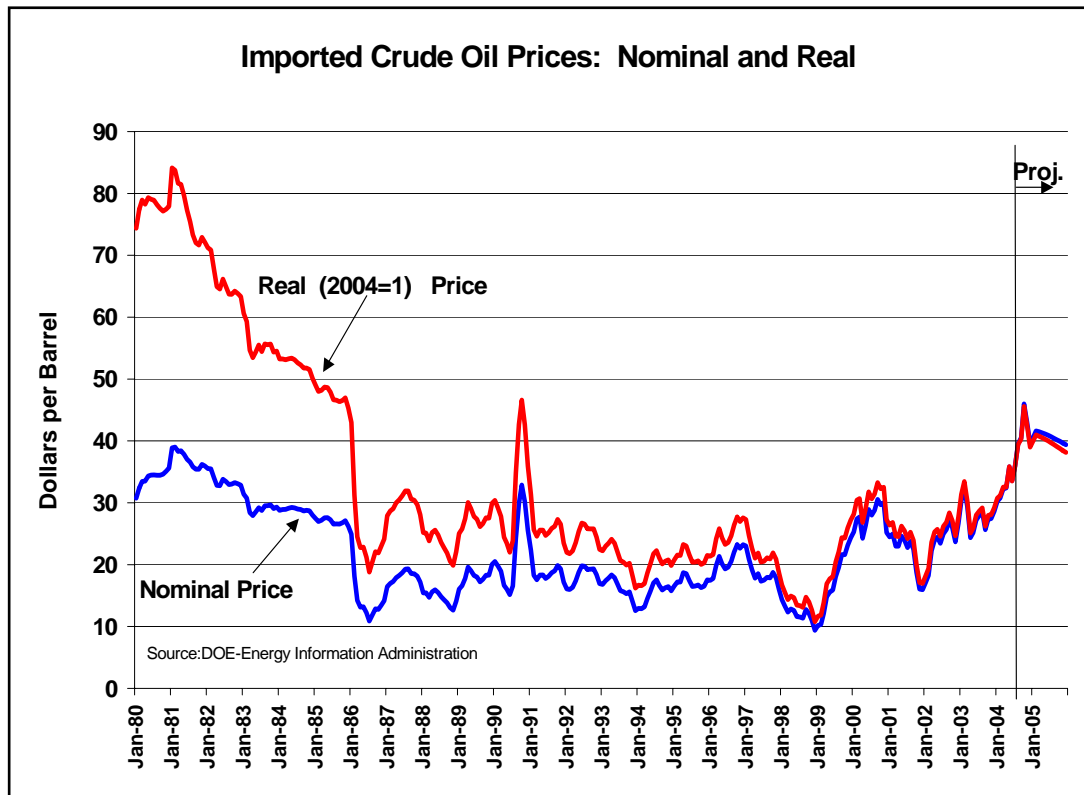


SUMMARY of TRANSPORTATION ECONOMIC and REVENUE FORECASTS

September 2004

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 advance the 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 document is issued in conjunction with the current General Fund revenue forecast and is consistent with the conventions and results contained therein. This forecast is consistent with Department of Administrative Services September 2004 forecast and the associated baseline macroeconomic forecast.

Questions and suggestions should be directed to:

Dave Kavanaugh, Ph.D.
ODOT Financial Services (503) 378-2880
550 Capitol Street NE
Salem, Oregon 97301
Email: david.c.kavanaugh@odot.state.or.us

This document is also available on the ODOT Web Site: <http://www.oregon.gov/ODOT/CS/FS/> and click on “Economic and Revenue Forecast.”

On the Cover: The chart depicts the historical behavior of crude oil prices going back to 1980. Crude oil and gasoline prices have been among one of the most foremost economics topics during much of 2004, and their importance for highway fund revenues could be of considerable concern. Both nominal prices and prices adjusted for the effects of inflation (“real price”) are presented in the figure. While the run up in prices since January 2002 has been dramatic, the longer term perspective shown in the chart reveals that the real price is still considerably below the levels experienced by drivers in the early 1980s. Moreover, the energy intensity of our economy substantially less than it was then. The projection is based on the U.S. DOE – Energy Information Administration’s *Short-Term Energy Outlook*, and is not dissimilar to the consensus outlook during much of the year. A special section in this report is devoted to assessing the impact of higher gas and oil prices on our revenue forecast.

TABLE OF CONTENTS

Foreword	i
List of Tables and Figures	iii
Executive Summary	ES1
National Economic Outlook	1
Oregon Economic Outlook	2
Conversion to New Industry Classifications	4
Transportation Transactions.....	5
Highway Fund Revenue Forecast	13
Appendix A	A1

LIST OF TABLES AND FIGURES

TABLES

	Page
Table ES1	Key Transportation Variables ES3
Table 1	National Economic Variables..... 1
Table 2	Oregon Economic Variables 4
Table 3	Percent Change In Transactions for Key Transportation Variables..... 5
Table 4	Highway Fund Revenue Collected by DMV 16
Table 5	Highway Fund Revenue Collected by MCTD 18
Table 6	Highway Fund Revenue from Motor Fuels Tax 20
Table 7A	Total Highway Fund Revenue 23
Table 7B	Total Highway Fund Revenue 24
Table 8	Aviation Revenue Sources 28
Table 9	Changes in Aviation Revenue from June 2002 Forecast 28

FIGURES

Figure 1	Oregon and U.S. Employment Trends 2
Figure 2	Oregon and U.S. Real Personal Income Growth..... 3
Figure 3	Oregon Motor Fuels Consumption 5
Figure 4	Motor Fuels Usage under Baseline and Alternative Gas Prices 8
Figure 5	Weight-Mile Activity 9
Figure 6	Heavy Vehicle Fee Revenues..... 10
Figure 7	Passenger Vehicle Registrations 11
Figure 8	New Vehicle Titles – Light Vehicles 12
Figure 9	Original Class C Driver Licenses.....12
Figure 10	Jet Fuel Revenue Growth 27
Figure 11	Jet Fuel Consumption, 1980-2009 27
Figure A1	Real GDP and Percentage ChangeA1
Figure A2	Oregon and U.S. Employment TrendsA2
Figure A3	National Real Per Capita Income A2
Figure A4	Gasoline Prices A3
Figure A5	Real Growth and Business Capital Spending..... A3

September 2004 Economic and Revenue Forecast

EXECUTIVE SUMMARY

Revenues in fiscal year 2004 are slightly stronger than anticipated in the prior forecast. Gross revenues to the Highway Fund were \$32 million, or 4.0 percent, more than expected. Weight-mile tax receipts accounted for about two-thirds of this difference. Weight-mile revenues were stronger than the prior forecast primarily as a reflection of very robust activity in freight movement nationwide for the past two years. Motor fuel taxes and DMV fee revenues were also stronger than anticipated, though not anywhere to the extent that heavy vehicles were. Despite higher fuel prices and only modest job growth overall, fuel sales were remarkably resilient over the year. The diesel fuel component served to prop up overall motor fuels consumption.

As a result of 2003 Legislation, this forecast shows a continuation of the dramatic increases in revenue over forecasts prior to the new laws. Principal among these was the Oregon Transportation Investment Act of 2003 (“OTIA III”), representing a very significant commitment to improving Oregon’s highway, road, and bridge infrastructure. Passage of HB 2041 reflects strong recognition of the fundamental link that transportation infrastructure plays in the overall and long-term vitality of Oregon’s economy. In addition, such a major stimulus to job creation in the construction sector, coupled with attendant ripple effects on related economic activities, is a key step toward helping to sustain Oregon’s economic recovery in the very near-term. The fee and tax increases embodied in the bill apply to both passenger vehicles and heavy vehicles.

Largely as a result of this legislation, gross revenues rose in FY2004 by nearly \$74 million to \$829 million, a 10.1 percent increase over FY2003. For FY2005, the forecast increase in revenue year-over-year due to this legislation, coupled with changes in the economy, is \$74 million, or 9.0 percent more. In the post 2005 years, the incremental effects of HB 2041 fee and tax increases are complete and growth in revenues flattens out considerably. FY2006 and FY2007 gross revenues show only modest gains at this point: 1.6 and 1.9 percent, respectively. Collection, administration, and program costs of the divisions affected by the new legislation do not change materially from the prior forecast. As a result, the increases in gross revenues flow directly into increases in net revenues, before transfers and set-asides.

The economic backdrop nationwide for 2004 has been very encouraging. Real growth and job gains finally got in gear this past year. Real Gross Domestic Product (GDP) growth will come at nearly 4.5 %, well above the economy’s long-run potential of roughly 3.5 %. Productivity gains have been potent for the past two years. This has partly stifled job growth during the early stages of the economic rebound. Job gains in 2004 have been significant and substantial, notwithstanding a “soft patch” encountered this past summer. Slowing productivity augurs well for comparatively strong, steady job growth in 2005. Fiscal and monetary stimulus are both behind us, but such “high leverage” sectors of spending as business fixed investment, exports, and planned inventory accumulation will substitute for consumer spending as the primary sources of

growth in the 2005 to 2006 outlook. The Federal Reserve seems to be committed to phasing in small rate increases on a “steady-as-you-go” basis. This measured pace should allow it to be vigilant over inflationary developments while getting monetary policy toward a more neutral position to maximize solid economic and job growth. Economic growth is expected to cool nevertheless, to a rate closer to potential, about 3.5 percent.

Oregon’s employment recession is hopefully fading in our rear-view mirrors. The expected rebound in Oregon’s employment growth gained considerable momentum in late in 2003 and early 2004. Through the first half of this year, the gains were the strongest since 1997. Indeed, the state has been among the top of all states in percentage job growth. Oregon’s unemployment rate has also displayed marked improvement, although there have been a few speed-bumps along the way. In the summer of 2003, the rate peaked at 8.7%, but it currently hovers slightly above 7.0%. It should continue to slide down somewhat more from this level. The current outlook from the Oregon Department of Consumer and Business Services is for it to move slowly toward an average of 6.7 % over the 2005-2007 time frame. This is slightly under the long-term average experienced over the past thirty years.

Although the state’s job growth has seemingly paused in the latter half of 2004, the outlook for 2005 is for continued acceleration. Growth rates start to diminish slightly in the years thereafter. Indications are that the strongest job growth will be in the Professional & Business Services, Transportation & Warehousing, Health Care, and Leisure & Hospitality sectors. Growth in manufacturing jobs seriously lags behind overall job creation, at only about one-half the rate of total employment growth for the next several years. Moreover, the level of manufacturing employment does not regain its peak in the current state forecast through 2011.

Travel demand and freight shipments are closely tied to Oregon’s economic activity and to the nation’s, as well. Growth in both personal income and population support stable, albeit slow, growth in motor vehicle fuel consumption. DMV transactions, which are largely determined by Oregon demographics, generally grow but at declining rates. On the other hand, heavy trucking activity has been flourishing. The industries that traditionally have pronounced impacts on heavy vehicle activity (wholesale and retail trades) are languishing somewhat, and they are expected to remain so for the foreseeable future. Rail freight delivery problems and goods movement problems at west coast ports has seemingly boosted truck freight movement in the region. Nevertheless, activity in freight movement will not match some of boom periods witnessed in the 1980s and 1990s. A summary of the transportation indicators is contained in Table ES1.

Calendar Year	Actual		Forecast					
	2002	2003	2004	2005	2006	2007	2008	2009
Motor Vehicle Fuels	2.3%	-0.2%	0.12%	2.6%	2.3%	2.1%	1.8%	1.6%
New Titles	-1.7%	-0.7%	-1.8%	-3.0%	-1.8%	-1.0%	-2.6%	-2.2%
Original CI C Licenses	-4.5%	3.7%	-0.1%	6.9%	2.3%	0.7%	-0.8%	-1.1%
Passenger Veh. Registrations	6.1%	-1.9%	-3.1%	-1.4%	-1.7%	0.6%	1.9%	0.7%
Trucking Activity (Wt.Mile)	-0.3%	-3.2%	15.0%	4.0%	1.9%	2.6%	2.1%	2.3%

The current forecast is based on the September 2004 State Economic Forecast and on the macroeconomic forecast from Global Insights Inc. (“GII”) on which it was based. Insofar as possible, the same model structure as used in the past several forecasts is retained here, subject to only updated data for model estimation. It is contemplated that there will likely be some major changes in the near future to the stochastic forecasting equations of the model, stemming from revisions to data and from an evaluation of forecast accuracy.

As a result of recent price spikes in oil markets worldwide, a special section of this report is directed to an alternative oil/gasoline price scenario. This treatment examines what the probable impacts are on fuel tax revenues stemming from persistently high prices, in contrast to the baseline scenario.

