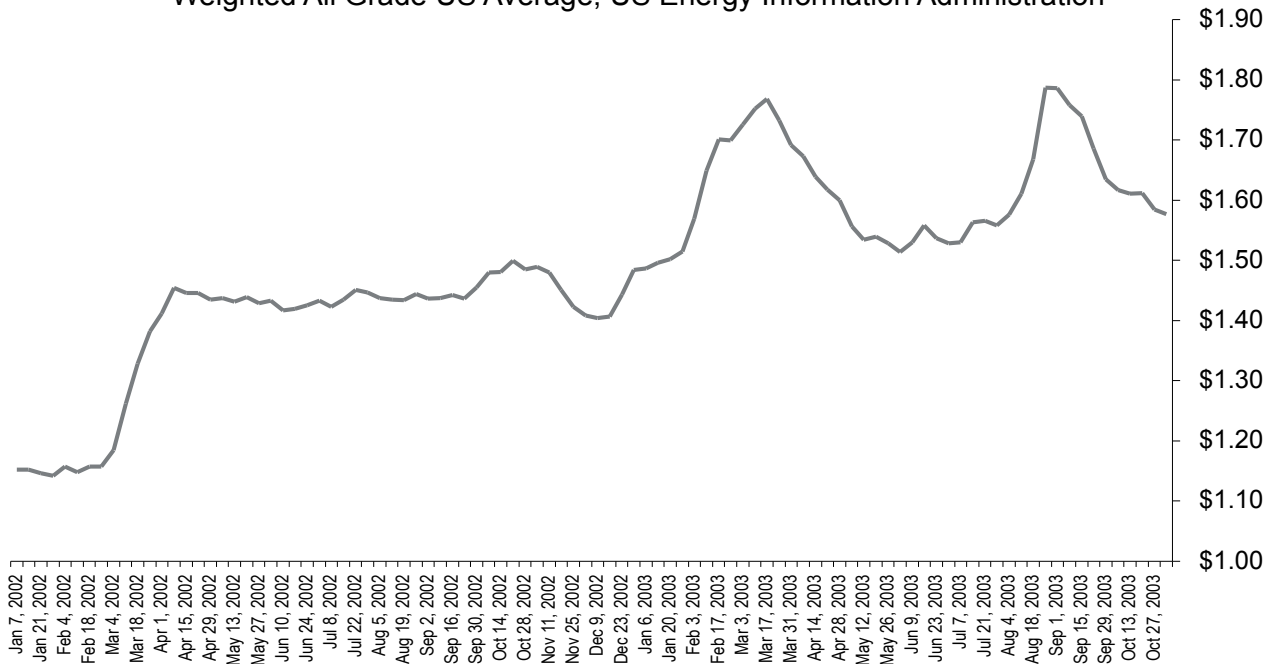
Note: Seattle-Tacoma-Bremerton CPI computed bi-monthly



