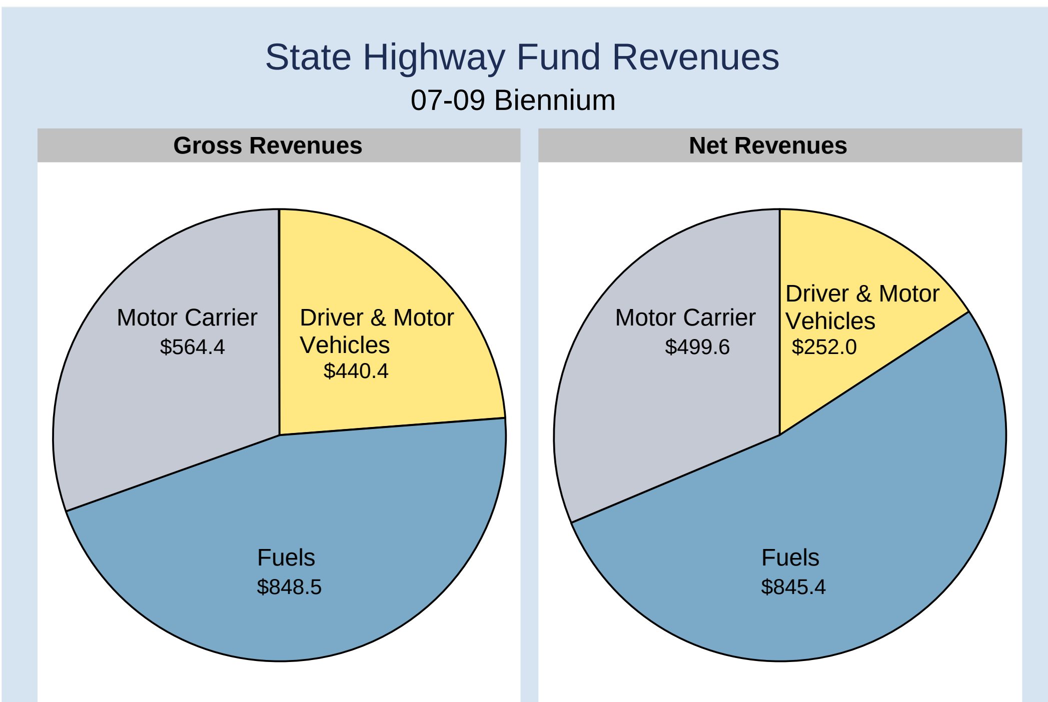
OREGON DEPARTMENT OF TRANSPORTATION

SUMMARY OF TRANSPORTATION ECONOMIC AND REVENUE FORECASTS



Note: Gross Revenues are projected to increase 2.1% and Net Revenues are projected to rise 0.1% over the 05-07 biennium totals.

JUNE 2007

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Financial & Economics Analysis

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 the probable course of economic activity and legislative initiatives on ODOT transactions and revenues.

The forecast is consistent with Department of Administrative Services' *Oregon Economic & Revenue Forecast (Vol. XXVII, #2, May 2007)* 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:

The cover chart summarizes the new forecast for the current biennium, 2007-09. It offers two snapshots of our new outlook for the Agency's revenue picture: gross revenues by major source and net revenues after collection costs, general and administrative expenses, and program transfers, again by major source. Before netting out costs, Fuels Tax revenue makes the largest contribution, as it traditionally does, to the State Highway Fund at 46 percent, with fees and taxes from heavy vehicles – Motor Carrier (MCTD) – contributing 30 percent and Driver and Motor Vehicles (DMV) fees generating about 24 percent. Revenue generation from fees and taxes is constrained by the State's Highway Cost Allocation Study to assure revenues are generated according to the cost responsibility of each major vehicle class – predominately light passenger vehicles and heavy trucks. All totaled, the revenues generated are in excess of $1.8 billion from statewide sources, and before apportionment from the federal Highway Trust Fund reflecting the federal gas tax and heavy vehicle fees. (The latter amounts to nearly $860 million for the biennium.)

The relative efficacy of revenue yield is partly captured in the right-hand portion of the chart, where revenues net of costs and program transfers are graphed. Here, Fuels Tax can be seen to contribute an even larger relative share of net revenues to the State Highway Fund at a level of 53 percent. The share contributed by the heavy vehicle class is largely unchanged (31 percent), while the DMV net revenues are reduced to only a 16 percent share. It is these net revenues that are apportioned to the state's counties and municipal governments, with the balance remaining at ODOT to support its maintenance, preservation, highway modernization, and bridge investments in the State Highway System.

As indicated at the bottom of the graphic, gross revenues are forecast to grow by 2.1 percent over the biennium, somewhat slower than in our prior outlook (3.0 percent). Net revenues, however, are just about flat with the prior biennium, up only 0.1 percent – comparable to our prior forecast. Once again, the State Highway Fund suffers from declining purchasing power once an adjustment is made for escalating costs that are currently exceeding revenue growth.

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EXECUTIVE SUMMARY

Oregon's economy displayed vigorous growth over the 2004-2006 period. This span produced overall job gains of 2.0, 3.0, and 2.9 percent per year, respectively. Although the first quarter of 2007 was Oregon's 15th consecutive quarter of job growth, the year-over-year growth was just 1.8 percent; this is the first time since the second quarter of 2004 that growth fell below a 2 percent rate. As a result, Oregon's year-over-year job growth is now ranked 18th in the nation, after having spent nearly three years among the top 10. Clearly Oregon's job market is dampening somewhat and this subdued growth is expected to continue for a few years even though the state's total non-farm employment is forecast to keep growing at a rate slightly above the U.S. average.

The State's overall pace of economic activity will continue growing at a moderate rate throughout the forecast period of FY07 to FY13. Contraction in the residential construction sector, both regionally and nationwide, is a large part of this anticipated slowdown, and may become even more so as adjustments actually play out. However, strong business capital spending at oth the national level, as well as globally, coupled with robust export activity, are sources of comparative strength. Personal income gains in the state, the principal prop underlying household spending, are expected to outpace the nation during most of the forecast period. In sum, although gains are expected to continue throughout the forecast period, there are few signs that they will be as robust as recently experienced.

Changes in economic conditions within Oregon and across the nation affect each of the major 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 mirrors this slowdown in the pace of economic activity. The current forecast anticipates that gross revenues will be slightly lower than predicted in the previous forecast, but only by modest amounts.

Highway Fund revenues consist of three main sources: Driver and Motor Vehicles revenues, Motor Carrier revenues, and Motor Fuels tax revenues. (See the chart on the report's cover page for comparisons.) Motor Fuels tax revenues, which reached about $415.7 million in FY06, are the largest single source of Highway Fund revenues. These revenues are expected to stay just about level in FY07, followed by an average annual growth rate of nearly 1.7 percent throughout the rest of 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 FY06, Motor Carrier revenues approached $268.4 million. These revenues are forecast to reach approximately $272.3 million in FY07, a gain of 1.5 percent. We forecast that these revenues will increase at an average annual rate of 2.4 percent between FY07 and FY13. Driver and Motor Vehicles revenues, which primarily include vehicle registration, titles, and driver fees, reached $222.8 million in FY06. These revenues are expected to grow by an average annual rate of 0.9 percent during the forecast period.

In summary, the overall outlook is for nearly 1.9 percent annual growth in gross revenues over our forecast period. This growth in nominal revenues is less than the expected escalation of costs for the Agency's construction and maintenance programs.

NATIONAL ECONOMIC OUTLOOK

By the end of 2006 and early 2007, the nation's economic engine decelerated from the unsustainable pace witnessed over the prior two years, notwithstanding the substantial speed bump caused by Hurricane Katrina nearly two years ago. The slowdown, which had been widely anticipated, stemmed principally from a continuation of the Federal Reserve's move away from monetary stimulus to a more neutral stance. Coupled with this, business activity slowed measurably as firms worked off excess inventories by reducing production. Real economic growth has slowed modestly to roughly the 2 to 3 percent range. Job growth, which customarily lags in recoveries, finally started to rebound strongly in the 2004-2006 period, and has since returned to trend rates in the range of 1 to 1.5 percent per year.

A considerable portion of this growth was sustained by the very robust residential construction spurt over the 2004-2006 period. Some of the highest year-over-year price appreciation rates ever were the norm in many of the nation's major regional housing markets. The housing segment of the economy is gauged to have contributed to over one-third of the economy's real growth rate during this recent surge, largely as an outgrowth of monetary stimulus in the U.S. and Japan. Hard assets, such as real estate and commodities, were the portfolios of choice during much of this episode of prodigious global liquidity. This has continued to wind down somewhat in the wake of firming monetary expansion by not only the Fed, but by central banks worldwide. Widespread inflation concerns, largely exacerbated by taxing spikes on the oil price front, and financial stability are still the top priority in the formulation of monetary policy both here and abroad, with the Japanese economy being a notable exception for at least the time being.

