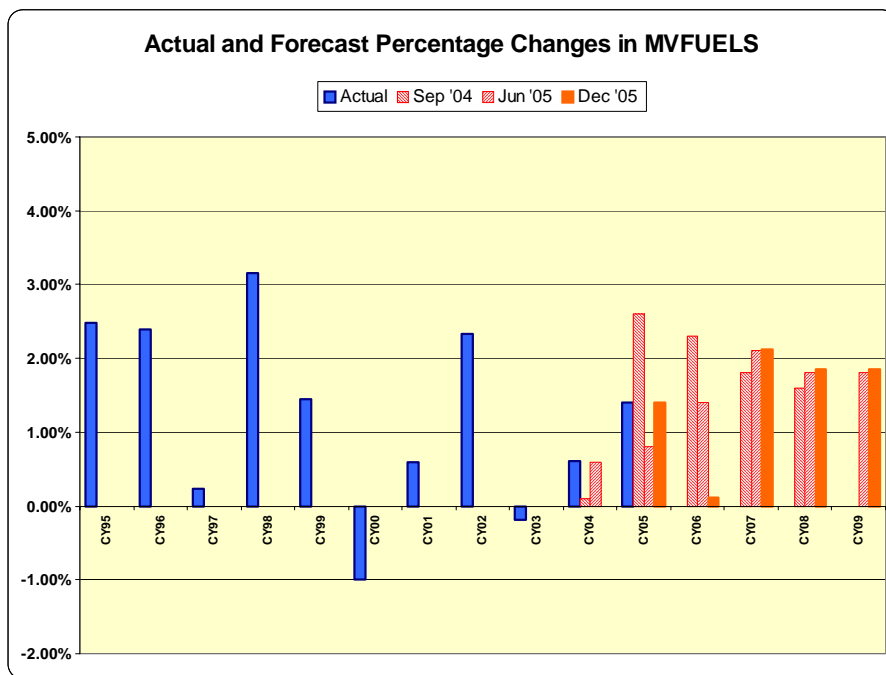




Summary of Transportation Economic and Revenue Forecasts

December 2005

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 December 2005 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:

It's of little revelation to consumers that oil and gasoline prices have behaved very capriciously the past several years. Prices for benchmark crude petroleum to refiners increased 34 percent and 37 percent on average in 2004 and 2005, respectively. In Oregon, gas buyers have been confronted with similar spikes in the prices at the pump. In both 2004 and 2005, consumers have been buffeted by average hikes of nearly 20 percent for each year. The impact on households at median income levels and below has been undoubtedly harsher.

Past editions of this report have zeroed in on the sources of these run-ups. The sources span a considerable range from two consecutive years of storm devastation in the Gulf Coast region, to risk premiums due to political instability and terrorist threats, to major declines overall in the dollar foreign exchange rate over the past 3 years. In addition, there is once again growing debate about the underlying structure of production rates from proven reserves and their probable decline. This edition's cover instead focuses on the implications for our outlook for state motor fuels tax revenues that support a large share of the State Highway Fund. Gas tax revenues represent about one-half of all tax and fee revenues collected to support the maintenance, preservation and modernization of the state's highway network, so the impact on our ability to forecast gas tax revenues is quite germane.

The chart on the cover assembles data on actual and forecasts for annual percentage changes in motor fuels consumption. Because the state gasoline tax rate has been fixed since 1993 at 24 cents per gallon, these relative rates of change reflect underlying changes in fuel usage that stem from travel demand. Three original forecasts made at the times indicated in the legend are presented along with actual growth rates observed to the end of 2005. Over the historical span from 1994 to 2005, motor fuels use has grown at an annual average rate of 1.1 percent. This is slightly lower than population growth statewide of about 1.3 percent per year. The slow-down in the Oregon economy is largely evident in the CY00 – CY03 period. Collections from diesel fuels usage is at the heart of the comparatively robust value for 2002.

Beginning with 2004, the chart reveals that the various forecasts in the recent past have done a very good job at predicting actual consumption growth. Generally, the predicted percentage changes in the forecasts have been within 1 percentage point of actual. (A difference of 1 percentage point in predicted growth represents approximately \$4 million annually.) These are comparatively minor misses, particularly given the dramatic run-up in gas and diesel fuel prices. As we have cautioned in prior editions, the longer high fuel prices persist, the more deleterious impact they have on the outlook for fuel tax receipts and for the Highway Fund. Coupled with projected slower growth in the state economic forecast, this would serve to constrain growth in usage as consumers continue to adjust their short-run travel behavior and to alter their choices in their longer-term decision making. Thus far, however, fuel usage has held up reasonably well, as the forecast model has predicted.

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EXECUTIVE SUMMARY

Oregon's economy showed marked improvement in 2005. The state's total nonfarm employment grew more quickly than the U.S. average and the unemployment rate fell to 5.7 percent, its lowest level since March 2001. Real personal income showed improvement as well, growing by 3.2 percent during 2005. Nonetheless, Oregon's economy is expected to grow more slowly during the next several years as economic conditions nationwide become less favorable for rapid economic expansion. Concerns about inflation, driven in part by high fuel costs, may lead to weakening consumer demand for Oregon's goods and services. Growing geopolitical uncertainty may further undermine consumer confidence. Rising mortgage interest rates are expected to negatively 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 rapid economic expansion can be anticipated.

Changes in economic conditions within Oregon and within the nation as a whole 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 outlook reflects this softness. The

current forecast anticipates that gross revenues will be lower 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 \$407.7 million in FY05, are the largest single source of Highway Fund revenues. These revenues are expected to grow by approximately 0.6 percent during FY06, followed by an average annual growth rate of 1.7 percent throughout the rest forecast period. Motor Carrier revenues are the second largest source of Highway Fund revenues. They include weight-mile tax revenues as well as motor carrier registration and fee revenues. In FY05, \$261.5 million in motor carrier revenues was collected. This forecast anticipates that these revenues will increase at an average annual rate of 2.0 percent between FY06 and FY11. DMV revenues, which primarily include vehicle and driver fees, reached \$220.8 million in FY05. These revenues are expected to grow by an average annual rate of 1.4 percent during the forecast period.

This forecast is consistent with Department of Administrative Services December 2005 forecast and the associated baseline macroeconomic forecast from *Global Insight Inc.* (GII). When possible, the same model structure that was used in the past several forecasts is retained here.

