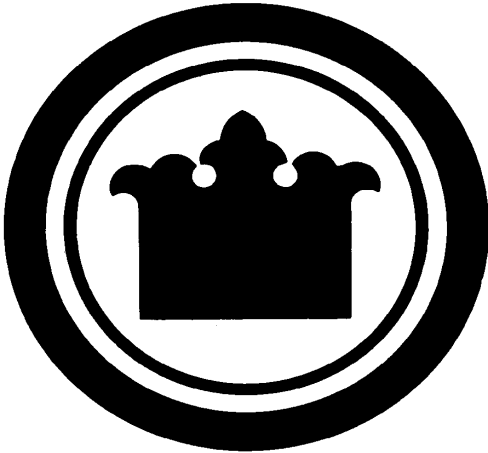


QUARTERLY ECONOMIC REPORT

3rd Quarter

2004



**KING COUNTY
OFFICE OF MANAGEMENT AND BUDGET**

SUMMARY

The national economy continues to experience inconsistent growth. Volatile energy prices and election year uncertainties have depressed equity markets, with little sign of improvement from key economic measures.

Local conditions reflect relative strength, as growing employment has finally overtaken recessionary job losses. Strong construction activity has resulted in an upward revision in estimated sales tax receipts, as documented in the 2005 Executive Proposed Budget.

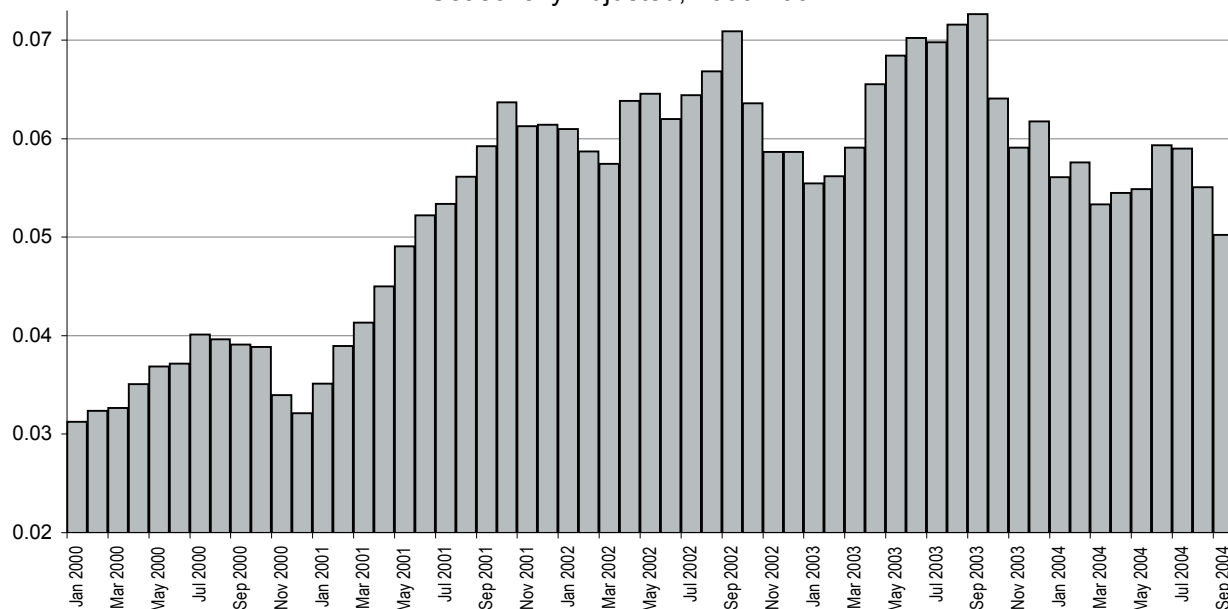
REVIEW OF ECONOMIC CONDITIONS

Recent economic news confirms budget office assumptions of steady but lackluster growth. The initial estimate of third quarter gross domestic product growth was 3.7 percent, following second quarter growth of 3.3 percent. Both measures were well below market expectations, and short of the 4.0 to 4.5 percent growth necessary to generate significant employment growth.

Surprising volatility in personal consumption – up 0.6 percent in September after falling 0.1 percent in August – raises concern that consumer spending will not continue to drive growth into 2005. The recovery was largely the result of automobile purchases, fueled by sizable discounts and incentives. Structural changes in the passenger vehicle market undermine the likelihood of sustained sales at current levels.

