INTRODUCTION

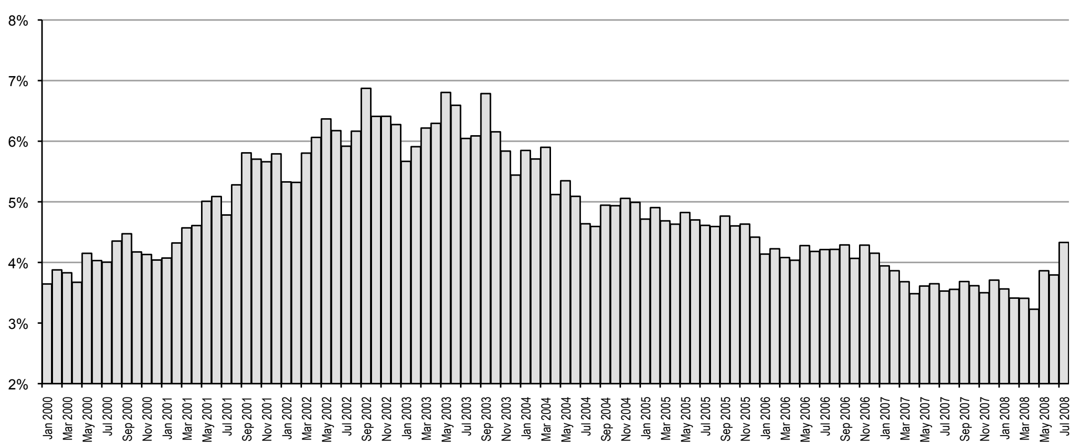
Domestic and global financial markets are in turmoil, threatening economic growth at all levels. Demand wanes as consumers experience declining real estate and asset equity, more restrictive access to credit, and a rise in unemployment. King County has endured 2008 better than many areas in terms of employment, income, and home values, but the county is not immune from the downturn and has already experienced some slowing.

The ongoing housing market crisis continues to muddle valuations of mortgage-backed securities and the solvency of firms that own them. Wary investors have fled risky securities, causing stocks to tumble and credit markets to disappear. New businesses and businesses without liquid assets have few options but to close or to seek takeovers. Seattle-based Washington Mutual is one such example and is the largest bank to have ever collapsed.

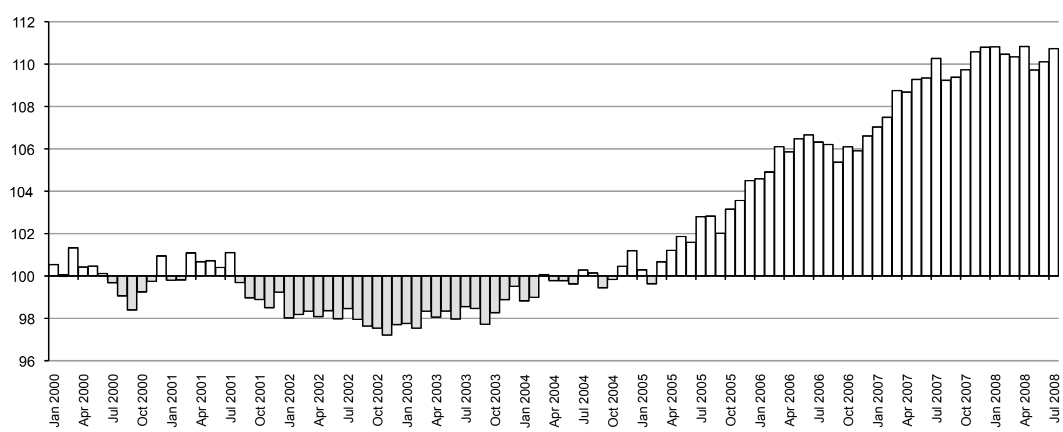
Since mid-2000, the Puget Sound region has weathered a series of setbacks, punctuated by the dramatic collapse in equity markets, the September 11, 2001 terrorist attacks, a myriad of accounting scandals, two Boeing strikes (one still ongoing), and the buildup and continued aftermath of war in Afghanistan and Iraq. Steady growth in 2004-2007, a period in which many economic indicators finally surpassed pre-2001 levels, is now derailed by financial turmoil.

For 2009, the King County Office of Management and Budget anticipates anemic 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 2009 revenue and expenditure projections. Initial estimates of 2010 and 2011 revenues and expenditures are also prepared from this forecast for the out-year General Fund financial plan.

King County Unemployment Rate
Seasonally Adjusted, 2000-Current



King County Total Employment
Not Seasonally Adjusted, 2000=100



Dow Jones Industrial Average

Adjusted closing values, January 1, 2000 - September 22, 2008

Standard and Poor's 500 Index

Adjusted closing values, January 1, 2000 - September 22, 2008

REVIEW OF ECONOMIC CONDITIONS

Statistically, the previous 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. King County experienced 6.2 percent annual unemployment in 2003, the highest rate seen since 1986. 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.

During the three years of expansion that followed, King County enjoyed annual employment growth of 2.9 percent, surpassing pre-2001 levels and achieved over one million employed in mid-2005. Unemployment dropped in 2007 to 3.7 percent, the lowest on record (since at least 1970).[1]

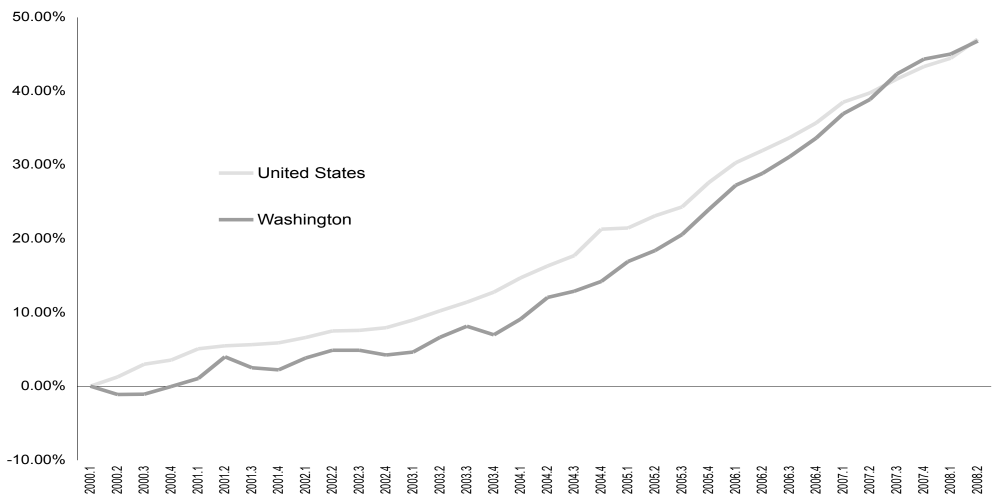
Employment peaked most recently in January 2008, but has stagnated through the third quarter. Growth since 2004 has been dramatic in the construction, information, and healthcare industries. Construction

1 Washington Department of Labor and Industries, Labor Market and Economic Analysis.

employment in the first half of 2008 was up 10.0 percent from the first half of 2007, and up 33.5 percent from the first half of 2004. This trend is unlikely to be sustained, especially considering difficulties in the real estate market.

Nationally, inflation-adjusted median household income increased weakly in 2007 for the third year in a row, partially 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 subsequent stagnation during a peak in the business cycle. Real median household income in 2007 was 0.8 percent below peak 1999 levels.[2] Sluggish household income growth coincides with sustained productivity increases – productivity per worker hour is up over 19 percent since 2000.[3] Wage trends, however, reflect slower nominal growth that has lagged inflation.