In addition, the report contains a stand-alone treatment of aviation fuel revenues and related activities. These revenues are not part of the State Highway Fund forecast, but we continue to model this section for the Oregon Department of Aviation and periodically insert the outlook in to this summary report.

NATIONAL ECONOMIC OUTLOOK

The current economic outlook at the national level has not materially changed from the prior forecast: the recovery continues at a modest pace, stymied with somewhat sub-par job growth overall. Some of the sharp gains registered in 2003 have given way to lower longer-term growth rates in the range of 3 to 4 percent. This is the baseline outlook from the *Global Insights*' forecast, used in both our forecasting model and in the state economic forecasting model. This more sustainable performance in economic growth is attributed to diminishing impacts from fiscal stimulus on consumer spending and from more resilient spending by slightly more confident businesses. Very near term, the national economy seems to be coming out of its recent "soft patch" from the mid-year, caused by unexpectedly higher energy costs to consumers and producers.

Overall, the dominant issues in the macro outlook, if not globally, are what the pictures look like for the price of oil 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, but their persistence has tended to ignite some skepticism regardless. As discussed elsewhere in this narrative, in the context of an alternative scenario for oil and gas prices as it could affect motor fuel tax revenues, the impact on the economy could be far from negligible. Nevertheless, even in this less probable case, it would not be enough by itself to push the economy into a downturn, given our current economic backdrop.

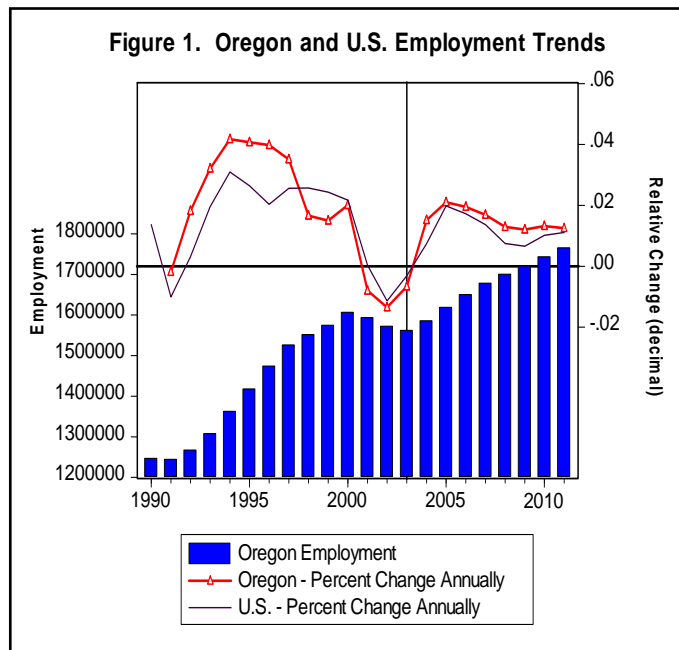
Since the more dramatic impacts in the revenue outlook continue to stem from legislative initiatives from the 2003 Regular Session, further discussion of the national economic outlook is relegated to an appendix for the interested reader (Appendix A). In addition, a detailed treatment of the national and state economic outlook is available at the web site of the Office of Economic Analysis: <http://www.oea.das.state.or.us/>.

TABLE 1. NATIONAL ECONOMY	Actual		Forecast			
C.Y. Percent Change (as of Sep 2004)	2002	2003	2004	2005	2006	2007
Gross Domestic Product (GDP)	3.7%	4.9%	6.9%	6.0%	4.8%	5.4%
Real GDP	2.4%	3.1%	4.6%	3.9%	3.1%	3.3%
Employment Growth	-1.1%	-0.3%	1.1%	2.1%	1.6%	1.3%
US Personal Income	2.3%	3.3%	5.8%	5.7%	5.5%	5.8%
Real Personal Income	0.8%	1.6%	3.5%	3.6%	3.8%	3.7%
Personal Consumption Expenditures Deflator (chain weighted)	1.4%	1.8%	2.3%	1.9%	1.6%	2.2%
Unemployment Rate	5.8%	6.0%	5.6%	5.4%	5.4%	5.3%
Housing Starts	6.8%	8.3%	4.6%	-10.5%	-5.5%	0.2%
Consumer Price Index	1.6%	2.3%	2.7%	1.8%	1.3%	2.0%
Prime Lending Rate	4.7%	4.12%	4.3%	5.8%	6.5%	6.5%
Population Growth	1.1%	0.9%	0.9%	0.9%	0.9%	0.9%

OREGON ECONOMIC OUTLOOK

The expected rebound in Oregon's employment growth gained considerable traction in 2003 and early 2004. Through the first half of this year, the gains are the strongest since 1997. Indeed, the state has been among the top of all states in percentage job growth recently. The leading sources of this expansion have resided with Oregon's durable good manufacturers, construction industry, and professional/business services. The health services and leisure/hospitality sectors have also been prominent among the growth areas. Attendant with this job expansion, Oregon's unemployment rates have also displayed marked improvement, although there have been hiccups along the way. In the summer of 2003, the rate peaked at 8.7%, and now hovers around 7.0% and should continue to slide down somewhat more. However, the unemployment rate is the result of more than just hiring decisions by businesses, but also reflects the complex mix of decisions by people to enter or exit the labor force.

Figure 1 contains a chart of the annual data on the state's Total Non-farm Employment, as well as the forecast from the Office of Economic Analysis. The current forecast for the economy shows that state's Total Non-farm Employment doesn't rise above its 2000:IV peak until the summer of 2005, or another nine months out. Coupled with the protracted job recovery, annual growth rates are seen to rise gradually to somewhat above 2 percent, and then to decline gradually to slightly below the 2 percent range thereafter. Not surprisingly, this mimics the U.S. employment outlook, with the caveat that Oregon's stays fractionally higher by a few tenths of a percentage point. Most of this is attributable to our higher population growth rates in the forecast horizon.



Recovery in our manufacturing sector continues to be more bleak in the sense that the jobs peak in this sector, established early 1998, is never regained in the forecast out to 2011. Our vaunted manufacturing sector, anchored by high-tech manufacturing, does resume gradual growth from its bottom from early 2003. Moreover, the state forecast is for growth to be at a pace somewhat stronger than the nation as a whole. Our non-durable manufacturing industries, which partly reflect the state's natural resource strengths, do not resume growth collectively, and are projected to stay stagnant over the forecast horizon. These include primarily food & kindred products processing, paper and allied products, and printing/publishing activities. These broad sector outlooks are largely unchanged from our prior forecasts.

Other sectors of the state economy that have a pronounced impact on Highway Fund revenues are the Wholesale Trade, Retail Trade, and the combined Transportation/Warehousing/Utilities sectors. Wholesale Trade employment recovers in the forecast horizon to its peak levels achieved in 2000 by late next year. Retail Trade employment is projected to not surpass its late 2000 peak until in mid 2006. The Transportation/Warehousing/Utilities industries are similarly slow to regain their employment highs. It is not until early 2007 that employment levels here pass their prior peak from early 2000, as well. These sectors are virtually unchanged from our prior forecast.

The year-over-year percentage growth rates of Total Non-farm Employment and these selected sectors are contained in the top portion of Table 2. The overall assessment is for very steady job growth at only gradual rates in the baseline scenario.

Another key economic variable for forecasting Highway Fund revenues is aggregate personal income in Oregon, about 55 percent of which originates with wage and salary income sources. Personal income trends (in real or constant dollar terms) influence not only the stock of passenger vehicles and its composition, but also travel demand patterns in the short-run. The outlook here is for good growth, but not as strong as we witnessed in the late 1990s. Although real income growth trailed the nation during the economic downturn, the present forecast shows Oregon's income growth outpacing the nation slightly.

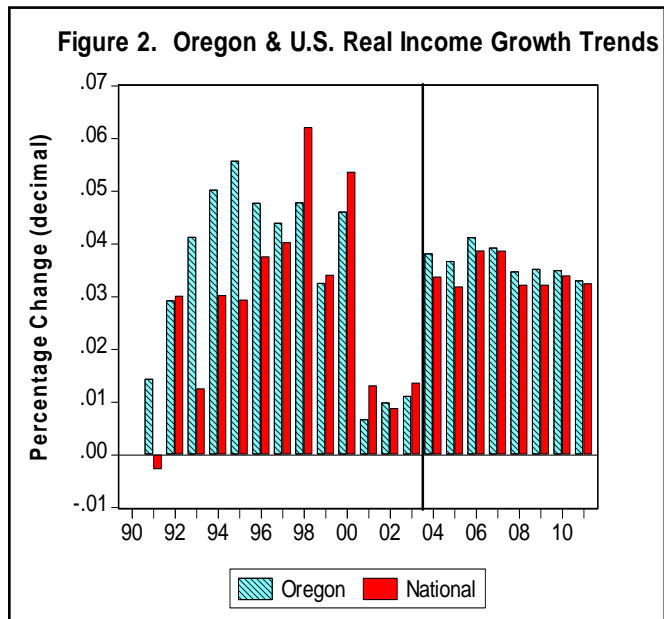


Figure 2 provides a comparison of Oregon and the U.S. going back to 1991, along with the current base forecast.

In sum, the population growth and growing personal income in the outlook are somewhat encouraging in that they serve as the underpinnings for the state economy to outpace slightly the nation as a whole. Nevertheless, the pace of job growth, especially in the higher wage sectors such as Manufacturing, is discouraging compared to what we experienced throughout much of the 1990s. The recent run-up in oil and gas prices has hurt consumer's pocket books and affected consumer sentiment generally. Although the stimulus of tax cuts and very low interest rates are behind us, businesses are gradually becoming less cautious. Slowing productivity gains augurs somewhat well for increasing payrolls to meet overall demand growth. The weaker dollar will make U.S. goods and services less expensive abroad and make net exports a stronger component of growth.

Until most other foreign economies adopt more potent growth policies, economic growth globally is expected to soften below that expected for the U.S.

A summary table of some economic indicators for the state is contained in Table 2 below.

TABLE 2. OREGON ECONOMY	Actual		Forecast			
	2002	2003	2004	2005	2006	2007
C.Y. Percent Change						
Total Non-Farm Employment	-1.3%	-0.7%	2.0%	2.3%	1.9%	1.7%
High Technology Employment	-11.4%	-6.5%	-0.5%	3.4%	2.4%	0.8%
Wood Products Employment	-2.8%	-3.7%	1.3%	-2.6%	-4.1%	1.2%
Transportation Employment	-1.5%	-0.6%	1.3%	3.2%	2.9%	2.7%
Trade Employment - Wholesale	-1.2%	0.8%	1.7%	1.4%	1.6%	0.9%
Trade Employment - Retail	-2.0%	-0.8%	1.0%	1.8%	1.9%	1.4%
Population	1.0%	1.1%	1.1%	1.2%	1.2%	1.2%
Portland-Metro Price Index	0.8%	1.3%	2.2%	2.3%	1.9%	2.3%
Timber Harvest	14.0%	2.0%	0.0%	0.0%	-2.5%	-1.3%
Housing Starts	4.7%	14.2%	-2.0%	-1.8%	-0.8%	1.8%
OR Personal Income (Current \$)	2.4%	3.1%	5.6%	6.1%	6.0%	6.1%

CONVERSION TO NEW INDUSTRY CLASSIFICATIONS

In the summer of 2003, the Bureau of Economic Analysis at the U.S. Department of Commerce completed the long transition to a new system to classify businesses/industries. The new system, the North American Industry Classification System (“NAICS”), represents a major revamping of industry data from the prior system (the Standard Industrial Classification – or SIC – System). The change, while giving a much needed facelift and update to how industry activities are grouped for the purpose of analyzing resource allocation in the vast U.S. economy, poses several challenges for our econometric forecasting equations. Firstly, there can be a pronounced shift in employment levels between industries, and select industry employment levels are one of the key economic variables in the forecasting model. A number of sectors that directly affect transportation and freight flows in the state have been revised. These include, but are not limited to, wholesale/retail trade, transportation/warehousing/utilities, and a new sector called “Information.”

Secondly, the consistent data series using the NAICS format for modeling purposes goes back only to 1990, whereas most of our stochastic equations have relied in the past on data series stretching as far back as the late ‘seventies. So, our current econometric equations are conditioned on considerably less data than has been customary in the past.

Thus, analysis of the issues created by the NAICS conversion is warranted in our ongoing efforts to expand and refine our forecasting equations forecast. This work will evolve over the next several forecast cycles.