NATIONAL ECONOMIC OUTLOOK

After a very strong performance of real growth in 2004, the economy appears to be gradually slowing. Whereas 2004 witnessed real growth at a 4.2 percent rate, indications are that the final data for 2005 will also show an above trend growth rate of about 3.5 percent. Despite growth in real GDP, overall employment gains are not as vigorous. Apparently, strong gains in productivity – output per hour worked – continue to allow businesses to meet some of their growing demand without commensurate hiring.

The national outlook in terms of real economic growth differs somewhat from the prior forecast. For 2005, growth is on balance a little lower than previously expected. This outcome largely results from hurricane-related disruptions as well as the impact of higher energy prices. Beyond 2005, real GDP growth is predicted to be a little stronger than previously forecast. Likewise, predicted employment growth is slightly weaker in 2005 than in the prior forecast, but should exhibit stronger growth than forecast

previously in the later years of the forecast horizon.

Table 1 summarizes these, as well as several other national economic indicators. This is the baseline outlook from *Global Insight's* forecast, used in both our forecasting model and in the state economic forecasting model. 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/>).

Overall, the dominant issues in the macro outlook remain oil prices and the value of the U.S. dollar in foreign exchange markets. 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.

Table 1: National Economy, Percentage Change in Key Variables

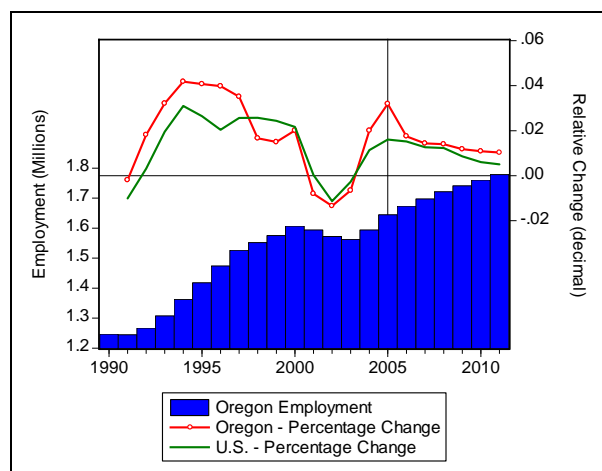
	Actual		Forecast				
	CY 03	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09
CONSUMER PRICE INDEX (CPI)	2.3%	2.7%	3.5%	2.7%	1.4%	1.8%	2.1%
EMPLOYMENT	-0.3%	1.1%	1.6%	1.5%	1.3%	1.2%	0.9%
HOUSING STARTS	8.4%	5.2%	4.5%	-10.1%	0.3%	-1.3%	-4.4%
POPULATION	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
REAL GROSS DOMESTIC PRODUCT (GDP)	2.7%	4.2%	3.5%	3.3%	3.2%	3.4%	2.9%
REAL PERSONAL INCOME	1.3%	3.3%	2.8%	3.9%	4.0%	3.8%	3.3%
REAL PRICE OF GASOLINE	14.1%	14.9%	20.5%	-3.7%	-9.2%	-7.7%	-2.9%
UNIT SALES OF NEW AUTOMOBILES	-6.0%	-1.4%	0.9%	-2.9%	0.0%	0.4%	0.4%

OREGON ECONOMIC OUTLOOK

Oregon's employment situation continued to improve throughout much of 2005. Total Nonfarm Employment grew by nearly 2.1 percent during the third quarter of 2005. This makes nine consecutive quarters of positive job growth. Overall it appears that 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 during the summer of 2003. It is currently holding steady at 5.7 percent, its lowest level since March 2001. Modest declines appear in the near-term horizon, but beyond these there are little improvement expected.

In 2005, total employment in Oregon grew more quickly than the U.S. average. In fact, Oregon currently ranks seventh in the nation in year-over-year job growth. Oregon's job growth is expected to continue outpacing the U.S. average throughout the forecast period, but by a much smaller amount. See Figure 1 for further detail regarding the state's Total Nonfarm Employment, as well as the outlook its forecast from the Office of Economic Analysis.

Figure 1: Oregon and U.S. Employment Trends



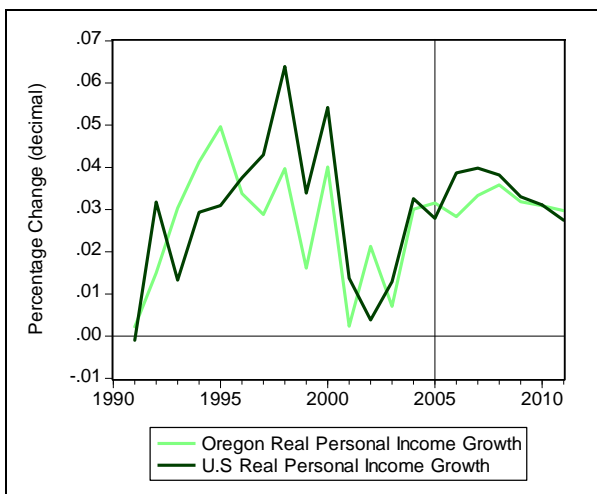
In 2005, many sectors of the Oregon economy experienced job gains. Manufacturing employment grew steadily throughout 2005 at a rate of approximately 2.8 percent, but not all sub-sectors benefited equally from improving economic conditions. Transportation equipment manufacturing led the pack with 8.0 percent growth in 2005, followed by metal and machinery manufacturing at 4.9 percent and wood products at 2.4 percent. High-tech manufacturing employment continued to grow slowly during 2005, at a rate of 1.2 percent. Overall, job growth throughout the manufacturing sector is expected to slow during the forecast period coincident with the moderate growth rate predicted for the national economy.

Several other sectors exhibited relatively brisk employment growth during 2005. For example, construction employment grew by approximately 8.6 percent in 2005. This strong growth primarily resulted from the housing boom that was fueled by low mortgage interest rates. Service sectors also experienced growth: Professional and Business Services, Health Services, and Leisure and Hospitality all grew at rates exceeding 3.0 percent. Employment in Retail Trade and Wholesale Trade, both of which have a pronounced impact on the outlook for State Highway Fund revenues, expanded by 3.8 and 2.7 percent respectively. As with manufacturing, slower growth is expected throughout the forecast period as a result of softening national economic conditions reverting to long term growth trends.