Nominal Personal Income Growth
Cumulative Annualized Percentage Change Since January 1, 2000



Contemporary research has almost canonically demonstrated that when labor supply exceeds demand, worker bargaining power is diminished.[4] The conundrum in recent data lies in the apparent coincident decline of both wages and unemployment. The decline in the rate of unemployment (through 2007) 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. The labor force participation rate during 2004-2007 was a full percentage point lower than in 2000. Between the beginning of 2004, when employment unambiguously emerged from the 2001 recession, and the end of 2007, total non-farm payrolls expanded at just over 170,000 net new jobs per month. This number is reasonable in itself, if tepid compared to previous recoveries (36 percent lower than 1993-1994 recovery). Over the past year however, labor market trends have changed. In August 2007, labor force participation fell to 65.8 percent, and has hovered near this level, currently at 66.1 percent - well below the pre-recession peak of 67.2 percent in March 2001.[5] Over the previous 12 months, an average of 23,000 jobs have been lost each month.

The broader economy struggles to achieve growth. Uneven Gross Domestic Product growth can be more a consequence of accounting subtleties rather than larger economic trends, but recent growth has been sporadic at best and boosted in part by a large federal stimulus package designed to head off weakness.

2008 second quarter growth of 2.8 percent follows an anemic 0.9 percent first quarter growth and a negative 0.2 percent growth in the last quarter of 2007. The fourth quarter of 2007 was the first negative real GDP growth experienced since the 2001 recession. Outright decreases in residential investment over the past ten

2 US Department of Commerce, Bureau of the Census.

3 US Department of Labor, Bureau of Labor Statistics.

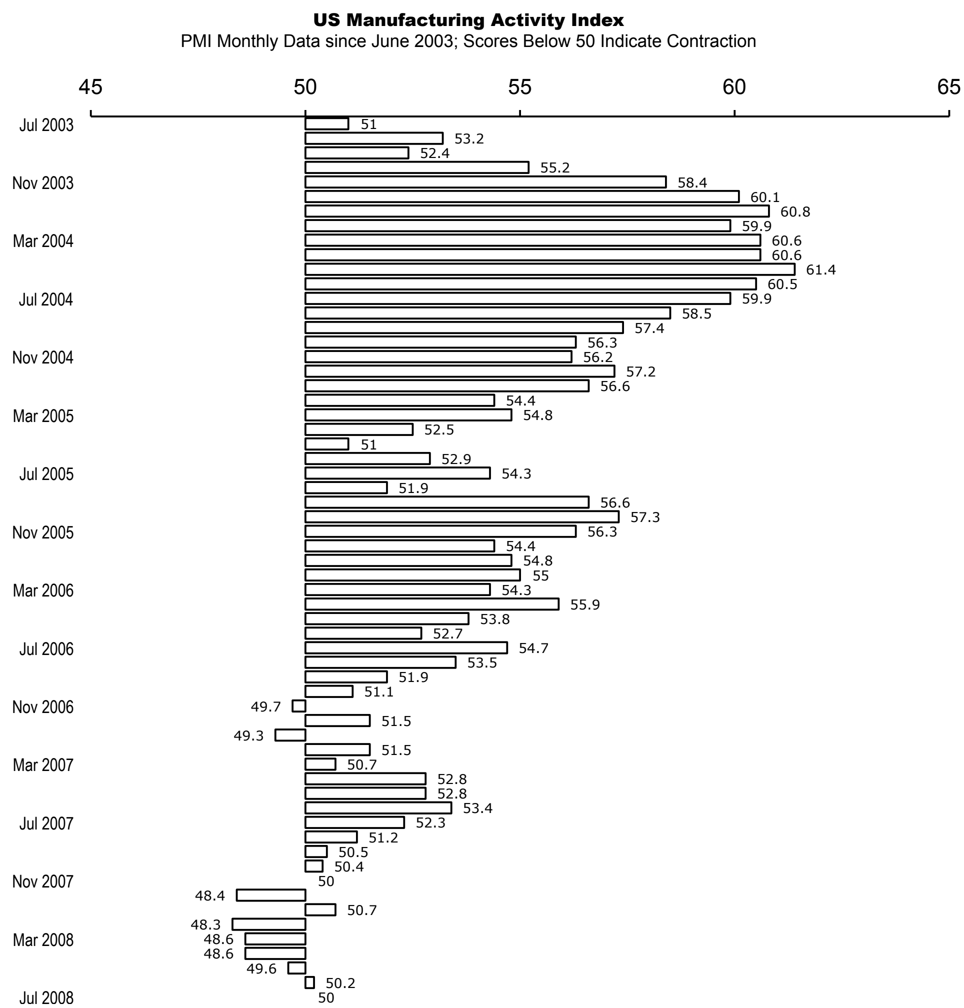
4 David G. Blanchflower & Andrew J. Oswald, 2005. "The Wage Curve Reloaded," NBER Working Papers 11338, National Bureau of Economic Research.

5 US Department of Labor, Bureau of Labor Statistics.

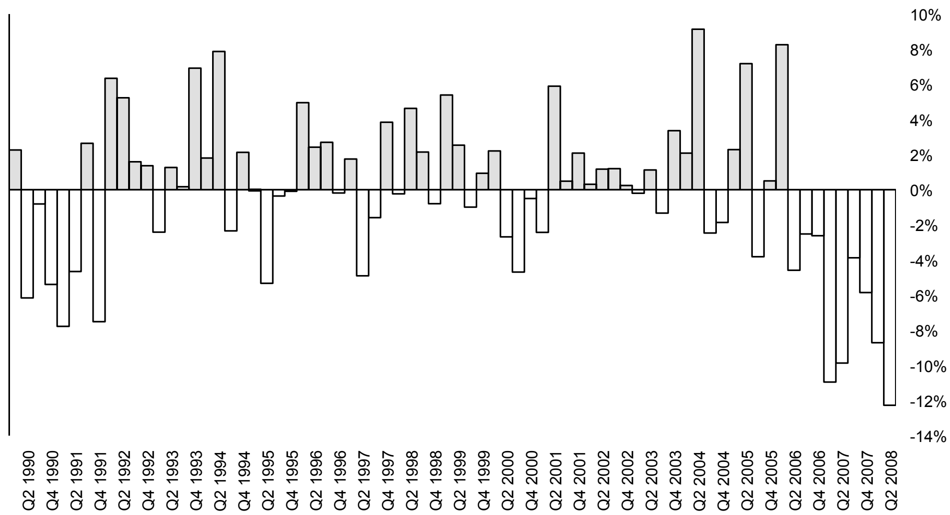
consecutive quarters have negatively impacted GDP; residential investment is down 39 percent from the last quarter of 2005 in real dollars. Residential construction and sales of both new and existing homes have declined dramatically from the peak of 2004-2005. Continuing turmoil in the sub-prime market and liquidity concerns have seized up credit markets as home prices continue to fall, severely hampering the ability of existing home owners in many areas around the country to find buyers without substantial price reductions.

During this period, imports have increased by 3 percent while exports have increased by 25 percent, resulting in an improvement (although still negative) in net exports and a level not seen since 2000. A weakening dollar in previous quarters had helped to boost exports and restrained import growth, but global economic slowing is likely to reverse this trend. Indeed, recent foreign exchange market trends have shown a marked strengthening of the dollar against the Euro and the British pound. Durable goods consumption and investment in equipment and software have slumped thus far in 2008 reflecting the credit crunch, the drop in home sales and weakened business and consumer confidence. Investment in nonresidential structures has boosted growth over the previous four quarters, as has federal government spending. Automobile and durable good purchases have shown substantial weakness over the past three years and are unlikely to return to any approximation of peak levels in the foreseeable future.