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

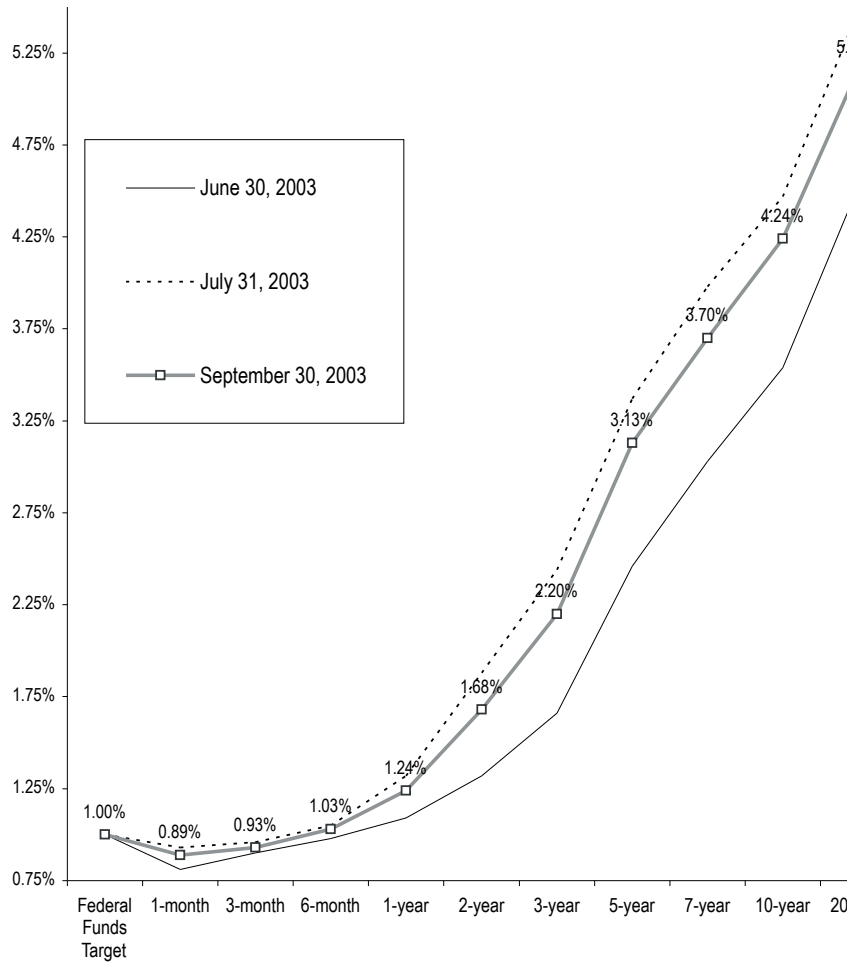


Average Retail Gasoline Price per Gallon
 Weighted All Grade US Average, US Energy Information Administration



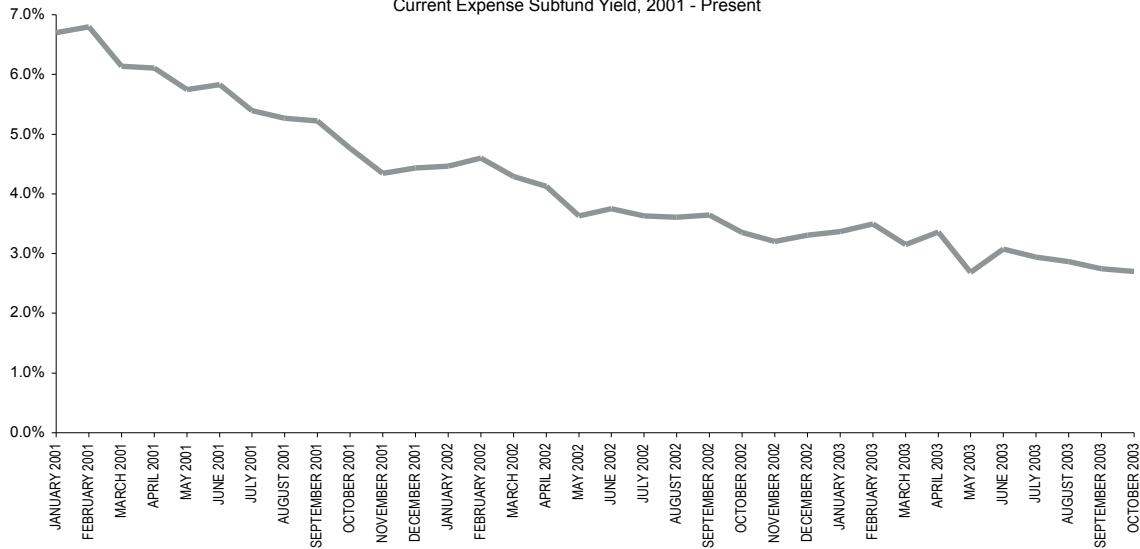
US Government Securities Yield Curve

Close of market bids, Constant Treasury Maturity Yields



Net Rate of Return on Pool Fund Balances

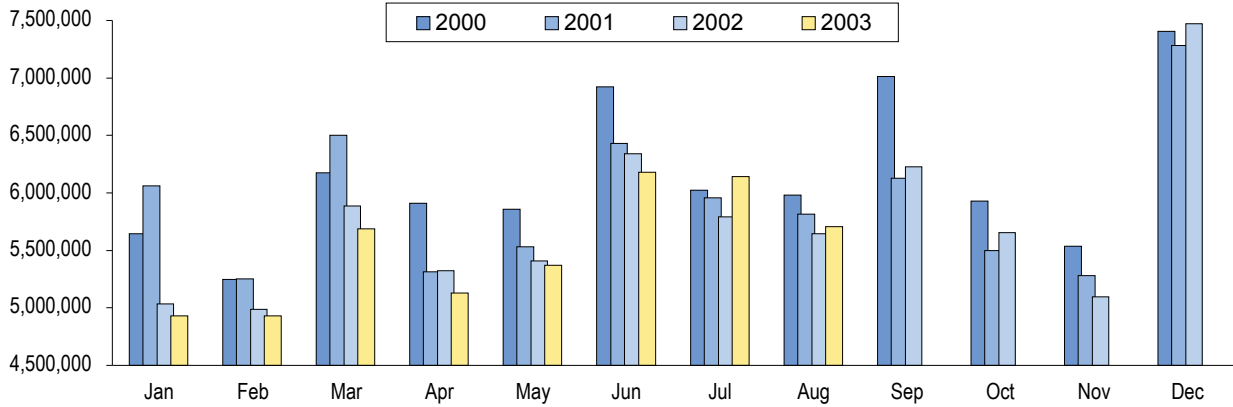
Current Expense Subfund Yield, 2001 - Present