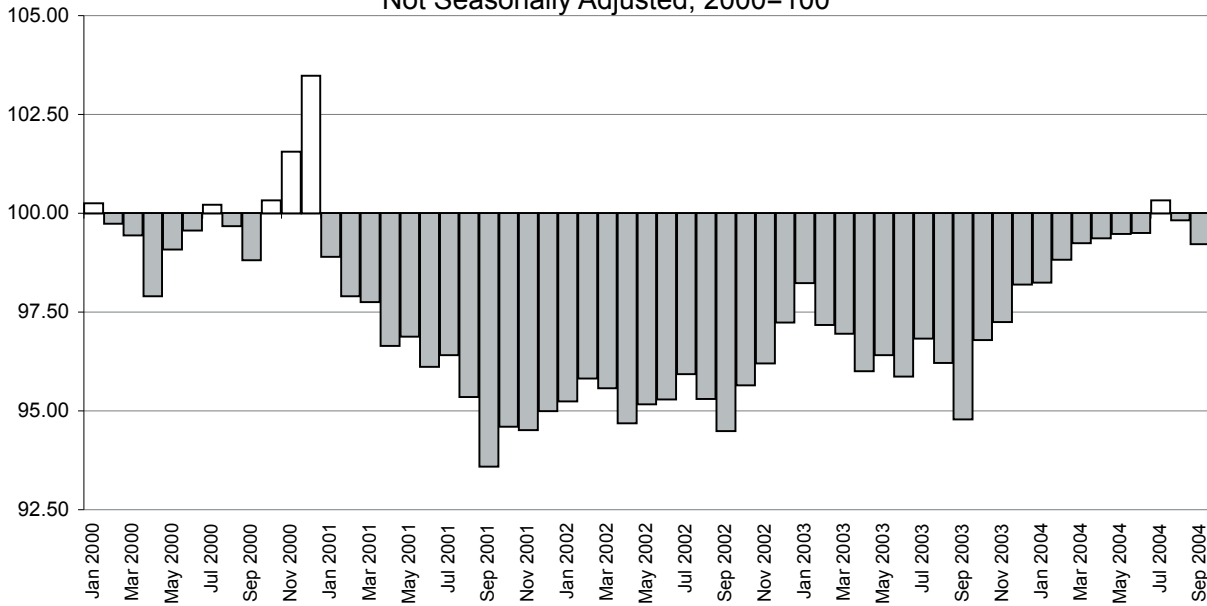
Income growth lagged well behind expenditures – up 0.2 percent in September – and consumers reduced savings to make up the difference. The already anemic savings rate of 0.7 percent in August fell to 0.2 percent of disposable income in September, the lowest level since immediately