As with employment, Oregon personal income showed continued gains during 2005. Personal income, 55 percent of which is derived from wage and salary income sources, increased by close to 6.1 percent in 2005, slightly higher than predicted by the previous

forecast. When adjusted for inflation, real personal income for Oregonians grew by about 3.2 percent during 2005, exceeding the national average growth rate of 2.8 percent. Oregon's real personal income is anticipated to continue rising in future years, yet is not expected to reach the high growth rates experienced during the early 1990s. Furthermore, Oregon's real personal income is expected to grow slightly slower than the U.S. average during most of 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 moderately during the next several years as economic conditions nationwide become less favorable for rapid economic expansion. Concerns about inflation, driven in part by high fuel costs, may lead to weakened consumer demand for Oregon's goods and services. Growing geopolitical uncertainty may further undermine consumer confidence. Rising mortgage interest rates are expected to negatively 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 rapid economic expansion can be anticipated. A summary of some economic indicators for Oregon is contained Table 2 below.

Table 2: Oregon Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY 03	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09
EMPLOYMENT--TOTAL	-0.7%	2.0%	3.2%	1.8%	1.4%	1.4%	1.2%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	-6.9%	1.5%	1.2%	-2.3%	-3.2%	-2.2%	-0.5%
EMPLOYMENT--RETAIL TRADE	-0.5%	2.0%	3.8%	1.6%	1.3%	1.3%	1.5%
EMPLOYMENT--TRANSPORTATION	-0.4%	1.7%	3.4%	2.1%	2.0%	2.7%	2.0%
EMPLOYMENT--WHOLESALE TRADE	1.0%	0.9%	2.7%	2.3%	1.0%	0.8%	0.1%
EMPLOYMENT--WOOD PRODUCTS	-4.5%	2.8%	2.4%	0.8%	-1.3%	-3.9%	-3.1%
HOUSING STARTS	13.0%	8.6%	10.5%	-5.4%	-0.7%	-1.0%	-3.2%
POPULATION	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
PORTLAND METRO PRICE INDEX	1.3%	2.6%	2.8%	3.3%	2.1%	2.3%	2.4%
REAL PERSONAL INCOME	0.7%	3.0%	3.2%	2.8%	3.3%	3.6%	3.2%
TIMBER HARVEST	2.0%	10.1%	-0.2%	-0.7%	-0.9%	0.0%	-1.4%

TRANSPORTATION TRANSACTIONS

Table 3 contains the highlights of annual rates of change in the 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.

Table 3: Percentage Change in Transactions for Key Transportation Variables

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	03	04	05	06	07	08	09
MOTOR VEHICLE FUELS (GALLONS)	-0.2%	0.6%	1.4%	0.1%	2.1%	1.8%	1.8%
ORIGINAL CLASS C LICENSES	3.7%	-5.1%	5.4%	-0.2%	5.1%	6.3%	3.0%
PASSENGER VEHICLE REGISTRATIONS	-1.9%	-1.0%	-0.8%	2.9%	0.1%	3.5%	0.3%
TITLE TRANSFERS	-0.2%	-2.7%	-2.4%	1.5%	1.5%	2.1%	0.3%
TRUCKING ACTIVITY (WEIGHT-MILE)	7.6%	6.0%	4.8%	-1.1%	3.5%	2.2%	2.4%

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 widely expected the past year. Actual consumption has slightly outpaced our prior forecasts. For example, in our last published forecast (June 2005), we projected only a 0.8 percent increase in usage for 2005, in other words virtually flat. However, actual gallons taxed rose 1.4 percent; still somewhat anemic but in excess of the forecast.

The surprise in the outcomes highlighted above is not really that sales have stayed somewhat tepid or flat, 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 in the net the 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. 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 five 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 did very well in forecasting usage in 2005. For the year as a whole, the forecast model under-predicted usage by only about 0.6 of a percentage point. It under-predicted usage somewhat in the spring months of the year, but was very close to actual usage for most of the remaining months.

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 moderate for the next

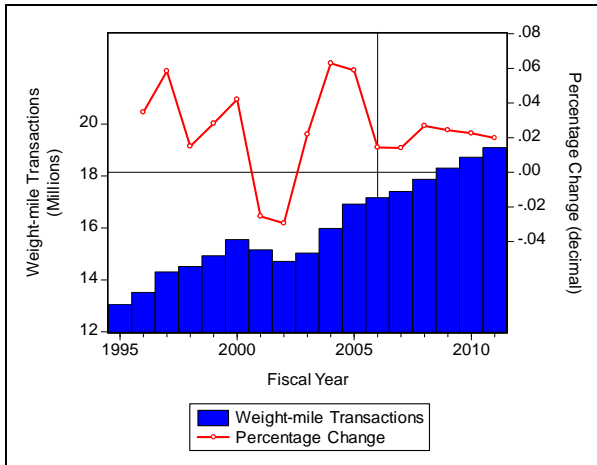
several years, this forecast of motor carrier revenues reflects this softness.

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 totals discussed here include this “flat-fee” revenue as well as revenue from a small number of related fees.

In FY05, total weight-mile revenues reached \$235.3 million. Weight-mile revenues grew by 12.2 percent over the FY04 level. The current forecast, which replicates the methodology of previous forecasts while incorporating updated economic data, predicts much slower growth than this for future years. At this time, an average annual growth rate of approximately 2.0 percent is expected through FY11.

An estimation 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 3 shows, the number of weight-mile transactions grew by 5.9 percent during FY05 and is expected to increase by approximately 2.0 percent each fiscal year during the forecast period.

Figure 3: Weight-mile Transactions

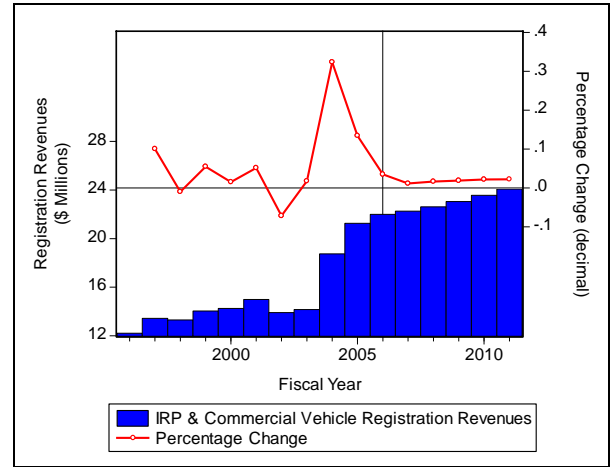


Another source of revenues to the State Highway Fund emanates from heavy vehicle registrations, trip permits, and other fees paid by motor carriers. The current forecast methodology involves estimating each of the seven largest components separately. This approach allows each model to take into account 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. Total heavy vehicle registration revenues reached \$21.3 million in FY05, reflecting 13.4 percent growth over the previous year. A slower

average annual growth rate of 2.1 percent is predicted for the forecast period.