Another threat to the economy lies in energy prices. After peaking at roughly $145 per barrel in July 2008, having doubled from a year earlier, oil prices eased somewhat as expectations for economic growth faltered. Declining to $91 per barrel in mid-September, a 37 percent reduction over two months, this highly volatile commodity trading in light, sweet crude oil is indicative of unprecedented uncertainty – even by energy market standards. Punctuating investor insecurity, in response to market turmoil and the reversal of significant short positions, the price of one-month forward crude shot up $25 in late September intraday trading, closing up $16, the largest spike in crude oil futures ever experienced on the New York Mercantile Exchange. A slow economy should provide some relief to energy price pressures, but the variability



US Private Residential Construction
Seasonally Adjusted Quarterly Change, Completed Units



and volatility in the energy market in recent history leaves little forecasting confidence. Any production disturbance – both perceived or 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 rising crude oil prices is quicker to show up in retail gasoline prices than declines in crude oil 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 Rita and Katrina and the recent refinery incapacitation caused by Hurricane Ike, but it also appears to be a simple reflection of significant market power.

Highly inelastic demand for oil requires substantial price increases to bring the market into equilibrium, which has in turn emboldened speculators. However, the economy has yet to sustain prices exceeding $100 per barrel although energy market fundamentals will continue to test this threshold. In the long run, insufficient income growth and high consumer debt levels present a much larger danger to the economy than even another $40 per barrel surge in oil prices.

Locally, total passenger traffic at Seattle-Tacoma International Airport dropped 6.4 percent between 2000 and 2002, following the impact of the September 11th terrorist attacks. Traffic has since completely rebounded. After the first eight months of 2008, traffic is running 5.8 percent ahead of 2007 levels for the same period, on track to set a new record.[6] Hotel occupancy rates, buoyed by a resumption of convention activity and burgeoning cruise ship bookings, have improved over the past 6 years. Vacancy rates near 40 percent in 2002 and 2003, fell to near 30 percent in 2006 and fell an additional 2 percent in 2007.[7] Recent spikes in fuel prices and significant cutbacks in service by airline carriers, as was announced by Alaska Airlines, have the potential to weaken the travel industry, as does slowing growth abroad.

On an individual level, King County real per capita personal income experienced declines in 2001-2003, followed by growth between 2003-2006; 2006 real per capita income was 3.6 percent above the 2000 peak. 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 enacted by Congress. King County experienced a 49 percent increase in bankruptcy filings during the first quarter of 2008 in comparison with

6 Port of Seattle, *Airport Activity Report.*

7 Seattle Visitors Bureau.

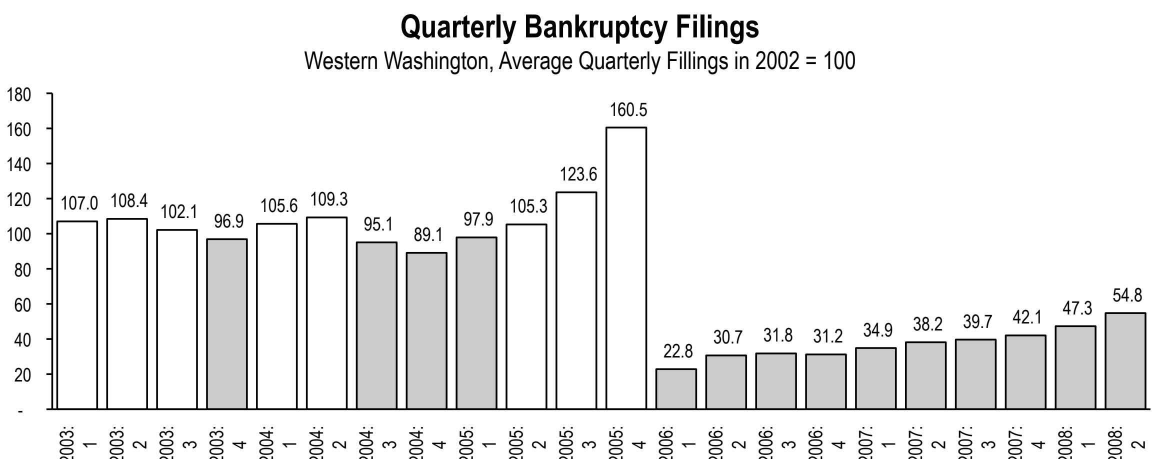
the same period in 2006.[8] More broadly, the most recent data indicate that Washington's Real Per Capita Gross State Product fell 2.1 percent in 2001 and 0.7 percent in 2002. Growth during 2003-2007 averaged 1.7 percent.[9]

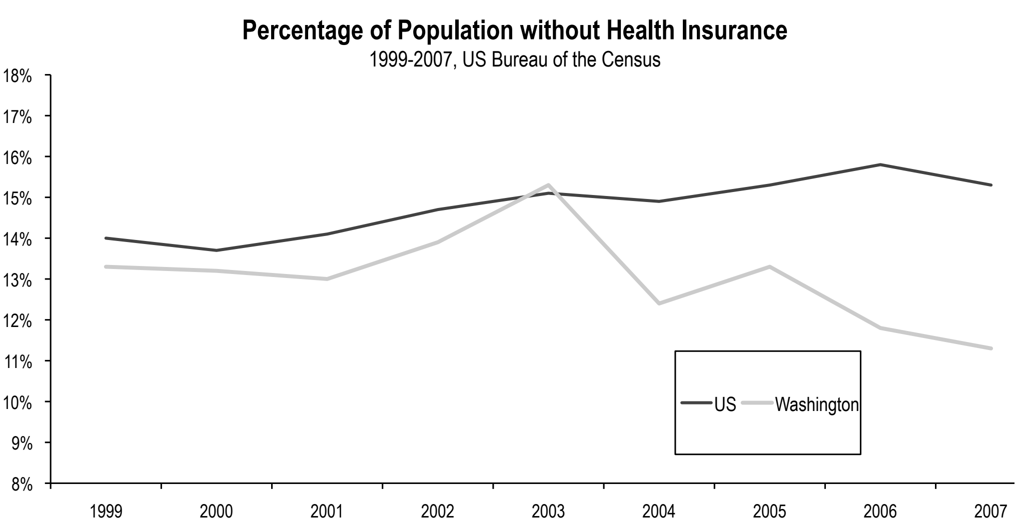
The increase in local employment has been unevenly distributed across sectors. After declining by 25 percent from 2000 to 2004, manufacturing employment in 2007 was only up 10 percent since its recent low in 2004. The 2001-2002 decline occurred mainly in non-aerospace manufacturing, while the bulk of the 2003-2004 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 – 2007 was up 15 percent over 2006 after growing 17 percent the year before. Finance and insurance employment experienced declines while retail trade employment experienced no growth from the previous year, an improvement from the negative growth experienced the prior 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 2006 dropped to 11.8 percent and again to 11.3 percent in 2007, the lowest level in the past 9 years, according to the new data. The market for the direct purchase of insurance, which a decade ago covered 15

8 American Bankruptcy Institute & U.S. Bankruptcy Court – Western District of Washington.

9 US Department of Commerce, Bureau of Economic Analysis.





percent of Washington residents, now only serves 11 percent of the population.[10] Insurance is increasingly limited to employees of large companies and Medicare and Medicaid recipients.

Remarkable strength in residential real estate through 2006 has finally run its course. By virtually every measure – time on market, inventory, and number of competing offers – the market has plummeted. Sales have dropped by 45 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 12 months as the lending market reorganizes, before stabilizing.