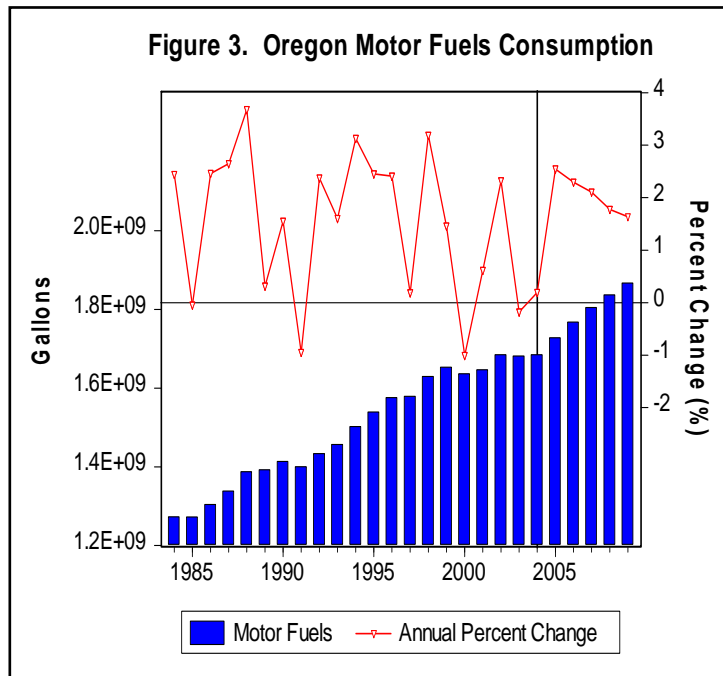
TRANSPORTATION TRANSACTIONS

Table 3 contains the highlights of the transactions for the major transportation variables in the current forecast. The discussion of these follows the order of Motor Fuels, Motor Carrier, and DMV transactions that are expected given the current economic outlook, as well as under legislation that goes into effect on January 1, 2004.

Calendar Year	Actual		Forecast					
	2002	2003	2004	2005	2006	2007	2008	2009
Motor Vehicle Fuels	2.3%	-0.2%	0.1%	2.6%	2.3%	2.1%	1.8%	1.6%
New Titles	-1.7%	-0.7%	-1.8%	-3.0%	-1.8%	-1.0%	-2.6%	-2.2%
Original Class C Licenses	-4.5%	3.7%	-0.1%	6.9%	2.3%	0.7%	-0.8%	-1.1%
Passenger Vehicle Registrations	6.1%	-1.9%	-3.1%	-1.4%	-1.7%	0.6%	1.9%	0.7%
Trucking Activity (Wt.Mile)	-0.3%	-3.2%	15.0%	4.0%	1.9%	2.6%	2.1%	2.3%

Motor Fuels Usage

For the past several years, motor fuels consumption has generally outpaced expectations. The revenue forecast model projected last time, for example, that usage would be off by 1.1% in CY2003. Instead, actual sales declined by only a miniscule 0.2%. This is not a large discrepancy, but usage continues to be somewhat more robust than fundamental factors would indicate. For CY2004, however, the model forecasts a very slight rise in usage of 0.12%. This is on the heels of the prior forecast projecting 0.7 % growth. Again, not much change owing to the largely unchanged economic outlook. Higher gasoline prices can be blamed partly for this flat performance. Though gallon sales have remained stuck, consumers have been spending appreciably more on gasoline, and in 2004 in particular no doubt taken a numbers of steps to get more bang out of their transportation budgets. These span efforts such as “trip chaining,” increasing air pressure in tires, engine tune-ups, and possibly temporary travel-mode changes. Stronger employment growth, particularly in the first half of



2004, props up the overall usage picture for 2004. Also, inexplicably strong growth in the diesel fuels portion of motor fuels (comprising about 8-9 % of all motor fuels usage) has served to bolster overall sales, as well.

The history and forecast of annual growth in motor fuel usage are contained in Figure 4. The somewhat jagged pattern of the annual rates of change in motor fuels usage, plotted against the right-hand axis in Figure 3, belies somewhat the inherent stability that we see in consumption over long periods. As the trend in the bar portion of the chart shows, motor fuels sales have grown steadily, at an average compound rate of 1.7 percent per year over the past 17 years.

In the forecast, this steady trend tends to re-assert itself in the out years, with above average growth resuming in CY2005, at a 2.61% pace. Growth continues at somewhat stronger rates through 2007, owing largely to expected strong personal income growth and lower prices for gasoline (inflation adjusted). By the latter part of the forecast horizon, the pace converges to the trend rate of about 1.7 %.

The current form of the forecasting equation is briefly summarized below. With renewed interest in the direction of oil prices in general, a special section on the risks to this part of the revenue forecast is inserted below (“An Alternative Energy Price Scenario and Motor Fuels Revenues”).

The forecasting equation for motor fuels (which is a composite of both gasoline and diesel fuel sales) accounts for the impacts of a variety of economic and technological aspects. These currently span the price of gasoline (adjusted for inflation), real personal income for Oregon in the aggregate, overall employment levels statewide, consumer sentiment nationally, and the average fuel efficiency of the light vehicle fleet nationally. The model is estimated in some instances with delayed or lagged effects to capture inertia or incomplete adjustments to changes in these economic variables. Given the renewed interest in oil and gasoline price trajectories, additional specification and testing issues will be the focus of ongoing work on this segment of the revenue forecast model.

An Alternative Energy Price Scenario and Motor Fuels Revenues

High prices for both crude oil and gasoline at the pump have continued to rattle markets and, in particular, consumers. The baseline forecast presented above for motor fuels consumption in Oregon rests on the recent price bubbles losing steam and prices returning to levels experienced during much of the 2002-2003 timeframe. This has been the consensus outlook from macroeconomists and energy forecast models. However, recent events cast some skepticism regarding the consensus outlook, and somewhat rightfully so. Since the spring of 2004, several elements have continued to disturb energy markets in a more protracted and in a considerably more pronounced manner than most analysts had expected. They span a number of independent dimensions. Leading among them is the prevailing geopolitical climate with regard to terrorism and potentially abrupt curtailment to supply channels. There are also the problems in the foreign producing regions of Nigeria, Russia, and Venezuela. In addition, we are seeing strong economic

growth globally and with it attendant robust oil demands, although these are anticipated to soften somewhat over the next several years. An overlay on these aspects has been the steadily depreciating dollar since late 2001, which has elevated the price of oil in dollar terms. Finally, there were the short-lived disruptions in the Gulf of Mexico fields due to the incidence of an intense hurricane season. While the latter is most likely to be the most temporary of the bunch, the other elements may be less so in affecting market-clearing prices. The ensuing discussion sketches out an alternative scenario that is predicated on higher prices for crude and for gasoline over the foreseeable future, and to trace the impacts on fuels tax revenues.

The effects of changing gasoline prices enter into the forecasting model in a number of ways. Higher prices can affect gas consumption both directly and indirectly. The direct effect is price sensitivity exhibited by consumers/drivers. The higher the price at the pump, all else equal, the fewer gallons purchased. This is just the “law of consumer demand” in action. This effect is somewhat muted, and, moreover, it routinely enters empirically with a lagged response by consumers. Thus, for much of a direct effect to be revealed in usage patterns, prices would need to stay elevated for at least two to three quarters. Notwithstanding the lagged response to price increases, the direct responsiveness of usage to price is relatively low or “insensitive,” although it is significant empirically. In the short-run, this suggests that consumers are somewhat slow to adjust driving patterns immediately and in only a relatively minor ways. The price response would be manifested via such steps as “trip chaining,” air pressure inflation in tires, engine tune-ups, and temporary travel-mode changes. (In the long-run where the “fleet” of light passenger vehicles changes, the influence of higher prices for a sustained period of time would be expected to be more pronounced. This would occur through a gradual shift toward more fuel-efficient vehicles. This long-term effect is captured in the model by a fuel efficiency factor directly.)

The more significant effect from elevated prices is if they persist for an extended period. While there are still the effects due to price sensitivity directly, these are still somewhat muted. With time they become a little more influential if the composition of the fleet of light vehicles is affected as described above. Instead, it is a set of indirect effects that tends to have the greater impacts overall. These stem from persistently high energy prices acting as a drag on the economy. Higher energy prices act like a tax on consumers, and to a somewhat lesser extent on businesses. The concern is that a period of prolonged high prices would slow consumer spending, which is a dominant factor in economic and employment growth. This is not a recession fear, but the prevailing expectation is that if the price of crude were to remain in the \$50 per barrel range through the 2005-2006 period, that anywhere from 0.25 to 0.5 of a percentage point would be taken off of real GDP growth annually. With slower real growth nationally, we would expect employment growth and Oregon personal income in aggregate to be likewise affected. These factors are far more influential in affecting motor fuel consumption, and it would be these indirect effects that would create the more pronounced impact on revenues from higher prices were they to persist over a sufficiently long period of time.

There are several other factors in the model that reflect additional feedback or indirect effects. Slower economic growth, and with it slower job growth, would also have a deleterious effect on consumer sentiment, which further affects consumer spending overall. Finally, persistently high gas prices would start to have some effect on the fuel efficiency of the fleet of light vehicles. The more miles-per-gallon (MPG's) that drivers get out of a gallon of fuel for the same distance they travel, the lower the consumption of fuel required. The most probable effect here would be some slight shift toward higher MPG vehicles generally (a long-run response).

The structure of the forecasting model for motor fuels incorporates all of these factors. As a result, it is particularly well suited for addressing the probable impacts of persistently higher oil and gas prices. Any number of scenarios could be formulated, but only one is advanced here, largely because the focus is to illustrate the degree of uncertainty that we might reasonably expect if there is a departure from our baseline assumptions. To capture the probable effects on fuel tax revenues, an alternative outlook is sketched out here. Essentially, energy prices are presumed to stay at current levels throughout the forecast horizon, ending in 2009. So, instead of \$35/barrel and \$1.80/gallon prices by the end of 2005 as contained in the baseline forecast above, prices stay at an annual average of \$40-50 per barrel and \$2/gallon over the forecast period.

In this setting of stubbornly higher gas/oil prices, economists widely expect as much as one-half of a percentage point to be taken off of annual real growth nationwide for the next two years. Our state scenario presumes a somewhat stronger impact: a full one-percent slower growth in employment and real personal income out to the end of 2006. However, despite prices remaining at current levels out through 2009, we think the economy “learns” to live with these higher prices and growth resumes at roughly the same rates in the years beyond the baseline (these are at somewhat benign rates below the economy’s potential, nevertheless). Finally, consumer sentiment stays at somewhat tepid levels throughout the period (comparable to the 1990-1994 period), and fuel efficiency is 2.5 percent higher over the period, as well. The latter captures the likely direction of the efficiency of the light vehicle fleet.

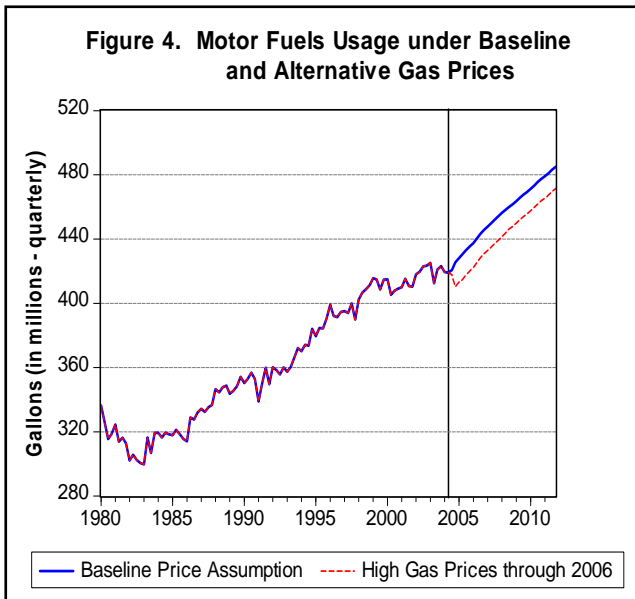


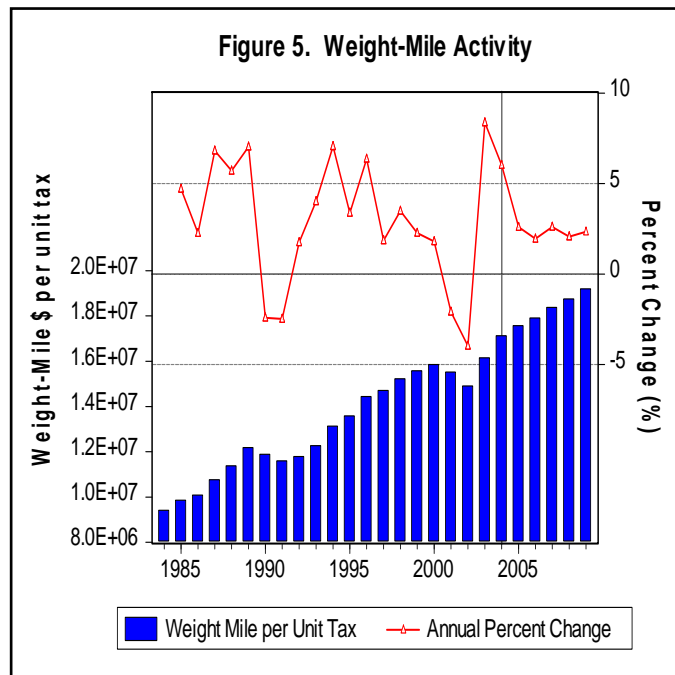
Figure 4 provides the contrast of this alternative energy price outlook with the baseline results for motor fuels consumption. It is seen that the higher price case, coupled with a slowing economy, causes motor fuel usage to continue to stay relatively flat and to dip in 2005/2006. This alternative scenario shows consumption continuing to languish until 2007 before growing levels of consumption are sustained. As we’d expect from the resumption of baseline economic growth in the out years, consumption largely regains the

overall trend rate of growth. The path just appears to shift down in somewhat parallel fashion from the base case.