Overall, the prospects for the nation have not materially changed from the last forecast in the winter of this year. Growth in jobs and in real GDP is marginally weaker than the prior outlook, but still within the precision levels of the forecasting models. With good productivity gains expected out over the foreseeable future, job gains are now at a lower rate than experienced in the recovery years of 2002 through 2006.

The outlook for crude oil prices and gasoline prices is also largely unchanged. The forecast continues to see a slight decline in prices for both based on market fundamentals, when adjusted for overall inflation.

The dominant issue, or risk to the outlook for the economy, continues to be how the cool-down in the residential housing and mortgage sector unfolds. If anything, progress thus far has been very promising in managing to avoid a major collapse, but some prominent signs are surfacing that the sector, and a major hit to the economy, is not out of the question and may remain so for another year-and-a-half or two. Other risks reside with the trajectory of oil and gas prices and the course of the U.S. dollar in the foreign exchange markets.

Table 1 on page 4 summarizes these, as well as several other national economic indicators. The transportation revenue forecast is consistent with Department of Administrative Services' May 2007 *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/).

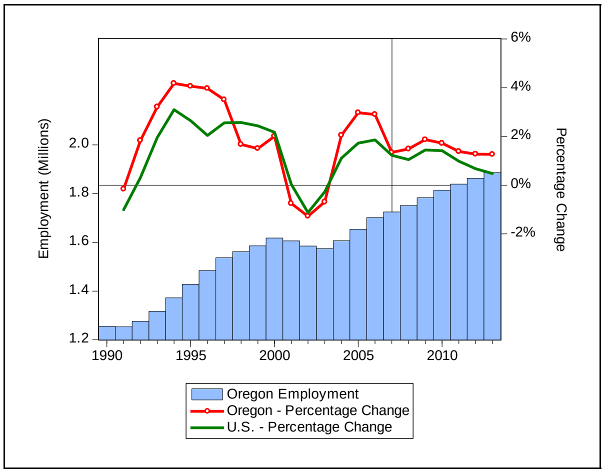
OREGON ECONOMIC OUTLOOK

Oregon's job markets showed dramatic gains in 2006. Total Non-Farm Employment rose by a healthy 3.2 percent over 2005, largely as a result of a very robust first quarter growth of 6.0 percent (annualized rate). Subsequent quarterly growth dropped off considerably from this very fast pace. Nevertheless, job growth for the first quarter of 2007 came in stronger than expected at a 2.8 percent annual rate, driven primarily by strength in the private non-manufacturing sector. This increase, coming on the heels of a very soft final quarter of 2006, makes the first quarter of 2007 the 15th consecutive quarter of job growth. Notwithstanding this "win streak", the state's lackluster growth has moved it from being among the top 10 during most of the 2004-2006 period to being only among the top one-third of all states nationwide. However, among western states, Oregon is, along with California, one of the slowest in job growth. The sources for this job performance are recounted by industry sector in the narrative below.

Concurrent with this expansion in employment, the state's unemployment rate fell from its peak of 8.7 percent reached during the summer of 2003. It is currently at 5.0 percent for May, its lowest level since early 2000, just preceding the 2001 downturn. Further declines from this level will most likely be extremely modest. Oregon's long-run average unemployment rate back to the 1970s is slightly above 7.0 percent, notwithstanding that Oregon's economy was far more natural resources-based at that time.

Although total employment in Oregon grew more quickly than the U.S. average during most of the year, it fell below the national average during the final quarter of 2006. Beginning with an unexpectedly strong showing in the first quarter of 2007, Oregon's job growth is forecast to outpace the U.S. average throughout most the forecast period, but by less pronounced amounts than in the recent past. See Figure 1 for a further illustration regarding the state's Total Non-Farm Employment, as well as the overall outlook as forecast by the Office of Economic Analysis.

Figure 1: Oregon and U.S. Employment Trends



Oregon's manufacturing sector demonstrated weakness near the end of 2006 and during the first quarter of 2007, with two consecutive quarters of job losses. Overall, manufacturing employment showed a year-over-year job loss of 1.3 percent. Durable goods manufacturing suffered the largest decline. During the first quarter of 2007, Transportation Equipment and Computers & Electronics manufacturing experienced job losses of 14.4 and 8.0 percent, respectively. Unexpectedly weak business capital spending provides much of the explanation for this decline. The Wood Products manufacturing industry also experienced job losses of approximately 12.2 percent. This reflects swings in the nation's housing markets. Overall, durable goods manufacturing exhibited a year-over-year job loss of 2.6 percent. Non-durable manufacturing, led by the state's Food Manufacturing sector, did much better with year-over-year job growth of 2.5 percent.

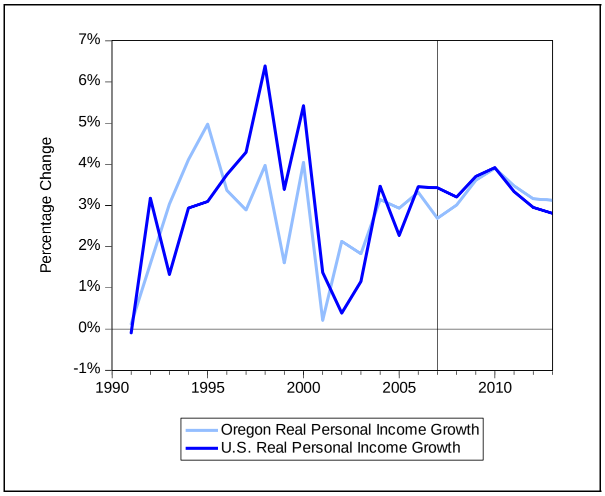
Going forward, job levels for the State's manufacturing sector as a whole are expected decline slightly during 2007, coincident with the stagnant manufacturing job levels predicted for the national economy. Moderate growth is then anticipated during 2008 and 2009, although additional declines are predicted for the latter years of the forecast period.

Although the manufacturing sector displayed signs of weakness in recent quarters, the non-manufacturing sector grew at a relatively brisk pace. Private non-manufacturing jobs increased 3.6 percent during the first quarter of 2007. The Retail Trade industry led the way, growing approximately 9.7 percent over the previous quarter. Health Services, Leisure & Hospitality, and Professional & Business Services all grew at rates well in excess of 3.0 percent as well. The Construction industry also showed an unanticipated job gain of 4.1 percent. This increase suggests that growth in nonresidential construction limited the impact of the slowing housing market on Oregon's construction employment. Other non-manufacturing industries, such as Wholesale Trade, Information, and Financial Activities, showed small job gains during this period while others, in particular Education, Natural Resources & Mining, and Transportation, Warehousing & Utilities, declined substantially.

As with manufacturing, the forecast predicts somewhat subdued non-manufacturing employment growth for a couple of years in response to cooling national economic conditions. Employment growth in these service producing sectors is then expected to pick up the pace toward the end of the forecast horizon.

As with overall employment, Oregon personal income demonstrated continued gains during 2006. Personal income, about 55 percent of which is derived from wages and salaries, increased by 6.0 percent in 2006. When adjusted for inflation, real personal income for Oregonians grew by about 3.2 percent during 2006, slightly less than the nation's real growth of 3.5 percent. Oregon's real personal income growth is anticipated remain above 3.2 percent for the rest 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 annual growth rates experienced since 1990.

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



In sum, Oregon's economy is expected to grow moderately during the next several years as national economic conditions resemble a more mature growth phase. Slowing growth, both nationally and globally, may lead to softening demand for Oregon's goods and services by both businesses and households. Lingering geopolitical uncertainty, which undermines consumer confidence and alters normal spending habits, could also negatively impact Oregon's economy. Mortgage interest rates and choppiness in the home loan segments are expected to continue to 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 the robust economic expansion experienced during the past three years will be sustained. A summary of some economic indicators for Oregon is contained in Table 2 below.