The local market for commercial real estate has been strong but is likely to experience slowing. The commercial office space vacancy rate for Seattle continues to remain low, at 8.5 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, rising slightly to 8.7 million square feet in September 2008.[11] Some firms that presently occupy significant commercial space have indicated they will be downsizing over the next several months, reducing space demand. For example, JPMorgan Chase announced a likely reduction of 10 to 15 percent in staffing of the recently acquired Washington Mutual. Developers have begun postponing projects, waiting to see how the current downturn plays out.

Economic Assumption Summary

Percentage Change from Preceding Year

	2004	2005	2006	2007	2008	2009	2010	2011
King County								
Employment	0.8%	2.2%	2.9%	2.6%	0.6%	-0.3%	1.1%	1.7%
Nominal Personal Income	4.4%	5.9%	9.1%	7.4%	3.9%	3.2%	4.8%	5.4%
Housing Permits	14.6%	10.8%	11.7%	17.2%	-32.5%	1.0%	6.0%	-2.6%
Population	0.5%	1.1%	1.5%	1.4%	1.2%	1.0%	0.8%	0.8%
Consumer Price Index *	1.3%	2.8%	3.7%	3.9%	5.0%	2.8%	3.0%	3.0%
COLA **	2.03%	2.19%	4.66%	2.00%	2.49%	5.50%	4.27%	3.60%
Washington State								
Employment	2.4%	2.9%	3.0%	2.5%	0.6%	0.2%	1.6%	1.8%
Nominal Personal Income	4.4%	8.2%	4.4%	7.4%	5.3%	4.8%	5.6%	6.1%
Housing Permits	17.0%	5.8%	-5.6%	-5.3%	-36.6%	16.4%	23.5%	11.5%
United States								
Employment	1.1%	1.8%	1.9%	1.1%	0.0%	0.1%	1.1%	1.6%
Nominal Personal Income	6.2%	5.6%	7.1%	6.1%	4.3%	3.6%	4.7%	5.4%
Housing Starts	5.1%	6.3%	-12.6%	-25.8%	-26.9%	11.7%	26.0%	5.2%
Three-month Treasury Yield	34.0%	129.0%	50.9%	-7.6%	-58.7%	16.7%	4.8%	9.1%
Consumer Price Index	2.4%	5.2%	1.7%	2.8%	6.1%	4.7%	4.0%	4.0%
Real GDP	3.6%	3.1%	2.9%	2.2%	1.4%	1.2%	2.9%	2.9%

* Puget Sound region

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

ECONOMIC FORECAST

Uncertainty beleaguers the economy. Major institution failures and equity market rollercoaster rides have been common in recent months. The federal government has engaged in the largest intervention in financial markets since the New Deal Era, taking over mortgage giants Fannie Mae and Freddie Mac, propping up a major debt insurer, the American Investment Group (AIG) and backing takeovers through guarantees of questionable debt. All major investment banks have either failed, been consumed by commercial banks, or

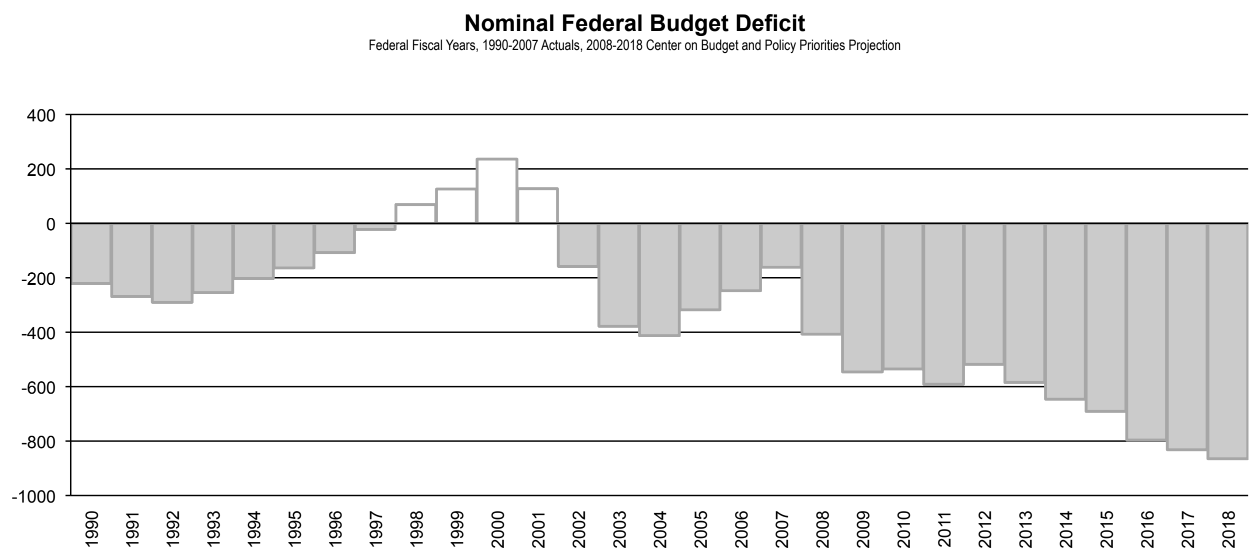
10 US Bureau of the Census.

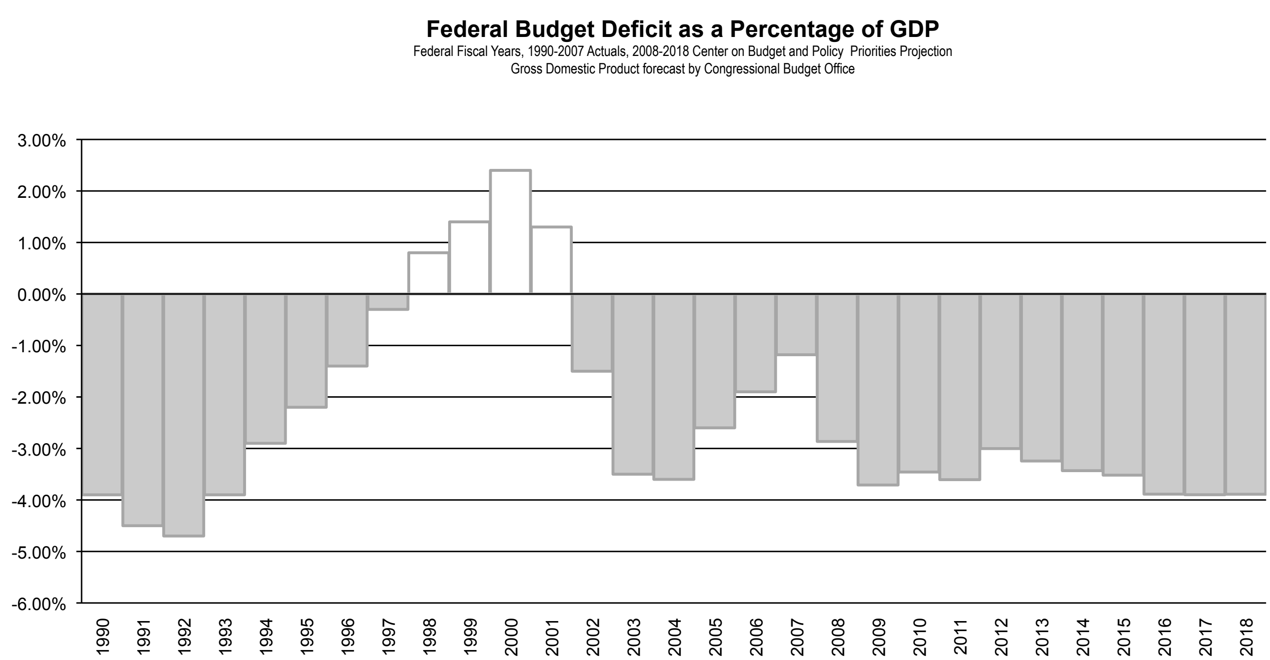
11 Commercial Space Online, Inc. survey data [http://www.officespace.com] and Cushman and Wakefield.

are transitioning to become bank-holding companies, in order to gain permanent access to Federal Reserve credit facilities at the expense of greater regulation and oversight.