As the chart underscores, the alternative path is certainly within the observed swings in motor fuel consumption over the past 25 years. What do these reduced consumption levels mean for forecast revenues under this alternative case? For the first half of FY05 (or equivalently the second half of CY04), revenues would be expected to decline approximately \$4.4 million, or about 2.2 percent. For a full year, revenues under the alternative case are approximately \$14.7 million lower, or about 3.7 percent less. With the nearly parallel shift downward in the forecast trajectory for the out years, revenues are still lower, by about \$13 million or 2.9 percent less than in the baseline. It would seem that a fairly draconian scenario regarding hydrocarbon prices is needed to materially affect motor fuels usage based on this comparative analysis. Such a pessimistic outlook has a very low probability associated with it currently in most circles.

Motor Carrier

The economic slowdown had a somewhat pronounced impact on trucking activity and the freight industry in Oregon. While seemingly not much different than witnessed in the 1990-1991 downturn, this recent decline is not as protracted as it was then (Figure 4). Many of the economic variables affecting motor carrier activity have declined over the past several years, but freight movements have snapped back very sharply in 2003 and 2004. Growth in 2003 was much stronger than forecast a year ago (8.4 %), and growth in 2004 is expected to continue this strong rebound (6.0 %). However, the current forecast still exhibits largely the same pattern of growth in the out years to 2009, stemming from comparatively similar economic backdrops. In the post CY2005 timeframe, growth is expected to be stable at roughly an annual average rate of about 2.2 %.



Actual units of weight-mile “transactions” are not measured directly, as is the case for gallons consumed for motor fuels or permits sold for DMV transactions. Gross dollars of revenue for a given time period is the only true measure available for heavy vehicle activity. It is possible to develop a “units” concept from the actual weight-mile receipts divided by a tax rate(s). The assumed tax rate is the average rate paid by the typical heavy vehicle. The transaction measure used to develop the structural model linking weight-

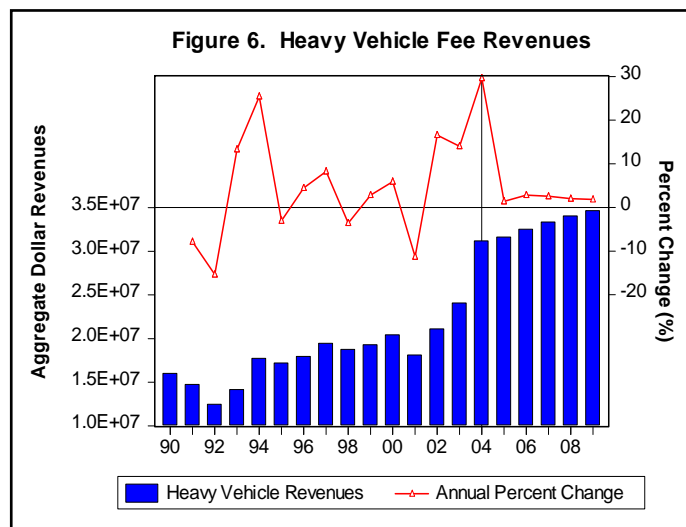
mile activity to the economy is dollar revenue per cent of tax. Weight-mile tax rates apply to all truck classes in excess of 26,000 pounds. The weight-mile revenue category also includes flat-fee revenues for heavy trucks used in specialized activities in lieu of a weight-mile tax per se. These categories include logging trucks, chip trucks, and sand and gravel trucks.

The economic variables in the weight-mile forecasting equation have routinely included employment (both total employment statewide, as well those engaged specifically in the wholesale and retail trades and in the high-tech manufacturing sector), real growth in national GDP, and real gasoline prices. As with the other stochastic equations in the forecasting model, lagged relations are present to capture some of the behavioral dynamics. Specification and data measurement issues in the weight-mile model appear to be increasingly prominent based on recent developments. These aspects will also be systematically examined and tested prior to the next forecast.

Another source of revenues to the State Highway Fund emanates from registration fees for these heavy motor carrier vehicles and for trailers, as well as for special trip permits, and other fee and programs (such as IFTA and IRP). All of these are aggregated into a composite level of revenues. The economic variables that influence trucking activity also affect heavy vehicle revenues, although the timing can be more varied. In the past, heavy vehicle fees have been combined into a composite from six relatively small transactions. For this forecast, this approach is retained, but this approach will be analyzed and evaluated in the interim prior to our next update.

CY2003 witnessed growth in this area, up a robust 14 % over the prior year. This is the second straight year of very strong growth. This is in stark contrast to our prior forecast showing a decline of 6 % for 2003. The elements generating strong weight-mile receipts are ostensibly at play here, as well.

Figure 6 shows heavy vehicle registrations annually over the period 1990 to 2004, plus the forecast out to 2009. The acceleration of growth that is apparent in the chart for CY2004 is attributable to fee increases emanating from legislation in the 2003 Regular Session. Once the fee ramp-up is completed in 2004, growth is tempered considerably in the 2005 to 2009 timeframe. Generally, year-over-year percentage changes are in the 2 % range. This reflects largely the pace of economic activity forecast for the state. Within a given year, there is substantial quarterly variation. The actual dollar amount per quarter typically is highest in the fourth



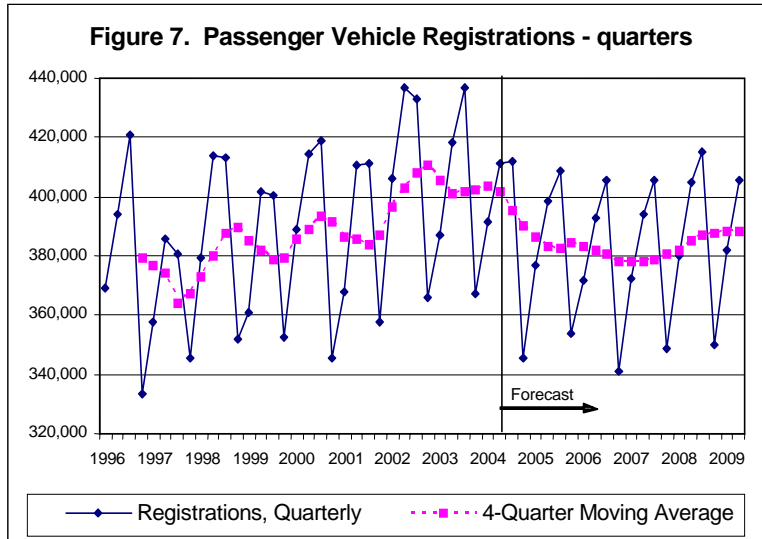
quarter of the calendar year, but sometimes payments fall into the first quarter of the next calendar year. Most registrations are made in December.

Driver and Motor Vehicles

DMV conducts driver and motor vehicle administrative activities. Changes in the level of activity and legislative changes in fee structures impact the amount of revenue available to the Highway Fund and to cities and counties for road repair, maintenance and construction. DMV transactions are affected by a number of economic and demographic variables and reflect 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.

Out of over 250 DMV transactions modeled in our forecasting framework, three are noteworthy and illustrative of the underlying approach. These are passenger vehicle registrations, new light-vehicle titles, and original class C driver's licenses.

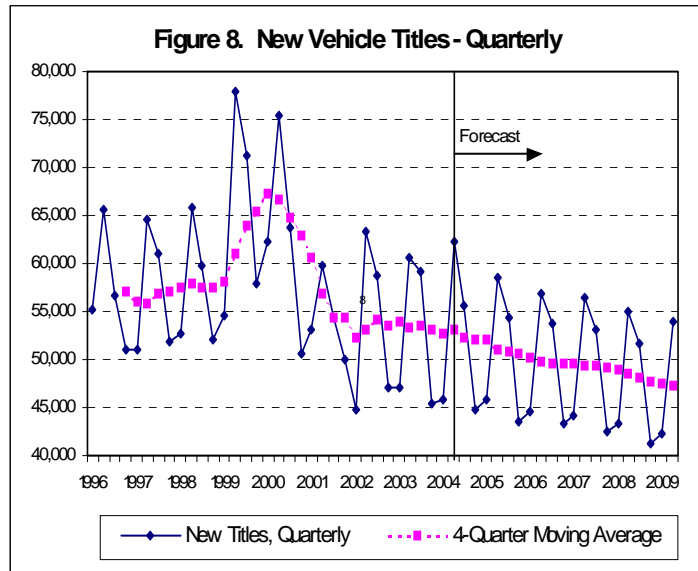
The moving average trend line in Figure 7 reveals that passenger vehicle registrations have been behaving cyclically over the last several years with a slightly increasing trend. For many years, the law has required passenger vehicles to be registered every two years. Legislation enacted in the 2001 session requires most new vehicles to be originally registered for



four years, with subsequent two-year renewals thereafter. This legislation was implemented in two phases. The first phase was implemented in January 2002 and cover the majority of the state. The second phase was implemented in January of 2004, adding the five-county Portland area. Due to these changes, passenger registrations are forecast to depart from the traditional historical pattern. During the transition period while the new cycle takes over completely, registrations are forecast to trend down into the 2007 timeframe. Overall growth doesn't resume until 2008 and at somewhat muted rates.

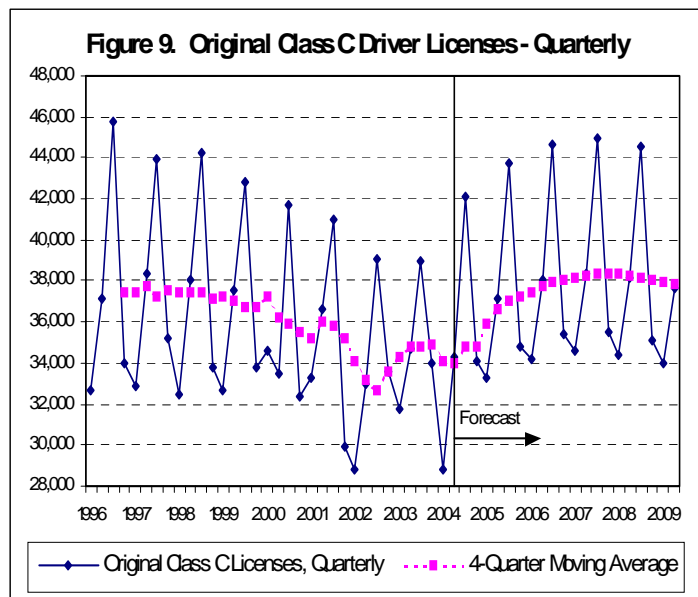
The current forecast is not perceptibly different from the prior forecast, although the impact of the four-year passenger registration requirement on total registrations is not as pronounced as in the prior forecast due to data updates and model re-calibration. The number of passenger vehicle registrations is sensitive to the sales of new vehicles and to the issuance of first titles to Oregon, and to overall renewals. In turn, these are affected by interest rates, in-migration, and other economic and demographic variables.

New titles are another useful barometer of DMV activities and their linkage with the state's economy and demographics. This indicator is largely comprised of new passenger vehicle titles, but also contains titles for such items as motorcycles and non-commercial trailers. Again, our current forecast is largely unchanged from the prior one. There has been a slight stabilization from 2002 to early 2004, but the trend is for a diminution in the rate of expansion in new title



transactions. Figure 8 contains a time series plot of recent history and the forecast. The forecasting model for new cars/light trucks is sensitive to interest rates, and the widely anticipated rise in interest rates will likely serve to dampen growth in new titles. Rising incomes and consumer optimism will serve to shore up new car sales, as will aggressive incentive programs by manufacturers. The data show that the second quarter of the year is typically a seasonal peak for this transaction at DMV. The four-quarter moving average shows more clearly that new titles are forecast to grow at somewhat diminishing rates for the next five years.

