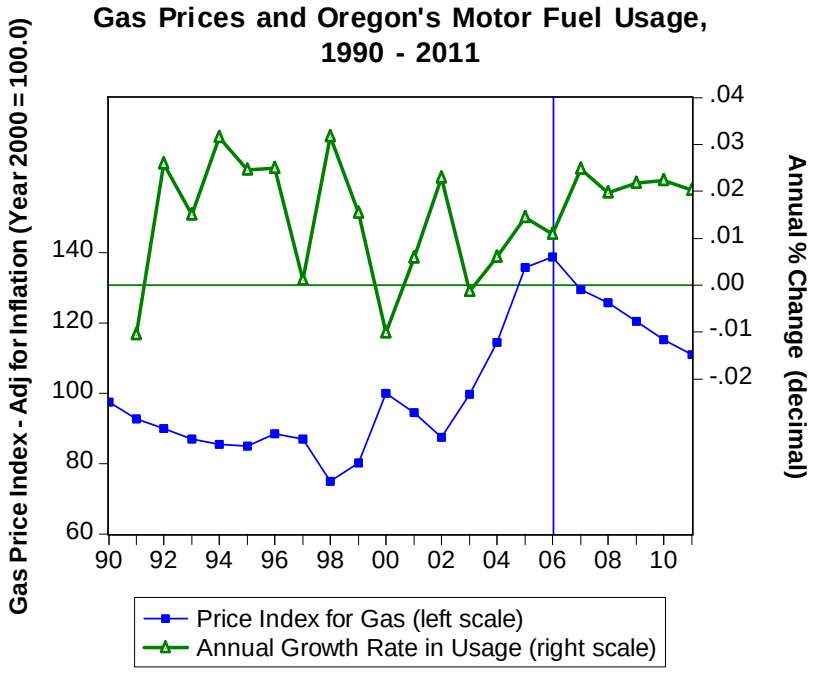
OREGON DEPARTMENT OF TRANSPORTATION

Summary of Transportation Economic and Revenue Forecasts

June 2006

Prepared by
Financial Services
Central Services Division



FOREWORD

This summary report presents a selection of Other Funds Revenue forecasts for the Oregon Department of Transportation. It is published twice a year to assist planners and policy-makers in their formulation of budgets and to support other decision-making activities. The purpose of the report is to present the forecast results from a consistent framework for assessing the impacts of both economic activity and legislative initiatives on ODOT transactions and revenues. Collateral with this, it is intended to provide an open process for public review and input. The forecast is reviewed internally by a group of staff and management representing various divisions within the agency.

This forecast is consistent with Department of Administrative Services June 2006 forecast and the associated baseline macroeconomic forecast from *Global Insight Inc.* (GII).

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This document is also available on the ODOT Web Site: http://www.oregon.gov/ODOT/CS/EA/reports.shtml and scroll down to "Transportation Revenue Forecasts."

On the Cover:

Gas prices at the pump and oil prices worldwide have continued to be headline news; and these are not just recent headlines, either. Prices have now been on a seemingly rocket-like trajectory for over 3 years; long enough for consumers to start making major adjustments in how they satisfy their travel needs. Nevertheless, the chart reveals that annual percentage growth in fuel use has been comparatively robust in the face of these high prices, as has been the case nationwide, as well. While there is some sensitivity to prices, fuel demand is more strongly tied to the overall pace of economic activity, which was very strong in Oregon in 2004, 2005 and on into 2006 – sixth highest among the states, in fact. Our baseline macroeconomic forecast has the rather sanguine outlook – based mostly on market fundamentals – of gradually declining gas prices (adjusted for inflation) over the next five years. This helps to prop up gas sales in the face of a somewhat more moderate economic expansion contained in the current state outlook.

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EXECUTIVE SUMMARY

Oregon's economy showed rapid growth throughout 2005 and on through the first quarter of 2006. Job gains for the first quarter of this year were among the highest quarterly growth rates of the past 15 years, continuing a string of gains that began in earnest in the second quarter of 2003. Indeed, Oregon's job growth on a percentage basis has been among the top 10 nationwide for the past two years. For the next several years, the state's total non-farm employment is forecast to keep growing at a rate slightly above the U.S. average. Nonetheless, our economy is expected to start slowing dramatically in the current quarter and continue to grow at only a moderate pace throughout the forecast period as economic conditions nationwide become less favorable for continued, rapid economic expansion. Concerns about inflation, driven in part by high energy costs, may lead to weakening demand for Oregon's goods and services by firms and households. Continuing geopolitical uncertainty may further undermine consumer confidence. Rising mortgage interest rates have had and are expected to continue to negatively affect the housing market by slowing growth in new residential construction. In sum, although positive growth is expected throughout the forecast period, there are few signs that robust economic expansion can be anticipated.

Changes in economic conditions within Oregon, and across the nation in general, influence each of the revenue sources for the State Highway Fund. Because growth in many of the economic variables affecting transportation-related activities is projected to moderate for the next several years, our current revenue outlook reflects this downshift in the pace of economic activity. The current forecast anticipates that gross revenues will be slightly higher than predicted in the previous forecast, but only by modest amounts.

Highway Fund revenues consist of three main categories: DMV revenues, Motor Carrier revenues, and Motor Fuels tax revenues. Motor Fuels tax revenues, which reached $408.6 million in FY05, are the largest single source of Highway Fund revenues. These revenues are expected to grow by approximately 1.7 percent during FY06, followed by an average annual growth rate of about 2 percent throughout the rest of the forecast period. Though slightly above the outlook for the nation overall, this growth is hardly surprising, given that our economic performance is expected to outstrip the nation over the forecast period. Motor Carrier revenues are the second largest source of Highway Fund revenues. These include weight-mile tax revenues as well as motor carrier registration and fee revenues. In FY05, $262.3 million in Motor Carrier revenues was collected and FY06 looks to be approximately $269 million, a gain of 2.4 percent. This forecast anticipates that these revenues will increase at a fairly steady average annual rate of 2.50 percent between FY06 and FY11. DMV revenues, which primarily include vehicle registration and driver fees, reached $220 million in FY05. These revenues are expected to grow by an average annual rate of 1.0 percent during the forecast period, mirroring demographic trends.

In summary, the overall outlook is for about 2 percent annual growth in gross revenues. This growth in nominal revenues is, it should be noted, less than the expected escalation of costs for the Agency's construction and maintenance programs.

NATIONAL ECONOMIC OUTLOOK

After a very strong performance of real growth in both 2004 and 2005, the nation's economy is slowing down somewhat. This should not be unexpected, inasmuch as the recovery is in its fourth year. Whereas 2004 witnessed real growth at a 4.2 percent rate, current indications are that 2005 produced real growth at the top end of the economy's potential, or about 3.5 percent. This is still very robust economic growth, particularly when we recognize the disruptions to the economy that occurred from the devastating hurricanes that buffeted the Gulf Coast region last year. Despite the strong growth in real GDP, overall employment gains are not as vigorous, unfortunately. Strong gains in productivity – output per hour worked – continue to allow businesses to meet a large share of their growing demand without commensurate hiring. This is expected to diminish, but the net result of slower economic growth and of slower productivity gains on job growth is nearly a wash at this juncture.

The national outlook in terms of real economic growth differs little from the prior forecast. For 2006, growth is on balance about the same as previously forecasted. For 2007, the outlook is slightly weaker nationwide than before, but not materially so.

Overall, the dominant issues in the macro outlook remain oil prices and the future course of monetary policy in the U.S. The recent run up in the prices for crude and gasoline are not expected to endure indefinitely. Regardless, their continued persistence has tended to ignite some skepticism. Yet, even a pessimistic scenario at this juncture does not have the economy sinking into a recession.

The orchestration of the nation's monetary policy is the other element that compounds the outlook. Policy seems to be at the crossroads, and this uncertainty has rattled financial markets both domestically and globally of late. The Federal Reserve Board has systematically raided the federal funds rate in quarter point increments since mid-2004, moving it from 1.0 percent to 5.25 percent in 17 consecutive sessions of the FOMC. There is mounting concern that we may as "yet" not be at a pause in the persistent ratcheting of the overnight rate upward, and that the Fed may overdo it. Given the inherent lags from the impacts associated with monetary policy in general, coupled with the widespread view that the pace of business activity is expected to cool considerably in the second half of the year, the risks of a more pronounced slowdown are raised significantly.