In September alone, yields on treasury bills fell to the lowest level since World War II, with annualized yield on a 3-month note reaching only 0.02 percent. The Dow Jones Industrial Average experienced the largest drop in its 102-year history, falling over 777 points as it became clear that Congress would not easily approve the largest bailout package in history. Money market funds dropped below a dollar-for-dollar valuation, "breaking the buck". On September 22nd, crude oil futures experienced the largest one-day increase on record. The largest bank failure in history (Seattle-based Washington Mutual) continues to unfold. These events underscore the volatility and skittishness in the market.

In response, the Federal Reserve, the Treasury, and other federal regulatory bodies have been largely reactive, treating credit market seizures with large injections of liquidity, by extending credit facilities to entities unable to secure funding in markets, and by direct intervention in some large but failing institutions. Regulators are also coordinating with Congress and the White House to develop a major bailout plan that, if approved, likely will result in the purchase of distressed mortgages by the government, thus removing





these risky and illiquid assets from the market. It is hoped this action will stem the cyclical negative impacts resulting from investor fear and illiquid markets. As the 2009 Executive Proposed Budget goes to print, national leaders are scrambling to find compromise on the plan following a no-vote by the House of Representatives on the first version of the bailout bill. The Senate subsequently approved a companion bill.

The Federal Reserve's long campaign to increase short-term interest rates was finally suspended in 2007 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 rising foreclosures and revelations of loose lending standards and led to a general flight from risk, pushing short-term yields down even further. This has been exacerbated in recent weeks.

The Federal Open Market Committee (FOMC) took action in September 2007 to address diminished liquidity and to spur economic activity. The FOMC lowered the discount rate by 50 basis points and the target federal funds rate by 50 basis points. They reinforced their concern over growth with two more quarter-point reductions in 2007, but the increased incentives did not address the underlying bad debt still inundating the market. In mid-January 2008, the FOMC announced two further reductions in the federal funds target rate of 75 and 50 basis points. The first is the largest decrease in the target rate ever publicized and the first time since 2001 that the target rate was changed in between regular Federal Reserve Board meetings. Following additional loosening, the target rate currently stands at two percent.

Investors continue to seek quality; treasury notes and bonds of all duration are in extremely high demand resulting in low yields. Depending on the length of the current market scare, the county's invested funds are likely to experience continued diminished returns. The startling rise in the federal budget deficit and failure to fully address the financial turmoil may also further undermine long-term interest rates. The inflationary pressure of higher energy prices has precluded further Fed action, and may continue to do so even if economic output falls short of expectations. This forecast anticipates a further 25 basis point decrease in the federal funds rate in late 2008.

Locally, no growth is anticipated in 2009, characterized by muted business investment and feeble consumer demand. Weak employment in 2008 is expected to decline slightly in 2009. 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.

Sluggish regional employment growth should mirror local growth in 2009. Of the twenty largest states, Washington State recorded the highest percentage increase in personal income between the first quarter of 2006 and the end of 2007, only slightly ahead of oil-rich Texas. During the first half of 2008, Washington slipped to the bottom of that list and 46th overall, falling just behind California in personal income growth. An extended duration of the nearly one-month-old Boeing strike and broader market valuation deterioration will have a further negative effect on regional 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. Even so, the CPI spike resulting from these hurricanes falls short of the 2.9 percent growth experienced in the second quarter of 2008, following a run up in energy and food prices. For the first six months of 2008, the CPI grew at the fastest rate experienced since 1982. Surges in energy prices have begun to impact broader prices, although subsequent price movements reinforce the sector's volatility. 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 return to relatively low levels for the next two to three years, in part as a result of temporarily ebbing pressure from housing costs.

KING COUNTY REVENUES

Total revenue into the county exceeds $2 billion dollars,[12] 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, four 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, 2002-2009

	2002 Adopted	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Adopted	2008 Adopted	2009 Proposed
TAXES	746,850,357	768,926,884	810,477,672	798,565,434	869,190,813	985,603,844	1,153,619,093	1,161,801,160
LICENSES & PERMITS	18,472,802	20,692,723	24,557,022	25,500,074	24,704,343	26,702,474	27,037,107	29,089,847
INTERGOVERNMENTAL REVENUE	35,829,205	-	-	-	-	-	-	-
FEDERAL GRANTS-DIRECT	32,359,967	36,380,703	36,012,144	36,048,518	32,801,397	32,694,749	31,848,696	31,017,075
FEDERAL SHARED REVENUES	699,091	1,069,761	1,080,642	1,094,152	1,322,569	1,266,931	70,000	1,005,000
FEDERAL GRANTS-INDIRECT	65,173,089	87,214,090	87,876,906	85,944,129	91,823,530	118,003,160	112,666,788	112,618,991
STATE GRANTS	100,044,636	122,000,403	131,252,575	50,890,604	50,763,770	36,542,250	39,283,790	48,348,427
STATE SHARED REVENUES	1,045,016	-	14,687	-	-	144,000	118,650	121,800
STATE ENTITLEMENTS	30,125,795	30,932,093	35,673,353	31,754,178	33,737,995	39,053,884	39,612,863	39,231,887
GRANTS FROM LOCAL UNITS	4,087,240	1,786,320	797,178	767,704	607,755	694,584	771,482	737,714
INTERGOVERNMENTAL PAYMENT	124,894,603	117,013,776	140,206,810	243,734,780	253,986,750	293,905,670	331,084,219	360,236,333
CHARGES FOR SERVICES	811,142,004	816,623,983	800,252,718	968,997,287	888,044,394	954,700,898	1,038,188,554	1,094,880,683
FINES & FORFEITS	7,537,213	7,803,918	9,119,402	8,290,176	7,317,592	7,313,236	8,582,131	9,854,991
OTHER*	983,258,002	1,002,896,364	872,875,574	221,775,203	360,263,752	421,615,665	1,064,957,182	1,005,208,742
ALL FUNDS TOTAL	2,964,476,448	3,125,459,912	2,950,196,833	2,473,362,239	2,614,564,660	2,918,241,345	3,847,840,555	3,894,152,650

*Both 2008 Adopted "Other" and 2009 Proposed "Other" include 2008 and 2009 biennially budgeted revenue for the Public Transportation Fund.