Table 1: National Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY 05	CY 06	CY 07	CY 08	CY 09	CY 10	CY 11
CONSUMER PRICE INDEX (CPI)	3.4%	3.2%	2.1%	1.9%	2.0%	1.9%	2.0%
EMPLOYMENT	1.7%	1.9%	1.2%	1.0%	1.4%	1.4%	1.0%
HOUSING STARTS	6.3%	-12.4%	-22.2%	5.1%	10.9%	4.2%	-0.2%
POPULATION	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
REAL GROSS DOMESTIC PRODUCT (GDP)	3.2%	3.3%	2.1%	2.8%	3.3%	3.1%	2.6%
REAL PERSONAL INCOME	2.3%	3.5%	3.4%	3.2%	3.7%	3.9%	3.3%
REAL PRICE OF GASOLINE	18.2%	10.0%	-8.3%	-3.7%	-1.3%	-1.9%	-1.6%
UNIT SALES OF NEW AUTOMOBILES	2.2%	1.4%	-2.4%	0.0%	1.1%	3.0%	1.7%

Table 2: Oregon Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY 05	CY 06	CY 07	CY 08	CY 09	CY 10	CY 11
EMPLOYMENT--TOTAL	3.0%	2.9%	1.3%	1.5%	1.9%	1.7%	1.4%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	0.7%	1.7%	-2.6%	1.1%	-0.4%	-0.8%	-1.5%
EMPLOYMENT--RETAIL TRADE	3.1%	2.1%	1.7%	1.3%	2.2%	2.0%	1.9%
EMPLOYMENT--TRANSPORTATION	0.6%	1.5%	-1.7%	2.2%	3.1%	3.1%	2.8%
EMPLOYMENT--WHOLESALE TRADE	2.9%	3.5%	2.9%	1.3%	1.5%	1.4%	1.3%
EMPLOYMENT--WOOD PRODUCTS	1.8%	-1.1%	-7.6%	-1.9%	2.2%	3.1%	0.8%
HOUSING STARTS	12.6%	-10.8%	-9.3%	-2.5%	6.1%	4.5%	1.4%
POPULATION	1.4%	1.6%	1.5%	1.4%	1.4%	1.4%	1.4%
PORTLAND METRO CONSUMER PRICE INDEX	2.5%	2.6%	2.5%	2.4%	2.4%	2.3%	2.2%
REAL PERSONAL INCOME	2.9%	3.3%	2.7%	3.0%	3.6%	3.9%	3.5%
TIMBER HARVEST	-2.1%	-2.4%	-3.5%	-0.6%	-0.6%	0.0%	0.0%

Table 3: Percentage Change in Transactions for Key Transportation Variables

	Actual		Forecast				
	CY 05	CY 06	CY 07	CY 08	CY 09	CY 10	CY 11
MOTOR VEHICLE FUELS (GALLONS)	1.5%	1.3%	-0.1%	1.8%	1.9%	2.0%	1.8%
ORIGINAL CLASS C LICENSES	6.5%	1.2%	0.8%	-0.2%	0.6%	0.6%	0.3%
PASSENGER VEHICLE REGISTRATIONS	-0.4%	-1.8%	0.4%	3.0%	0.5%	1.3%	0.6%
TITLE TRANSFERS	-2.1%	-3.9%	3.5%	2.2%	1.9%	1.9%	1.1%
TRUCKING ACTIVITY (WEIGHT-MILE)	4.1%	1.3%	0.9%	4.0%	3.4%	2.6%	2.1%

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. A supporting narrative of the Motor Fuels, Motor Carrier, and Driver and Motor Vehicles forecasts is provided below.

Motor Fuels Usage

The growth in the use of taxable gasoline and diesel fuels in Oregon has continued to be somewhat stagnant. Nevertheless, actual consumption in 2006 turned out to be slightly above our prior forecast: 1.3 percent versus 1.2. However, through the winter and spring months of this year, our 12-month moving average is only up about 0.33 percent over 2006; even softer still. The softening is also evident if we compare where we are year-to-date with 2006 sales volumes. So far into the spring months of 2007, usage is lower than last year at this time by about 1.1 percent.

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 and on into 2006 than what were experienced in 2002, the year before the start of the price spirals. Similarly, crude oil prices were well over 120 percent higher in 2005-2006 than in 2002. Despite these very elevated, and somewhat sustained, price levels, gas consumption has not deteriorated substantially. This pattern has been commonly occurring 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 dominant 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 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 also 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 but typically gradual adjustments in mode choice and in the fuel efficiency of the passenger vehicle fleet will begin to occur so as to restore consumers' more traditional spending patterns.

In sum, had Oregon not experienced very strong job growth over the 2004–2006 period, among the top ten nationally for much of this time span, 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 households and firms making their transport decisions.

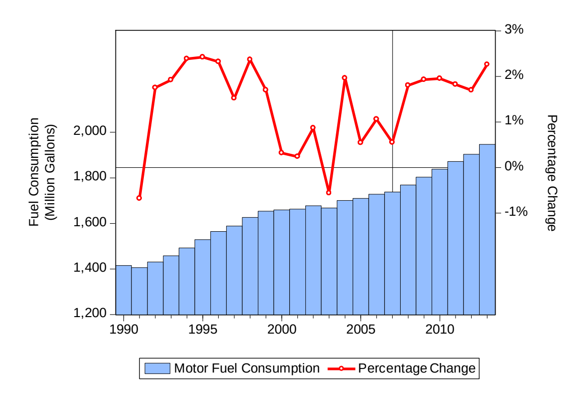
Despite the turbulence in the petroleum markets, coupled with comparatively strong performance by the Oregon economy, our forecasting model has continued to do very well in forecasting usage. Through the spring of this year, the forecast model for fuels usage had a tolerably low root mean squared error of slightly above 1 percent, well within the structural properties of the estimated equation. Generally, the prior forecast slightly over-predicted usage for the first part of 2007, principally a period of weak demand on a seasonal basis.

Figure 3 presents some recent history of usage and the outlook through 2013. In the very near term, the forecast reflects virtually no growth in 2007 (-0.1 percent) over what was seen in 2006. The influence of continued economic expansion, as manifested in job growth and expanding personal incomes, can be seen to propel sales growth toward rates of nearly 2 percent 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 assessment of what such a scenario would look like, the reader is referred to an earlier forecast report which looked at the ingredients of such a scenario conducted for the September 2004 Forecast that is still germane for the present time:

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

Figure 3: Fuel Consumption & Growth



Motor Carrier

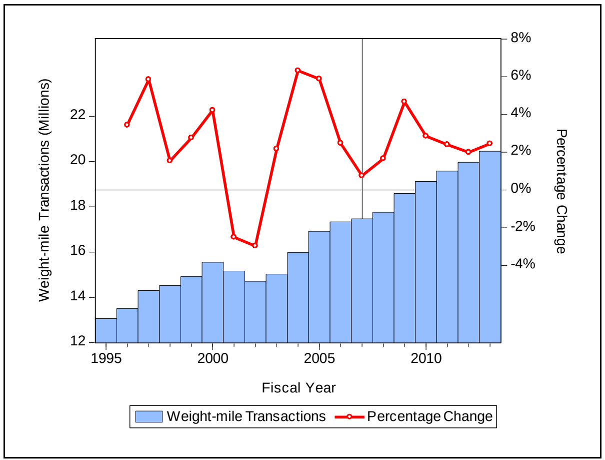
Trucking activity and the freight industry affect the amount of revenue available to the State Highway Fund through the weight-mile tax, heavy vehicle registration fees, and other Motor Carrier fees. Changes in economic conditions within Oregon and the nation as a whole influence each of these revenue sources. Because growth in many of the economic variables affecting Motor Carrier activity appears to moderate for the next few years, the forecast of Motor Carrier revenues reflects similar 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 weight-mile revenue by the tax rate paid by the typical heavy vehicle. The forecasting model incorporates several employment measures, as well as real fuel prices to estimate the weight-mile transactions.

As Figure 4 shows, the number of weight-mile transactions grew quite strongly between FY03 and FY06, averaging about 4.2 percent annual growth. Yet growth in transactions for FY07 is much lower, predicted to reach just 0.7 percent for the fiscal year. The forecast anticipates that growth in weight-mile transactions will eventually pick up speed again as Oregon employment in durable goods manufacturing begins to rebound somewhat during the FY09 and FY10 time frame.

Figure 4: Weight-mile Transactions



Other sources of heavy vehicle revenues to the State Highway Fund include heavy vehicle registrations, trip permits, and other fees paid by motor carriers. The current forecast methodology involves estimating the revenues of each of the seven largest components separately. Discussion of these revenue forecasts appears in the Highway Fund Revenue Forecast section below.

Driver and Motor Vehicles

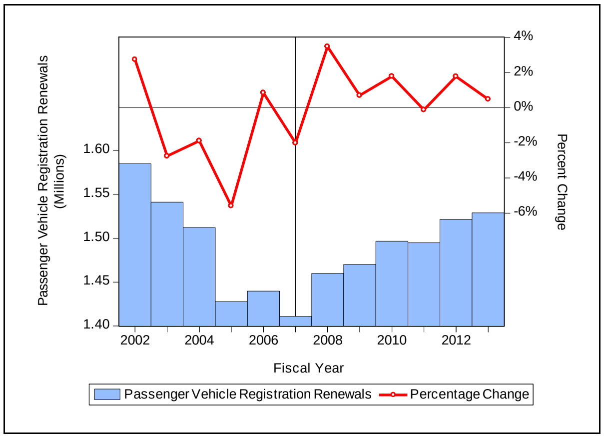
The Driver and Motor Vehicles Division (DMV) is responsible for administration of driver and motor vehicle related activities. Revenues collected from the fees charged for the various DMV activities flow to the State Highway Fund, the Transportation Operating Fund, the Transportation Safety Account, the Elderly and Disabled Special Transportation Fund, and apportionments to cities and counties statewide 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, with the effects of the changes lasting through 2007. However, due to the vehicle manufacturers attempts to stimulate their sales after September 11, 2001 with the introduction of 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. As the effects of the incentives faded, two-year registrations decreased as expected through 2005.