King County Unemployment Rate
Seasonally Adjusted, 2000-2004



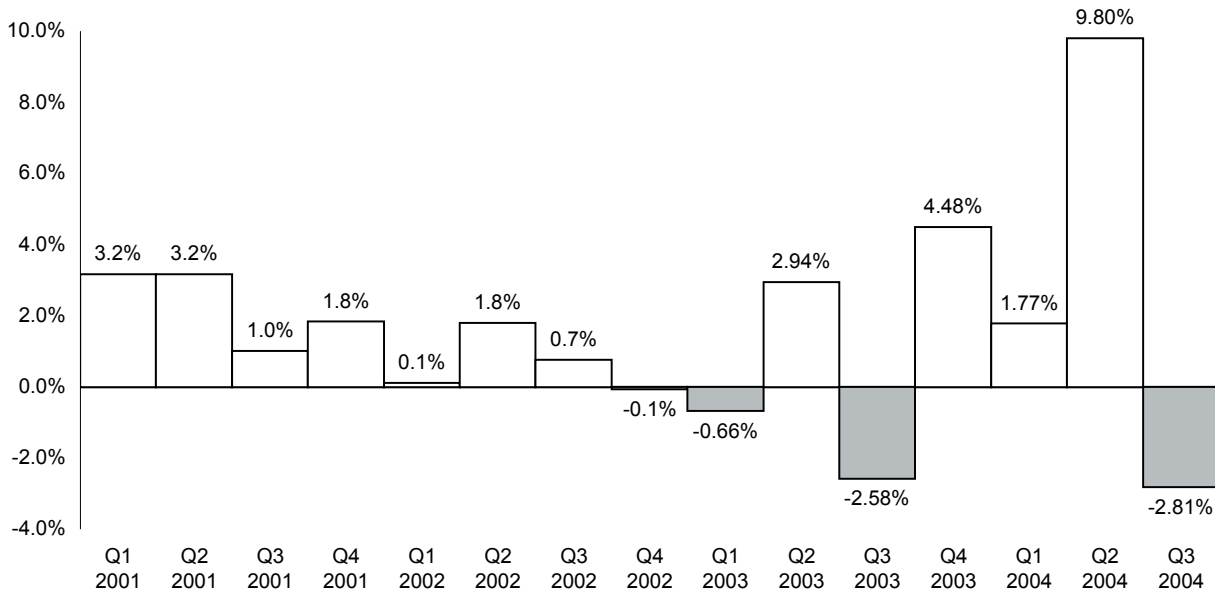
King County Total Employment

Not Seasonally Adjusted, 2000=100



US Private Residential Construction

Seasonally Adjusted Quarterly Change, Completed Units

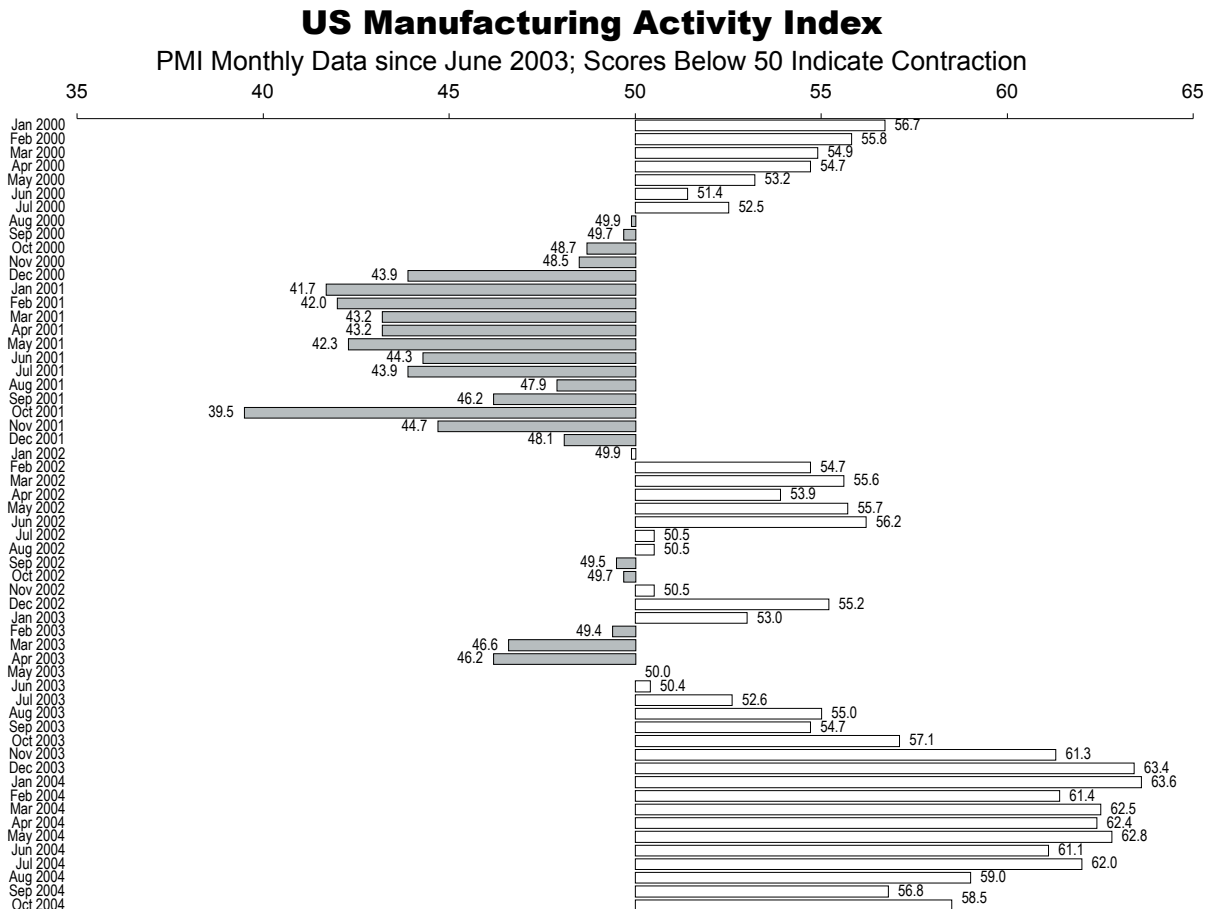


after the September 11th terrorist attacks. Short of a pronounced rebound in personal income, unprecedented consumer debt levels will undoubtedly undermine consumption levels.

After an alarming run up throughout September and most of October, energy prices appear to have stabilized, with December future contracts falling below \$50 per barrel in early November. Heightened international demand has made the market highly responsive to even the slightest supply shortfall. Although sustained crude prices over \$50 per barrel can be expected to adversely effect the economy, it appears the worst has passed. Nonetheless, heating oil demand could result in higher retail gasoline prices even as crude oil prices subside over the coming months.