King County General Fund

Major Revenue Sources, 2002-2009

	2002 Adopted	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Adopted	2008 Adopted	2009 Proposed
TAXES	297,677,856	301,795,404	312,327,426	328,442,601	363,316,557	378,271,605	406,717,332	381,655,649
LICENSES & PERMITS	5,694,121	5,661,661	6,046,253	7,380,384	7,545,549	7,357,349	7,152,000	9,302,688
FEDERAL GRANTS-DIRECT	954,000	2,361,514	1,959,555	1,893,308	1,246,695	661,587	577,664	735,103
FEDERAL SHARED REVENUES	40,314	50,000	60,000	60,000	60,000	65,000	70,000	70,000
FEDERAL GRANTS-INDIRECT	4,817,776	6,546,708	6,734,208	7,951,779	8,129,559	8,128,755	7,971,225	8,534,333
STATE GRANTS	1,712,365	1,863,402	2,653,350	2,494,140	2,629,230	1,976,093	2,047,971	2,214,974
STATE SHARED REVENUES	181,280	-	-	-	-	-	-	-
STATE ENTITLEMENTS	1,383,967	1,424,505	1,407,505	6,559,055	6,993,579	6,979,749	7,443,249	7,459,249
GRANTS FROM LOCAL UNITS	2,614,420	-	-	-	-	-	-	-
INTERGOVERNMENTAL PAYMENT	56,733,723	52,269,056	56,001,858	53,164,198	55,723,169	62,753,888	66,605,911	77,654,654
CHARGES FOR SERVICES	82,639,182	89,547,761	84,746,544	89,803,336	96,915,226	103,067,890	109,733,074	117,895,603
FINES & FORFEITS	7,524,713	7,780,918	9,079,402	8,230,176	7,255,092	7,250,736	8,547,131	9,834,491
OTHER	21,212,129	19,748,081	24,275,217	15,158,635	34,725,713	41,768,208	37,203,414	23,684,522
GENERAL FUND TOTAL	483,185,846	489,049,010	505,291,318	521,137,612	584,540,369	618,280,860	654,068,971	639,041,266

2002-2007 adjusted to exclude sources segregated into separate funds in 2008 to enable comparison.

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.

Taxes are the largest source of revenues to King County, accounting for an estimated 35 percent of total revenues (excludes 2008 revenue budgeted biennially) and 60 percent of General Fund 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 $1,162 million in 2009, an increase of 0.7 percent from the adopted 2008 budget. These revenues support operating

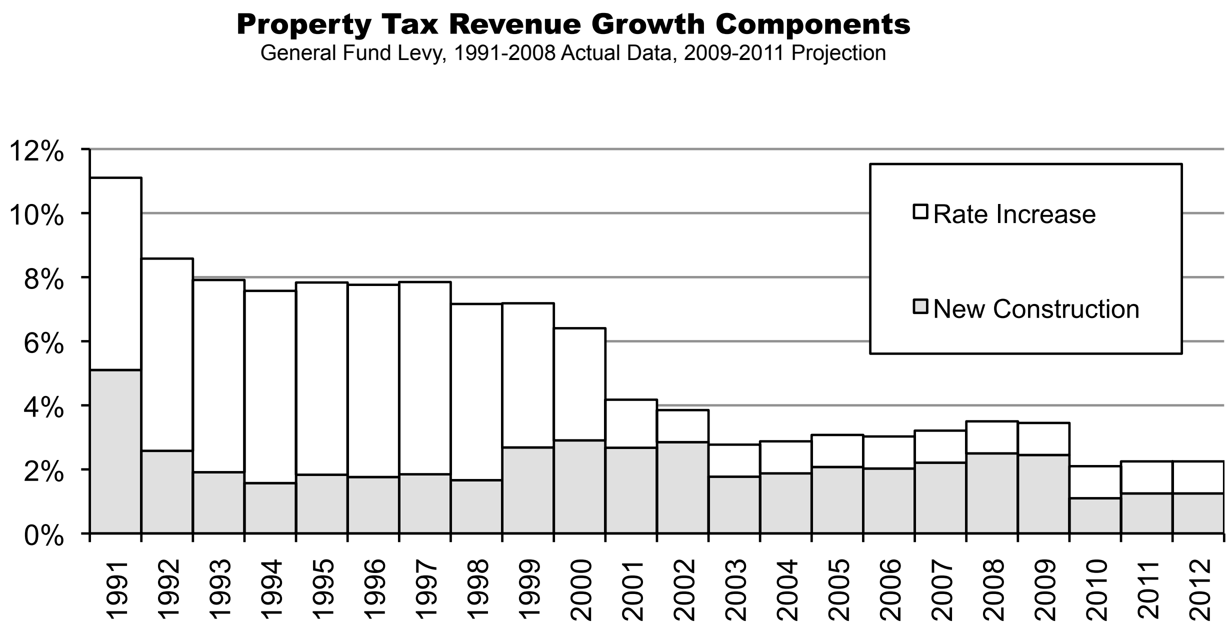
12 Interfund transfers, overhead rates, and other transactions duplicate some funds in the total revenue figure of $3.9 billion.

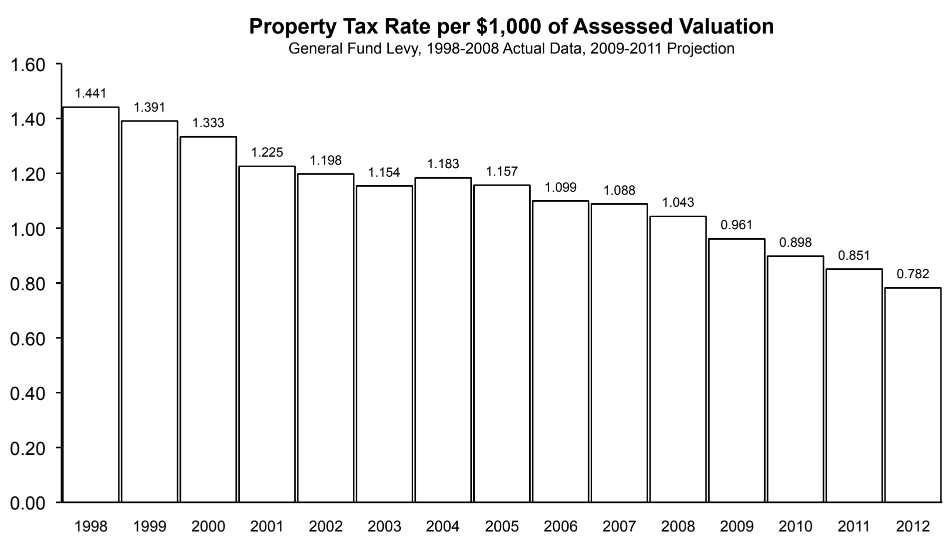
expenses, debt service, and some capital projects. Property taxes are the largest single tax source for the county, with a proposed levy of approximately $573.4 million in 2009, including $105.8 million levied for Emergency Medical Services, $37.8 million of which is disbursed directly to the city of Seattle. Voters approved the current Emergency Medical Services levy in November 2007, which will expire at the end of 2013.

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.

Since 2001, when Washington voters approved Initiative 747 (but rejected by a majority of King County voters) the regular levy has been limited to growth of 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 General Fund. Notwithstanding court rulings invalidating Initiative 747 as early as 2002, King County has fully conformed





with the requirements of Initiative 747 since its approval in 2001. The state legislature subsequently codified the one percent cap on growth with House Bill 2416, adopted in late 2007.

The overall countywide levy is projected to rise to $367.9 million in 2009, up from $354.0 million in 2008.[13] This amount includes an enhanced parks operating levy, which replaced an expiring levy, and a new parks capital levy, both of which were authorized in the August 2007 primary election. The countywide levy also includes the Automated Fingerprint Identification System lid lift of $17.2 million, which is reduced below the projected allowable limit of $18.1 million in 2009. This equates to roughly two tenths of a cent reduction in the levy rate below the allowable rate. This reduction will save taxpayers $8.00 on a $400,000 home.

The amount remaining for unrestricted use in the General Fund is the total levy capacity less distributions for debt service, inter-county river improvement, veterans, and other designations. Unrestricted General Fund revenues from the property tax levy are estimated at $261.2 million, after undercollection. New construction of 2.45 percent accounts for the increase above 1 percent.

The unincorporated area levy (traditionally known as the roads levy) is estimated at $83.2 million for 2009.