Beginning in 2006, vehicles that were registered for four years in 2002 are renewed. These renewals help to offset the additional loss in two-year registration transactions from new vehicles registered in 2004. Similarly in 2008, vehicles originally registered for four years in 2004 will be renewing. This will end the legislative transition that began in 2002. After 2008, growth in two year registrations is expected to better mirror the demographic changes in Oregon than in the 2002-2008 period.

Figure 5: Two Year Passenger Vehicle Registration Renewals



Changes in the level of transaction activity and legislative changes in fee structures also 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 for future legislation. With three years of data since the OTIA III fee increases were implemented, a surprising result is the persistent impact that the fee increases have had on transaction quantities. We expected transactions to be affected for a few quarters after implementation of the fee increases. While this was true for some transactions, others have shown a significant decrease related to the fee increases beyond the first several quarters. In some cases the fee increases have had a lasting impact on transactions. This effect is seen most notably in some of the title transactions and commercial licenses. It may well be, for instance, that some individuals have had secondary vehicles or commercial licenses that were not being used, and therefore they decided that it is not worth paying the increased fee for something that they are unlikely to use in the near future.

In general, the reduced volume of transactions generally occurs where the percent changes in fees are the greatest, or where the fees represent a larger share of the value of the vehicle. As we move into FY08, the effects should dissipate in all but the few that appear to reveal permanent adjustments rather than transitory ones.

Overall, demographic and economic changes, combined with legislative impacts, explain most of the variation in total DMV transactions over time. Total DMV transactions increased in FY06 and are expected to remain fairly constant through FY09, and then grow moderately through the remainder of the forecast period. However, future legislation will undoubtedly affect the DMV transactions forecast and resulting revenues.

HIGHWAY FUND REVENUE FORECAST

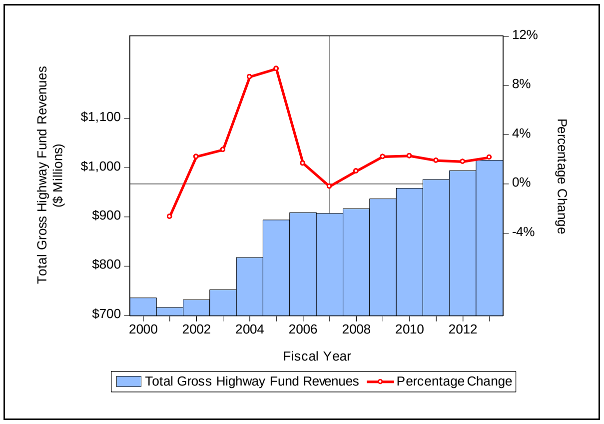
Our current forecast shows a slight negative change in the overall gross revenues from our prior forecast from December 2006. The current outlook indicates that gross revenues will be between $9.1 and $13.8 million less annually than previously predicted. Overall, the forecast for the 07-09 biennium is nearly $24 million lower, a 1.3 percent drop.

Differences between the current and prior forecast come from three primary sources. First, the forecast incorporates updated data on transportation transactions used for the purpose of estimating the parameters of equations contained in the forecast model. 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 may not be directly captured in the state forecast.

Figure 6 shows the recent behavior of gross revenues and the current forecast out to 2013. The past several forecasts have fully reflected the prospective impacts of OTIA III (House Bill 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 FY05, 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, in lieu of any new revenue initiatives by the Legislature.

The current outlook forecasts that gross revenues will be lower than the prior forecast by relatively modest amounts. For FY07 and FY08, revenues are expected to be $10.9 million and $13.8 million lower than in the prior forecast, respectively. On an average annual basis this difference translates into approximately a 1.3 percent decrease from the prior forecast. The remaining years of the forecast are also uniformly lower than in the prior forecast. Overall, total gross revenues are expected to grow at an average annual rate of 1.8 percent between FY07 and FY13, a similar rate to our prior revenue projection.

Figure 6: Total Gross Highway Fund Revenues



This growth in nominal revenues is, however, below the expected rate of cost escalation for construction and maintenance activities confronting the Agency's Highway Programs. As a result, the spending power of the State Highway Fund to support Maintenance, Preservation, and Modernization Programs will continue to erode.

Revenues available for apportionment after collection, administration, and program costs ("Net Revenues") are lower in the present forecast compared to our prior revenue outlook. This stems not only from the slight reduction in gross revenues due to the lower projections for transactions receipts, but also to updated budget numbers in the Legislative Adopted Budget (LAB) used in the revenue forecast. Several initiatives captured in the budget, such as the Federal Real ID Act, have significant costs associated with them. Under current law there are no specific provisions for increasing revenues through fee changes to cover incurred costs to the Agency. Although the legislature considered several bills during 2007 Regular Session to address this situation, none was enacted. It is very probable that these issues will be reconsidered in the 2009 Regular Session, if not partially in the 2008 abbreviated session.

One piece of legislation that did pass in the 2007 Session that has an effect on the resource capability of the Highway Fund is SB 994. One aspect of this bill directs ODOT to distribute $56 million from the Fund to Oregon counties in varying amounts. The implementation of this particular aspect is still pending, and as a result the transfer is not captured in this report's tables and analysis. As implementation gets closer, the effect of the section of the law will be inserted explicitly into future forecasts.

Highway Fund Forecast

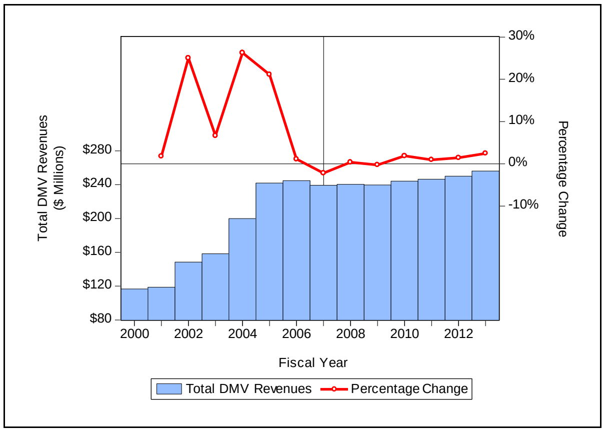
Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes constitute the largest single source of revenue at forecast levels of approximately $415 to $460 million per year. These taxes are levied on motor fuels used in passenger vehicles and 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 $285 million a year. Licensing, vehicle registrations, and titles make up the third largest source of Highway Fund revenue with gross annual forecast revenues of $220 to $240 million.

DMV Revenues

Total DMV revenues are contained in row 4 of Table 4 and in Figure 7. The significant increase in revenues in FY02, FY04 and FY05 result from fee increases in the 2001 and 2003 sessions and other legislative adjustments. The full effects of the OTIA III related fee increases began in FY05 and revenues are projected to grow at an average annual rate of 0.9 percent throughout the forecast period. These gross revenues include the effects of the broad base of fee changes resulting from House Bill 2041 from the 2003 legislative session. Implementation of House Bill 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 FY09 as costs increase at a quicker pace than revenue growth under existing fee levels. Beginning in FY10 net revenues are expected to stabilize as revenue growth catches up to costs.

Row 13 summarizes the change in net revenues from the previous forecast. A notable change surfaces for the 2007-09 and 2009-11 biennia. The major cause of the change is due to the expected increase in costs related to the Federal Real ID Act and Senate Bill 640, which was passed in 2005 and becomes effective July 1, 2008. Senate Bill 640 authorizes the Department to increase fees on certain transaction types by up to $3 to cover the cost of implementing the legislation. If the fees do increase by $3, revenues could increase by over $2 million beginning in FY09. However, these potential, additional revenues are not included in the current forecast inasmuch as the final fee is yet to be established.