The aggregate number of Original Class C Driver's Licenses issued each quarter is shown in Figure 9. These are new drivers arriving at the DMV who acquire licenses valid for eight years, and are for non-commercial operators. When the new law extending the renewal cycle of a drivers license from once every four years to once every eight years is fully implemented, future renewal transactions will be significantly reduced as a result.



The conversion of all licenses to

an eight-year cycle was completed by October 2004, and the conversion process impacts the number of driver license renewals paying for only 4 years versus 8 years.

The number of Original Class C Driver Licenses is affected partly by the number of instructional permits and by surrendered licenses, which in turn are influenced by the overall economic health of the state. The observations contained in the figure, showing a low point in issued new licenses in 2002, coupled with a slight gain into 2003, ostensibly mirror a recovering economy overall. However, 2004 records a bit of a dip before we see a resumption of growth in 2005 and beyond.

HIGHWAY FUND REVENUE FORECAST

Our current forecast shows a slightly more buoyant revenue picture than our prior one. Both forecasts reflect the prospective impacts of OTIA III (HB 2041 from the 2003 Regular Legislative Session), as well as from other legislative initiatives. Differences from the prior forecast are largely driven by updates to the model's data sets of transportation transactions and to revisions to the state economic outlook. Collateral with the latter would also be changes to the macro outlook, insofar as there are elements that are not captured directly in the state forecast, but are factors that affect transportation revenues.

On an after-the-fact basis, it appears as if the last forecast under-predicted realized gross revenues by about 4 percent, or nearly \$32 million, for FY2004. Transfers and collection/administrative costs remain almost unchanged, so the difference pretty much flows through to the "bottom-line." Total net revenues are nearly \$30 million more than forecast in March of 2004. The primary source of this stronger revenue performance for FY2004 resides in the weight-mile tax component, complemented by only slightly stronger gains in motor fuel taxes and DMV receipts in the aggregate.

The increment in the revenue outlook remains throughout forecast horizon. We now forecast gross revenues to be higher by the modest amounts of \$31 million, \$34 million, and \$39 million over the prior forecast for FY2005 through FY2007, respectively. Again, the differences are not due to legislative effects, but reside with model updates and the newer state economic forecast.

HB 2041 Legislation

The Oregon Transportation Investment Act of 2003 ("OTIA III") represents a very significant commitment to improving Oregon's highway, road, and bridge infrastructure. Passage of HB 2041 reflects strong recognition of the fundamental role that transportation infrastructure plays in the overall and long-term vitality of Oregon's economy. In addition, such a major stimulus to job creation in the construction sector, coupled with attendant ripple effects on related economic activities, is a key step toward helping to jump start Oregon's economic recovery in the very near-term.

The major fee and tax increases created under HB 2041 span the range of title and registration fee increases by DMV to higher tax rates and registration fees for heavy vehicles under the Motor Carrier Transportation Division.

Title-related transactions administered by DMV are increased, beginning January 1, 2004, to \$55 from \$30, an 83 percent increase. Passenger vehicle registration fees will rise to \$54 from \$30 every two years, an 80 percent increase. Registration for mopeds and motorcycles will also rise, as will the fee for other specialty classes of vehicles such as a variety of government vehicles, antique cars and special interest vehicles.

In the Motor Carrier Division, weight-mile tax rates on heavy vehicles in excess of 26,000 pounds will increase uniformly across weight classes by 9.9 percent. For heavy vehicles in the flat-fee rate class (logging trucks, chip trucks, and sand and gravel trucks), the new rate is increased by 9.9 percent, as well. Registration fees for heavy commercial vehicles are also raised, uniformly by about 53 percent.

The legislation embodied in HB 2041 is very extensive. The reader is directed to the ODOT web site for a compendium from 2003 legislation, both House and Senate, that affects transactions and activities under Agency oversight. This can be located at <http://www.oregon.gov/ODOT/publications.shtml> and by clicking on “2003 Legislative Summary.”

HB2388 Legislation

Another piece of legislation passed in the 2003 Regular Session was HB 2388. This law requires that car dealers and towers scrape off the registration stickers on vehicle license plates in the event the dealer does not process the DMV title and registration papers at the point of sale. The dealers/towers would also sell to the buyers at most two special trip permits (per vehicle) for the buyer to be able to consummate a title transfer with the DMV directly. These buyers would also have to pay DMV for replacement stickers, along with the necessary title transfer fee and, possibly, registration renewals.

In lieu of having adequate data about the nature of the probable transactions created under HB 2388, the prior revenue forecast developed a likely range for revenue impacts from this legislation, and selected the mid-point as the most probable outcome. This amounted to \$1.05 million annually – or \$2.1 on a biennium basis, spread uniformly across all months.

Thus far in 2004, two efforts are underway to refine the estimates of the revenue impacts that we forecast as a result of HB 2388. First, transaction data from the sale of the special trip permits have been registered by month since the effective date of the new law, January 1, 2004. These are for sales of trip permit books to dealers, not for permits actually sold to car buyers. At inception, some confusion was noticed on the dealers’ part by DMV-Business Regulation; so, the first few months of sales data may be somewhat unreliable. Into the fall months, the data are not sufficient so far for us to narrow the probable range of revenue impacts, nor to depart from using the same mid-

point developed in our last forecast. Secondly, a survey is currently being implemented to establish a baseline estimate against which to benchmark the incremental effects of HB2388. The baseline estimate should be finalized in early CY2005. This estimate will be combined with an analysis of title transfers associated with the new trip permits to establish initial estimates of the revenue effects of the law. These results should be available in mid CY2005. The revenue forecast will then take advantage of that impact analysis and the broader set of transactions history to refine our projections for HB 2388. Future forecasts of the revenue will be adaptively adjusted to the new information as it evolves and is analyzed over time.

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 about \$410-415 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 graduated in proportion to the weight of the truck. Weight-mile taxes are the second largest source of revenue at about \$235 million a year. Licensing, vehicle registrations and titles make up the next primary source of State transportation revenue with gross annual revenues of nearly \$220 million. Three different ODOT Divisions collect revenue. These are highlighted in turn by each division.

DMV Revenues

DMV collections are summarized in Table 4 for the new economic outlook, along with the impacts from the significant effects from legislation passed in 2003. Gross revenues from DMV transactions are about \$3 million higher for FY2005 than in the prior forecast. Increments in aggregate DMV revenues are forecast to continue over the forecast horizon, expanding to an extra \$7.7 million by FY2007. 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, as shown in Table 4. The DMV transactions represented in the Transportation Operating Fund (TOF) are separated from the Highway Fund activities as in past forecasts. The last row of Table 4 features the composite difference with the prior forecast.

TABLE 4. HIGHWAY FUND REVENUE COLLECTED BY DMV

In Millions of Dollars	Actual		Forecast with New Legislation						Actual	Forecast			
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	BI 01-03	BI 03-05	BI 05-07	BI 07-09	
DMV COLLECTIONS													
VEHICLE REGISTRATIONS	\$60.7	\$61.9	\$87.3	\$105.0	\$104.0	\$103.4	\$104.9	\$105.8	\$122.6	\$192.3	\$207.4	\$208.4	
DRIVER LICENSES & OTHER	\$27.1	\$28.6	\$31.5	\$35.3	\$35.5	\$35.2	\$35.0	\$33.7	\$55.7	\$66.8	\$70.7	\$70.3	
TITLE, PLATE & OTHER	\$42.1	\$48.5	\$64.1	\$78.5	\$78.4	\$79.5	\$80.1	\$80.6	\$90.6	\$142.6	\$157.9	\$159.6	
TOTAL REG., LIC., ETC. (WITH OTIA III)	\$129.9	\$139.0	\$182.9	\$218.7	\$217.8	\$218.2	\$220.0	\$220.0	\$268.8	\$401.6	\$436.0	\$438.2	
Change from Previous Forecast Gross	(\$0.0)	\$0.2	\$45.5	\$80.7	\$80.1	\$80.8	NA	NA	\$0.2	\$126.2	\$160.9	NA	
COLL./ADMIN & PROGRAM COST	(\$56.1)	(\$57.2)	(\$55.6)	(\$56.8)	(\$59.8)	(\$62.3)	(\$59.8)	(\$62.3)	(\$113.3)	(\$112.4)	(\$122.1)	(\$122.1)	
TRAFFIC SAFETY TRANSFER	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.7)	(\$0.7)	(\$0.8)	(\$0.8)	(\$1.3)	(\$1.2)	(\$1.5)	(\$1.5)	
DEPT 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)	
FROM TOF COST RECOVERY	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0	
ODOT CS ASSESSMENT	(\$15.37)	(\$15.68)	(\$14.91)	(\$15.21)	(\$17.08)	(\$17.78)	(\$17.08)	(\$17.78)	(\$31.1)	(\$30.1)	(\$34.9)	(\$34.9)	
REV. TRANSFER TO OTIA I & II	(\$5.7)	(\$8.2)	(\$7.0)	(\$6.8)	(\$6.8)	(\$6.6)	(\$6.6)	(\$6.4)	(\$13.9)	(\$13.8)	(\$13.4)	(\$13.2)	
REV. TRANSFER TO OTIA III	\$0.0	\$0.0	(\$39.4)	(\$75.3)	(\$75.0)	(\$75.1)	(\$75.8)	(\$76.1)	\$0.0	(\$114.7)	(\$150.1)	(\$150.8)	
NET REVENUE (WITH OTIA I, II, III)	\$52.0	\$57.5	\$65.3	\$64.0	\$58.3	\$55.7	\$59.9	\$56.6	\$109.5	\$129.3	\$114.0	\$115.6	
Change in Previous Forecast Net	(\$0.0)	\$0.2	\$5.9	\$5.4	\$3.3	\$4.0	NA	NA	\$0.1	\$11.3	\$7.4	NA	

Motor Carrier Revenues

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and heavy truck registration fees. The revenue detail is contained Table 5, along with projected collection/administration costs and transfers out. Total revenues for FY2004 are stronger than the prior forecast by about 11 percent, or \$25 million. Both weight-mile receipts and heavy vehicle fees contributed to this more robust performance than expected in the last forecast. The forecast for FY2005 is similarly higher than before, by about \$25 million. Moreover, this positive increment over the prior forecast is seen to endure over the entire forecast interval, although at slightly diminished levels. The last row of Table 5 reports the composite difference of net revenues with the prior forecast.

TABLE 5. HIGHWAY FUND REVENUE COLLECTED BY MCTD

In Millions of Dollars	Actual		Forecast with New Legislation						Actual	Forecast			
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	BI 01-03	BI 03-05	BI 05-07	BI 07-09	
MCTD COLLECTIONS													
WEIGHT MILE TAX	\$192.3	\$196.5	\$217.4	\$242.3	\$247.8	\$253.1	\$259.5	\$264.7	\$388.8	\$459.7	\$500.8	\$512.6	
IRP, COMM. VEH. REG., RUAF*	\$14.9	\$15.1	\$25.4	\$28.0	\$26.5	\$27.2	\$27.8	\$28.3	\$30.0	\$53.4	\$53.7	\$55.0	
TRIP PERMIT & OTHER HEAVY	\$0.6	\$0.7	\$1.8	\$3.1	\$3.0	\$3.0	\$3.0	\$3.0	\$1.4	\$4.9	\$6.0	\$6.1	
MCTD & HEAVY (WITH OTIA III)	\$207.8	\$212.3	\$244.6	\$273.3	\$277.2	\$283.3	\$290.3	\$296.0	\$420.1	\$517.9	\$560.5	\$573.7	
Change from Previous Forecast Gross	(\$0.0)	\$0.0	\$36.9	\$57.4	\$55.9	\$56.8	NA	NA	(\$0.0)	\$94.3	\$112.6	NA	
COLL./ADMIN & PROGRAM COST	(\$21.5)	(\$21.9)	(\$21.7)	(\$22.2)	(\$23.4)	(\$24.4)	(\$21.7)	(\$24.4)	(\$43.3)	(\$43.9)	(\$47.8)	(\$46.1)	
FROM IFTA COST RECOVERY	\$1.0	\$1.1	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1	\$1.1	\$2.1	\$1.9	\$2.1	\$2.2	
ODOT CS ASSESSMENT	(\$5.2)	(\$5.3)	(\$5.5)	(\$5.6)	(\$6.2)	(\$6.5)	(\$6.2)	(\$6.5)	(\$10.5)	(\$11.0)	(\$12.7)	(\$12.7)	
REV. TRANSFER TO OTIA I & II	(\$7.4)	(\$11.0)	(\$9.9)	(\$10.0)	(\$10.1)	(\$10.0)	(\$10.3)	(\$10.1)	(\$18.4)	(\$19.9)	(\$20.1)	(\$20.3)	
REV. TRANSFER TO OTIA III	\$0.0	\$0.0	(\$14.0)	(\$35.5)	(\$35.4)	(\$36.1)	(\$37.1)	(\$37.7)	\$0.0	(\$49.4)	(\$71.5)	(\$73.2)	
NET REVENUE (WITH OTIA I, II, III)	\$174.9	\$175.2	\$194.5	\$201.1	\$203.2	\$207.4	\$216.1	\$218.3	\$350.0	\$395.6	\$410.6	\$423.5	
Change in Previous Forecast Net	(\$0.0)	\$0.0	\$22.2	\$21.2	\$19.2	\$19.5	NA	NA	\$0.0	\$43.4	\$38.7	NA	

Motor Fuels Tax Revenues

The Central Services Division–Financial Services collects fuel tax revenues. Fuel tax collections are shown in Table 6. Fuel tax gross and net receipts in FY2004 came in very slightly above the prior forecast by about 4 million or 1 %. This is within the normal range of precision for this component of the forecast model. As discussed above, fuel sales in FY2004 have remained stable considering the run up of fuel prices. For the following years, gross fuel tax revenues are forecast to expand at very nearly the same annual rates as prior forecast. There are, however, somewhat more dollar revenues collected in these out years, ranging from \$3.2 to \$8.1 million more for FY2005 and FY2007, respectively. Passage of HB 2041 legislation did not affect gas and use-fuel tax rates, which have not changed since 1993.