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 9.00 percent is assessed in the county, distributed as follows:

6.5 percent is collected by the state;

1.0 percent is a local option tax divided between cities and the county;[14]

0.9 percent is collected to support Metro Transit;[15]

0.4 percent is collected by the Regional Transit Authority (Sound Transit);[16]

0.1 percent is collected to support criminal justice programs;[17] and

0.1 percent is collected to support mental health & chemical dependency programs.[18]

In addition to the basic 9.0 percent sales tax rate, an additional 0.5 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 county's public transportation and criminal justice programs receive revenues from countywide retail sales, with unincorporated areas constituting a little over four percent of the tax base. In contrast, over 19 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

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

14 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.

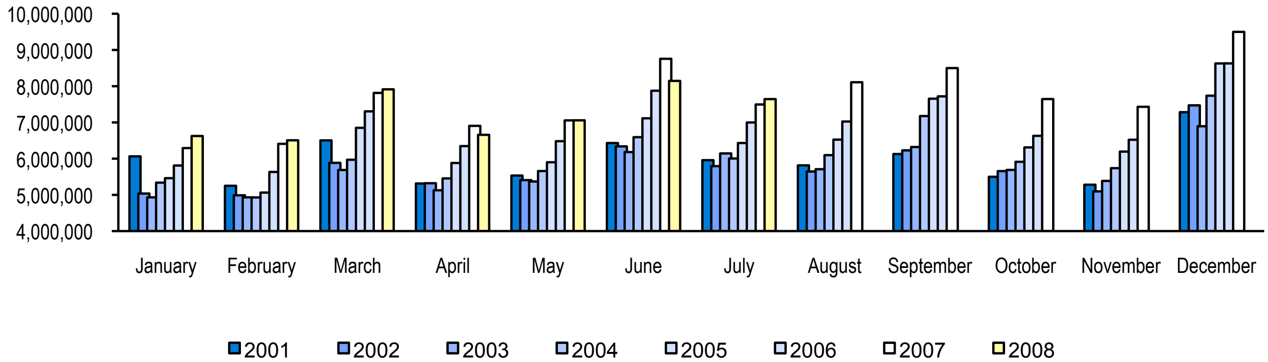
15 This tax was approved in April 2001 to replace funds lost with the repeal of the Motor Vehicle Excise Tax by Initiative 695 in November 1999. In November 2006, voters authorized an increase from 0.80 percent to 0.90 percent, effective April 1, 2007.

16 This tax is not collected in the rural part of King County where the sales tax rate is 8.60 percent.

17 90 percent of these funds are allocated to the cities and the county on the basis of population. King County receives to the remaining 10 percent. This tax was approved by county voters in 1992.

18 This tax was approved by the Metropolitan King County Council and implemented April 1, 2008.

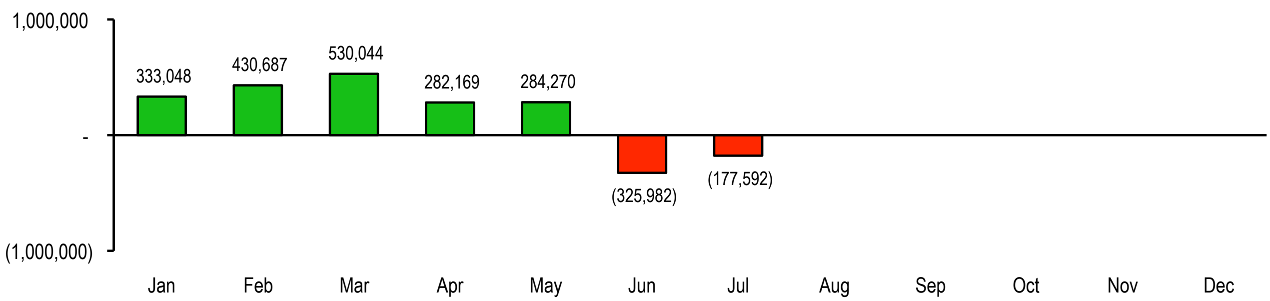
King County Monthly Sales Tax Collections - Local Option



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	8,109,072	8,499,998	7,644,629	7,431,419	9,499,466
2008	6,624,910	6,506,690	7,913,422	6,657,458	7,058,239	8,146,148	7,643,692					

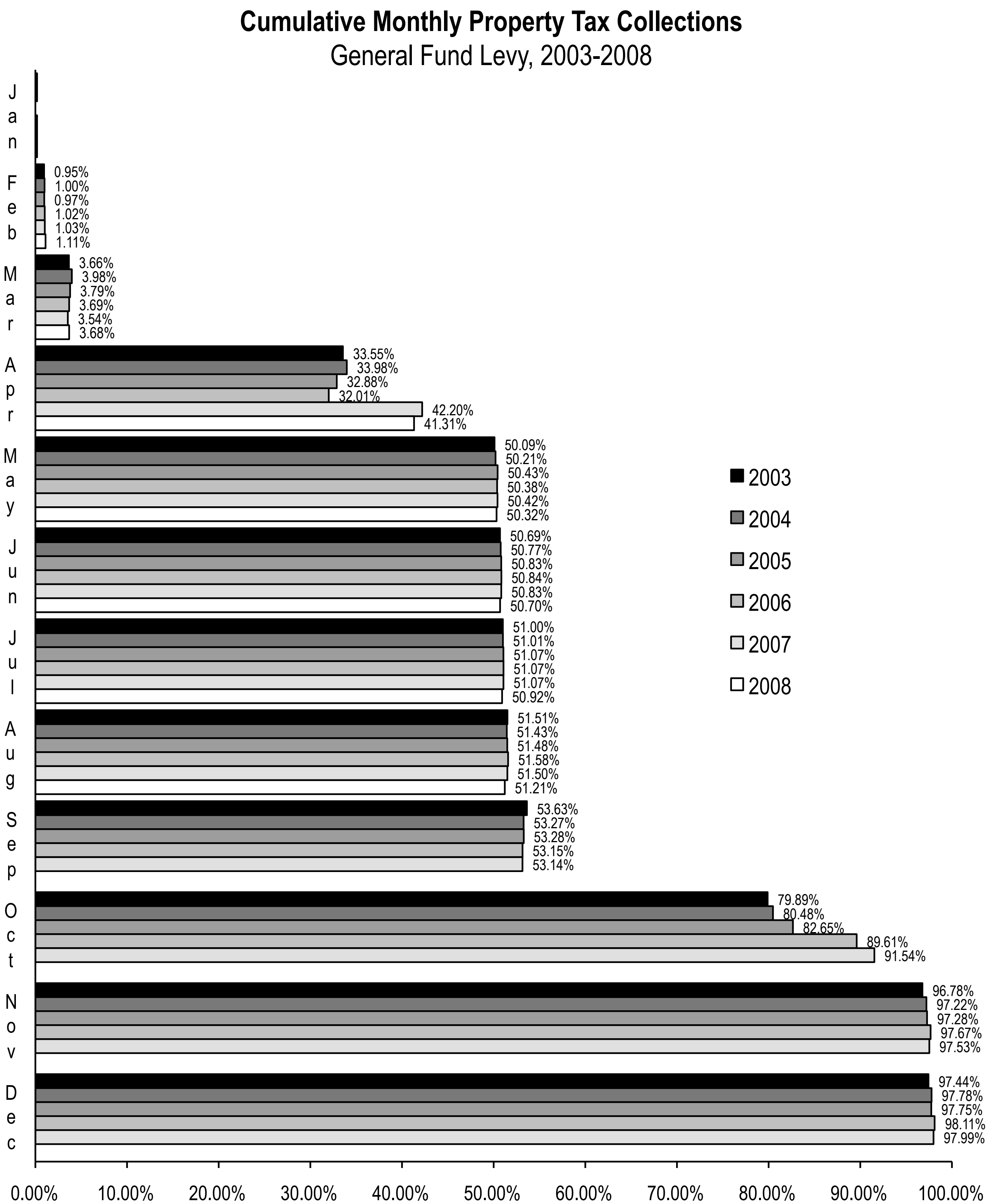
Cumulative 2008 Variance from 2007



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	58,837,222	67,337,220	74,981,849	82,413,268	91,912,734
2008	6,624,910	13,131,599	21,045,021	27,702,480	34,760,718	42,906,866	50,550,558					

* Data presented are total local option sales tax collections less Department of Revenue 1 percent administration fee. 95.4 percent of county sales tax receipts are deposited in the General Fund. The remainder is dedicated to the Children and Families Set-Aside (4.6 percent).