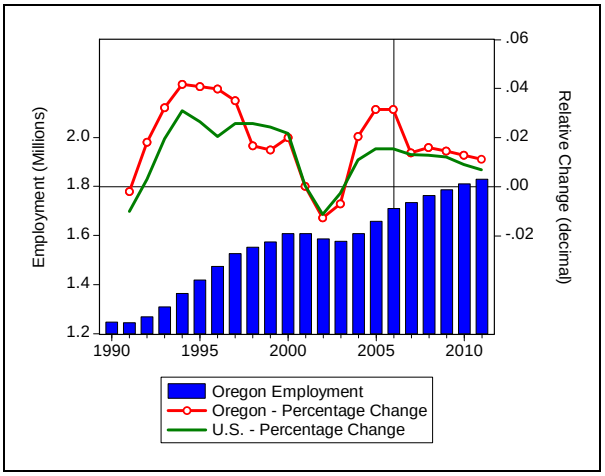
Table 1 on page four summarizes these, as well as several other national economic indicators. The transportation revenue forecast is consistent with Department of Administrative Services June 2006 *Oregon Economic & Revenue Forecast* and the associated baseline macroeconomic forecast from *Global Insight Inc.* (GII). Further discussion of the national economic outlook is relegated to an appendix for the interested reader. In addition, a detailed treatment of the national and state economic outlooks is available at the web site of the Office of Economic Analysis (http://www.oea.das.state.or.us/).

OREGON ECONOMIC OUTLOOK

Oregon's employment situation continued to show dramatic gains throughout 2005 and into 2006. Total Non-Farm Employment grew by nearly 2.4 percent over the year from the first quarter of 2005. At an annualized rate, growth in the first quarter was a very robust 6.3 percent, in contrast to only 1.8 percent nationally. This makes eleven consecutive quarters of positive job growth. Overall, it looks as if 2005 displayed the strongest annual job growth experienced by the state since 1997. Concurrent with this expansion in employment, the state's unemployment rate has also fallen from its peak of 8.7 percent from the summer of 2003. It is currently holding steady at 5.4 percent, its lowest level since March 2001. Further declines from this level will most likely be extremely modest, if any at all. Oregon's long run average unemployment rate back to the 1970s is slightly above 7 percent.

In 2005 and through the first quarter of 2006, total employment in Oregon grew more quickly than the U.S. average. In fact, Oregon currently ranks sixth in the nation in year-over-year job growth. Oregon's job growth is expected to continue to outpace the U.S. average throughout the forecast period, but by less pronounced amounts than recently. See Figure 1 for further detail regarding the state's Total Non-Farm Employment, as well as the outlook as it is forecast from the Office of Economic Analysis.

Figure 1: Oregon and U.S. Employment Trends

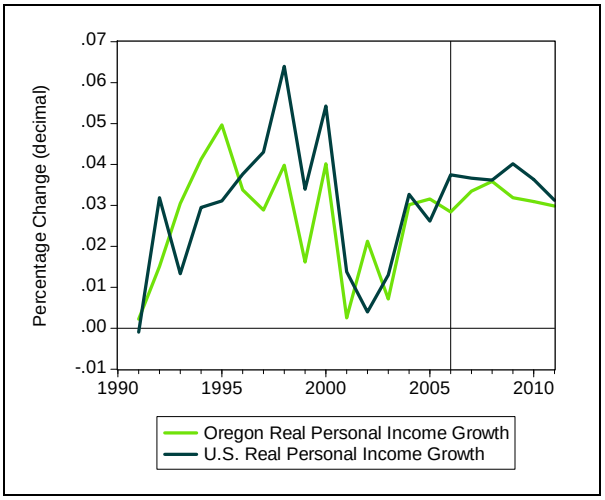


In 2005, many sectors of the Oregon economy experienced job gains. Manufacturing employment grew steadily throughout 2005 at a rate of approximately 2.3 percent. Both 2004 and 2005 were very strong years in Oregon's manufacturing employment growth, in contrast to them being down years nationally. Transportation equipment manufacturing – one of Oregon's strongest manufacturing segments - led the pack with a very robust 9.3 percent growth in 2005, followed by metal and machinery manufacturing at 3.7 percent. Even our wood products industry was a strong performer in 2004 and 2005, in that it actually grew, rather than contracting as forecast previously. High-tech manufacturing employment continued to grow somewhat slowly during 2005, at a rate of 1.5 percent. Job levels for our manufacturing sector as a whole are expected to level off during the forecast period, coincident with the stagnant manufacturing levels predicted for the national economy. Productivity growth, rather than employment gains, is what will drive the growth in value added for manufacturing both in Oregon and nationally.

Several other sectors exhibited relatively brisk employment growth during 2005. For example, construction employment grew by approximately 10 percent in 2005. This strong growth primarily resulted from the housing boom that was fueled by low mortgage interest rates, as well as emerging activity in commercial and public infrastructure projects. Service sectors also experienced growth: Professional and Business Services, Health Services, and Leisure and Hospitality all grew at rates of 3 percent or more. Employment in Retail Trade and Wholesale Trade, both of which have a pronounced impact on the outlook for State Highway Fund revenues, expanded by 3.1 and 3.3 percent, respectively. As with manufacturing, slower growth is expected throughout the forecast period as a result of softening economic conditions as the nation's economy reverts to long term growth trends.

As with employment, Oregon personal income showed continued gains during 2005. Personal income, about 55 percent of which is typically derived from wage and salary income sources, increased by 6.5 percent in 2005, slightly higher than predicted by the previous forecast. When adjusted for inflation, real personal income for Oregonians grew by about 3.8 percent during 2005, exceeding the nation's real growth of 2.1 percent by a wide margin. Oregon's real personal income is anticipated to continue rising in future years, and yet is not expected to reach the high growth rates experienced during the mid 1990s. Moreover, Oregon's personal income is expected to grow roughly at the same rates as the U.S. during the forecast period. Figure 2 provides additional details on the growth trends for Oregon and U.S. real personal income, as well as the growth rate experienced since 1990.

Figure 2: Oregon and U.S. Real Personal Income Growth Trends



Overall, Oregon's economy is expected to grow only moderately during the next several years as national economic conditions resemble a more mature growth phase. Concerns about inflation, driven in part by high fuel costs, may lead to weaker demand for Oregon's goods and services by businesses and households. Growing geopolitical uncertainty may further undermine consumer confidence and be a drag on consumer spending. Rising mortgage interest rates are expected to continue to affect the housing market by slowing growth in new residential construction. In addition, any post-Hurricane Katrina increase in demand for Oregon's wood products and processed foods is expected to be short-term at best. In sum, although positive growth is expected throughout the forecast period, there are few signs that the very robust economic expansion we've experienced the past 2 years can be sustained. A summary of some economic indicators for Oregon is contained in Table 2 on page four.

Table 1: National Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09	CY 10
CONSUMER PRICE INDEX (CPI)	2.7%	3.4%	2.6%	1.6%	1.8%	1.7%	1.8%
EMPLOYMENT	1.1%	1.5%	1.5%	1.3%	1.3%	1.2%	0.9%
HOUSING STARTS	5.2%	6.3%	-8.1%	-6.8%	-1.3%	-2.3%	-0.4%
POPULATION	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
REAL GROSS DOMESTIC PRODUCT (GDP)	4.2%	3.5%	3.3%	2.6%	3.1%	3.3%	3.1%
REAL PERSONAL INCOME	3.3%	2.6%	3.7%	3.7%	3.6%	4.0%	3.6%
REAL PRICE OF GASOLINE	14.9%	18.5%	2.2%	-6.7%	-3.0%	-4.2%	-4.2%
UNIT SALES OF NEW AUTOMOBILES	-1.4%	2.0%	-2.2%	-2.4%	0.9%	0.1%	2.9%

Table 2: Oregon Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09	CY 10
EMPLOYMENT--TOTAL	2.0%	3.1%	3.1%	1.4%	1.6%	1.4%	1.3%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	0.9%	1.5%	2.9%	-0.8%	-0.3%	-0.3%	-0.4%
EMPLOYMENT--RETAIL TRADE	1.8%	3.1%	3.4%	1.7%	1.8%	1.4%	1.2%
EMPLOYMENT--TRANSPORTATION	2.0%	0.2%	1.1%	1.9%	2.8%	2.8%	2.5%
EMPLOYMENT--WHOLESALE TRADE	1.3%	3.3%	2.6%	0.4%	0.8%	0.8%	1.2%
EMPLOYMENT--WOOD PRODUCTS	3.4%	1.3%	0.8%	-2.2%	-2.9%	-2.3%	-0.7%
HOUSING STARTS	8.5%	12.6%	-8.3%	-2.8%	1.0%	0.5%	1.6%
POPULATION	1.2%	1.4%	1.4%	1.3%	1.4%	1.3%	1.3%
PORTLAND METRO PRICE INDEX	2.6%	2.6%	2.9%	2.0%	2.1%	2.0%	2.0%
REAL PERSONAL INCOME	3.0%	3.8%	3.6%	3.6%	3.4%	3.8%	3.6%
TIMBER HARVEST	10.1%	-0.2%	-0.7%	-0.9%	0.0%	-1.4%	-0.5%

Table 3: Percentage Change in Transactions for Key Transportation Variables

	Actual		Forecast				
	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09	CY 10
MOTOR VEHICLE FUELS (GALLONS)	0.6%	1.5%	1.6%	1.9%	2.0%	2.2%	2.2%
ORIGINAL CLASS C LICENSES	-5.1%	6.5%	3.4%	2.5%	0.2%	-0.4%	-0.3%
PASSENGER VEHICLE REGISTRATIONS	-1.0%	-0.4%	0.8%	-0.2%	2.9%	-0.1%	1.8%
TITLE TRANSFERS	-2.7%	-2.1%	0.9%	1.8%	1.2%	1.3%	2.0%
TRUCKING ACTIVITY (WEIGHT-MILE)	6.0%	4.1%	2.7%	1.8%	2.2%	2.2%	2.7%

TRANSPORTATION TRANSACTIONS

Table 3 on page four contains the highlights of annual rates of change in a number of transactions for the major transportation variables in the current forecast. Additional discussion of the Motor Fuels, Motor Carrier, and DMV forecasts is provided below.