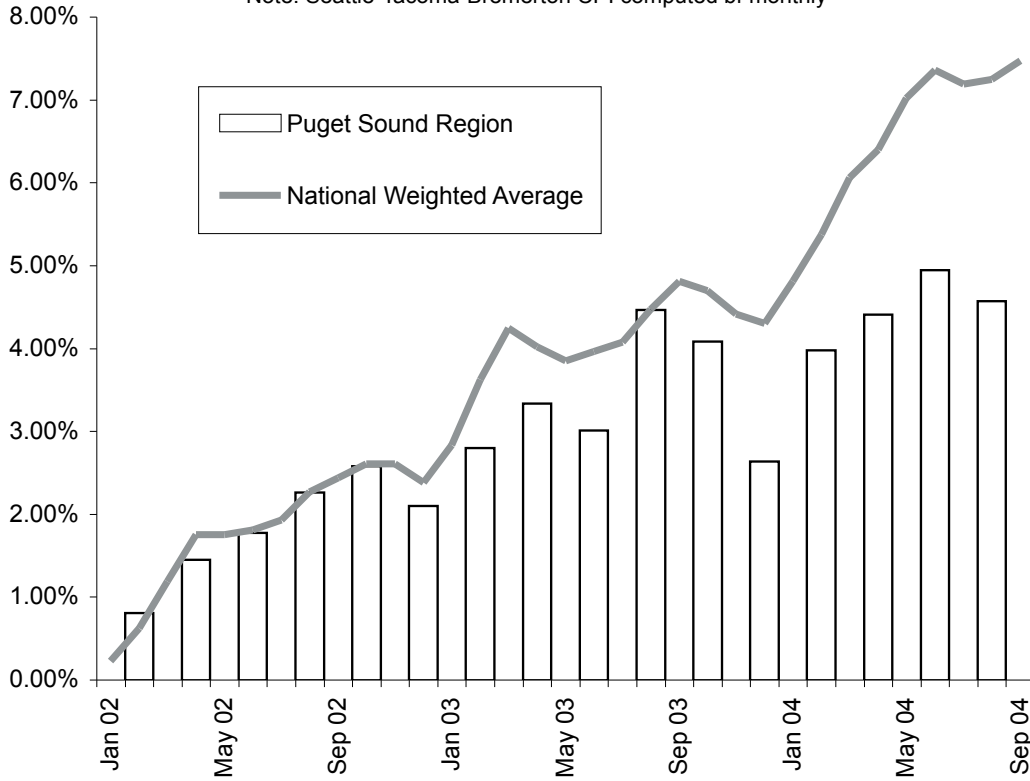
The recovery remains largely jobless at the national level, with more robust growth emerging locally. King County seasonally adjusted unemployment fell to 5.0 percent in September, down from 5.5 percent in August, and 5.9 percent in July. This is the best result since the regional economy slipped into recession in the spring of 2001.

After rising 2.9 percent through the first half of the year – an annualized rate of 5.9 percent – the consumer price index has stabilized. It is unclear what effect oil futures will have on inflation. Retail gasoline prices have lagged much of the run up past \$50 per barrel, and there is a good