At an average annual base of approximately \$415 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 \$17.3 million gross and \$16 million net per year in fuel tax revenue through this forecast horizon. The same penny of tax plus its weight-mile equivalent produces about \$26 million gross and \$23 million net per year, on average.

TABLE 6. HIGHWAY FUND REVENUE FROM MOTOR FUELS TAX

	Actual		Forecast with New Legislation						Actual	Forecast		
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	BI 01-03	BI 03-05	BI 05-07	BI 07-09
In Millions of Dollars												
FSB COLLECTIONS MOTOR FUELS TAX (WITH OTIA III)	\$397.9	\$403.5	\$402.0	\$407.1	\$416.8	\$426.1	\$434.2	\$441.4	\$801.5	\$809.0	\$843.0	\$860.4
Change from Previous Forecast Gross	\$0.0	\$0.0	\$4.0	\$3.2	\$6.9	\$8.9	NA	NA	\$0.0	\$7.2	\$15.8	NA
COLL./ADMIN. COST	(\$0.92)	(\$0.94)	(\$0.97)	(\$0.99)	(\$1.24)	(\$1.29)	(\$1.24)	(\$1.29)	(\$1.9)	(\$2.0)	(\$2.5)	(\$2.5)
ODOT CS ASSESSMENT	(\$0.15)	(\$0.15)	(\$0.14)	(\$0.14)	(\$0.18)	(\$0.19)	(\$0.18)	(\$0.19)	(\$0.3)	(\$0.3)	(\$0.4)	(\$0.4)
SNOWMOBILE TRANSFER	(\$0.36)	(\$0.58)	(\$0.49)	(\$0.48)	(\$0.47)	(\$0.48)	(\$0.48)	(\$0.48)	(\$0.9)	(\$1.0)	(\$0.9)	(\$1.0)
CLASS I ATV TRANSFER	(\$0.64)	(\$1.09)	(\$1.27)	(\$1.71)	(\$2.20)	(\$2.22)	(\$2.24)	(\$2.26)	(\$1.7)	(\$3.0)	(\$4.4)	(\$4.5)
MARINE BOARD TRANSFER	(\$5.47)	(\$5.47)	(\$5.27)	(\$5.49)	(\$5.49)	(\$5.54)	(\$5.59)	(\$5.64)	(\$10.9)	(\$10.8)	(\$11.0)	(\$11.1)
CLASS II ATV TRANSFER	(\$0.76)	(\$0.82)	(\$0.89)	(\$0.96)	(\$1.04)	(\$1.05)	(\$1.06)	(\$1.07)	(\$1.6)	(\$1.9)	(\$2.1)	(\$2.1)
CLASS III ATV TRANSFER	(\$0.49)	(\$0.59)	(\$0.65)	(\$0.64)	(\$0.73)	(\$0.73)	(\$0.74)	(\$0.75)	(\$1.1)	(\$1.3)	(\$1.5)	(\$1.5)
TRANS OPR FUND (TOF)	(\$0.20)	(\$7.50)	(\$7.90)	\$0.00	(\$8.10)	\$0.00	(\$8.30)	\$0.00	(\$7.7)	(\$7.9)	(\$8.1)	(\$8.3)
AVIATION TRANSFER	(\$0.12)	(\$0.12)	(\$0.12)	(\$0.12)	(\$0.12)	(\$0.12)	(\$0.13)	(\$0.13)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.3)
REV. TRANSFER TO OTIA I & II	(\$16.06)	(\$22.85)	(\$18.65)	(\$18.77)	(\$18.73)	(\$19.01)	(\$18.75)	(\$19.04)	(\$38.9)	(\$37.4)	(\$37.7)	(\$37.8)
REV. TRANSFER TO OTIA III	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.00	\$2.00	\$0.0	\$0.0	\$0.0	\$1.0
NET REVENUE (WITH OTIA I, II, III)	\$372.8	\$363.4	\$365.6	\$377.8	\$378.5	\$395.5	\$396.5	\$412.6	\$736.2	\$743.4	\$774.1	\$792.0
Change in Previous Forecast Net	(\$0.0)	\$0.0	\$0.6	\$7.3	\$2.5	\$12.4	NA	NA	\$0.0	\$7.8	\$14.8	NA

Table 7 summarizes the updated revenue outlook with a consolidation of all divisions above. 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.odot.state.or.us/fsbpublic/forecast.htm> and scroll down to “Highway Revenue Apportionment Forecasts.”

TABLE 7A: HIGHWAY FUND REVENUE BY FISCAL YEAR AND BIENNIUM

	Actual		Forecast with New Legislation						Actual	Forecast		
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	BI 01-03	BI 03-05	BI 05-07	BI 07-09
(Row and columns sums may vary slightly due to rounding.)												
WEIGHT MILE, TRUCK REG., & RUAFF* MOTOR FUELS TAX REGISTRATION, LICENSING & TITLES	\$207.8 \$397.9 \$129.9	\$212.3 \$403.5 \$139.0	\$244.6 \$402.0 \$182.9	\$273.3 \$407.1 \$218.7	\$277.2 \$416.8 \$217.8	\$283.3 \$426.1 \$218.2	\$290.3 \$434.2 \$220.0	\$296.0 \$441.4 \$220.0	\$420.1 \$801.5 \$268.8	\$517.9 \$809.0 \$401.6	\$560.5 \$843.0 \$436.0	\$573.7 \$860.4 \$438.2
TOTAL GROSS HIGHWAY FUND Collection, Programs & Transfers (including OTIA)	\$735.7 (\$136.1)	\$754.8 (\$158.7)	\$829.5 (\$200.5)	\$899.1 (\$248.7)	\$911.9 (\$264.2)	\$927.6 (\$261.2)	\$944.6 (\$265.3)	\$957.4 (\$264.2)	\$1,490.4 (\$294.8)	\$1,728.6 (\$449.2)	\$1,839.5 (\$525.4)	\$1,872.2 (\$526.4)
NET REVENUE TO HIGHWAY FUND	\$599.6	\$596.1	\$629.0	\$650.4	\$647.7	\$666.5	\$679.3	\$693.2	\$1,195.7	\$1,279.4	\$1,314.1	\$1,345.8
OTIA I & II SET ASIDE-memo Less Debt Service & Reserve (OTIA I & II)	\$29.1 (\$8.2)	\$42.1 (\$37.0)	\$35.6 (\$7.3)	\$35.6 (\$19.8)	\$35.6 (\$27.4)	\$35.6 (\$34.3)	\$35.6 (\$35.1)	\$35.6 (\$34.7)	\$71.2 (\$45.2)	\$71.2 (\$27.0)	\$71.2 (\$61.6)	\$71.2 (\$69.3)
OTIA III SET ASIDE-memo Less Debt Service & Reserve (OTIA III)	\$0.0 \$0.0	\$0.0 \$0.0	\$49.4 \$0.0	\$102.5 (\$20.7)	\$102.0 (\$26.9)	\$102.7 (\$42.1)	\$104.3 (\$44.9)	\$105.4 (\$44.9)	\$0.0 \$0.0	\$152.0 (\$20.7)	\$204.7 (\$69.0)	\$207.0 (\$87.0)
NET OTIA I & II REVENUE FOR DISTRIBUTION	\$20.9	\$5.1	\$28.3	\$15.8	\$8.2	\$1.3	\$0.5	\$0.9	\$26.0	\$44.2	\$9.6	\$1.9
NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	\$0.0	\$0.0	\$21.0	\$22.9	\$22.6	\$22.9	\$23.6	\$24.1	\$0.0	\$43.8	\$45.5	\$46.5
NET OTIA III REVENUE FOR DISTRBUTION -STATE	\$0.0	\$0.0	\$28.4	\$59.0	\$52.5	\$37.6	\$35.8	\$36.4	\$0.0	\$87.4	\$90.1	\$73.4
TOTAL NET REVENUE FOR DISTRIBUTION	\$620.6	\$601.1	\$706.7	\$748.1	\$731.0	\$728.3	\$739.3	\$754.6	\$1,221.7	\$1,454.8	\$1,459.3	\$1,467.6

TABLE 7B: DISTRIBUTION OF TOTAL NET REVENUES														
		Actual		Forecast with New Legislation						Actual	Forecast			
		FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	BI 01-03	BI 03-05	BI 05-07	BI 07-09	
(Row and columns sums may vary slightly due to rounding.)														
TOTAL NET REVENUES for DISTRIBUTION		\$620.6	\$601.1	\$706.7	\$748.1	\$731.0	\$728.3	\$739.3	\$754.6	\$1,221.7	\$1,454.8	\$1,459.3	\$1,467.6	
	Distribution Percentage													
COUNTY APPORTIONMENT (ORS 366.524)	24.38%	\$146.19	\$145.32	\$152.48	\$156.72	\$156.03	\$160.58	\$163.72	\$167.13	\$291.5	\$309.2	\$316.6	\$324.3	
SPECIAL COUNTY COUNTY APPORTIONMENT (OTIA I & II)	30.00%	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.75)	(\$0.75)	(\$0.75)	\$0.25	\$1.25	(\$1.00)	(\$1.25)	(\$1.50)	(\$0.50)	
COUNTY APPORTIONMENT (OTIA III)	25.48%	\$0.0	\$0.0	\$12.6	\$26.1	\$26.0	\$26.2	\$26.6	\$26.9	\$0.0	\$38.7	\$52.2	\$52.7	
Dedicated To Debt Service & Reserve (OTIA III)	85.00%	\$0.0	\$0.0	\$0.0	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	\$0.0	(\$17.6)	(\$35.2)	(\$35.2)	
NET COUNTY APPORT. (OTIA III-Local)	60.00%	\$0.0	\$0.0	\$2.1	\$4.5	\$4.6	\$4.7	\$4.7	\$4.6	\$0.0	\$6.7	\$9.3	\$9.4	
NET COUNTY APPORTIONMENT		\$152.0	\$146.3	\$175.2	\$173.8	\$170.8	\$173.5	\$177.8	\$182.5	\$298.3	\$349.0	\$344.2	\$351.3	
*	*	*	*	*	*	*	*	*	*	-	-	-	-	
CITY APPORTIONMENT (ORS 366.524)	15.57%	\$93.36	\$92.81	\$97.38	\$100.09	\$99.65	\$102.55	\$104.56	\$106.73	\$186.2	\$197.5	\$202.2	\$207.1	
SPECIAL CITY CITY APPORTIONMENT (OTIA I & II)	20.00%	(\$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 III)	16.99%	\$4.2	\$1.0	\$5.7	\$3.2	\$1.6	\$0.3	\$0.1	\$0.2	\$5.2	\$8.8	\$1.9	\$0.4	
CITY APPORTIONMENT (OTIA III)	16.99%	\$0.0	\$0.0	\$8.4	\$17.4	\$17.3	\$17.4	\$17.7	\$17.9	\$0.0	\$25.8	\$34.8	\$35.2	
Dedicated To Debt Service & Reserve (OTIA III)	15.00%	\$0.0	\$0.0	\$0.0	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	\$0.0	(\$3.1)	(\$6.2)	(\$6.2)	
NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	\$0.0	\$0.0	\$1.4	\$3.0	\$3.1	\$3.1	\$3.1	\$3.1	\$0.0	\$4.5	\$6.2	\$6.2	
NET CITY APPORTIONMENT		\$97.0	\$93.3	\$112.4	\$120.1	\$118.1	\$119.8	\$121.9	\$124.3	\$190.4	\$232.5	\$237.9	\$241.7	
*	*	*	*	*	*	*	*	*	*	-	-	-	-	