Motor Fuels Usage

The growth in the use of taxable gasoline and diesel fuels in Oregon has continued to be in somewhat of a soft patch, but not as soft as expected the past several forecasts. Actual consumption has slightly outpaced our prior forecasts. For example, in our last published forecast (December 2005), we projected only a 0.1 percent increase in usage for CY2006, in other words virtually flat. However, with model updates and year-to-date information, the current forecast is for 1.6 % growth for all of 2006.

The surprise in the outcomes highlighted above is not really that sales have stayed somewhat tepid, but rather that they didn't drop off materially in the face of fairly steep rises in gas and oil prices. On an annual average basis, for instance, consumers confronted gasoline prices at the pump that were about double in 2005 than what was experienced in 2002, the year before the onslaught of the increases. Similarly, crude oil prices were well over nearly 120 percent higher in 2005 than in 2002. Despite these very elevated, and somewhat sustained, price levels, gas consumption has not markedly deteriorated. This pattern has been common across the entire nation as well.

A number of factors account for the relative buoyancy of gas/diesel taxable sales, and these serve to shore up our outlook for what is in store. First, the far most dominate factor in gas consumption statewide is the pace of overall economic activity. Job growth and increased volumes of business underlie strong demand for transportation services and for travel demands overall. Consumers and businesses do respond to higher prices for motor fuels, but the net price effects can appear to be somewhat muted. Recent reactions to the higher prices have been tempered or counteracted by changing spending habits in the short-run. Consumers collectively have been saving less or dipping into assets in order to cover the rising share of energy spending in their budgets. Spending on energy may be displacing spending on other more discretionary goods or services in the typical household budget. The nation's higher oil bill acts, after all, like a lump sum tax by sapping consumers' buying power. This can't endure indefinitely; if prices remain elevated, pretty soon permanent adjustments in mode choice and in the fuel efficiency of the passenger vehicle fleet will begin to take place so as to restore consumers' more traditional spending patterns.

In sum, had Oregon not experienced very strong job growth in 2004 and 2005 – among the top ten nationally for much of this period – there probably would have been a noticeable diminution in taxable gas/diesel sales. The factors that determine usage are many and varied. Moreover, they routinely don't change one at a time, but simultaneously and in some instances interactively in the overall scheme of things.

Despite the turbulence in the petroleum markets, our forecasting model has done very well in forecasting usage. For CY2005, the forecast model under-predicted usage by only about 0.6 of a percentage point. The prior forecast slightly under-predicted usage for the

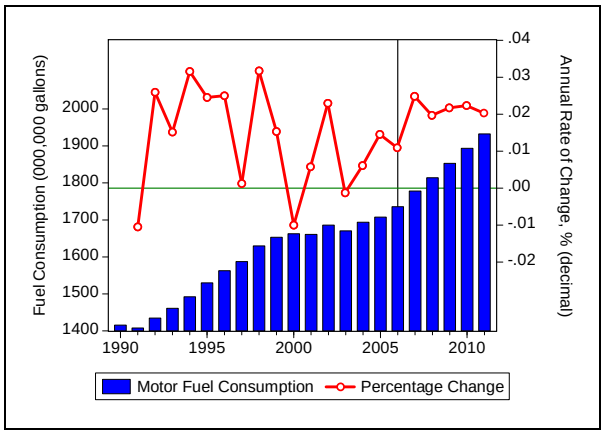
latter half of the year, a period of weak demand on a seasonal basis.

Figure 3 presents some recent history of past usage and the outlook to 2011. The influence of continued economic expansion, as manifested in job growth and expanding personal incomes, can be seen to propel sales growth at rates of 2 percent or more throughout the forecast horizon. This is not much different than the average growth rate over the historical span of 1990 – 2005.

Underlying this growth outlook is a somewhat sanguine outlook perhaps for the probable course for prices of conventional fossil fuels. The real risk to the fuel use forecast actually resides – at least in the intermediate term – with the impact of high oil prices precipitating a major economic slowdown, or even worse, a recession. Either episode would not bode well for fuel sales. For a quantitative analysis, the reader is referred to an earlier forecast report which looked at the ingredients of such a scenario conducted for the September 2004 Forecast:

http://www.oregon.gov/ODOT/CS/EA/reports/forecast_0904.pdf

Figure 3: Fuel Consumption & Growth



Motor Carrier

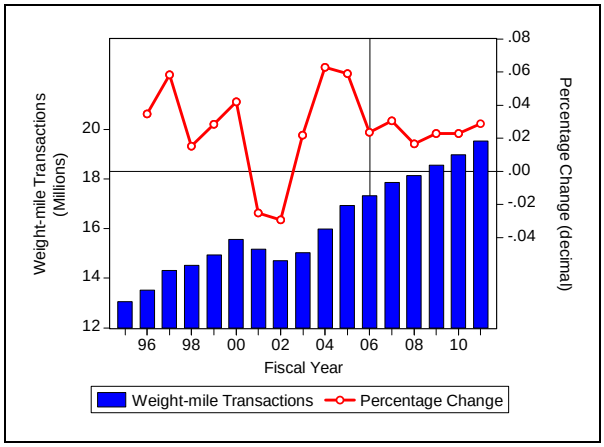
Trucking activity and the freight industry affect the amount of revenue available to the State Highway Fund through the weight-mile tax, heavy vehicle registration fees, and other Motor Carrier fees. Each of these revenue sources is influenced by changes in general economic conditions within Oregon and the nation as a whole. Because growth in many of the economic variables affecting Motor Carrier activity appears to moderate for the next several years, this forecast of Motor Carrier revenues reflects this softness.

The weight-mile tax is the largest source of trucking-related revenue. This highway use tax applies only to trucks with a gross weight over 26,000 pounds. Generally, the tax paid by a motor carrier varies with the weight of the vehicle, the number of miles traveled, and the axle configuration. Certain qualifying motor carriers, such as those transporting logs, wood chips, sand or gravel, may pay the highway use tax based on a flat monthly fee. The weight-mile revenue and transaction totals discussed in this report include this "flat-fee" revenue as well as revenue from a small number of related fees.

An estimate of weight-mile "transactions" provides the basis for the current forecast of weight-mile revenues. This methodology, also used for prior forecasts, constructs a measure of weight-mile transactions by dividing revenue for a given time period by the average weight-mile tax rate paid by the typical heavy vehicle. The forecasting model incorporates several employment measures as well as real gasoline prices to estimate the weight-mile transactions. The resulting transaction forecast is then converted back to revenues. As Figure 4 reveals, the number of weight-mile transactions grew quite strongly in both 2004 and 2005, by 6.1 and 5.9 percent, respectively. They are forecast to increase by approximately 2.4 percent in

FY06 and over the balance of the forecast horizon.

Figure 4: Weight-mile Transactions



Another source of revenues to the State Highway Fund emanates from heavy vehicle registrations, trip permits, and other fees paid by motor carriers. The current forecast methodology involves estimating each of the seven largest components separately. This approach allows each model to take into account varying renewal cycles, areas of operation, and relevant economic conditions.

Heavy vehicle registration revenues include both Commercial and International Registration Plan (IRP) truck registration fees. IRP registration and miscellaneous fee revenues account for nearly two-thirds of all heavy vehicle registration revenues. The IRP program pertains to trucks in excess of 26,000 pounds that undertake interstate travel. These motor carriers, whether based in Oregon or another participating jurisdiction, must pay registration fees to each state through which they travel. Commercial truck registration fees equal approximately one-third of the heavy vehicle registration revenues. Commercial registration fees apply to trucks weighing more than 26,000 pounds that are Oregon-based and operate exclusively in Oregon. Each of these sources of registration revenue is forecasted separately.

The remainder of the heavy vehicle revenues includes Commercial Trip Permits, Over-Dimension Permits, and the Road Use Assessment Fee. Each of these components, which are also forecasted individually, summed to less than $2.8 million in FY05. Together, they are expected to reach $3.1 million in FY06. Overall, their average annual growth rates for the forecast period of FY07 through FY11 are expected to range between 3.2 and 4.4 percent.

Driver and Motor Vehicles

The Driver and Motor Vehicle division (DMV) is responsible for administration of driver and motor vehicle related activities. Revenues collected from the fees charged for the various DMV activities flow to the Highway Fund, Transportation Operating Fund, Transportation Safety Account, Elderly and Disabled Special Transportation Fund, and to cities and counties for road repair, maintenance and construction.