Figure 4: Heavy Vehicle Registration Revenues



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 total to less than \$3 million per year, is also forecasted individually. Overall, their average annual growth rates for the forecast period are expected to range between 2.6 and 4.6 percent.

Driver and Motor Vehicles

The Department of Motor Vehicles (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.

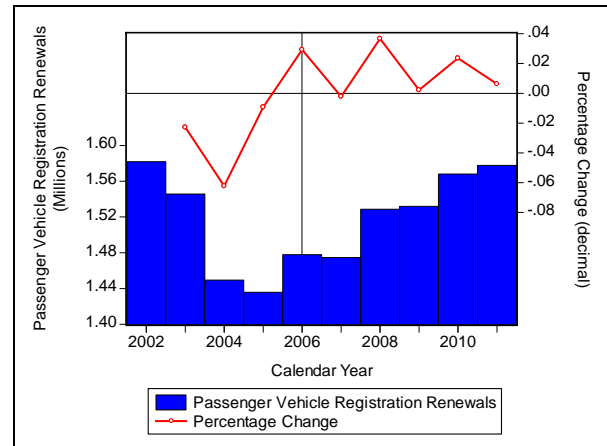
DMV activities are affected by various economic and demographic variables and provide a reflection of some very broad undercurrents in the state. The impacts of

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 an illustrative example 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 were expected to decline beginning in 2002, lasting through 2005. However, due to the vehicle manufacturers attempts to stimulate their sales coming out of the 2001 economic downturn by offering low interest car loans and other incentives on new vehicle purchases, two year registrations increased year over year for the eight months in the post-September 2001 period. After that time, two year registrations declined through 2005, as expected.

Beginning in 2006, vehicles registered for four years in 2002 come up for renewal, which should significantly increase total two year registrations. Similarly in 2008, vehicles originally registered for four years in 2004 will come up for renewal, causing another significant increase in two year registrations.

Figure 5: Two Year Passenger Vehicle Registrations



Changes in the level of transaction activity and legislative changes in both the level and structure of fees exert an impact on the amount of revenue available. The OTIA III legislation passed during the 2003 session significantly 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 more than a year of data since the OTIA III fee increases were implemented, the results are beginning to show a lower level of activity than would be expected without the fee increases. 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.

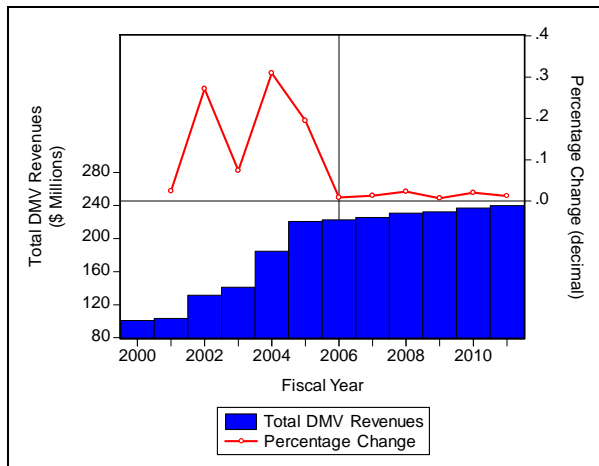
Demographic and economic changes combined with legislative impacts explain most of the variation in total DMV transactions over time. Total DMV transactions decreased in FY05 primarily reflecting the 2003 legislative impacts, and are expected to grow slowly over the coming years. However, future legislation will undoubtedly affect the DMV transactions forecast and resulting revenues.

Overall, the DMV revenue forecast differs little from the previous forecast, as Table 4

shows. Continued refinements in the estimating equations have increased the overall accuracy and decreased the variation in the forecast years from one forecast to the next. Actual total DMV revenues for FY05 were only 0.8 percent less than estimated in the prior forecast.

Total DMV revenues are shown in Figure 6. 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 effect of the OTIA III related fee increases began in FY05, and growth is predicted to be mild through the forecast period.

Figure 6: Total DMV Revenues

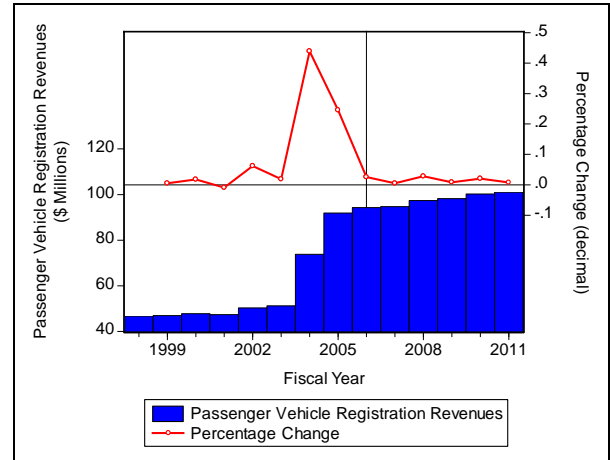


The DMV revenue forecast is divided into three main sections reflecting the DMV's three primary revenue sources of vehicle registrations, driver licenses, and vehicle titles.

Vehicle registrations make up the majority 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 totaled \$109.7 million in FY05, an increase of 23.7 percent over FY04, a result of the first full fiscal year following the OTIA III fee increases. Beyond FY05 growth is slow in FY06 and FY07 due

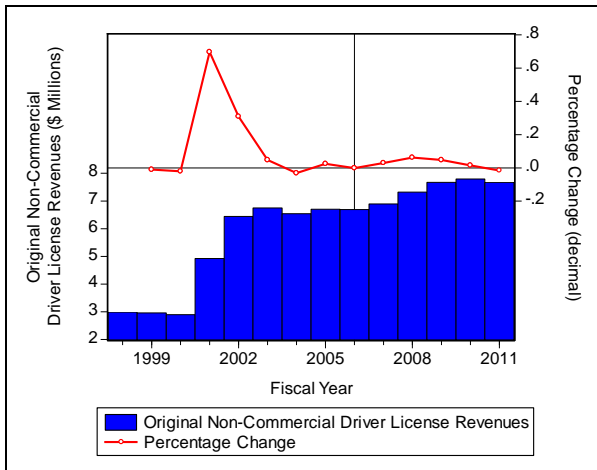
to shifting from four to eight year registration renewals, and growth from FY08 through FY11 declines from 2.7 percent to 0.9 percent.