TABLE 7B: DISTRIBUTION OF TOTAL NET REVENUES													
HWY DIV (including small City/County)	60.05%	\$360.1	\$357.9	\$375.6	\$386.0	\$384.3	\$395.5	\$403.3	\$411.6	\$718.0	\$761.6	\$779.8	\$798.8
SPECIAL COUNTY		(\$0.25)	(\$0.25)	(\$0.25)	(\$0.25)	(\$0.25)	(\$0.25)	(\$0.25)	(\$0.25)	(\$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)
HWY DIV: TOTAL (OTIA I & II)	50.00%	\$10.5	\$2.5	\$14.2	\$7.9	\$4.1	\$0.7	\$0.3	\$0.5	\$13.0	\$22.1	\$4.8	\$0.9
HWY DIV: TOTAL (OTIA III)	57.53%	\$0.0	\$0.0	\$28.4	\$59.0	\$58.7	\$59.1	\$60.0	\$60.7	\$0.0	\$87.4	\$117.8	\$119.1
Dedicated To Debt Service & Reserve (OTIA III)	100.00%	\$0.0	\$0.0	\$0.0	\$0.0	(\$6.2)	(\$21.4)	(\$24.2)	(\$24.2)	\$0.0	\$0.0	(\$27.6)	(\$45.7)
STATE APPORTIONMENT (OTIA III)	0.00%	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.0	\$2.0	\$0.0	\$0.0	\$0.0	\$1.0
HIGHWAY DIVISION (NET)		\$369.8	\$359.7	\$417.4	\$452.2	\$440.1	\$433.1	\$439.6	\$449.8	\$729.5	\$869.6	\$873.2	\$872.6
Highway Modernization Program (Included in HWY DIV NET)		\$51.5	\$50.5	\$50.9	\$54.3	\$55.2	\$57.1	\$58.1	\$59.7	\$102.0	\$105.3	\$112.3	\$115.2

TOTAL COUNTIES		\$152.0	\$146.3	\$175.2	\$173.8	\$170.8	\$173.5	\$177.8	\$182.5	\$298.3	\$349.0	\$344.2	\$351.3
TOTAL CITIES		\$97.0	\$93.3	\$112.4	\$120.1	\$118.1	\$119.8	\$121.9	\$124.3	\$190.4	\$232.5	\$237.9	\$241.7
TOTAL STATE		\$369.8	\$359.7	\$417.4	\$452.2	\$440.1	\$433.1	\$439.6	\$449.8	\$729.5	\$869.6	\$873.2	\$872.6
NET HIGHWAY FUNDS REVENUE		\$618.8	\$599.4	\$705.0	\$746.1	\$729.0	\$726.3	\$739.3	\$756.6	\$1,218.2	\$1,451.1	\$1,455.3	\$1,465.6
Special County/City Transfers to Allotment Fund		\$1.75	\$1.75	\$1.75	\$2.0	\$2.0	\$2.0	\$1.0	\$0.0	\$3.5	\$3.8	\$4.0	\$3.0
TOTAL NET REVENUES for DISTRIBUTION		\$620.6	\$601.1	\$706.7	\$748.1	\$731.0	\$728.3	\$740.3	\$756.6	\$1,221.7	\$1,454.8	\$1,459.3	\$1,468.6

Aviation Revenue Forecast

The U.S. airline industry continues to be buffeted by considerable turbulence, if not major downdrafts to its operations and overall structure. These span such aspects as the increased security needs that are attributable to the terror attacks of September 11th, the SARS epidemic in Asia, and the war in Iraq. Other aspects are more fundamental, but they have been exacerbated by such shocks as the September 11th attacks. The bloated cost structure of the legacy airline operators has been exposed by the rise in regional and low-cost airlines, which, even before the September 11th terrorist attacks, were already cutting into the mainline carriers' market share. The low-cost carriers have continued to increase their market shares, having weathered the industry shocks better than the mainline carriers. The overall effect of these changes in the short to intermediate term is somewhat cloudy. The result could be decreased short-run demand, as fuel costs, insurance, debt service, and security costs force the mainline carriers to increase passenger fares, pare service, or implement some combination of the two (most likely). However, in the long-run, re-structuring and increased competition within the industry should lead to reduced fares, increased air carrier efficiency, and increased demand for air travel.¹

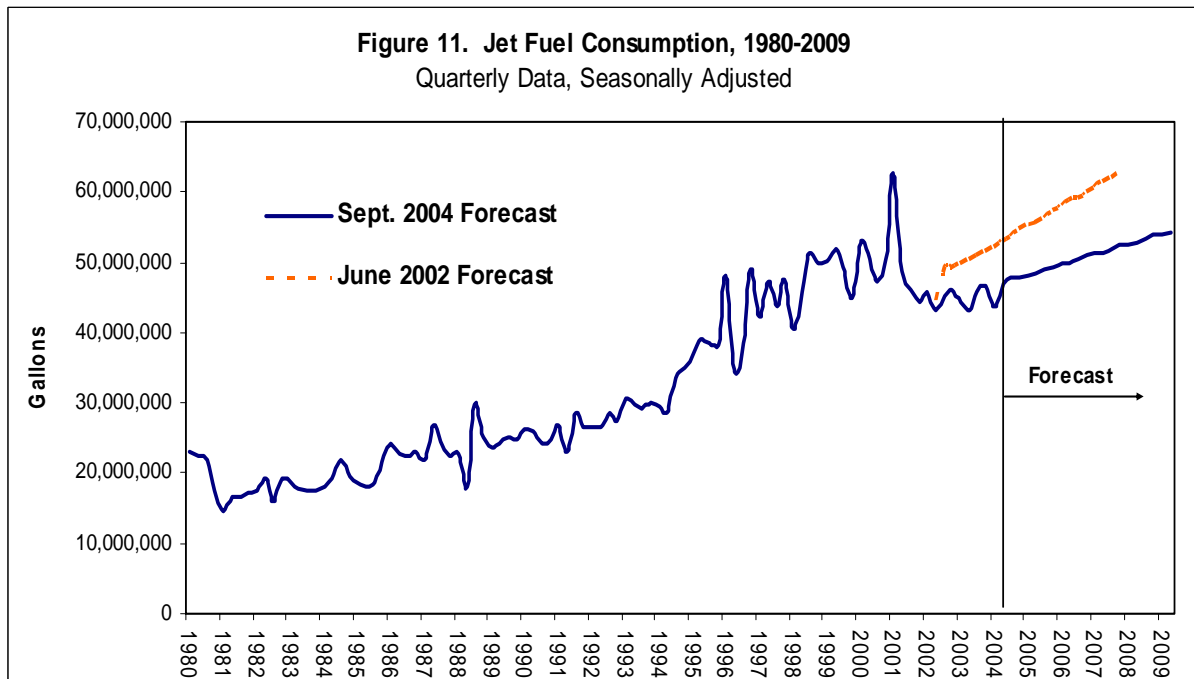
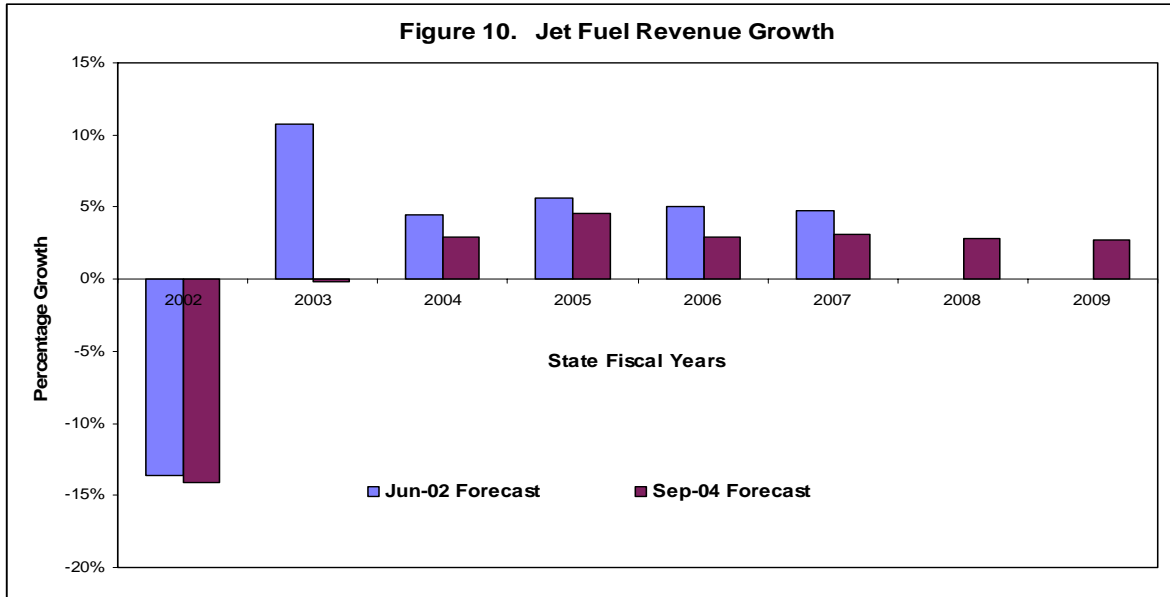
At the state level, the first eight months of this year have shown a miniscule 0.1%² increase in PDX commercial operations over the prior year, which includes the loss in air traffic due to the severe January storms. Commercial operations should continue to grow as service and routes are added, such as Northwest's nonstop flight to Tokyo, and as air travel and cargo demand grows. However, commercial operations are still down 16% compared with the first eight months of 2001.

The primary source of the Department of Aviation's revenue is from jet fuel taxes, which accounts for approximately 70% of total annual revenues, excluding federal funds. Since jet fuel is a key input in production for the airline industry, the amount consumed will be determined in part by the demand for commercial operations and by supply side factors such as the price of jet fuel. In fiscal year 2001, jet fuel revenues totaled \$2.1 million, but fell to \$1.8 million in 2002 (a 14% decrease), a precipitous decline largely as an outgrowth of September 11th, as shown in Figure 10. The figure also provides a comparison of the current forecast with the last one in June 2002. With the exception of the forecast for 2003, there are not material differences. The prior forecast for 2003 was, however, seriously off. As air traffic demand grows, jet fuel revenues will grow, and are expected to surpass fiscal year 2001's level by fiscal year 2008. However, if jet fuel prices continue to remain high (current average price is 66% higher than one year ago³), air fares and cargo rates will most likely rise and delay the industry recovery and the corresponding revenue growth from jet fuel taxes. Figure 11 puts both the old and current forecasts into a long-term context using quarterly data back to 1980.

¹ FAA Aerospace forecasts, U.S. Department of Transportation Federal Aviation Administration Office of Aviation Policy & Plans, March 2004.

² Commercial Operations Statistics, Portland International Airport, September 2004.

³ U.S. Energy Information Administration, Short-Term Energy Outlook, October 2004



Overall total revenue is projected to grow at an annual average rate of 2.8% with the largest growth coming in fiscal year 2005 at 5.3%. Total revenue for the 2005-07 biennium is expected to be \$6.2 million, and \$6.5 million for the 2007-09 biennium. Table 8 provides the forecast for jet fuel taxes, as well as the other components of aviation revenues to the Department of Aviation. Differences with the prior forecast published in June of 2002 are reported in Table 9.