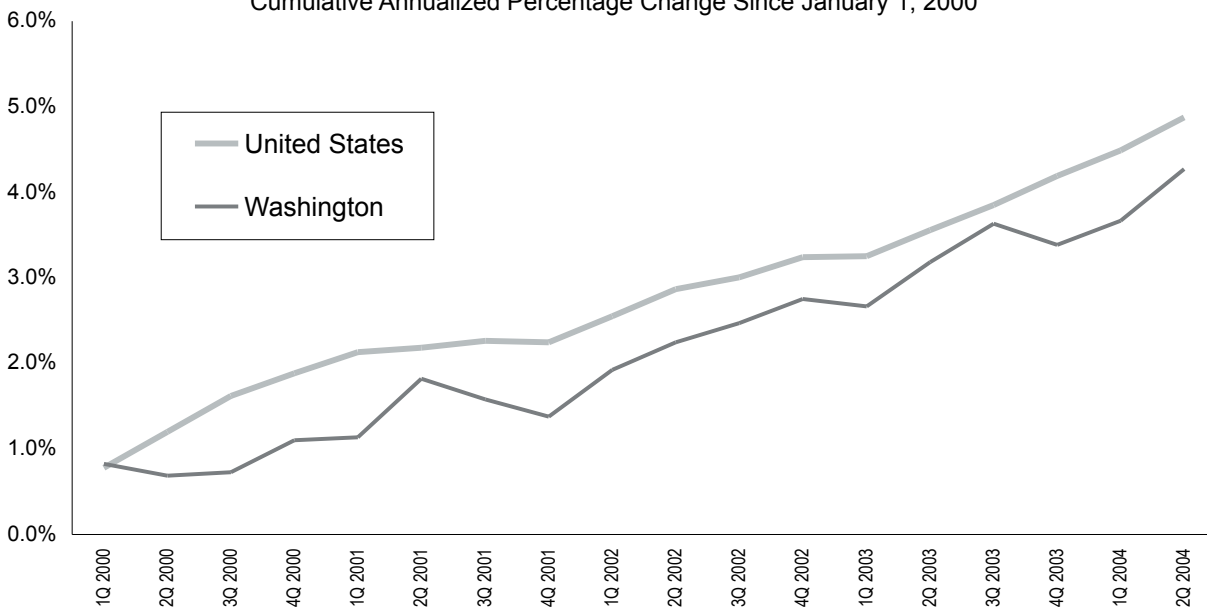
National and Local Inflation Comparison

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



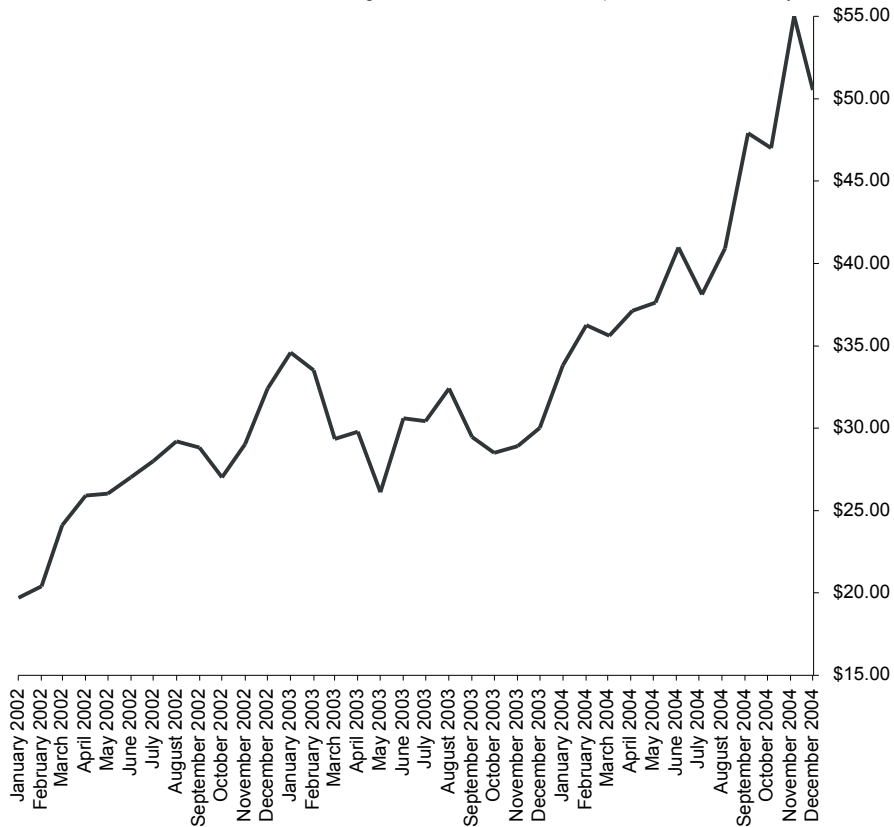
Nominal Personal Income Growth

Cumulative Annualized Percentage Change Since January 1, 2000



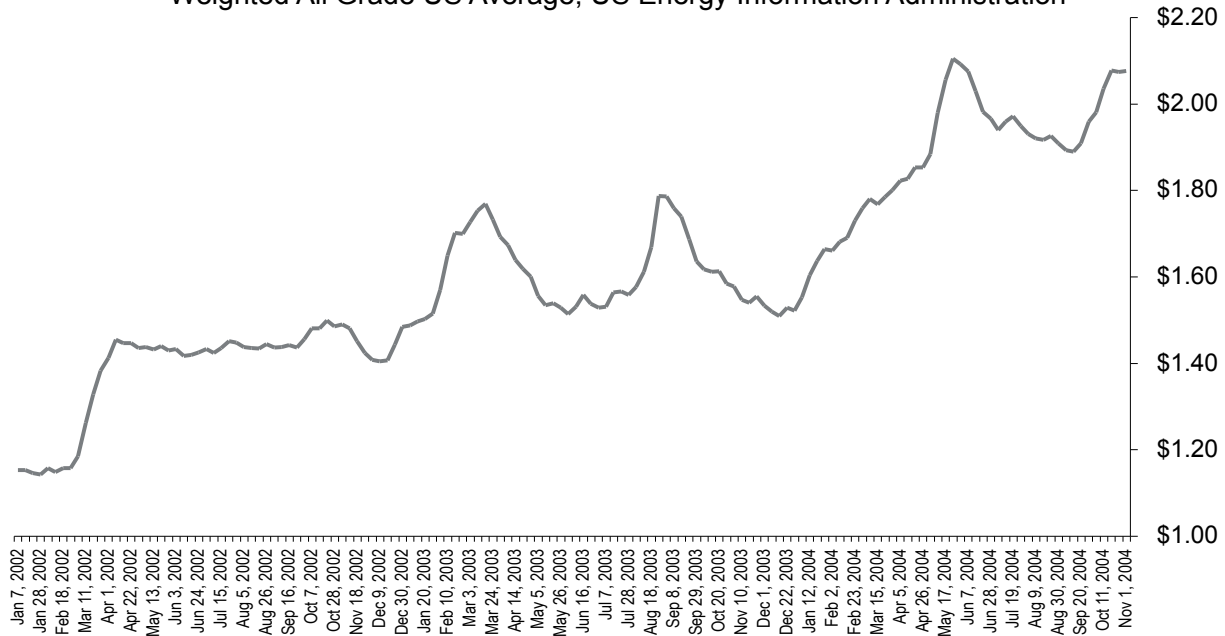
Light, Sweet, Crude Oil Futures Price

New York Mercantile Exchange, Final Price on Subsequent Month Delivery



Average Retail Gasoline Price per Gallon

Weighted All Grade US Average, US Energy Information Administration



chance that a timely commodity market price decline will eliminate the worst inflationary pressure.