Figure 7: Passenger Vehicle Registration Revenues



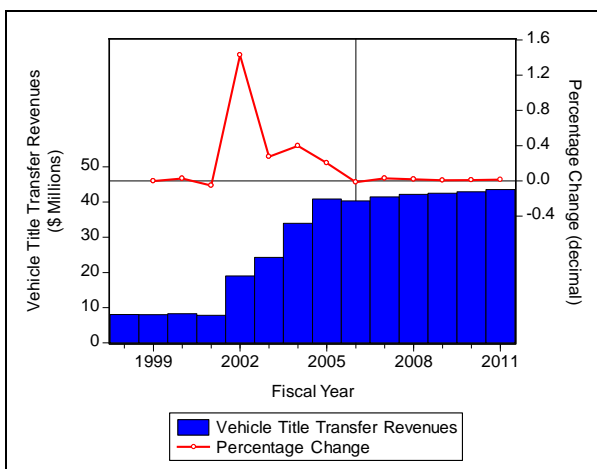
Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues totaled \$34.9 million in FY05, a 12.2 percent increase over FY04. Revenue growth in the forecast period is expected to fluctuate between slightly positive and slightly negative growth, with an annual average growth of 0.4 percent from FY06 through FY11. A shift from a four to eight year renewal cycle for commercial and non-commercial licenses is largely responsible for the negative growth. However, positive growth in original non-commercial driver license revenue is expected to increase through FY10 as net migration growth trends upward and the population of 16-year olds increases.

Figure 8: Original Non-Commercial Driver License Revenues



Vehicle titles include title transactions such as new light and heavy, first to Oregon, and title transfers, 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 section. Vehicle title revenues for FY05 are \$76.2 million, a 17.2 percent increase over FY04. However, as noted above, FY05 is the first full fiscal year under the OTIA III fee increases and consequently the year-over-year percentage change primarily reflects the fee increases, not an increase in demand. Beyond FY05 revenue growth is expected to be fairly constant around 2 percent per fiscal year through the forecast period.

Figure 9: Vehicle Title Transfer Revenues

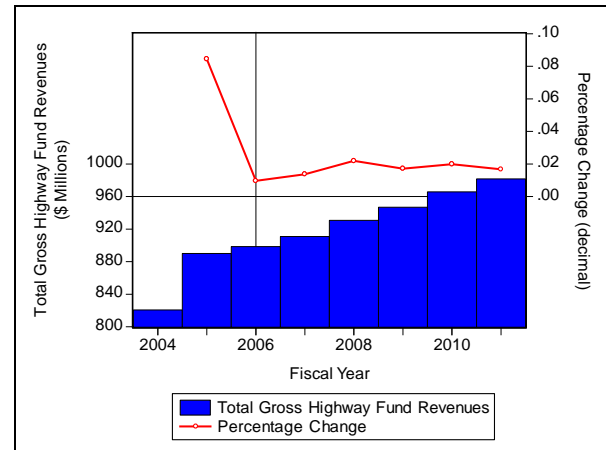


HIGHWAY FUND REVENUE FORECAST

Our current forecast, which fully reflects the prospective impacts of OTIA III (HB 2041 from the 2003 Regular Legislative Session) and other legislative initiatives, shows a slight change in the overall gross revenues from our prior outlook. 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.

The current forecast anticipates that gross revenues will be lower than the prior forecast by modest amounts. For FY06 through FY07, revenues are expected to be \$9.5 million and \$9.6 million lower than in the prior forecast. On an average annual basis this difference translates into a 1.0 percent change from the prior forecast. A majority of this change results from a reassessment of the available data and a recalibration of methodology relating to Motor Carrier revenues. The remaining years of the forecast are also lower than in the prior forecast. Overall, total gross revenues are expected to grow at an average annual rate of 2.0 percent between FY06 and FY11.

Figure 10: Total Gross Highway Fund Revenues



Among the broad components of the forecast (fuel taxes, DMV collections, and Motor Carrier revenues), fuel taxes are higher by about \$1.3 million for FY06, but are lower by an average of \$2.7 million for the remaining fiscal years of the forecast period. Much of this shortfall is made up with stronger DMV revenues, which are predicted to be approximately \$1.9 million higher each fiscal year than previously expected. Motor Carrier revenues, on the other hand, are shown to be roughly \$8.5 million lower each fiscal year because of data reassessment and revised estimation methodologies. This improved methodology will be carried forward to future revenue forecasts.

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 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 \$240 million.

DMV Revenues

DMV collections are summarized in Table 4 under the updated economic and demographic forecast for the state. Gross revenues from DMV transactions are about \$0.6 million higher for FY06 than in the prior forecast. This difference from the last forecast increases to \$3.8 million in FY07 but the difference diminishes thereafter. Gross revenues are projected to grow at an average annual rate of 1.4 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 a result, the fee increases largely flow through to net revenues. The last row of Table 4 summarizes the change in net revenue from the previous forecast.

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
VEHICLE REGISTRATIONS	\$88.7	\$109.7	\$111.3	\$111.8	\$114.9	\$116.3	\$118.8	\$119.8	\$198.4	\$223.1	\$231.2	\$238.6	
DRIVER LICENSES & OTHER	\$31.1	\$34.9	\$34.6	\$34.7	\$35.3	\$34.3	\$35.3	\$35.7	\$66.0	\$69.3	\$69.6	\$71.0	
TITLE, PLATE & OTHER	\$65.0	\$76.2	\$76.8	\$79.0	\$80.6	\$81.7	\$83.0	\$84.4	\$141.2	\$155.9	\$162.3	\$167.4	
TOTAL DMV COLLECTIONS	\$184.8	\$220.8	\$222.7	\$225.6	\$230.8	\$232.4	\$237.0	\$240.0	\$405.6	\$448.3	\$463.2	\$477.0	
Change from Previous Forecast			\$0.6	\$3.8	\$3.2	\$1.3	\$1.5	\$0.8		\$4.4	\$4.5	\$2.3	
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)	
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)	
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)	
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)	
REVENUE TRANSFER TO OTIA I & II	(\$7.5)	(\$6.6)	(\$7.0)	(\$6.9)	(\$7.0)	(\$6.8)	(\$6.9)	(\$6.8)	(\$14.1)	(\$13.9)	(\$13.8)	(\$13.7)	
REVENUE TRANSFER TO OTIA III	(\$39.4)	(\$77.4)	(\$77.9)	(\$79.0)	(\$81.2)	(\$82.3)	(\$83.7)	(\$84.5)	(\$116.8)	(\$156.8)	(\$163.4)	(\$168.2)	
NET DMV REVENUE	\$66.7	\$64.3	\$59.5	\$58.4	\$58.1	\$55.4	\$54.1	\$54.7	\$130.9	\$117.9	\$113.5	\$108.8	
Change from Previous Forecast			(\$1.3)	\$0.7	\$0.5	(\$0.6)	(\$0.1)	(\$0.4)		(\$0.5)	(\$0.0)	(\$0.5)	

Motor Carrier Revenues

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and heavy vehicle registration fees. The revenue detail is contained in Table 5, along with projected collection/administration costs and transfers out. Gross revenues for FY06 are reduced by \$11.3 million from the prior forecast. A majority of this change results from a reassessment of the available data and a recalibration of data series for many of the MCTD revenue components. These differences become smaller in later years of the forecast period. Overall, gross revenues are expected to grow at an average annual rate of 2.0 percent during the forecast period. The last row of Table 5 provides a summary of the aggregate differences of net revenues from the prior forecast.