Cumulative Monthly Property Tax Collections
General Fund Levy, 2003-2008
Jan
Feb
0.95%
1.00%
0.97%
1.02%
1.03%
1.11%
Mar
3.66%
3.98%
3.79%
3.69%
3.54%
3.68%
Apr
33.55%
33.98%
32.88%
32.01%
42.20%
41.31%
May
50.09%
50.21%
50.43%
50.38%
50.42%
50.32%
Jun
50.69%
50.77%
50.83%
50.84%
50.83%
50.70%
Jul
51.00%
51.01%
51.07%
51.07%
51.07%
50.92%
Aug
51.51%
51.43%
51.48%
51.58%
51.50%
51.21%
Sep
53.63%
53.27%
53.28%
53.15%
53.14%
Oct
79.89%
80.48%
82.65%
89.61%
91.54%
Nov
96.78%
97.22%
97.28%
97.67%
97.53%
Dec
97.44%
97.78%
97.75%
98.11%
97.99%
2003
2004
2005
2006
2007
2008
0.00%
10.00%
20.00%
30.00%
40.00%
50.00%
60.00%
70.00%
80.00%
90.00%
100.00%

sector in unincorporated King County makes the unincorporated local option tax 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 attempted to quantify the impact of internet and catalog sales on state and local sales taxes. The study concluded that roughly half a 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.

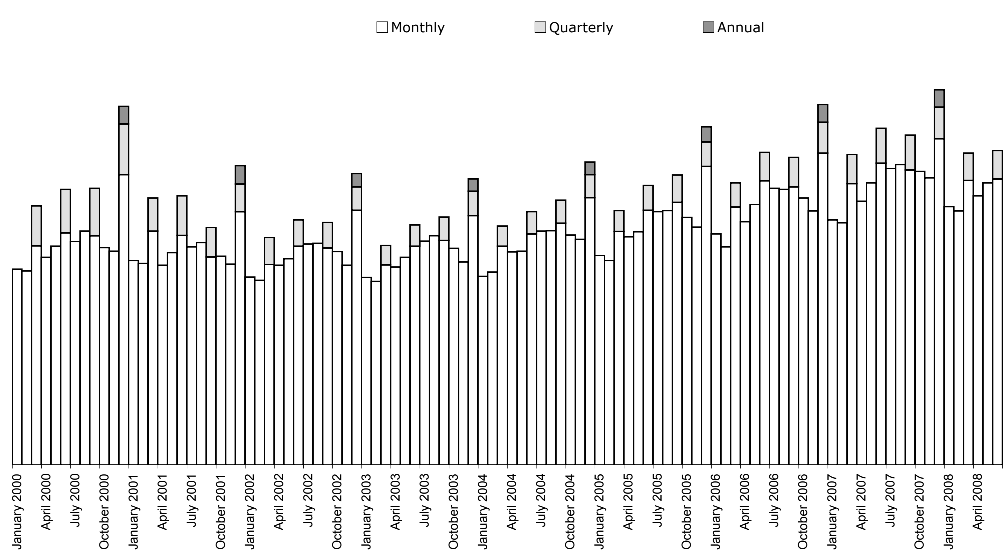
Washington State has entered into the national Streamlined Sales Tax agreement and began implementation in July 2008. Previously, the sales tax rate was based on the jurisdiction from which a product is shipped, with that jurisdiction receiving its local option sales tax. Under sales tax streamlining, the destination

Taxable Retail Sales as a Proportion of Personal Income

Inclusive of Use Tax payments, King County 1994-2006

Sales Tax Collections by Reporting Frequency

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



Sales Tax Forecast Detail

	2003 Actuals	2004 Actuals	2005 Actuals	2006 Actuals	2007 Actuals	2008 Estimated	2009 Proposed
General Local Option							
Unrestricted General Fund	61,813,620	65,636,330	70,525,713	75,010,341	83,089,112	84,231,000	80,373,000
Children and Family	3,145,383	3,339,902	3,588,698	3,816,898	4,227,986	4,061,000	3,875,000
Sales Tax Reserve	3,418,895	3,630,328	3,900,758	4,148,802	4,595,637	-	-
Total	67,648,329	68,653,007	78,015,169	82,976,041	91,912,735	88,292,000	84,248,000
Criminal Justice							
Total	10,390,862	11,026,405	12,054,054	12,988,932	14,229,175	13,410,000	12,971,000
Mental Health							
Total						37,560,000	48,410,000
Public Transportation							
Total	296,747,992	314,192,142	341,229,548	367,263,689	442,042,300	449,405,000	441,413,000

of the product determines 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, although the Department of Revenue is currently analyzing returns and will begin making mitigation payments to jurisdictions negatively impacted by the change. Some adjustments related to the anticipated impact from streamlined sales taxes have been incorporated into this forecast.

Estimated 2008 sales tax revenue to the General Fund, excluding designated revenue, is $84.2 million, a 3.9 percent decrease from 2007 levels[19]. This decrease reflects impacts from three major annexations effective in 2008 and an economy reeling from recent financial turmoil. Including designated amounts, 2008 General Fund sales tax revenue totals $97.6 million.

Total projected 2009 General Fund sales tax revenue is $93.3 million, a decrease of 4.4 percent from estimated 2008 receipts. Of this, $13.0 million is dedicated to criminal justice expenses. The remaining $80.4 million is dedicated to the General Fund for general use. Additionally, $3.9 million of the local option sales tax will be deposited in the Children and Family Services Fund. The General Fund includes the inmate welfare subfund. The sales tax contingency and children and family services subfunds are now segregated from the General Fund into separate tier 1 funds, the Rainy Day Reserve Fund and the Children and Family Services Fund respectively.

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 previous years. Tax collections have also been boosted in recent years by three unusually large timber tract transactions. Recent collections have dramatically fallen, as forecast.

Year-to-date 2008 collections are down 46.0 percent from 2007 levels. Reflecting the slowdown in construction and tightening of mortgage credit standards, this downward trend is expected to continue in the

19 During the 2008 budget process, a portion of the local option sales tax which had previously been designated to the Sales Tax Contingency (STC) subfund, was undesignated beginning in 2008. The growth reported here between 2007 and 2008 compares the sum of the unrestricted portion (0.904%) and the STC portion (0.050%) between 2007 and 2008. The remainder of the local option tax (0.054%) is dedicated to the Children and Family Services Fund.

coming year, with 2008 revenue totaling 45% less than 2007 revenue. A further decline of 3.8 percent is forecast for 2009.

REET consists of two 0.25 percent taxes on real estate transactions. Each is forecasted at just over $4.9 million in 2009.

INTEREST EARNINGS

Because of high volatility, attributable to downward trends 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 2009, a rate of return of 2.35 percent is assumed, similar to returns experienced in 2004 as the economy emerged from the 2001 recession.