Figure 7: Total DMV Revenues

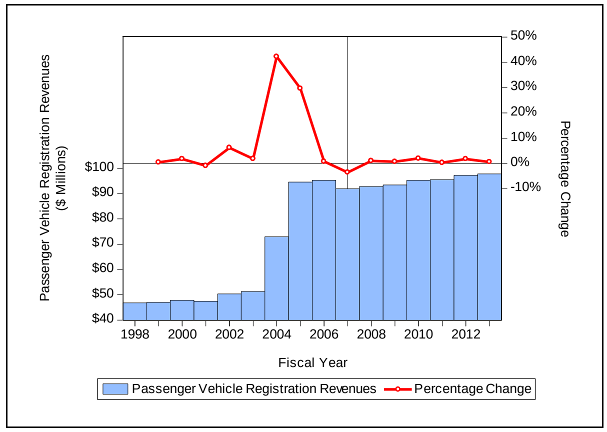


Continued refinements in the estimating equations have increased the overall accuracy of our DMV forecasts both individually and collectively. They have also served to decrease the variation from one forecast to the next when exogenous conditions are largely invariant.

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

The DMV revenue forecast is grouped into three major categories reflecting the primary revenue sources: vehicle registrations, driver licenses, and vehicle titles. Vehicle registrations make up the dominant portion of DMV revenues, led significantly 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 $113.0 million in FY06, an increase of 3.0 percent over FY05. Beyond FY06, growth is expected to average 0.6 percent throughout the forecast period, despite an expected 2.7 percent decline in FY07.

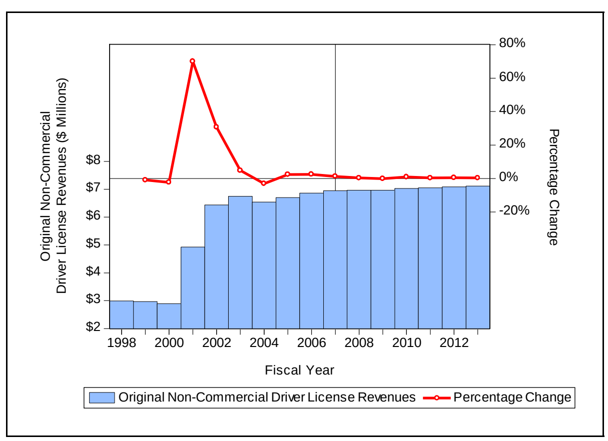
Figure 8: Passenger Vehicle Registration Revenues



Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues, as shown in row 2, totaled $34.1 million in FY06, a negligible increase over FY05. Revenue growth in the forecast period is expected to be negative through FY09, and then positive through FY13. Overall, an average annual growth rate of 1.7 percent is expected for FY07 through FY13. The shift from a four- to eight-year renewal cycle for commercial and non-commercial licenses largely accounts for the negative growth exhibited during the FY07-FY09 period and the large increase in FY13.

Although license renewal revenues are predicted to fall during FY08 and FY09, original non-commercial driver license revenue is expected to remain relatively constant throughout the forecast period.

Figure 9: Original Non-Commercial Driver License Revenues



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 FY06 are $75.7 million, a negligible change from FY05. Beyond FY07 revenue growth is expected to average 1.1 percent per year through the forecast period.

Figure 10: Vehicle Title Transfer Revenues

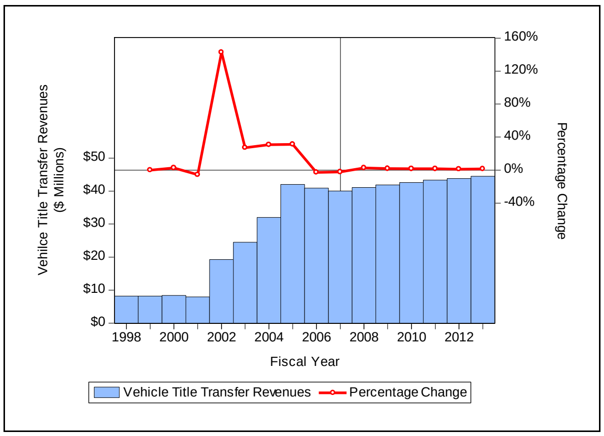


Table 4: Highway Fund Revenue Collected by DMV (Millions of Dollars)

		Actual		Forecast							Forecast			
		FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	BI 05-07	BI 07-09	BI 09-11	BI 11-13
1	VEHICLE REGISTRATIONS	$109.7	$113.0	$110.0	$111.1	$112.0	$114.3	$115.0	$117.1	$117.9	$223.0	$223.1	$229.3	$235.0
2	DRIVER LICENSES & OTHER	$34.1	$34.1	$34.0	$33.4	$31.6	$32.5	$33.4	$33.8	$38.2	$68.1	$65.1	$65.9	$72.1
3	TITLE, PLATE & OTHER	$75.7	$75.7	$74.3	$75.5	$76.7	$78.2	$79.6	$80.7	$81.9	$150.0	$152.2	$157.8	$162.5
4	**TOTAL DMV COLLECTIONS**	**$219.5**	**$222.8**	**$218.3**	**$220.1**	**$220.3**	**$225.0**	**$228.0**	**$231.6**	**$238.0**	**$441.1**	**$440.4**	**$453.0**	**$469.6**
5	Change from Previous Forecast		$1.1	($3.2)	($5.1)	($5.9)	($5.3)	($5.4)	($5.3)	($5.4)	($2.1)	($11.1)	($10.7)	($10.7)
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($56.8)	($60.4)	($62.8)	($71.7)	($74.7)	($73.0)	($74.5)	($79.0)	($80.6)	($123.2)	($146.4)	($147.5)	($159.6)
7	TRAFFIC SAFETY TRANSFER	($0.6)	($0.7)	($0.7)	($0.8)	($0.8)	($0.8)	($0.8)	($0.9)	($0.9)	($1.5)	($1.5)	($1.7)	($1.8)
8	DEPARTMENT OF EDUCATION TRANSFER	$0.0	($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	($15.2)	($17.1)	($17.8)	($20.6)	($21.4)	($22.5)	($22.9)	($24.3)	($24.8)	($35.0)	($42.0)	($45.4)	($49.2)
10	REVENUE TRANSFER TO OTIA I & II	($6.5)	($6.8)	($6.7)	($6.6)	($6.4)	($6.5)	($6.4)	($6.4)	($6.5)	($13.4)	($13.1)	($12.9)	($13.0)
11	REVENUE TRANSFER TO OTIA III	($76.4)	($79.3)	($78.6)	($80.2)	($81.0)	($82.6)	($83.4)	($84.8)	($85.6)	($157.9)	($161.2)	($166.1)	($170.3)
12	**NET DMV REVENUE**	**$64.0**	**$58.4**	**$51.7**	**$40.1**	**$36.0**	**$39.5**	**$39.8**	**$36.1**	**$39.5**	**$110.0**	**$76.0**	**$79.4**	**$75.6**
13	Change from Previous Forecast		($0.9)	($4.7)	($6.8)	($7.2)	($1.7)	($1.7)	($1.6)	($1.6)	($5.6)	($14.0)	($3.4)	($3.1)

Motor Carrier Revenues

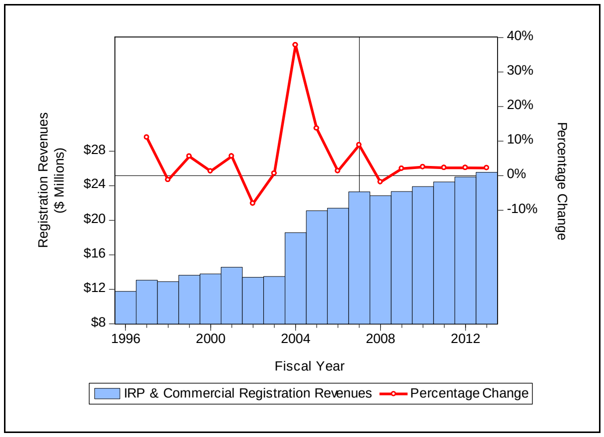
The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and other heavy vehicle fees. Table 5 contains the forecast revenue detail, along with projected collection/administration costs and transfers. Row 4 reports the total gross revenues for the Motor Carrier Division. Total revenues for FY07 decrease by approximately $4.8 million from the prior forecast, as shown in row 5. Overall, the forecast predicts that gross revenues will grow at an average annual rate of 2.4 percent during the forecast period. Forecast expectations suggest that costs, as shown in rows 6 and 8, will also increase. Because the rate of increase for costs will likely exceed that of gross revenues, net revenues in row 11 will grow slightly more slowly than gross revenues throughout the forecast period. Row 12 of Table 5 provides a summary of the aggregate differences of net revenues from the prior forecast.

In FY06, weight-mile revenues reached $241.3 million as indicated in row 1. The current forecast predicts that total weight-mile revenues will reach nearly $243.0 million in FY07. This total represents growth of just 0.7 percent for the fiscal year. At this time, the forecast anticipates an average annual growth rate of approximately 2.4 percent through FY13. This growth rate is slightly higher than the average annual rate of 1.9 percent predicted in our December 2006 forecast.