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
WEIGHT-MILE TAX	\$209.7	\$235.3	\$238.7	\$242.1	\$248.7	\$254.7	\$260.5	\$265.7	\$444.9	\$480.9	\$503.4	\$526.2	
IRP, COMMERCIAL VEHICLE REGISTRATIONS, & RUAF*	\$19.8	\$22.5	\$23.3	\$23.6	\$24.0	\$24.5	\$25.0	\$25.5	\$42.2	\$46.9	\$48.5	\$50.5	
TRIP PERMITS & OTHER HEAVY	\$2.2	\$3.8	\$3.8	\$3.8	\$3.8	\$3.8	\$3.8	\$3.9	\$6.0	\$7.7	\$7.5	\$7.7	
TOTAL MCTD COLLECTIONS	\$231.6	\$261.5	\$265.9	\$269.5	\$276.5	\$283.0	\$289.3	\$295.1	\$493.2	\$535.5	\$559.4	\$584.4	
Change from Previous Forecast			(\$11.3)	(\$10.7)	(\$7.9)	(\$7.5)	(\$6.9)	(\$6.9)		(\$22.1)	(\$15.4)	(\$13.8)	
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)	
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	
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)	
REVENUE TRANSFER TO OTIA I & II	(\$10.0)	(\$9.4)	(\$10.0)	(\$9.9)	(\$10.0)	(\$10.0)	(\$10.1)	(\$10.0)	(\$19.4)	(\$19.9)	(\$20.0)	(\$20.1)	
REVENUE TRANSFER TO OTIA III	(\$9.6)	(\$28.9)	(\$29.0)	(\$29.3)	(\$29.9)	(\$30.5)	(\$31.2)	(\$31.8)	(\$38.5)	(\$58.3)	(\$60.4)	(\$63.0)	
NET MCTD REVENUE	\$185.8	\$196.5	\$199.2	\$201.5	\$206.6	\$211.3	\$215.4	\$219.9	\$382.2	\$400.6	\$417.9	\$435.3	
Change from Previous Forecast			(\$7.4)	(\$6.9)	(\$4.4)	(\$3.8)	(\$3.2)	(\$3.1)		(\$14.3)	(\$8.2)	(\$6.3)	

*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 two 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 earlier, 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 less fuel tax revenue than the prior forecast. In the years FY06 and beyond, it is about \$1 to \$3 million per year less, or just a fraction of a percent lower than before. This stems from the somewhat slower rebound in fuel consumption owing to dramatically higher gas prices and to some minor recalibration to the fuels time series data. However, just as fuels usage recovers from the pause due to the 2001 recession and the recent spike in gas and diesel prices, so do fuel tax revenues. Revenues are forecast to increase at an annual rate of 1.4 percent in FY07, after being up one-half of a percent in FY06. Then continue to increase at somewhat more tempered rates of about 1.8 percent on average.

In the current biennium, revenues are forecast to be up about 1.7 percent, or a little more than \$13.7 million, from the 2003-05 biennium. This is somewhat weaker than the prior projection. Revenue growth is forecast to regain strength in the next biennium, increasing by 3.6 percent or \$29.4 million.

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 \$428 million over the forecast interval, fuels tax collections generate the largest amount of revenue for the Highway Fund. One penny of gas tax generates about \$17.8 million gross and \$17.2 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 \$29 million gross and \$26.2 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
MOTOR FUELS TAX	\$404.3	\$407.7	\$410.0	\$415.7	\$423.6	\$431.5	\$439.3	\$446.7	\$812.0	\$825.7	\$855.1	\$886.0	
TOTAL FSB COLLECTIONS	\$404.3	\$407.7	\$410.0	\$415.7	\$423.6	\$431.5	\$439.3	\$446.7	\$812.0	\$825.7	\$855.1	\$886.0	
Change from Previous Forecast			\$1.3	(\$2.6)	(\$2.7)	(\$2.7)	(\$2.8)	(\$2.8)		(\$1.3)	(\$5.4)	(\$5.6)	
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)	
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)	
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)	
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)	
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)	
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)	
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)	
TRANSPORTATION OPERATING FUND (TOF)	(\$7.9)	\$0.0	(\$8.1)	\$0.0	(\$8.3)	\$0.0	(\$8.5)	\$0.0	(\$7.9)	(\$8.1)	(\$8.3)	(\$8.5)	
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)	
REVENUE TRANSFER TO OTIA I & II	(\$19.7)	(\$18.0)	(\$18.6)	(\$18.8)	(\$18.6)	(\$18.8)	(\$18.6)	(\$18.8)	(\$37.7)	(\$37.4)	(\$37.4)	(\$37.4)	
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	
NET FSB REVENUE	\$366.4	\$379.0	\$371.8	\$385.0	\$384.3	\$399.8	\$398.8	\$414.0	\$745.4	\$756.7	\$784.2	\$812.9	
Change from Previous Forecast			\$1.0	(\$2.7)	(\$2.7)	(\$2.8)	(\$2.8)	(\$2.8)		(\$1.7)	(\$5.5)	(\$5.6)	