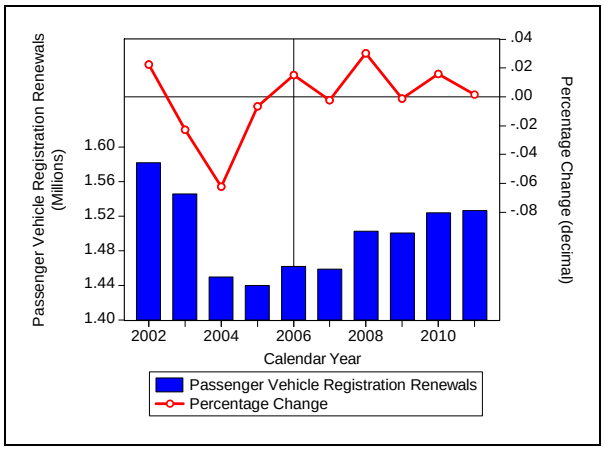
DMV activities are affected by various economic and demographic variables and provide a reflection of some very broad undercurrents in the state. The impacts of changes in population, employment, migration, and economic production are readily evident in many of the DMV data series.

DMV data series also show the effects of legislative impacts over time. Passenger vehicle registrations are a good illustration of this. Legislation enacted in the 2001 session required most new vehicles to be originally registered for four years, with subsequent two-year renewals. It was implemented in two phases. The first phase began in January 2002, covering the majority of the state, and the second phase was implemented in January of 2004, adding the five Portland area counties. As a result of these changes, two year passenger registrations should have

shown a decline beginning in 2002, lasting through 2005. However, due to the vehicle manufacturers attempts to stimulate the economy after September 11, 2001 by offering low interest car loans and other incentives on new vehicle purchases, two-year registrations increased year-over-year for the eight months following September 2001. After that period two-year registrations decreased as expected through 2005.

Beginning in 2006, vehicles registered for four years in 2002 come up for renewal, which should begin to increase total two-year registrations. However, through the first five months of 2006 the expected increase has not been present. Similarly in 2008, vehicles originally registered for four years in 2004 will come up for renewal, which should create another increase in two-year registrations.

Figure 5: Two Year Passenger Vehicle Registrations



Changes in the level of transaction activity and legislative changes in fee structures impact the amount of revenue generated. The OTIA III legislation passed during the 2003 session increased fees for a number of DMV activities. How the fee increases affect Oregonians' willingness to pay for the same activities is an important consideration. With two full years of data since the OTIA III fee increases were implemented, the results are showing a decreased level of activity for the transactions where the fees were increased. This is expected and consistent with economic theory. The reduced volumes of transactions generally occur where the percent changes in fees are the greatest, or where the fees represent a larger share of the value of the vehicle.

The demographic and economic changes, combined with legislative impacts, explain most of the variation in total DMV transactions over time. Total DMV transactions decreased in FY05 primarily reflecting the 2003 legislative impacts, and are expected to grow slowly over the coming years with a small decline in FY07.

However, future legislation will undoubtedly affect the DMV transactions forecast and resulting revenues.

HIGHWAY FUND REVENUE FORECAST

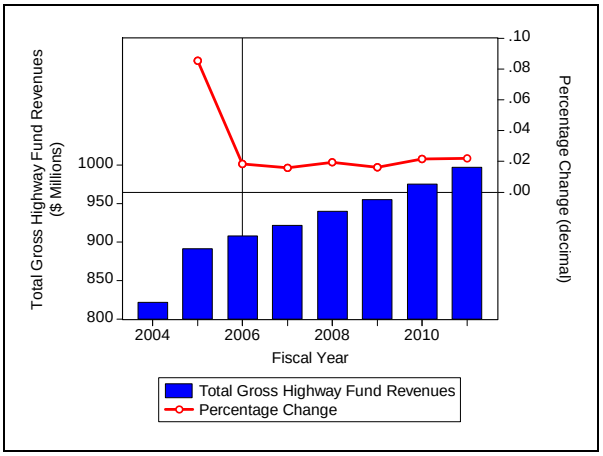
Our current forecast shows a slight, positive change in the overall gross revenues from our prior outlook (December, 2005). The current outlook indicates that gross revenues overall are about $8 to $10 million higher than forecast previously. On a biennium basis for the 2007-2009 period, the forecast is nearly $17 million higher.

Differences between the current and prior forecast come from three primary sources. First, the forecast incorporates updated data on transportation transactions used for model estimation purposes. Second, it integrates the most recent revisions to the state economic outlook. And third, the forecast takes into account changes in the national macroeconomic outlook that affect transportation revenues but are not directly captured in the state forecast.

Figure 6 shows the recent behavior of gross revenues and the current forecast out to 2011. The past several forecasts have fully reflected the prospective impacts of OTIA III (HB 2041)) and other legislative initiatives passed in the 2003 Regular Legislative Session. Most of the implementation of this legislation commenced in January 2004, and the effects are fully felt starting in FY2005, as reflected by the comparatively pronounced jump in revenues for that year. Thereafter, revenue trends converge more toward the economic and demographic trends of the state.

The current outlook forecasts that gross revenues will be higher than the prior forecast, but by only modest amounts. For FY06 through FY07, revenues are expected to be $8.8 million and $10.7 million more than in the prior forecast, respectively. On an average annual basis this difference translates into only about a 1.0 percent change from the prior forecast. The remaining years of the forecast are also higher than in the prior forecast. Overall, total gross revenues are expected to grow at an average annual rate of 1.9 percent between FY06 and FY11. This growth in nominal revenues is, however, below the expected rate of cost escalation for construction and maintenance activities confronting the Agency's Highway Program.

Figure 6: Total Gross Highway Fund Revenues



Among the broad components of the forecast (that is, fuel taxes, DMV collections, and Motor Carrier revenues), fuel taxes are higher than before by about $5.8 million for FY06, and are higher as well over the remaining years of the forecast period by an average of $8.5 million. Some of this is offset with somewhat weaker DMV revenues than forecast the last time. DMV revenues are predicted to be approximately $0.3 million lower in FY2006, and on average to be about $5 million lower per year beyond that. Motor Carrier revenues, on the other hand, are roughly $3 to $8 million higher than in our prior publication.

In sum, for the broad revenue streams that are more closely linked to the daily pace of economic activity and variations in travel

demands – namely fuel taxes and weight-mile revenues from heavy trucks – receipts are a bit stronger than before. This stems from the somewhat stronger outlook for the state's economy in the Spring 2006 state forecast.

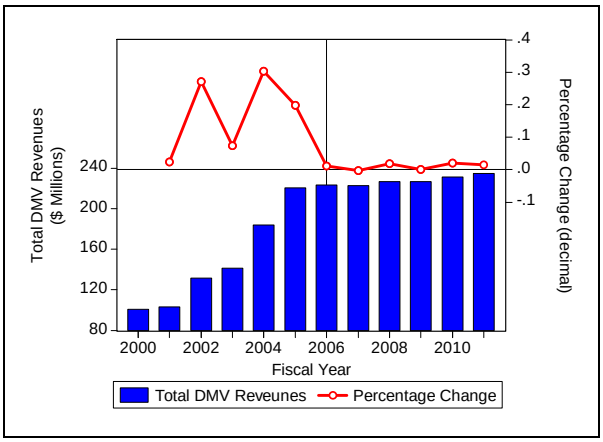
Highway Fund Forecast

Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes constitute the largest single source of revenue at forecast levels of approximately $410 to $450 million per year. These are levied on motor fuels used in passenger vehicles, as well as in light to medium trucks that are not subject to the weight-mile tax. The weight-mile tax is levied on heavy trucks on a per mile basis, but is graduated in proportion to the weight of the truck. For very large truck configurations, there is a tax schedule that slightly lowers the tax rates and is based on the number of axles. Weight-mile taxes are the second largest source of revenue at forecast levels of $240 to $270 million a year. Licensing, vehicle registrations, and titles make up the next primary source of State transportation revenue with gross annual forecast revenues of $220 to $235 million.

DMV Revenues

Total DMV revenues are shown in row 4 of Table 4 and in Figure 7. The significant increase in revenues in FY02 and FY04 result from fee increases in the 2001 and 2003 sessions and other legislative adjustments. The full effects on an annual basis of the OTIA III related fee increases began in FY05 and revenues are projected to grow at an average annual rate of 1.0 percent throughout the forecast period. These gross revenues include the effects of the broad base of fee changes resulting from HB 2041 from the 2003 legislative session. Implementation of HB 2041 does very little to affect collections, administration, and program costs as shown in row 6 of the table. As a result, the fee increases largely flow to the OTIA III revenue transfer shown in row 11. Net DMV revenues, as represented in row 12, are expected to decline through FY10 as costs increase faster than future revenue growth under existing fee levels. Row 13 summarizes the change in net revenue from the previous forecast.