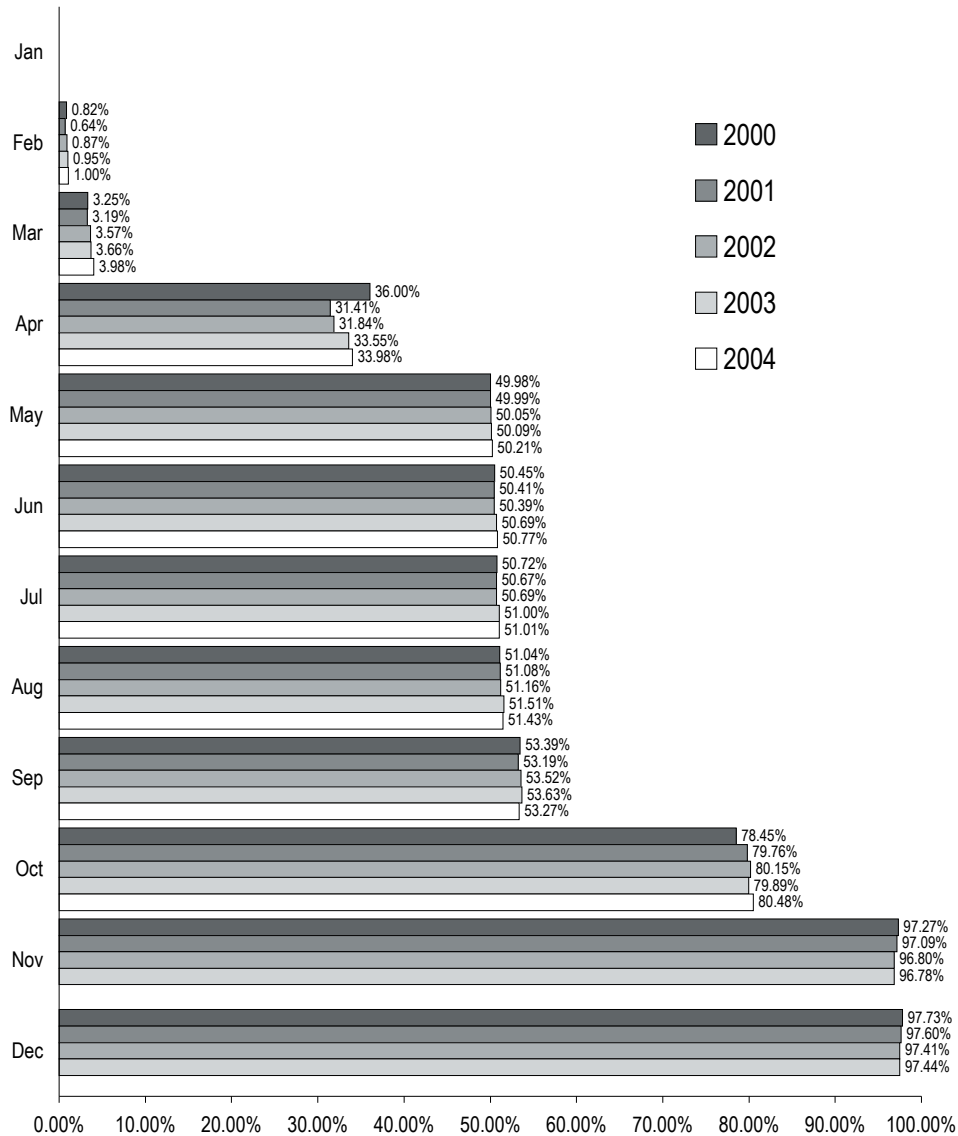
Post-election action by the Open Market Committee is unclear. As noted, the prospect of accelerating inflation has diminished, particularly since the Federal Reserve embarked on a series of actions to tighten the money supply. Coupled with a somewhat diminished economic outlook, future markets are not assuming another 25 basis point rate increase until early 2005.

REVIEW OF REVENUE COLLECTIONS

Revenue numbers have been adjusted to reflect the 2005 Executive Proposed Budget.

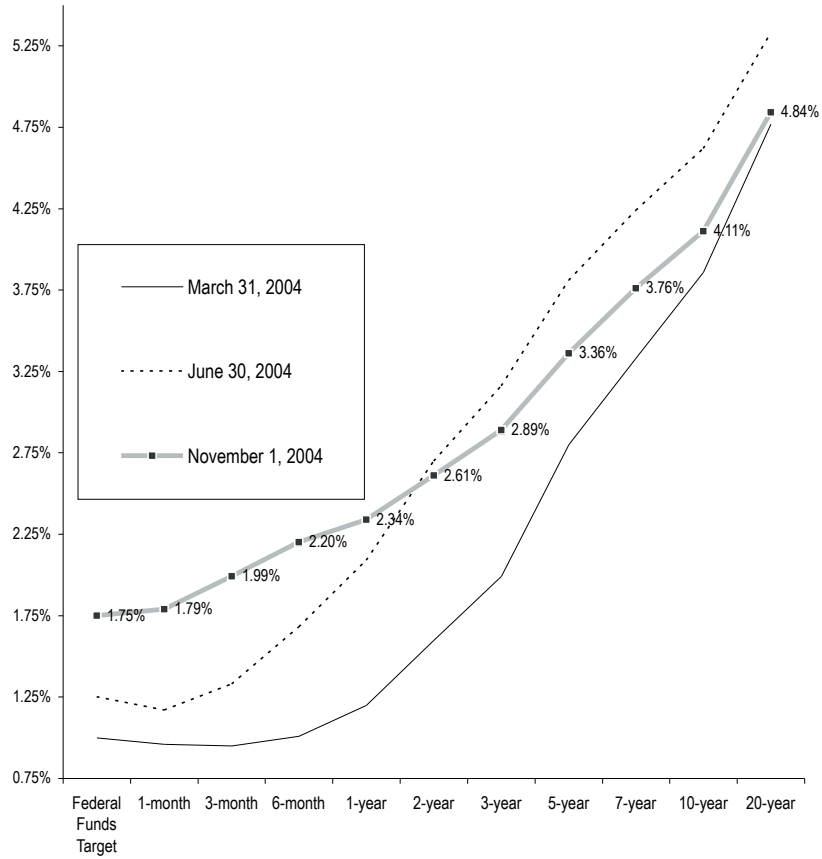
The most notable change came to 2004 estimated sales tax collections, up 0.97 percent over adopted levels. This change is fueled by strong collections over the first eight months of the