Row 2 of Table 5 shows heavy vehicle registration fee revenues. It includes both International Registration Plan (IRP) and Commercial registration fees. IRP registration and miscellaneous fee revenues account for nearly seventy percent 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 30 percent 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.

Together these heavy vehicle registration fees totaled $21.7 million in FY06. Overall, the forecast predicts an average annual growth rate of 2.6 percent for the period of FY07 through FY13.

Figure 11: Heavy Vehicle Registration Revenues



Road Use Assessment Fees (RUAF), trip permits and other heavy vehicle revenues are shown in row 3 of the table. This row also includes OTIA III fee increments from the DMV heavy vehicle portion of the Local Fund. Revenues from weight receipt and commercial driver's license fee increases make up the OTIA III fee increments. Overall, the total of these other heavy vehicle revenues reached $5.5 million in FY06. The forecast predicts growth averaging 2.5 percent annually throughout the remainder of the forecast period.

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

		Actual		Forecast							Forecast			
		FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	BI 05-07	BI 07-09	BI 09-11	BI 11-13
1	WEIGHT-MILE TAX	$235.3	$241.3	$243.0	$247.1	$258.6	$266.1	$272.4	$277.9	$284.8	$484.2	$505.7	$538.5	$562.7
2	IRP & COMMERCIAL VEHICLE REGISTRATIONS*	$21.4	$21.7	$23.6	$23.2	$23.6	$24.2	$24.8	$25.3	$25.9	$45.2	$46.8	$49.0	$51.2
3	RUAF, TRIP PERMITS & OTHER HEAVY**	$5.4	$5.5	$5.8	$5.9	$6.0	$6.1	$6.3	$6.4	$6.6	$11.3	$11.9	$12.4	$13.0
4	**TOTAL MCTD COLLECTIONS**	**$262.1**	**$268.4**	**$272.3**	**$276.2**	**$288.2**	**$296.4**	**$303.4**	**$309.7**	**$317.2**	**$540.8**	**$564.4**	**$599.8**	**$626.9**
5	Change from Previous Forecast		($0.2)	($4.8)	($2.2)	$2.4	$4.6	$5.3	$5.1	$6.7	($5.0)	$0.1	$9.9	$11.8
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($22.2)	($23.0)	($23.9)	($26.0)	($27.0)	($28.4)	($28.9)	($30.7)	($31.3)	($46.8)	($53.0)	($57.3)	($62.0)
7	IFTA COST RECOVERY***	$1.0	$1.1	$1.1	$1.1	$1.1	$1.2	$1.2	$1.3	$1.3	$2.1	$2.2	$2.3	$2.5
8	ODOT CENTRAL SERVICES ASSESSMENT	($5.6)	($5.8)	($6.1)	($6.8)	($7.1)	($7.5)	($7.6)	($8.1)	($8.2)	($11.9)	($13.9)	($15.1)	($16.3)
9	REVENUE TRANSFER TO OTIA I & II	($9.4)	($9.9)	($10.2)	($10.1)	($10.3)	($10.3)	($10.4)	($10.4)	($10.4)	($20.0)	($20.3)	($20.7)	($20.8)
10	REVENUE TRANSFER TO OTIA III	($29.4)	($29.6)	($30.5)	($30.8)	($32.0)	($32.8)	($33.6)	($34.3)	($35.1)	($60.1)	($62.8)	($66.4)	($69.4)
11	**NET MCTD REVENUE**	**$196.5**	**$201.2**	**$202.8**	**$203.6**	**$212.9**	**$218.6**	**$224.1**	**$227.5**	**$233.4**	**$404.0**	**$416.5**	**$442.7**	**$461.0**
12	Change from Previous Forecast		($0.0)	($4.2)	($2.5)	$1.6	$3.4	$4.0	$3.6	$5.0	($4.2)	($0.9)	$7.4	$8.7

*IRP: International Registration Plan.

**RUAF: Road Use Assessment Fees.

***IFTA: International Fuel Tax Agreement.

Motor Fuels Tax Revenues

The Central Services Division–Financial Services Branch collects fuel tax revenues. Fuel tax collections are shown in Table 6. The fuel tax revenue forecasts continue to be quite accurate, despite the price volatility in petroleum markets the past four years. Actual revenues versus forecast revenues for the past several years have been typically within about 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 revenue outlook mimics closely the fuel consumption forecast laid out above, with the caveat that the latter was 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 FY08 and beyond, it is about $6 to $15 million per year less, or about 1.5 to 3 percent lower than before. This is still well within the precision of the forecast equation and, so, is not a significant change, at least in the current and next biennia. Revenues are forecast to stay virtually flat in FY07, after being up about 1.7 percent in FY06. Fuel tax revenues then increase at a slightly stronger rate of about 1.8 percent on average out through FY13, due to the continued economic growth prospects for the state.

In the current biennium, revenues are forecast to be up about 2.1 percent, or a little more than $17 million, from the 2005-07 biennium. This is slightly weaker than the prior projection. Revenue growth is forecast to regain strength in the next biennium, increasing by 3.9 percent or $33 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 $440 million over the forecast interval out through FY13, fuels tax collections generate the single largest amount of revenue for the Highway Fund, about 46 percent before collection and program costs. One penny of gas tax generates about $18.2 million gross and $17 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 $29.2 million gross and $26.4 million net a year.

It is important to recognize the predictive capability of these foregoing “yield” results from gas taxes and weight-mile levies. They are averages and are based on a 1-cent increase only. For tax increases larger than one cent per gallon (say, for example, 5 cents or more), price elasticity effects are likely to cause a diminution in revenue yield. Direct analysis is strongly suggested over applying “rules of thumb” in these instances.

Table 6: Highway Fund Revenue Collected by Financial Services Branch (Millions of Dollars)

		Actual		Forecast							Forecast			
		FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	BI 05-07	BI 07-09	BI 09-11	BI 11-13
1	MOTOR FUELS TAX	$408.6	$415.7	$415.5	$420.3	$428.3	$436.5	$444.8	$452.7	$460.1	$831.2	$848.5	$881.4	$912.8
2	**TOTAL FSB COLLECTIONS**	**$408.6**	**$415.7**	**$415.5**	**$420.3**	**$428.3**	**$436.5**	**$444.8**	**$452.7**	**$460.1**	**$831.2**	**$848.5**	**$881.4**	**$912.8**
3	Change from Previous Forecast		$0.0	($2.9)	($6.4)	($6.7)	($8.4)	($10.1)	($12.1)	($14.7)	($2.9)	($13.1)	($18.4)	($26.9)
4	COLLECTION/ADMINISTRATION COST	($1.0)	($1.2)	($1.3)	($1.3)	($1.4)	($1.5)	($1.5)	($1.6)	($1.6)	($2.5)	($2.7)	($3.0)	($3.2)
5	ODOT CENTRAL SERVICES ASSESSMENT	($0.1)	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)	($0.4)	($0.4)	($0.5)	($0.5)
6	SNOWMOBILE TRANSFER	($0.7)	($0.7)	($0.7)	($0.7)	($0.7)	($0.7)	($0.8)	($0.8)	($0.8)	($1.4)	($1.5)	($1.5)	($1.5)
7	CLASS I ATV TRANSFER	($1.7)	($2.1)	($2.3)	($2.5)	($2.8)	($3.0)	($3.3)	($3.7)	($4.0)	($4.4)	($5.3)	($6.4)	($7.6)
8	MARINE BOARD TRANSFER	($5.5)	($5.3)	($5.6)	($5.6)	($5.7)	($5.7)	($5.7)	($5.7)	($5.8)	($10.9)	($11.3)	($11.4)	($11.5)
9	CLASS II ATV TRANSFER	($1.0)	($1.1)	($1.2)	($1.4)	($1.5)	($1.7)	($1.9)	($2.1)	($2.3)	($2.3)	($2.9)	($3.6)	($4.4)
10	CLASS III ATV TRANSFER	($0.6)	($0.7)	($0.8)	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.5)	($1.7)	($1.9)	($2.2)
11	TRANSPORTATION OPERATING FUND (TOF)	$0.0	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)	($8.2)	($8.2)	($8.2)	($8.3)
12	AVIATION TRANSFER	($0.1)	($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	($18.0)	($18.8)	($19.0)	($18.9)	($18.9)	($18.8)	($18.8)	($18.8)	($18.7)	($37.7)	($37.8)	($37.6)	($37.5)
14	REVENUE TRANSFER TO OTIA III	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.0	$2.0	$0.0	$0.0	$0.0	$3.0
15	**NET FSB REVENUE**	**$379.8**	**$381.4**	**$380.3**	**$384.6**	**$392.0**	**$399.7**	**$407.4**	**$415.5**	**$423.3**	**$761.6**	**$776.6**	**$807.1**	**$838.8**
16	Change from Previous Forecast		($0.0)	($3.1)	($6.5)	($6.6)	($8.2)	($9.9)	($11.9)	($14.4)	($3.1)	($13.1)	($18.1)	($26.4)

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 under "Highway Revenue Apportionment Forecasts" at http://www.oregon.gov/ODOT/CS/EA/reports.shtml.