Figure 7: Total DMV Revenues

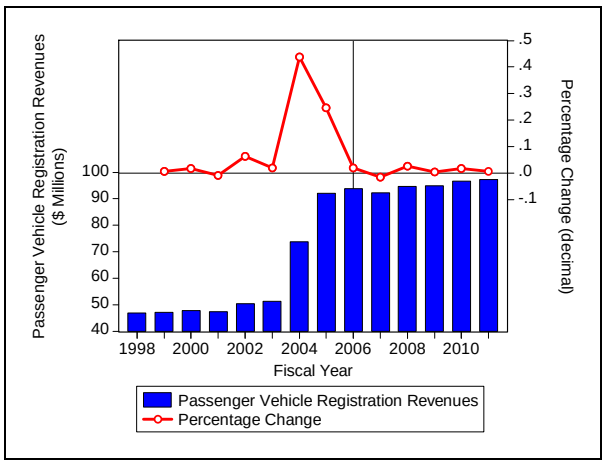


Continued refinements in the estimating equations have increased the overall accuracy of our DMV forecasts both individually and collectively. They have also served to decrease the variation in the forecasts from one forecast to the next when exogenous conditions are largely invariant. Collectively, revenues only differ by 0.1 percent than from the previous forecast for the CY2006 year to date.

Overall, the DMV revenue forecast is slightly lower than the previous forecast, as row 5 in Table 4 summarizes. Expected slower growth in passenger registrations is primarily responsible for this decrease.

The DMV revenue forecast is divided into three main sections reflecting the DMV's three primary revenue sources of vehicle registrations, driver licenses, and vehicle titles.

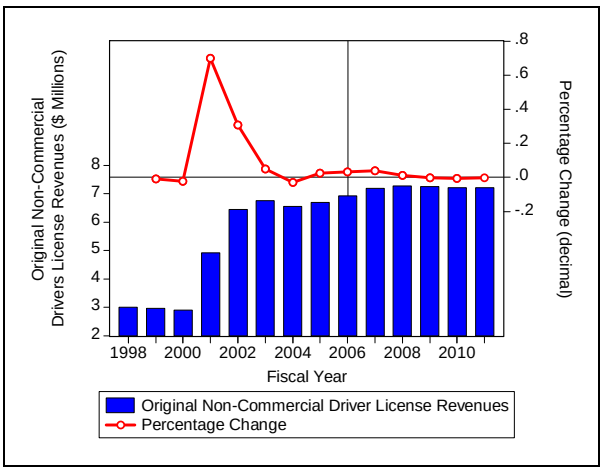
Figure 8: Passenger Vehicle Registration Revenues



Vehicle registrations make up the dominant portion of DMV revenues, highlighted by passenger vehicle registrations, which alone account for 80 percent of vehicle registration revenues, and 40 percent of total DMV revenues. Registration revenues, as reported in row 1 of Table 4, totaled $109.7 million in FY05, an increase of 23.7 percent over FY04. This was primarily a result of the first full fiscal year following the OTIA III fee increases. Beyond FY05, growth is expected to average 1.1 percent throughout the forecast period, despite a slight 1.3 percent decline in FY07.

Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues, as shown in row 2, totaled $34.2 million in FY05, an 11.2 percent increase over FY04. Revenue growth in the forecast period is forecast to fluctuate between slightly positive and slightly negative growth, with an overall decline of 1.2 percent from FY05 through FY11. The shift from a four- to eight-year renewal cycle for commercial and non-commercial licenses largely accounts for the negative growth. However, positive growth in original non-commercial driver license revenue is expected through FY10 as net migration growth trends upward and the population of 16-year olds increases.

Figure 9: Original Non-Commercial Driver License Revenue



Vehicle titles include a variety of title transactions. These span new light and heavy vehicle purchases, vehicles that are new to Oregon due to in-migration, and used vehicle transactions, as well as salvage titles and all other DMV transactions not elsewhere included. The largest component of the titles section is title transfers, accounting for over 50 percent of revenues in this group. Vehicle title revenues, as shown in row 3 of Table 4, for FY05 are expected to be $76.4 million, a 17.5 percent increase over FY04. This is mostly a result of the full implementation of the OITA III fee increases. Beyond FY05 revenue growth is expected to average 1.5 percent per year through the forecast period.

Figure 10: Vehicle Title Transfer Revenues

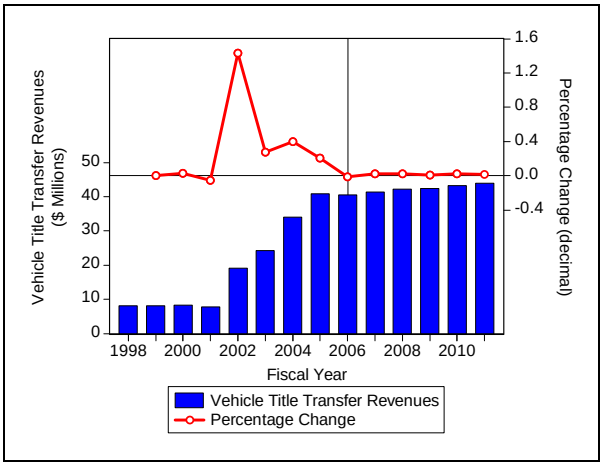


Table 4: Highway Fund Revenue Collected by DMV (Millions of Dollars)

		Actual		Forecast						Actual	Forecast		
		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
1	VEHICLE REGISTRATIONS	$88.7	$109.7	$111.9	$110.5	$113.1	$113.9	$116.1	$117.1	$198.4	$222.4	$227.0	$233.1
2	DRIVER LICENSES & OTHER	$30.7	$34.2	$34.3	$34.1	$33.9	$32.4	$33.0	$33.8	$64.9	$68.4	$66.3	$66.8
3	TITLE, PLATE & OTHER	$65.0	$76.4	$76.8	$77.8	$79.4	$80.3	$81.9	$83.6	$141.5	$154.6	$159.7	$165.4
4	**TOTAL DMV COLLECTIONS**	**$184.4**	**$220.3**	**$223.0**	**$222.4**	**$226.5**	**$226.6**	**$230.9**	**$234.4**	**$404.8**	**$445.4**	**$453.0**	**$465.3**
5	Change from Previous Forecast			$0.3	($3.2)	($4.3)	($5.8)	($6.1)	($5.5)		($2.9)	($10.1)	($11.6)
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($55.6)	($56.8)	($60.4)	($62.8)	($65.2)	($67.8)	($71.1)	($72.5)	($112.4)	($123.2)	($133.0)	($143.7)
7	TRAFFIC SAFETY TRANSFER	($0.6)	($0.6)	($0.7)	($0.7)	($0.8)	($0.8)	($0.9)	($0.9)	($1.2)	($1.5)	($1.6)	($1.7)
8	DEPARTMENT OF EDUCATION TRANSFER	($0.1)	$0.0	($0.1)	$0.0	($0.1)	$0.0	($0.1)	$0.0	($0.1)	($0.1)	($0.1)	($0.1)
9	ODOT CENTRAL SERVICES ASSESSMENT	($14.9)	($15.2)	($17.1)	($17.8)	($18.5)	($19.3)	($20.2)	($20.6)	($30.1)	($35.0)	($37.8)	($40.8)
10	REVENUE TRANSFER TO OTIA I & II	($7.5)	($6.6)	($6.8)	($6.8)	($6.7)	($6.6)	($6.6)	($6.6)	($14.1)	($13.6)	($13.4)	($13.2)
11	REVENUE TRANSFER TO OTIA III	($39.0)	($76.6)	($77.8)	($77.4)	($79.1)	($79.5)	($80.9)	($81.8)	($115.6)	($155.1)	($158.6)	($162.7)
12	**NET DMV REVENUE**	**$66.7**	**$64.6**	**$60.1**	**$56.8**	**$56.1**	**$52.5**	**$51.2**	**$52.0**	**$131.2**	**$116.9**	**$108.6**	**$103.2**
13	Change from Previous Forecast			$0.5	($1.6)	($2.0)	($2.8)	($2.9)	($2.7)		($1.0)	($4.8)	($5.6)

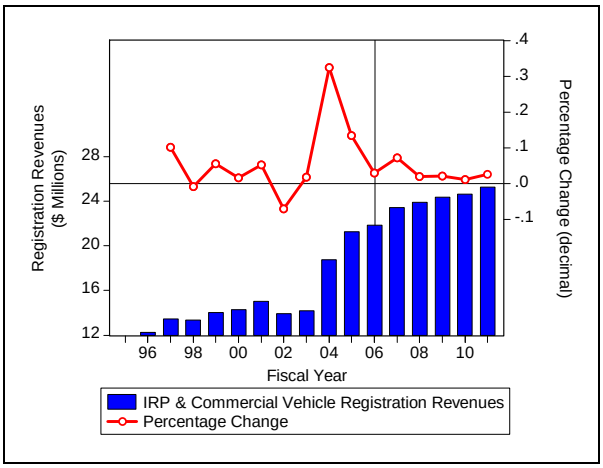
Motor Carrier Revenues

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and heavy vehicle registration fees. Table 5 contains the forecast revenue detail, along with projected collection/administration costs and transfers out. Row 4 reports the total gross revenues for the Motor Carrier Division. Gross revenues for FY06 increase by $2.8 million from the prior forecast, as shown in row 5. Overall, gross revenues are expected to grow at an average annual rate of 2.4 percent during the forecast period. Costs as shown in rows six and eight are also expected to increase but at a slower rate than revenues. This results in net revenues, as shown in row 11, increasing throughout the forecast period, in contrast to aggregate net DMV revenues. Row 12 of Table 5 provides a summary of the aggregate differences of net revenues from the prior forecast.