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 BI 03-05	Forecast		
	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11		BI 05-07	BI 07-09	BI 09-11
TOTAL MCTD COLLECTIONS	\$231.6	\$261.5	\$265.9	\$269.5	\$276.5	\$283.0	\$289.3	\$295.1	\$493.2	\$535.5	\$559.4	\$584.4
TOTAL FSB COLLECTIONS	\$404.3	\$407.7	\$410.0	\$415.7	\$423.6	\$431.5	\$439.3	\$446.7	\$812.0	\$825.7	\$855.1	\$886.0
TOTAL DMV COLLECTIONS	\$184.8	\$220.8	\$222.7	\$225.6	\$230.8	\$232.4	\$237.0	\$240.0	\$405.6	\$448.3	\$463.2	\$477.0
TOTAL GROSS HIGHWAY FUND	\$820.7	\$890.0	\$898.6	\$910.9	\$930.8	\$946.8	\$965.6	\$981.8	\$1,710.7	\$1,809.5	\$1,877.7	\$1,947.4
COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	(\$198.5)	(\$242.8)	(\$260.7)	(\$258.5)	(\$274.0)	(\$272.2)	(\$289.1)	(\$285.0)	(\$441.3)	(\$519.2)	(\$546.3)	(\$574.1)
NET REVENUE TO HIGHWAY FUND	\$622.2	\$647.2	\$637.9	\$652.4	\$656.8	\$674.6	\$676.5	\$696.8	\$1,269.4	\$1,290.3	\$1,331.4	\$1,373.3
OTIA I & II SET ASIDE - memo	\$37.3	\$33.9	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$71.2	\$71.2	\$71.2	\$71.2
DEBT SERVICE (OTIA I & II)	(\$7.3)	(\$16.3)	(\$14.7)	(\$33.7)	(\$34.2)	(\$33.8)	(\$33.8)	(\$33.8)	(\$23.6)	(\$48.5)	(\$67.9)	(\$67.6)
OTIA III Dedicated Revenues - memo	\$45.3	\$98.1	\$98.8	\$100.0	\$102.5	\$104.0	\$106.0	\$107.4	\$143.4	\$198.9	\$206.5	\$213.4
DEBT SERVICE (OTIA III)	\$0.0	(\$20.7)	(\$22.2)	(\$38.4)	(\$59.6)	(\$80.5)	(\$81.7)	(\$82.5)	(\$20.7)	(\$60.6)	(\$140.1)	(\$164.1)
NET OTIA I & II REVENUE FOR DISTRIBUTION	\$30.0	\$17.6	\$20.8	\$1.9	\$1.4	\$1.8	\$1.8	\$1.8	\$47.6	\$22.7	\$3.3	\$3.6
NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	\$19.2	\$21.0	\$21.3	\$21.8	\$22.9	\$23.5	\$24.3	\$24.9	\$40.2	\$43.1	\$46.3	\$49.2
NET OTIA III REVENUE FOR DISTRIBUTION -STATE	\$26.1	\$56.5	\$55.4	\$39.8	\$20.1	\$0.0	\$0.0	\$0.0	\$82.5	\$95.2	\$20.1	\$0.0
TOTAL NET REVENUE FOR DISTRIBUTION	\$697.5	\$742.3	\$735.3	\$715.9	\$701.2	\$699.9	\$702.6	\$723.5	\$1,439.8	\$1,451.2	\$1,401.1	\$1,426.2

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

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

	Distribution Percentage	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
COUNTY APPORTIONMENT (ORS 366.524)	24.38%	\$150.9	\$156.0	\$153.7	\$157.2	\$158.2	\$162.5	\$162.9	\$167.9	\$306.8	\$310.9	\$320.7	\$330.8
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)
COUNTY APPORTIONMENT (OTIA I & II)	30.00%	\$9.0	\$5.3	\$6.2	\$0.6	\$0.4	\$0.5	\$0.5	\$0.5	\$14.3	\$6.8	\$1.0	\$1.1
COUNTY APPORTIONMENT (OTIA III)	25.48%	\$11.5	\$25.0	\$25.2	\$25.5	\$26.1	\$26.5	\$27.0	\$27.4	\$36.5	\$50.7	\$52.6	\$54.4
DEDICATED TO DEBT SERVICE (OTIA III)	85.00%	\$0.0	(\$17.5)	(\$17.5)	(\$17.5)	(\$17.5)	(\$17.5)	(\$17.5)	(\$17.5)	(\$17.5)	(\$35.0)	(\$35.0)	(\$35.0)
NET COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	\$2.0	\$4.5	\$4.4	\$4.5	\$4.7	\$4.9	\$4.9	\$4.9	\$6.5	\$9.0	\$9.6	\$9.8
NET COUNTY APPORTIONMENT		\$173.0	\$172.7	\$171.6	\$169.8	\$171.5	\$176.4	\$177.4	\$182.7	\$345.7	\$341.4	\$347.9	\$360.1
CITY APPORTIONMENT (ORS 366.524)	15.57%	\$96.3	\$99.6	\$98.2	\$100.4	\$101.0	\$103.8	\$104.1	\$107.2	\$196.0	\$198.6	\$204.8	\$211.3
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)
CITY APPORTIONMENT (OTIA I & II)	20.00%	\$6.0	\$3.5	\$4.2	\$0.4	\$0.3	\$0.4	\$0.4	\$0.4	\$9.5	\$4.5	\$0.7	\$0.7
CITY APPORTIONMENT (OTIA III)	16.99%	\$7.7	\$16.7	\$16.8	\$17.0	\$17.4	\$17.7	\$18.0	\$18.2	\$24.4	\$33.8	\$35.1	\$36.3
DEDICATED TO DEBT SERVICE (OTIA III)	15.00%	\$0.0	(\$3.2)	(\$3.2)	(\$3.2)	(\$3.2)	(\$3.2)	(\$3.2)	(\$3.2)	(\$3.2)	(\$6.4)	(\$6.4)	(\$6.4)
NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	\$1.4	\$3.0	\$3.0	\$3.0	\$3.1	\$3.2	\$3.3	\$3.3	\$4.3	\$6.0	\$6.4	\$6.5
NET CITY APPORTIONMENT		\$110.9	\$119.1	\$118.4	\$117.1	\$118.2	\$121.3	\$122.0	\$125.4	\$230.0	\$235.5	\$239.5	\$247.4
HIGHWAY DIVISION (including small City/County)	60.05%	\$371.6	\$384.2	\$378.6	\$387.2	\$389.7	\$400.2	\$401.3	\$413.5	\$755.8	\$765.8	\$790.0	\$814.8
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)
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)
HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	\$15.0	\$8.8	\$10.4	\$0.9	\$0.7	\$0.9	\$0.9	\$0.9	\$23.8	\$11.4	\$1.6	\$1.8
HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	\$26.1	\$56.5	\$56.8	\$57.6	\$59.0	\$59.8	\$61.0	\$61.8	\$82.5	\$114.4	\$118.8	\$122.8
DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	\$0.0	\$0.0	(\$1.5)	(\$17.7)	(\$38.9)	(\$59.8)	(\$61.0)	(\$61.8)	\$0.0	(\$19.2)	(\$98.7)	(\$122.8)
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
NET HIGHWAY DIVISION		\$411.9	\$448.7	\$443.6	\$427.2	\$409.8	\$400.4	\$401.5	\$413.7	\$860.6	\$870.9	\$810.2	\$815.2
HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		\$52.5	\$56.7	\$55.8	\$57.6	\$57.7	\$59.6	\$59.7	\$61.5	\$109.2	\$113.5	\$117.2	\$121.2
NET COUNTY APPORTIONMENT		\$173.0	\$172.7	\$171.6	\$169.8	\$171.5	\$176.4	\$177.4	\$182.7	\$345.7	\$341.4	\$347.9	\$360.1
NET CITY APPORTIONMENT		\$110.9	\$119.1	\$118.4	\$117.1	\$118.2	\$121.3	\$122.0	\$125.4	\$230.0	\$235.5	\$239.5	\$247.4
NET HIGHWAY DIVISION		\$411.9	\$448.7	\$443.6	\$427.2	\$409.8	\$400.4	\$401.5	\$413.7	\$860.6	\$870.9	\$810.2	\$815.2
NET HIGHWAY FUNDS REVENUE		\$695.8	\$740.5	\$733.6	\$714.1	\$699.4	\$698.1	\$700.9	\$721.8	\$1,436.3	\$1,447.7	\$1,397.6	\$1,422.7
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
TOTAL NET REVENUES FOR DISTRIBUTION		\$697.5	\$742.3	\$735.3	\$715.9	\$701.2	\$699.9	\$702.6	\$723.5	\$1,439.8	\$1,451.2	\$1,401.1	\$1,426.2