As noted above, the effects of the $56 million transfer from the Highway Fund to counties due to SB 994 is not represented presently in the tables. How this apportionment is captured in the forecast and the commensurate effect on the Highway Fund is not itemized at this time, but will be made explicit in future forecasts and reports.

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

		Actual		Forecast							Forecast			
		FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	BI 05-07	BI 07-09	BI 09-11	BI 11-13
1	TOTAL MCTD COLLECTIONS	$262.1	$268.4	$272.3	$276.2	$288.2	$296.4	$303.4	$309.7	$317.2	$540.8	$564.4	$599.8	$626.9
2	TOTAL FSB COLLECTIONS	$408.6	$415.7	$415.5	$420.3	$428.3	$436.5	$444.8	$452.7	$460.1	$831.2	$848.5	$881.4	$912.8
3	TOTAL DMV COLLECTIONS	$221.3	$222.8	$218.3	$220.1	$220.3	$225.0	$228.0	$231.6	$238.0	$441.1	$440.4	$453.0	$469.6
4	**TOTAL GROSS HIGHWAY FUND**	**$892.0**	**$906.9**	**$906.1**	**$916.5**	**$936.7**	**$958.0**	**$976.2**	**$993.9**	**$1,015.3**	**$1,813.1**	**$1,853.3**	**$1,934.2**	**$2,009.3**
5	COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	($243.9)	($258.1)	($263.2)	($280.0)	($287.4)	($291.6)	($296.3)	($307.2)	($312.3)	($521.2)	($567.4)	($588.0)	NA
6	**NET REVENUE TO HIGHWAY FUND**	**$648.1**	**$648.9**	**$643.0**	**$636.6**	**$649.3**	**$666.4**	**$679.9**	**$686.7**	**$703.1**	**$1,291.8**	**$1,285.9**	**$1,346.3**	**$1,389.8**
7	OTIA I & II SET ASIDE - memo	$33.9	$35.4	$35.8	$35.6	$35.6	$35.6	$35.6	$35.6	$35.6	$71.2	$71.2	$71.2	$71.2
8	DEBT SERVICE (OTIA I & II)	($16.3)	($15.2)	($20.1)	($31.5)	($31.1)	($31.1)	($31.1)	($31.1)	($31.1)	($35.3)	($62.6)	($62.2)	($62.2)
9	OTIA III Dedicated Revenues - memo	$99.8	$101.0	$100.8	$102.7	$104.6	$106.9	$108.5	$110.4	$111.9	$201.9	$207.3	$215.4	$222.3
10	DEBT SERVICE (OTIA III)	($20.7)	($21.7)	($37.8)	($47.3)	($67.8)	($82.2)	($83.1)	($84.2)	($85.1)	($59.5)	($115.0)	($165.3)	($169.3)
11	NET OTIA I & II REVENUE FOR DISTRIBUTION	$17.6	$20.2	$15.7	$4.1	$4.5	$4.5	$4.5	$4.5	$4.5	$35.9	$8.6	$9.0	$9.0
12	NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	$21.7	$22.2	$22.1	$22.9	$23.7	$24.7	$25.4	$26.2	$26.8	$44.3	$46.6	$50.1	$53.0
13	NET OTIA III REVENUE FOR DISTRIBUTION -STATE	$57.4	$57.1	$40.9	$32.5	$13.1	$0.0	$0.0	$0.0	$0.0	$98.0	$45.6	$0.0	$0.0
14	**TOTAL NET REVENUE FOR DISTRIBUTION**	**$744.9**	**$748.4**	**$721.7**	**$696.1**	**$690.6**	**$695.6**	**$709.8**	**$717.4**	**$734.4**	**$1,470.1**	**$1,386.7**	**$1,405.4**	**$1,451.8**

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

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

		Distribution Percentage	Actual FY 05	Actual FY 06	Forecast FY 07	Forecast FY 08	Forecast FY 09	Forecast FY 10	Forecast FY 11	Forecast FY 12	Forecast FY 13	Forecast BI 05-07	Forecast BI 07-09	Forecast BI 09-11	Forecast BI 11-13
1	COUNTY APPORTIONMENT (ORS 366.524)	24.38%	$156.3	$156.4	$154.9	$153.3	$156.4	$160.6	$163.8	$165.5	$169.4	$311.3	$309.8	$324.4	$334.9
2	SPECIAL COUNTY		($0.5)	($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%	$5.3	$6.1	$4.7	$1.2	$1.3	$1.4	$1.4	$1.4	$1.4	$10.8	$2.6	$2.7	$2.7
4	COUNTY APPORTIONMENT (OTIA III)	25.48%	$25.4	$25.7	$25.7	$26.2	$26.6	$27.2	$27.6	$28.1	$28.5	$51.4	$52.8	$54.9	$56.6
5	DEDICATED TO DEBT SERVICE (OTIA III)	84.07%	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($17.4)	($34.8)	($34.8)	($34.8)	($34.8)
6	NET COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	$4.3	$4.3	$4.5	$4.6	$4.6	$4.7	$4.7	$4.8	$4.8	$8.9	$9.2	$9.4	$9.6
7	**NET COUNTY APPORTIONMENT**		**$173.4**	**$174.7**	**$172.0**	**$167.4**	**$171.1**	**$175.9**	**$179.6**	**$181.8**	**$186.3**	**$346.6**	**$338.6**	**$355.6**	**$368.1**
8	CITY APPORTIONMENT (ORS 366.524)	15.57%	$99.8	$99.9	$98.9	$97.9	$99.9	$102.5	$104.6	$105.7	$108.2	$198.8	$197.8	$207.2	$213.9
9	SPECIAL CITY		($0.5)	($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%	$3.5	$4.0	$3.1	$0.8	$0.9	$0.9	$0.9	$0.9	$0.9	$7.2	$1.7	$1.8	$1.8
11	CITY APPORTIONMENT (OTIA III)	16.99%	$17.0	$17.2	$17.1	$17.4	$17.8	$18.2	$18.4	$18.8	$19.0	$34.3	$35.2	$36.6	$37.8
12	DEDICATED TO DEBT SERVICE (OTIA III)	15.93%	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($3.3)	($6.6)	($6.6)	($6.6)	($6.6)
13	NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	$2.9	$2.9	$3.0	$3.1	$3.1	$3.1	$3.1	$3.2	$3.2	$5.9	$6.1	$6.3	$6.4
14	**NET CITY APPORTIONMENT**		**$119.4**	**$120.2**	**$118.4**	**$115.5**	**$117.9**	**$120.9**	**$123.3**	**$124.7**	**$127.6**	**$238.6**	**$233.3**	**$244.2**	**$252.3**
15	HIGHWAY DIVISION (including small City/County)	60.05%	$384.9	$385.3	$381.6	$377.7	$385.3	$395.5	$403.6	$407.6	$417.4	$766.9	$762.9	$799.0	$825.0
16	SPECIAL COUNTY		($0.3)	($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)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)
18	HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	$8.8	$10.1	$7.9	$2.1	$2.2	$2.3	$2.3	$2.3	$2.3	$18.0	$4.3	$4.5	$4.5
19	HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	$57.4	$58.1	$58.0	$59.1	$60.2	$61.5	$62.4	$63.5	$64.4	$116.1	$119.2	$123.9	$127.9
20	DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	$0.0	($1.0)	($17.1)	($26.6)	($47.1)	($61.5)	($62.4)	($63.5)	($64.4)	($18.2)	($73.7)	($123.9)	($127.9)
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	$0.0
22	**NET HIGHWAY DIVISION**		**$450.4**	**$451.7**	**$429.5**	**$411.5**	**$399.9**	**$397.0**	**$405.1**	**$409.1**	**$418.9**	**$881.3**	**$811.3**	**$802.1**	**$828.0**
23	HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		$55.5	$56.1	$55.5	$56.2	$58.0	$59.3	$60.5	$61.4	$62.7	$111.6	$114.2	$119.8	$124.1
24	NET COUNTY APPORTIONMENT		$173.4	$174.7	$172.0	$167.4	$171.1	$175.9	$179.6	$181.8	$186.3	$346.6	$338.6	$355.6	$368.1
25	NET CITY APPORTIONMENT		$119.4	$120.2	$118.4	$115.5	$117.9	$120.9	$123.3	$124.7	$127.6	$238.6	$233.3	$244.2	$252.3
26	NET HIGHWAY DIVISION		$450.4	$451.7	$429.5	$411.5	$399.9	$397.0	$405.1	$409.1	$418.9	$881.3	$811.3	$802.1	$828.0
27	**NET HIGHWAY FUNDS REVENUE**		**$743.2**	**$746.6**	**$720.0**	**$694.3**	**$688.9**	**$693.9**	**$708.0**	**$715.7**	**$732.7**	**$1,466.6**	**$1,383.2**	**$1,401.9**	**$1,448.3**
28	SPECIAL COUNTY/CITY TRANSFERS TO ALLOTMENT FUND		$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$3.5	$3.5	$3.5	$3.5
29	**TOTAL NET REVENUES FOR DISTRIBUTION**		**$744.9**	**$748.4**	**$721.7**	**$696.1**	**$690.6**	**$695.6**	**$709.8**	**$717.4**	**$734.4**	**$1,470.1**	**$1,386.7**	**$1,405.4**	**$1,451.8**