In FY05, weight-mile revenues reached $235.3 million as indicated in row one. The current forecast, which replicates the methodology of previous forecasts while incorporating updated economic data, predicts that total weight-mile revenues will reach $241 million in FY06. This total represents growth of close to 2.4 percent for the fiscal year. At this time, an average annual growth rate of approximately 2.4 percent is expected through FY11. This growth rate exceeds the average annual rate of 2.0 percent that was predicted in our December 2005 forecast.

Row 2 of Table 5 contains IRP registration fees, commercial registration fees, and road use assessment fees. These total $22.5 million in FY05. For FY06, they are expected to reach approximately $23 million, reflecting 3.4 percent growth over the previous year. A slightly lower average annual growth rate of 2.9 percent is predicted for the remaining years of the forecast period. As with weight-mile revenues, this growth rate exceeds the rate predicted in our previous forecast.

Figure 11: Heavy Vehicle Registration Revenues



Trip permits and other heavy vehicle related revenues are shown in row 3 of the table. These revenues also include the OTIA III fee increments from the heavy vehicle portion of the Local Fund, which include the revenues from weight receipt fee increases and from the commercial drivers' license-related fee increases. These revenues totaled $4.5 million in FY05 and are expected to grow slowly, averaging 1.4 percent through the forecast period.

Table 5: Highway Fund Revenue Collected by MCTD (Millions of Dollars)

		Actual		Forecast						Actual	Forecast		
		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
1	WEIGHT-MILE TAX	$209.7	$235.3	$241.0	$248.4	$252.5	$258.3	$264.2	$271.8	$444.9	$489.4	$510.8	$535.9
2	IRP, COMMERCIAL VEHICLE REGISTRATIONS, & RUAF*	$19.8	$22.5	$23.3	$24.8	$25.3	$25.8	$26.1	$26.7	$42.3	$48.1	$51.1	$52.8
3	TRIP PERMITS & OTHER HEAVY	$2.6	$4.5	$4.5	$4.6	$4.7	$4.8	$4.9	$4.9	$7.1	$9.1	$9.4	$9.8
4	**TOTAL MCTD COLLECTIONS**	**$232.0**	**$262.3**	**$268.7**	**$277.8**	**$282.4**	**$288.9**	**$295.1**	**$303.4**	**$494.3**	**$546.5**	**$571.3**	**$598.6**
5	Change from Previous Forecast			$2.8	$8.2	$6.0	$5.9	$5.8	$8.3		$11.0	$11.9	$14.1
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($21.7)	($22.2)	($23.0)	($23.9)	($24.8)	($25.8)	($27.0)	($27.6)	($43.9)	($46.8)	($50.6)	($54.6)
7	IFTA COST RECOVERY**	$1.0	$1.0	$1.1	$1.1	$1.1	$1.2	$1.2	$1.3	$1.9	$2.1	$2.3	$2.5
8	ODOT CENTRAL SERVICES ASSESSMENT	($5.5)	($5.6)	($5.8)	($6.1)	($6.3)	($6.6)	($6.9)	($7.0)	($11.0)	($11.9)	($12.9)	($13.9)
9	REVENUE TRANSFER TO OTIA I & II	($10.0)	($9.4)	($9.9)	($10.1)	($10.1)	($10.1)	($10.1)	($10.2)	($19.4)	($20.0)	($20.2)	($20.2)
10	REVENUE TRANSFER TO OTIA III	($10.0)	($29.7)	($29.9)	($31.0)	($31.6)	($32.3)	($32.9)	($33.8)	($39.7)	($60.9)	($63.9)	($66.7)
11	**NET MCTD REVENUE**	**$185.8**	**$196.5**	**$201.2**	**$207.8**	**$210.9**	**$215.3**	**$219.4**	**$226.2**	**$382.3**	**$409.0**	**$426.2**	**$445.6**
12	Change from Previous Forecast			$2.0	$6.3	$4.3	$4.0	$4.1	$6.2		$8.3	$8.3	$10.3

*IRP: International Registration Plan. RUAF: Road Use Assessment Fees.

**IFTA: International Fuel Tax Agreement.

Motor Fuels Tax Revenues

The Central Services Division–Financial Services collects fuel tax revenues. Fuel tax collections are shown in Table 6. The fuel tax revenue forecasts have been very accurate, despite the price volatility in petroleum markets the past three years. Actual revenues versus forecast revenues for the past several years have been within plus/minus 1 percent.

Unlike for DMV and MCTD transactions, there have been no changes to the tax rates for gasoline and use fuels (largely diesel). So, the outlook here mimics closely the fuel consumption forecast laid out above, with the caveat that the latter is stated in terms of calendar years in order to correspond more closely with the narrative on the economic backdrop.

The current forecast shows slightly more fuel tax revenue than the prior forecast. In the years FY06 and beyond, it is about $6 to $12 million per year more, or just about 1 to 2 percent higher. Revenues are forecast to increase at an annual rate of 1.4 percent in FY07, after being up about 1.7 percent in FY06. Fuel tax revenues then increase at a slightly stronger rate of about 2 percent on average out to 2011, due to the comparatively strong economic outlook for the state.

In the current biennium, revenues are forecast to be up about 2.9 percent, or a little more than $23.4 million, from the 2003-05 biennium. This is somewhat stronger than the prior projection. Revenue growth is forecast to regain strength in the next biennium, increasing by 3.9 percent or $32.7 million for the next two year period.

Collection and program administration costs stay largely invariant over the forecast horizon, so net fuel tax revenues to the State Highway Fund exhibit largely the same pattern as gross revenues.

With an average annual base of approximately $437 million over the forecast interval, fuels tax collections generate the single largest amount of revenue for the Highway Fund. One penny of gas tax generates about $18.2 million gross and $17.5 million net per year in fuel tax revenue through this forecast horizon. The same penny of tax plus its weight-mile equivalent produces on average about $30 million gross and nearly $28 million net a year.

Table 6: Highway Fund Revenue Collected by FSB (Millions of Dollars)

		Actual		Forecast						Actual	Forecast		
		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
1	MOTOR FUELS TAX	$405.2	$408.6	$415.7	$421.4	$430.6	$439.3	$449.3	$458.8	$813.8	$837.2	$869.9	$908.1
2	**TOTAL FSB COLLECTIONS**	**$405.2**	**$408.6**	**$415.7**	**$421.4**	**$430.6**	**$439.3**	**$449.3**	**$458.8**	**$813.8**	**$837.2**	**$869.9**	**$908.1**
3	Change from Previous Forecast			$5.8	$5.7	$7.0	$7.8	$9.9	$12.1		$11.5	$14.8	$22.1
4	COLLECTION/ADMINISTRATION COST	($1.0)	($1.0)	($1.2)	($1.3)	($1.3)	($1.4)	($1.5)	($1.5)	($2.0)	($2.5)	($2.7)	($2.9)
5	ODOT CENTRAL SERVICES ASSESSMENT	($0.1)	($0.1)	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)	($0.3)	($0.4)	($0.4)	($0.4)
6	SNOWMOBILE TRANSFER	($0.7)	($0.7)	($0.7)	($0.7)	($0.7)	($0.7)	($0.7)	($0.8)	($1.4)	($1.4)	($1.4)	($1.5)
7	CLASS I ATV TRANSFER	($1.3)	($1.7)	($2.1)	($2.3)	($2.5)	($2.8)	($3.1)	($3.3)	($3.0)	($4.4)	($5.3)	($6.4)
8	MARINE BOARD TRANSFER	($5.5)	($5.5)	($5.3)	($5.3)	($5.3)	($5.3)	($5.3)	($5.3)	($11.0)	($10.6)	($10.6)	($10.6)
9	CLASS II ATV TRANSFER	($0.9)	($1.0)	($1.1)	($1.2)	($1.3)	($1.4)	($1.5)	($1.6)	($1.8)	($2.4)	($2.7)	($3.2)
10	CLASS III ATV TRANSFER	($0.7)	($0.6)	($0.7)	($0.8)	($0.8)	($0.9)	($1.0)	($1.0)	($1.3)	($1.5)	($1.7)	($2.0)
11	TRANSPORTATION OPERATING FUND (TOF)	($7.9)	$0.0	($4.1)	($4.1)	($4.2)	($4.2)	($4.3)	($4.3)	($7.9)	($8.2)	($8.4)	($8.6)
12	AVIATION TRANSFER	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.2)	($0.2)	($0.2)	($0.3)
13	REVENUE TRANSFER TO OTIA I & II	($19.8)	($18.0)	($18.8)	($18.7)	($18.8)	($18.9)	($18.9)	($18.9)	($37.8)	($37.5)	($37.7)	($37.8)
14	REVENUE TRANSFER TO OTIA III	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
15	**NET FSB REVENUE**	**$367.3**	**$379.8**	**$381.4**	**$386.6**	**$395.3**	**$403.4**	**$412.7**	**$421.7**	**$747.1**	**$768.0**	**$798.7**	**$834.5**
16	Change from Previous Forecast			$9.6	$1.6	$10.9	$3.6	$13.9	$7.7		$11.2	$14.5	$21.6

Highway Revenue Forecast Summary

Table 7 summarizes the updated revenue forecast. For tractability, it is partitioned into two panels. The portion of the table labeled "7A" contains a consolidation of the results reported in Tables 4, 5, and 6 developed for each major division of ODOT. The portion labeled "7B" shows how the net revenues available for distribution are apportioned between counties, cities, and the State Highway Fund. A separate monthly forecast of the County/City Apportionments is available at http://www.oregon.gov/ODOT/CS/EA/reports.shtml and scroll down to "Highway Revenue Apportionment Forecasts."