Cumulative Monthly Property Tax Collections
Current Expense Levy, 2000-2004



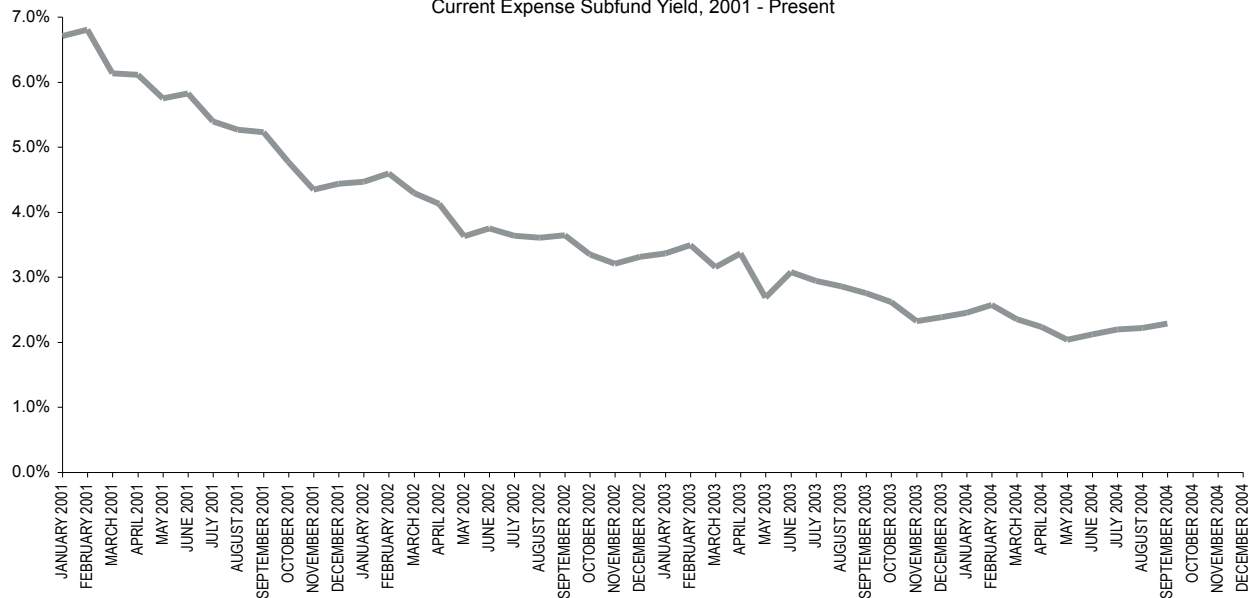
US Government Securities Yield Curve

Close of market bids, Constant Treasury Maturity Yields

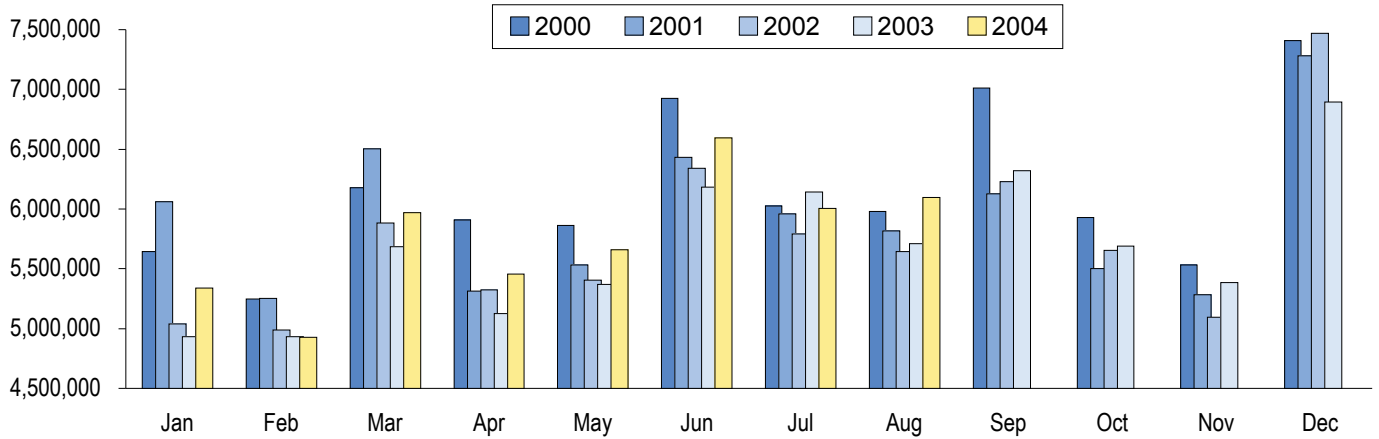


Net Rate of Return on Pool Fund Balances

Current Expense Subfund Yield, 2001 - Present



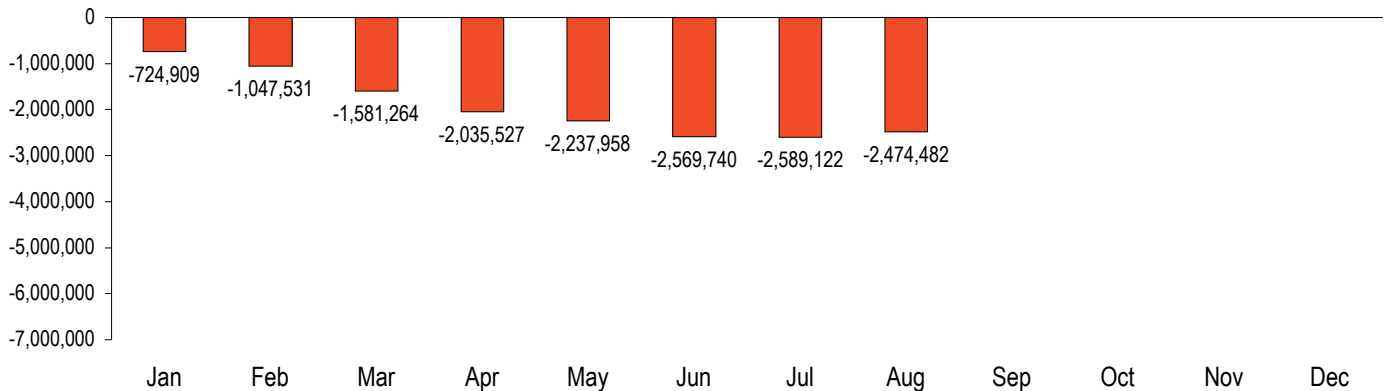
King County Monthly Sales Tax Collections



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	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				

Year-to-Date 2004 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	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				

* 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).

year. Growth for the year of 1.37 percent is now estimated over 2003 collections, as reflected in the 2005 Executive Proposed Budget. Year to date collections are 4.4 percent ahead of this point in 2003, but 36 percent of revenue, including critical December retail activity, remains unknown. Given weak national data for the year, related weakness is probable in local revenue in the latter part of 2004.

Investment pool yield rates have lagged behind forecast levels, with a rate of return of 2.22 percent through the end of September, compared with a forecast expectation of 2.47 percent. The variance is explained largely by lower than expected long term interest rates, which remain near historic lows despite the run up in short term rates. Due to much