Table 8. Aviation Revenue Sources

	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
JET FUEL TAXES	\$1,789,189	\$1,785,788	\$1,837,355	\$1,921,531	\$1,976,722	\$2,038,341	\$2,095,242	\$2,151,963
AVIATION GAS TAX	\$373,081	\$442,591	\$385,168	\$437,965	\$436,192	\$434,228	\$432,299	\$431,222
MOGAS TAX	\$117,593	\$118,944	\$120,495	\$120,883	\$123,633	\$124,746	\$125,869	\$127,002
AIRCRAFT REG	\$289,163	\$274,268	\$279,113	\$281,739	\$290,804	\$300,989	\$305,545	\$311,738
PILOTS	\$44,064	\$54,032	\$43,356	\$42,599	\$42,749	\$42,718	\$42,819	\$42,862
OTHER	\$195,475	\$199,644	\$208,795	\$222,407	\$204,538	\$228,785	\$212,743	\$238,470
Total	\$2,808,565	\$2,875,267	\$2,874,283	\$3,027,124	\$3,074,638	\$3,169,807	\$3,214,517	\$3,303,256
Excluding Federal Funds								

Table 9. Change in Revenue from June 2002 Forecast to September 2004 Forecast

Percentage Change.	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
JET FUEL TAXES	-0.4%	-10.2%	-11.5%	-12.4%	-14.2%	-15.6%	NA	NA
AVIATION GAS TAX	-5.6%	12.1%	-1.6%	19.0%	18.6%	23.0%	NA	NA
MOGAS TAX	0.0%	6.5%	7.9%	7.2%	8.7%	8.7%	NA	NA
AIRCRAFT REG	10.0%	-4.4%	2.1%	-0.1%	-2.1%	-0.9%	NA	NA
PILOTS	9.1%	27.7%	-21.1%	-28.7%	-33.6%	-38.3%	NA	NA
OTHER	16.8%	27.3%	12.4%	20.9%	20.3%	22.4%	NA	NA
Total	1.1%	-3.6%	-7.1%	-5.4%	-7.3%	-7.9%	NA	NA
Excluding Federal Funds								

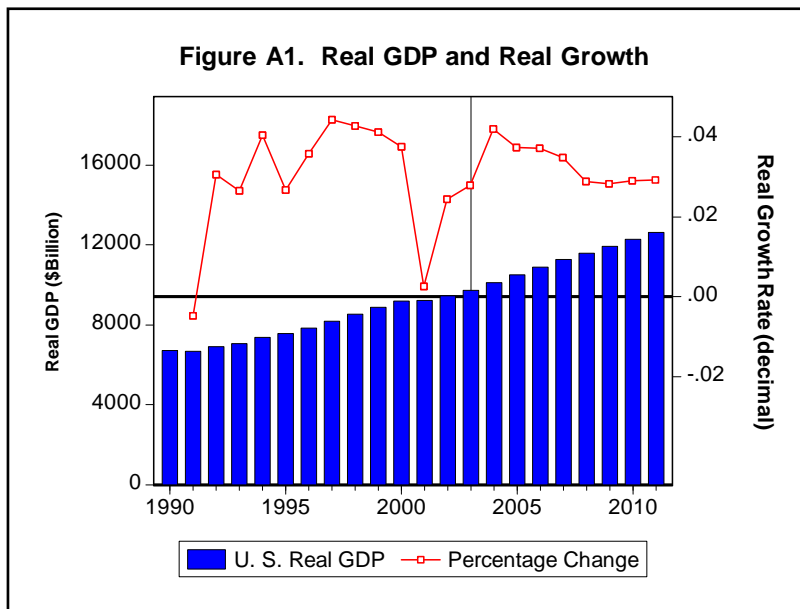
Appendix A

National Economic Outlook

The current economic outlook at the national level is not materially changed from the prior forecast: the recovery continues at a modest pace, stymied with somewhat subpar job growth overall. Some of the sharp gains registered in 2003 have given way to lower longer-term growth rates in the 3 to 4 percent range. This is the baseline outlook from the *Global Insights*' forecast, used in both our forecasting model and in the state economic forecasting model. This more sustainable performance in economic growth is attributed to diminishing impacts from fiscal stimulus on consumer spending and from more resilient spending by slightly more confident businesses. Very near term, the national economy seems to be coming out of its recent "soft patch" from the mid-year, caused by unexpectedly higher energy costs to consumers and producers.

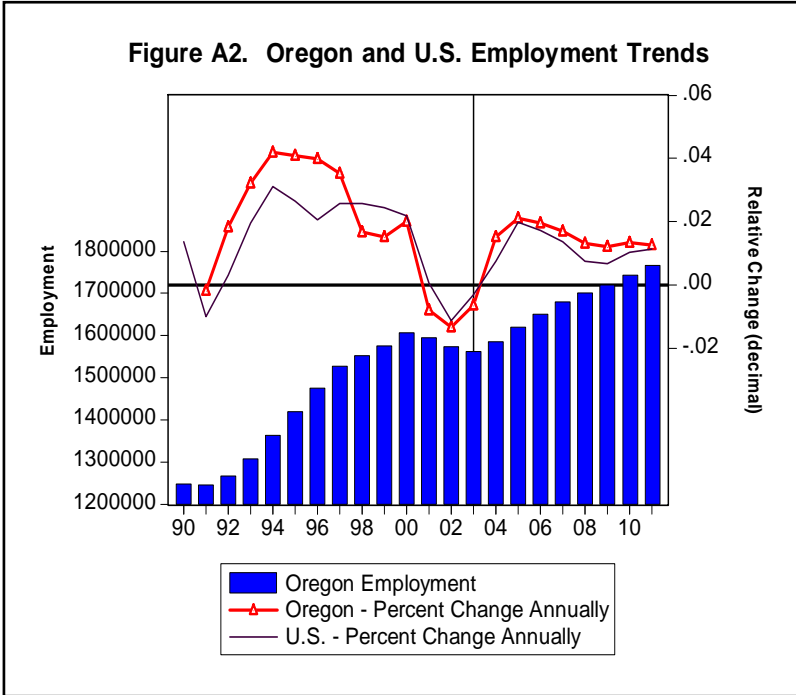
Overall, the dominant issue in the macro outlook, if not globally, is the picture for crude oil prices. The recent run ups are not expected to endure indefinitely, but their persistence has tended to ignite some skepticism in this regard. As discussed earlier in this narrative in the context of an alternative scenario for oil and gas prices as it could affect motor fuel tax revenues, the impact on the economy could be far from negligible. Nevertheless, even in this less probable case, it would not be enough by itself to push the economy into a downturn, given our current knowledge and information. Highlights of the key elements in the national outlook follow.

Figure A1 gives the recent trends in real growth of GDP, along with the base case forecast over the 2004-2011 time frame. Real growth in 2004 is going to be above trend. However, the annual real growth rates decay mildly in the post 2004 period, owing largely to slowing consumer spending. The growth rates of the 3 percent in the out years range are primarily the outcome if growth in the population and productivity gains.

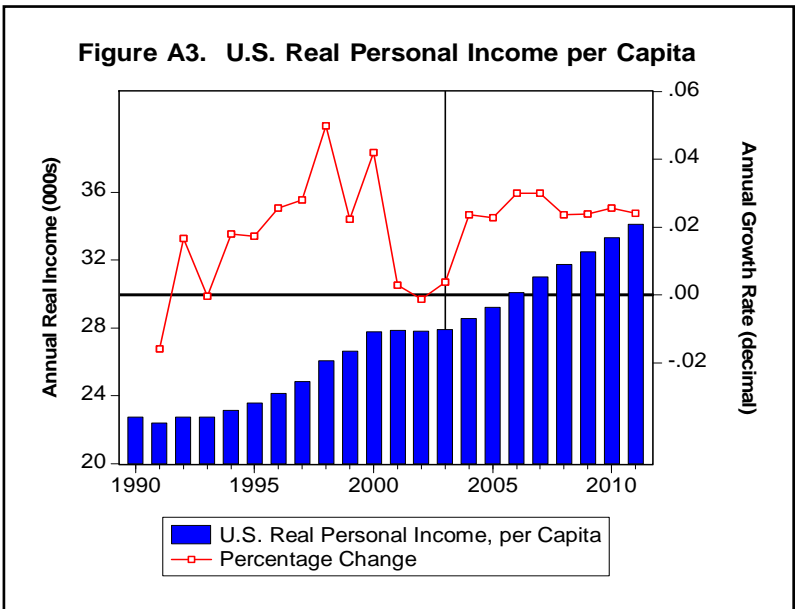


With such trend rates of growth, coupled with growth productivity, the outlook for overall job growth is somewhat less sanguine. Figure A2 reproduces the employment chart from the Oregon Outlook section to this report. The dashed line represents annual growth in employment nationally,

while the solid line and the bar portion apply to Oregon data for comparison purposes. Not unexpectedly, little has really changed since the last forecast. The chart reflects good job growth nationally in 2004 (year to date) and the strongest gains are in 2005. Job growth nationwide is forecast to actually be slower than for the state. This reflects the



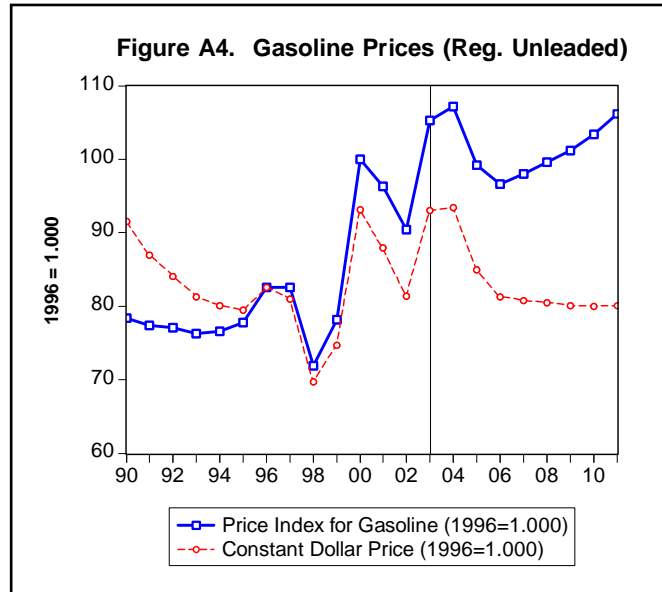
fact that as productivity diminishes somewhat from recent rates, demand for worker should be stimulated in order for firms to meet their production and output targets. The steady-state job growth in the out years of the forecast is somewhat lower than the average annual growth of overall jobs at 1.7 percent during the 1991-2002 period. Thus, marked improvements in continuing to lower the nation's unemployment rate will likely face considerable head winds.



Real income per capita also shows a strong rebound in 2004 from stagnant levels in 2001-2003. However, growth is not at anywhere near the growth rates witnessed in the latter half of the 1990s. The data in Figure A3 show average real income per person growing steadily to about \$33,000 by 2011, in 1996 dollars (bar portion). While 2 percent annual growth is the forecast norm in the

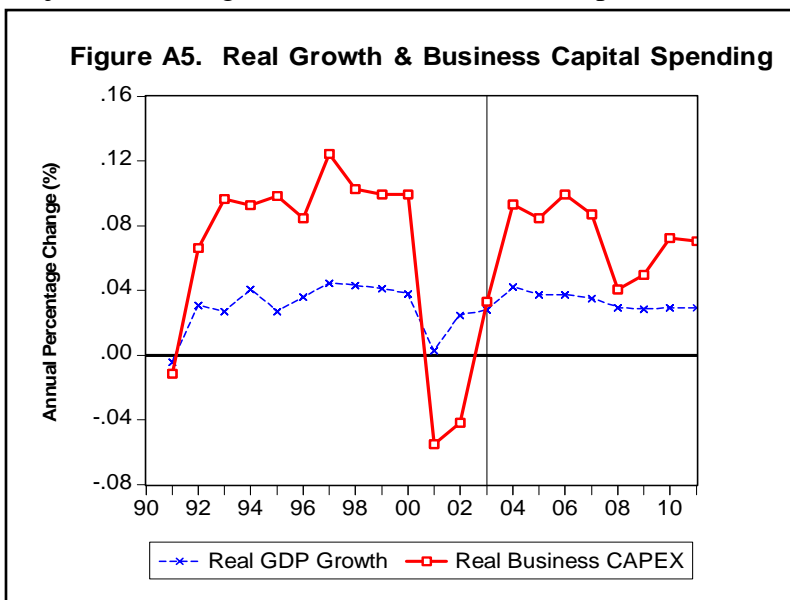
out years, it should be noted that this is relative to population growth or about 1 percent per cent.

Among the important determinants of fuel usage in light vehicles (passenger cars and light trucks under 8,000 pounds) are the prices of gasoline and diesel fuel. Figure A4 gives the recent history and the forecast for the price of gas at the national level from the *Global Insights'* macro-econometric forecasting model. In nominal dollars (the solid line), gasoline prices have remained persistently high over much of 2004, in contrast to the prior forecast. The current baseline outlook, which is not without some detractors recently, from the macro forecasting model



is for prices to recede in 2005 and 2006. They then regain gradually some momentum thereafter. It is worth noting that when adjusted for inflation (the correct way that prices influence consumption behavior), the chart reveals that the real price of gas stays virtually flat over the next out years after 2005. Based on our experience over the past thirty years, however, this apparent 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, both in real or nominal terms.

A somewhat 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 A5 underscores the sharp decline in the growth of CAPEX (inflation adjusted) from 1998 to 2001.



from 1998 to 2001. Currently, the baseline outlook is for investment spending to rebound smartly in the 2004-2007 time frame, and then to settle in at growth rates slightly below the average in the 1990s. The dynamics of this vital component will be generating close scrutiny over the next several years inasmuch as it is anticipated to be a key part of overall spending

growth throughout the economy, and for its significance for future long-term growth, as well.