Table 7A: Highway Fund Revenue by Fiscal Year and Biennium (Millions of Dollars)

		Actual		Forecast						Actual	Forecast		
		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
1	TOTAL MCTD COLLECTIONS	$232.0	$262.3	$268.7	$277.8	$282.4	$288.9	$295.1	$303.4	$494.3	$546.5	$571.3	$598.6
2	TOTAL FSB COLLECTIONS	$405.2	$408.6	$415.7	$421.4	$430.6	$439.3	$449.3	$458.8	$813.8	$837.2	$869.9	$908.1
3	TOTAL DMV COLLECTIONS	$184.4	$220.3	$223.0	$222.4	$226.5	$226.6	$230.9	$234.4	$404.8	$445.4	$453.0	$465.3
4	**TOTAL GROSS HIGHWAY FUND**	**$821.6**	**$891.2**	**$907.4**	**$921.6**	**$939.5**	**$954.8**	**$975.3**	**$996.7**	**$1,712.8**	**$1,829.0**	**$1,894.3**	**$1,972.0**
5	COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	($198.5)	($242.8)	($257.2)	($262.8)	($269.5)	($275.7)	($284.1)	($288.8)	($441.3)	($520.0)	($545.2)	($572.9)
6	**NET REVENUE TO HIGHWAY FUND**	**$623.1**	**$648.4**	**$650.2**	**$658.8**	**$670.0**	**$679.1**	**$691.2**	**$707.9**	**$1,271.5**	**$1,309.0**	**$1,349.1**	**$1,399.1**
7	OTIA I & II SET ASIDE - memo	$37.3	$33.9	$35.4	$35.8	$35.6	$35.6	$35.6	$35.6	$71.2	$71.2	$71.2	$71.2
8	DEBT SERVICE (OTIA I & II)	($7.3)	($16.3)	($15.2)	($20.2)	($33.8)	($33.4)	($33.4)	($32.8)	($23.6)	($35.4)	($67.2)	($66.2)
9	OTIA III Dedicated Revenues - memo	$45.3	$98.1	$99.5	$100.0	$102.1	$103.2	$105.2	$106.9	$143.4	$199.5	$205.3	$212.1
10	DEBT SERVICE (OTIA III)	$0.0	($20.7)	($21.5)	($38.3)	($61.0)	($80.1)	($81.2)	($82.2)	($20.7)	($59.8)	($141.1)	($163.4)
11	NET OTIA I & II REVENUE FOR DISTRIBUTION	$30.0	$17.6	$20.2	$15.6	$1.8	$2.2	$2.2	$2.8	$47.6	$35.8	$4.0	$5.0
12	NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	$19.2	$21.0	$21.5	$21.8	$22.7	$23.1	$24.0	$24.7	$40.2	$43.3	$45.8	$48.7
13	NET OTIA III REVENUE FOR DISTRIBUTION -STATE	$26.1	$56.5	$56.5	$39.9	$18.5	$0.0	$0.0	$0.0	$82.5	$96.4	$18.5	$0.0
14	**TOTAL NET REVENUE FOR DISTRIBUTION**	**$698.4**	**$743.4**	**$748.4**	**$736.1**	**$713.0**	**$704.4**	**$717.4**	**$735.4**	**$1,441.9**	**$1,484.6**	**$1,417.4**	**$1,452.8**

Note: Row and columns sums may vary slightly due to rounding.

Table 7B: Distribution of Total Net Revenues (Millions of Dollars)

			Actual		Forecast						Actual	Forecast		
		Distribution Percentage	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
1	COUNTY APPORTIONMENT (ORS 366.524)	24.38%	$151.1	$156.3	$156.7	$158.7	$161.4	$163.6	$166.6	$170.6	$307.3	$315.4	$325.1	$337.2
2	SPECIAL COUNTY		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)
3	COUNTY APPORTIONMENT (OTIA I & II)	30.00%	$9.0	$5.3	$6.1	$4.7	$0.6	$0.7	$0.7	$0.8	$14.3	$10.7	$1.2	$1.5
4	COUNTY APPORTIONMENT (OTIA III)	25.48%	$11.5	$25.0	$25.3	$25.5	$26.0	$26.3	$26.8	$27.2	$36.5	$50.8	$52.3	$54.0
5	DEDICATED TO DEBT SERVICE (OTIA III)	84.07%	$0.0	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($34.8)	($34.8)	($34.8)
6	NET COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	$2.0	$4.5	$4.5	$4.6	$4.7	$4.7	$4.8	$4.8	$6.5	$9.1	$9.4	$9.5
7	**NET COUNTY APPORTIONMENT**		**$173.2**	**$173.1**	**$174.7**	**$175.6**	**$174.8**	**$177.4**	**$180.9**	**$185.6**	**$346.3**	**$350.3**	**$352.2**	**$366.5**
8	CITY APPORTIONMENT (ORS 366.524)	15.57%	$96.5	$99.8	$100.1	$101.4	$103.1	$104.5	$106.4	$109.0	$196.3	$201.5	$207.6	$215.4
9	SPECIAL CITY		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)
10	CITY APPORTIONMENT (OTIA I & II)	20.00%	$6.0	$3.5	$4.0	$3.1	$0.4	$0.4	$0.4	$0.6	$9.5	$7.2	$0.8	$1.0
11	CITY APPORTIONMENT (OTIA III)	16.99%	$7.7	$16.7	$16.9	$17.0	$17.4	$17.5	$17.9	$18.2	$24.4	$33.9	$34.9	$36.0
12	DEDICATED TO DEBT SERVICE (OTIA III)	15.93%	$0.0	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($6.6)	($6.6)	($6.6)
13	NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	$1.4	$3.0	$3.0	$3.1	$3.1	$3.1	$3.2	$3.2	$4.4	$6.1	$6.3	$6.4
14	**NET CITY APPORTIONMENT**		**$111.1**	**$119.2**	**$120.2**	**$120.8**	**$120.1**	**$121.8**	**$124.1**	**$127.1**	**$230.2**	**$241.0**	**$242.0**	**$251.2**
15	HIGHWAY DIVISION (including small City/County)	60.05%	$372.1	$384.9	$386.0	$391.0	$397.6	$403.1	$410.3	$420.3	$757.0	$777.0	$800.7	$830.6
16	SPECIAL COUNTY		($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.5)	($0.5)	($0.5)	($0.5)
17	SPECIAL CITY		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)
18	HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	$15.0	$8.8	$10.1	$7.8	$0.9	$1.1	$1.1	$1.4	$23.8	$17.9	$2.0	$2.5
19	HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	$26.1	$56.5	$57.2	$57.5	$58.8	$59.4	$60.5	$61.5	$82.5	$114.8	$118.1	$122.0
20	DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	$0.0	$0.0	($0.8)	($17.6)	($40.3)	($59.4)	($60.5)	($61.5)	$0.0	($18.4)	($99.7)	($122.0)
21	STATE APPORTIONMENT (OTIA III)	0.00%	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
22	**NET HIGHWAY DIVISION**		**$412.5**	**$449.4**	**$451.8**	**$438.0**	**$416.3**	**$403.4**	**$410.7**	**$420.9**	**$861.8**	**$889.7**	**$819.7**	**$831.6**
23	HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		$51.7	$55.5	$56.0	$56.8	$57.9	$59.1	$60.4	$62.0	$107.2	$112.8	$116.9	$122.4
24	NET COUNTY APPORTIONMENT		$173.2	$173.1	$174.7	$175.6	$174.8	$177.4	$180.9	$185.6	$346.3	$350.3	$352.2	$366.5
25	NET CITY APPORTIONMENT		$111.1	$119.2	$120.2	$120.8	$120.1	$121.8	$124.1	$127.1	$230.2	$241.0	$242.0	$251.2
26	NET HIGHWAY DIVISION		$412.5	$449.4	$451.8	$438.0	$416.3	$403.4	$410.7	$420.9	$861.8	$889.7	$819.7	$831.6
27	**NET HIGHWAY FUNDS REVENUE**		**$696.7**	**$741.7**	**$746.7**	**$734.4**	**$711.2**	**$702.7**	**$715.7**	**$733.6**	**$1,438.4**	**$1,481.1**	**$1,413.9**	**$1,449.3**
28	SPECIAL COUNTY/CITY TRANSFERS TO ALLOTMENT FUND		$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$3.5	$3.5	$3.5	$3.5
29	**TOTAL NET REVENUES FOR DISTRIBUTION**		**$698.4**	**$743.4**	**$748.4**	**$736.1**	**$713.0**	**$704.4**	**$717.4**	**$735.4**	**$1,441.9**	**$1,484.6**	**$1,417.4**	**$1,452.8**

Note: Row and columns sums may vary slightly due to rounding.