OCTOBER FINAL

November 04, 2003 9:24

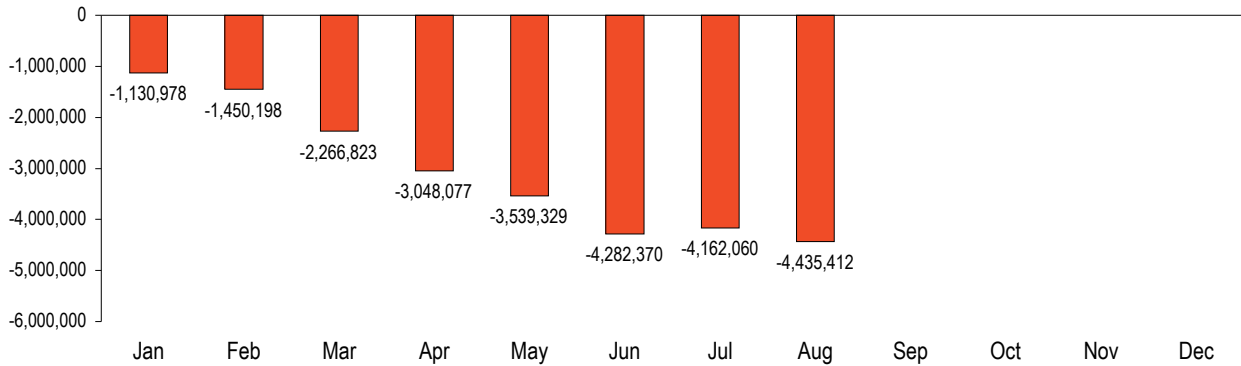
King County Monthly Sales Tax Collections



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 | 4,932,061 | 5,687,259 | 5,127,102 | 5,369,033 | 6,181,570 | 6,144,228 | 5,708,742 | | | | |

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 | 9,864,015 | 15,551,273 | 20,678,376 | 26,047,409 | 32,228,980 | 38,373,208 | 44,081,950 | | | | |

* 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).

Although yields from the county's investment pool have continued to fall in the face of overnight rates below one percent, fund balances are higher. The average non-county balance through September from school, fire, and other local districts has risen 29.7 percent (\$438 million) compared with the same period a year ago. Reflecting the lagged effect of unprecedented low mortgage rates, recorder filings have remained at high levels longer than expected. Given the delays inherent in many real estate transactions, this revenue should remain reasonably strong for the rest of the year before returning to more typical levels in 2004.

ECONOMIC FORECAST

Strong national numbers have improved the outlook for the rest of the year. Although this will aid local business conditions, significant improvement in King County is not anticipated until 2004.

Summary Economic Forecast

Percentage Change from Preceding Year

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------------|--------|--------|--------|-------|-------|
| King County | | | | | |
| Employment | -3.9% | -0.6% | 0.0% | 1.6% | 2.9% |
| Nominal Personal Income | 1.7% | 1.5% | 2.0% | 4.3% | 5.1% |
| Housing Permits | -18.7% | -4.0% | 2.2% | -3.9% | -1.4% |
| Population | 1.1% | 1.0% | 0.3% | 0.5% | 0.9% |
| Consumer Price Index * | 3.7% | 1.9% | 2.0% | 2.1% | 2.3% |
| Washington State | | | | | |
| Employment | -2.9% | 1.7% | 0.6% | 1.6% | 2.2% |
| Nominal Personal Income | 2.6% | 3.4% | 3.5% | 4.4% | 4.9% |
| Housing Permits | -1.7% | 4.8% | 4.0% | -3.8% | -3.0% |
| United States | | | | | |
| Employment | 0.2% | -1.1% | -0.2% | 1.4% | 2.0% |
| Nominal Personal Income | 3.3% | 2.7% | 3.3% | 4.9% | 5.3% |
| Housing Starts | 2.0% | 6.5% | 0.0% | -3.8% | -0.9% |
| Three-month Treasury Yield | -22.0% | -47.1% | -11.3% | 4.6% | 53.5% |
| Consumer Price Index | 2.8% | 1.6% | 2.2% | 2.1% | 2.2% |
| Real GDP | 0.3% | 2.4% | 2.1% | 3.0% | 3.3% |