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

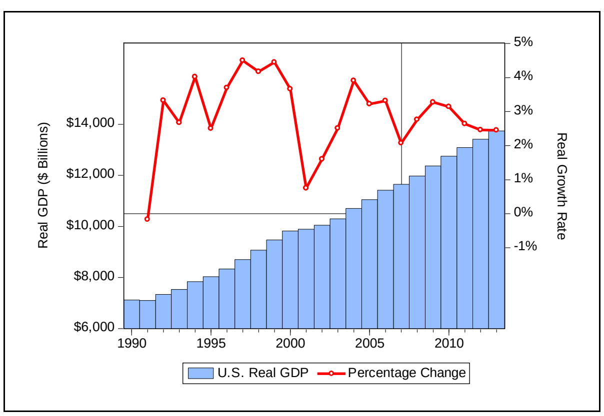
APPENDIX

National Economic Outlook

The national economic outlook is slightly more subdued than the prior forecast. Highlights of the key elements that affect our revenue outlook from a macro-level view follow below.

Figure 12 displays the recent trends in the levels and growth rates of real GDP, along with the base case forecast over the 2007-2013 time frame. The fairly robust recovery from the downturn in 2001 looks as if it is waning, although positive growth is expected to continue throughout the forecast period. In 2006, the economy grew approximately 3.3 percent. However, the strong growth of the first quarter of 2006 was followed by several quarters of slower growth. This slower growth is expected to continue throughout 2007 and much of 2008. Recently revised numbers indicate growth of just 0.6 percent for the first quarter of 2007.

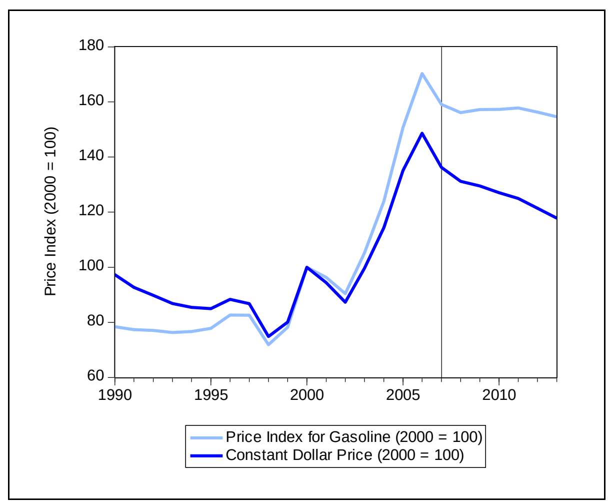
Figure 12: Real GDP and Real GDP Growth



High oil and gasoline prices and the sluggish housing market are the primary impediments to the economy at this time. Both of these conditions tend to dampen consumer spending, as do higher food prices and other inflationary pressures. Nevertheless, expectations for positive growth continue throughout the forecast period as export growth looks to pick up some of the slack. Overall, real growth of approximately 2.1 percent is predicted for 2007. An average annual growth rate of 2.8 percent is expected for the remaining years of the forecast horizon, with 2009-2010 being "peak" years with growth in excess of 3 percent.

Although currently at relatively high levels, gasoline prices have fallen from their peak reached in the third quarter of 2006. Figure 13 provides the recent history and forecast for national average gasoline prices from *Global Insight's* macro-econometric forecast from April 2007.

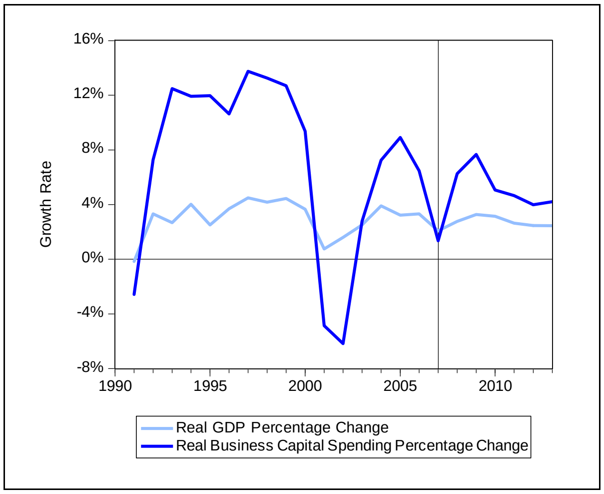
Figure 13: Gasoline Prices (Regular Unleaded)



The baseline outlook suggests that prices will slowly recede out through 2013 to levels only marginally lower than present. Based on recent experience, 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. Nevertheless, it is worth noting that, when adjusted for inflation, real gas prices decline in the forecast period to levels comparable to those seen in 2004.

An additional potential threat to continued economic growth is a change in the business mood. Business investment spending during the first quarter of 2007 was unexpectedly weak as orders and shipments of equipment and software fell from their November 2006 peak. Figure 14 shows the changes in real business capital spending and its relationship to real GDP growth. This spending includes structures and plant as well as equipment and software outlays.

Figure 14: GDP Growth and Business Capital Spending

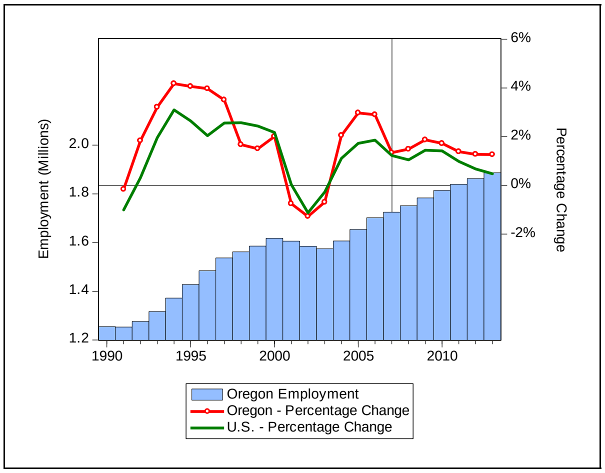


Although the recent dip appears considerable, it is much smaller than the 1998 to 2001 "dot.com" decline and the corresponding recession. The current baseline outlook is for investment spending to begin rebounding during the second half of 2007. Average annual real growth of 5.3 percent is forecast for 2008 through 2013. However, as seen in the chart, it is not expected that growth will approach the rates observed during much of the 1990s.

Whereas businesses became more cautious with their capital spending during the first part of 2007, this caution has not led to a major downturn in their hiring activity so far. Nonetheless, the overall outlook going forward for job growth remains somewhat less than sanguine. Figure 15 reproduces the employment chart from the Oregon Outlook section of this report. On a national level, employment expanded by 1.9 percent in 2006. Oregon's growth rate surpassed the nation's, reaching 2.9 percent for the year. Slower employment growth is forecast for both Oregon and the nation for the forecast period of 2007 through 2013. With the national unemployment rate at 4.5 percent in May, there has been some concern that slack in the labor markets has dissipated. Tight labor markets are a precondition to rising employment costs and this situation may further contribute to inflationary pressures.

The latter dimension may not bode well for the neutral stance of monetary policy (since the summer of 2006). So, interest rates may have to move beyond neutral levels. By the same token, it has been widely observed that the "return" to labor in the economy (i.e. real wages and salaries) has been below the norm in this expansion (as it was in the recovery out of the 1991 downturn), while the return to capital (profits) have been above. Unfettered

Figure 15: Oregon and U.S. Employment Trends



markets have a way of restoring balance to both, and stronger than expected personal consumption may develop over the forecast period as a result.

Figure 16 shows how average real personal income per capita in the U.S. has increased over time to reach is current level of almost $32,000 (in 2000 dollars). Real personal income per capita increased about 2.5 percent in 2006. A similar rate of growth is forecast for 2007. Approximately 2.4 percent average annual growth is expected for the remaining years of the forecast period. Whereas this growth rate exceeds the average annual rate of 1.7 percent experienced since 1990, it still falls short of the rapid growth encountered during much of the late 1990s.

Figure 16: U.S. Real Personal Income per Capita