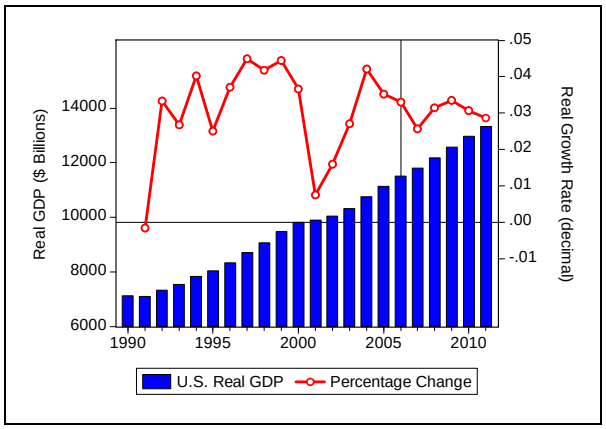
APPENDIX

National Economic Outlook

The national economic outlook differs only slightly from the prior forecast. Highlights of the key elements that affect our revenue outlook from a macro level view follow below.

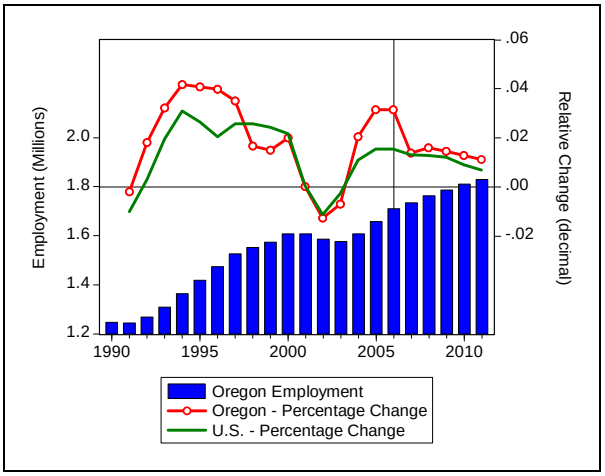
Figure 12 gives the recent trends in the levels and growth rates in real GDP, along with the base case forecast over the 2005-2011 time frame. The rapid recovery out of the downturn in 2001 looks as if it will be limited to 2004 and 2005, although positive growth is expected to continue throughout the forecast period. Real growth in 2005 was just above trend, coming in at 3.5 percent. This was despite the diminution in economic activity in the last quarter of the year due to the storm devastation along the Gulf Coast states. The annual real growth rates remain steady right around 3 percent for most of the post-2005 period, with the exception of a more pronounced softening in the second half of 2006. Although consumer spending may slow down, business fixed investment outlays and export growth look to pick up some of the slack.

Figure 12: Real GDP and Real GDP Growth



With such trend rates of growth, coupled with gains in productivity, the outlook for overall job growth is somewhat less sanguine. Figure 13 reproduces the employment chart from the Oregon Outlook section to this report. The chart reveals that good job growth nationally occurred in 2005, the strongest gain in the economic recovery so far. (Job growth nationwide is forecast to be slower than for the state.) This reflects the fact that as productivity growth diminishes from recent rates, demand for workers should be stimulated in order for firms to meet their production and output targets. In both 2004 and 2005, job growth exceeded the average annual growth rate between 1991 and 2003. Yet slower growth, below the average annual growth rate, is expected for the remaining years of the forecast. Thus, any marked improvements from here that continue to lower the nation's unemployment rate (currently resting at 4.6 percent) will likely face considerable head winds.

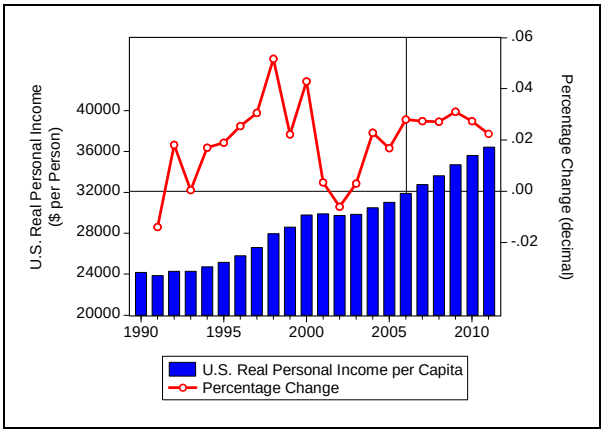
Figure 13: Oregon and U.S. Employment Trends



With the national unemployment rate at 4.6 percent, concerns are starting to surface that slack in the labor markets may be dissipating. While this may seem ironic with the slower than typical job gains experienced overall in this recovery, tight labor markets are a precondition to rising employment costs to firms (benefits, as well as wages and salaries) and this may very well set the stage for inflationary pressures to build. This could be further "fueled" by price pressures from higher energy prices as they creep into the economy's core segments. A potentially encouraging aspect is that corporate cash flows have been at all time highs in this recovery. This may serve as a buffer in accommodating real wage demands, and propping up consumer spending down the road a couple of years from now.

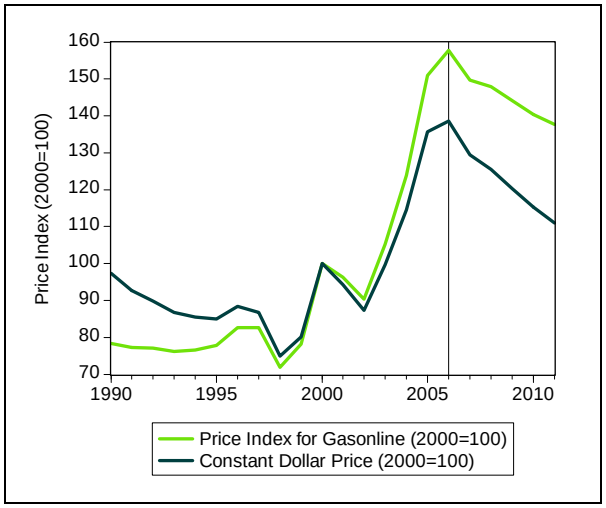
Real income per capita also shows a strong rebound in 2005. However, growth is not at anywhere near the rates witnessed in the latter half of the 1990s. The data in Figure 14 show average real income per capita growing steadily to about $36,000 by 2011, in 2000 dollars (bar portion). While 1.7 percent average annual growth is the forecast norm in the out years, it should be noted that this is relative to population growth of less than 1 percent per year nationally. So, real aggregate personal income is increasing at a 3 percent clip per year.

Figure 14: U.S. Real Personal Income Per Capita



Prices of gasoline and diesel fuel are among the important determinants of fuel usage in light vehicles (passenger cars and light trucks under 8,000 pounds). Figure 15 gives the recent history and the forecast for the price of gas at the national level from the *Global Insight's* macro-econometric forecasting model as of the June 2006 forecast. Gasoline prices in the outlook will have peaked in the 2006-2007 timeframe. The baseline outlook from the macro-forecasting model is then for prices to steadily recede out through 2011. Based on our experience over the past thirty years, this indicated stability probably belies the volatility inherent in the global marketplace for oil. Thus, actual experience is likely to stray from the projected path shown, and perhaps in highly unpredictable ways. It is worth noting that when adjusted for inflation the chart reveals that the real price of gas declines in the forecast period to levels comparable to those seen in 2003. This is consistent with most forecasts based on market fundamentals.

Figure 15: Gasoline Prices (Regular Unleaded)



A unique feature of the recent recession was the bust in capital spending by businesses (CAPEX). This is unlike the 1990-91 downturn, which was largely driven by both weaker retail spending by consumers and by the associated final-goods inventory adjustments. Figure 16 underscores the very sharp decline in the growth of CAPEX (inflation adjusted) from 1998 to 2001. Currently, the baseline outlook is for investment spending to continue to exhibit real growth in excess of the overall economy, after smartly rebounding in 2004-05. However, as seen in the chart, it is unlikely that growth will approach the rates observed in much of the 1990s. This component of aggregate demand, as well as improvements in exports, is expected to be a key element in sustaining the expansion going into its intermediate phase. In addition, strong spending here is vital for sustaining long-term gains in productivity. Not only does strong business spending domestically augur well for Oregon's manufacturing sectors, but a prospective boom in plant and equipment spending worldwide does as well.

Figure 16: Business Growth and Business Capital Spending