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

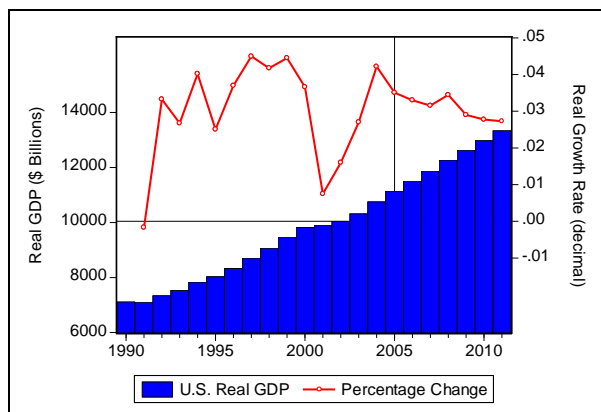
APPENDIX

National Economic Outlook

The national economic outlook differs slightly from the prior forecast. Highlights of the key elements in the national outlook follow.

Figure 11 gives the recent trends in real growth of 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, although positive growth is expected to continue throughout the forecast period. Real growth in 2005 will be just above trend, coming in at 3.5 percent. The annual real growth rates remain steady right around 3 percent for most of the post-2005 period. Although consumer spending may slow down, business fixed investment outlays and export growth look to pick up some of the slack.

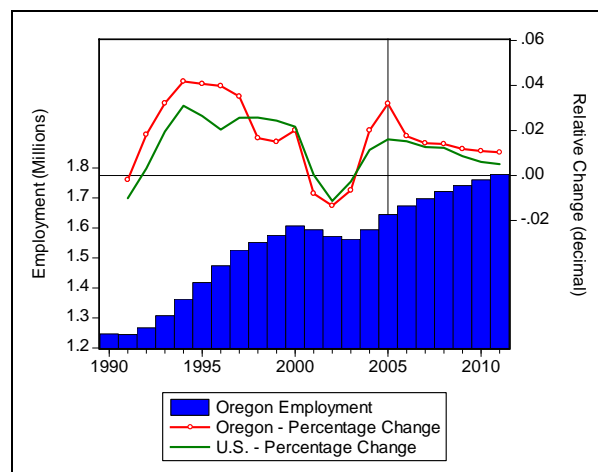
Figure 11: Real GDP and Real GDP Growth



With such trend rates of growth, coupled with gains in productivity, the outlook for overall job growth is somewhat less sanguine. Figure 12 reproduces the employment chart from the Oregon Outlook section to this report. The chart reveals good job growth nationally 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 2005, job growth is expected to exceed the average annual growth rate between 1991 and 2004. Yet slower growth, below the average annual growth rate, is expected for the remaining years of the forecast. Thus, marked improvements from here that continue to lower the nation's unemployment rate will likely face considerable head winds.

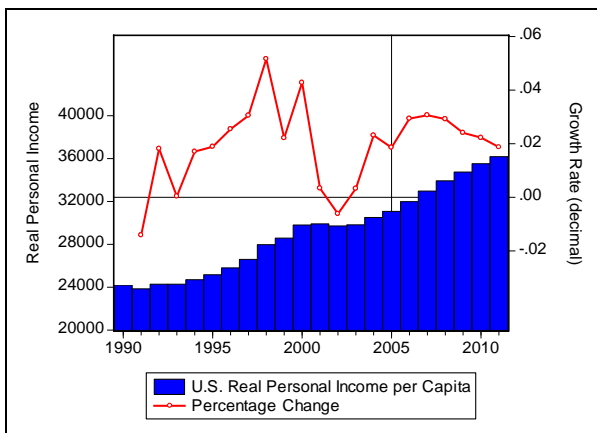
Figure 12: Oregon and U.S. Employment Trends



With the national unemployment rate at 4.9 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.

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 13 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.

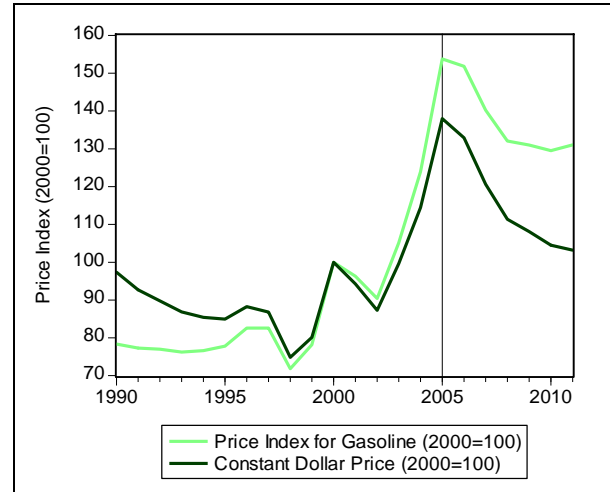
Figure 13: U.S. Real Personal Income Per Capita



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 14 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 December 2005 forecast. Gasoline prices appear to have peaked in 2005. The current baseline outlook from the macro-forecasting model is for prices to start to recede after 2006, with nominal prices eventually leveling out beginning in 2008. 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 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 market-fundamentals based forecasts.

Figure 14: 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 15 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.

Figure 15: Business Growth and Business Capital Spending