stronger than anticipated fund balances, however, estimated 2004 interest earnings for the CX subfund have been increased by \$0.6 million. Other revenue changes detailed in the quarterly budget report reflect collection experience and related economic activity.

ECONOMIC FORECAST

The outlook for 2004 is largely unchanged. Resolution of the presidential campaign should strengthen equity markets. Continued economic uncertainty, however, makes uneven results likely for the rest of the year, before giving way to accelerating growth in 2005.

Summary Economic Forecast

Percentage Change from Preceding Year

	2001	2002	2003	2004	2005	2006	2007
King County							
Employment	-3.9%	-0.6%	-0.7%	1.4%	2.7%	2.5%	2.0%
Nominal Personal Income	1.7%	1.5%	2.0%	4.4%	5.5%	5.3%	5.2%
Housing Permits	-18.7%	-4.0%	1.4%	2.3%	-2.0%	-0.2%	0.5%
Population	1.1%	1.0%	0.3%	0.5%	0.9%	0.9%	0.9%
Consumer Price Index *	3.7%	1.9%	1.6%	2.5%	2.4%	2.5%	2.3%
Washington State							
Employment	-2.9%	1.7%	0.6%	1.6%	2.2%	2.0%	2.0%
Nominal Personal Income	2.6%	3.4%	3.5%	4.4%	4.6%	4.8%	4.8%
Housing Permits	-1.7%	4.8%	4.0%	-3.8%	-3.0%	-1.1%	-1.1%
United States							
Employment	0.2%	-1.1%	-0.3%	1.1%	2.0%	1.6%	1.6%
Nominal Personal Income	3.3%	2.7%	3.3%	5.6%	5.8%	5.5%	5.0%
Housing Starts	2.0%	6.5%	8.2%	2.7%	-7.9%	-4.6%	-0.8%
Three-month Treasury Yield	-22.0%	-47.1%	-11.3%	34.0%	28.2%	18.5%	16.4%
Consumer Price Index	2.8%	1.6%	2.3%	2.7%	2.6%	2.5%	2.4%
Real GDP	0.3%	2.4%	2.7%	2.9%	3.1%	2.8%	2.8%

* Puget Sound Region