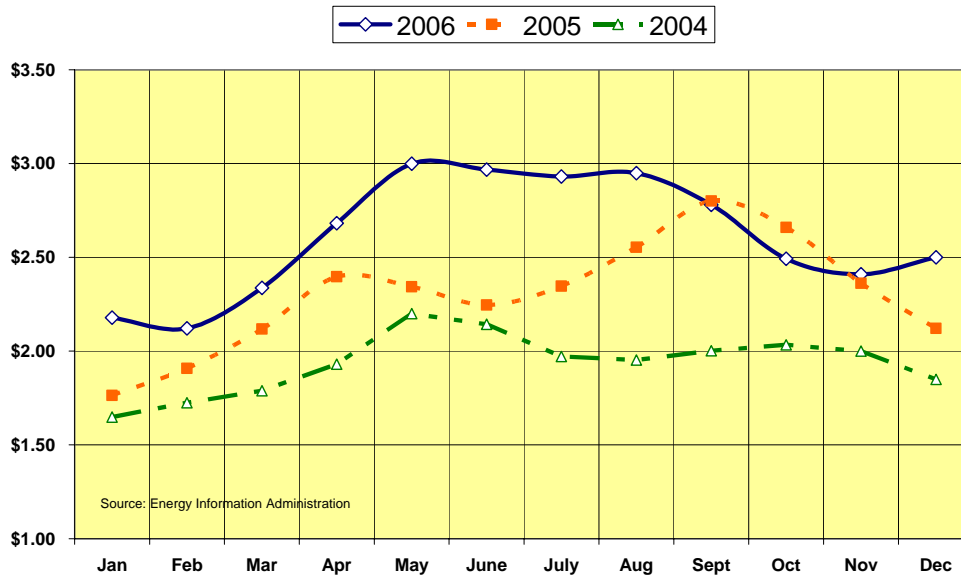


# Financial Services

## SUMMARY OF ECONOMIC AND TRANSPORTATION REVENUE FORECASTS

OREGON's Retail Gas Prices - Regular



DECEMBER 2006  
(Released February 2007)



*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. In addition, there is the objective of providing an open process for public review and input. The forecast is reviewed internally by a group of staff and management representing various divisions within the agency.

This forecast is consistent with Department of Administrative Services' *Oregon Economic & Revenue Forecast (Vol. XXVI, #4, December 2006)* 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:** Drivers, and households in general, continue to intently watch prices at the gas pumps. This report's cover chart displays Oregon's monthly average price for regular gasoline. Several salient features stand out. First, there has been a pronounced drift toward higher prices over the past three years. Second, the well-known effects of the peak driving season are quite evident with the highest prices on an intra-year basis always occurring in the summer months. Finally, two anomalies are readily evident: September 2005's price spike and the upward blip in the average price for December 2006. The former was, of course, the direct outgrowth of the devastating series of hurricanes in the heart of the nation's oil and natural gas producing region. The latter was due to some hopefully transient structural adjustments in refining capacity on the West Coast.

What are the likely prospects for 2007? The baseline macro and commodity outlook is somewhat sanguine in this regard. After double digit percentage increases the past four years, the outlook is for a slight percentage decline in 2007, nearly 5 percent for the annual average nationwide. It is expected to stay comparatively flat for the six years thereafter. This prognosis mirrors the macro forecast for crude oil prices, which rests on the assumption of no significant random disruptions or shocks in the major producing regions. This is a significant caveat, of course. Nevertheless, and in no way dismissing the "peak-oil production" thesis, the backdrop for 2007 and beyond may be the best it's been for the past several years for an end to the streak of spiraling prices. At the heart of this is slower global economic growth, coupled with spare capacity by OPEC producers created by the production cuts announced over the past three or four months.

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## **EXECUTIVE SUMMARY**

Oregon's economy displayed vigorous growth over the 2004-2006 period. This span revealed overall job gains of 2, 3.1, and 3.2 percent per year, respectively; roughly half-again as strong as the forecast several years ago. Indeed, Oregon's job growth on a percentage basis has been among the top 10 nationwide for nearly the past three years. For the next several years, the state's total non-farm employment is forecast to keep growing at a rate slightly above the U.S. average. Nonetheless, our economy has started to slow dramatically from the rapid pace of the last three years. Oregon's economy will continue to grow, but at only a moderate pace throughout the forecast period as economic conditions nationwide become less conducive for continued, rapid economic expansion. Retrenchment in the residential construction sector, both regionally and nationwide, is a large part of this anticipated slowdown. Personal income gains in the state, the principal prop underlying household spending, are also expected to outpace slightly the nation's going forward. In sum, although gains are expected to continue throughout the forecast period, there are few signs that it will be as robust as recently experienced.

Changes in economic conditions within Oregon, and across the nation in general, influence each of the revenue sources for the State Highway Fund. Because growth in many of the economic variables affecting transportation-related activities is projected to moderate for the next several years, our current revenue outlook reflects this 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 categories: DMV revenues, Motor Carrier revenues, and Motor Fuels tax revenues. Motor Fuels tax revenues, which reached about \$415 million in FY06, are the largest single source of Highway Fund revenues, about 46 percent of state sources before collection costs. These revenues are expected to grow by approximately 1.2 percent during FY07, followed by an average annual growth rate of about 2 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, \$268.7 million in Motor Carrier revenues was collected and FY07 is forecasted to reach approximately \$277 million, a gain of 3.1 percent. This forecast anticipates that these revenues will increase at an average annual rate of 1.9 percent between FY07 and FY13. DMV revenues, which primarily include vehicle registration, titles, and driver fees, reached \$222 million in FY06. These revenues are expected to grow by an average annual rate of 1.4 percent during the forecast period, largely mirroring demographic trends.

In summary, the overall outlook is for nearly 2 percent annual growth in gross revenues. This growth in nominal revenues is, it should be noted, less than the expected escalation of costs for the Agency's construction and maintenance programs. Moreover, net revenues available for apportionment are slightly less than the previous forecast. This is an outgrowth from revenues being projected under current law only, while rising budgets in some program costs may be addressed with new fee proposals in the current legislative session.

## NATIONAL ECONOMIC OUTLOOK

By the end of 2006, the nation's economic engine appeared to be revving down from the unsustainable pace witnessed over the prior two years, notwithstanding the substantial bump caused by Hurricane Katrina in the summer of 2005. 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. 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.

A considerable portion of this growth was sustained by the residential construction sector, to the point of it reaching "bubble" proportions. 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 wound 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 nationally have not materially changed from the last forecast in the summer of last year. It is just that we are now further into the forecast interval than last

time and the prescription then was for slower growth in early to mid-2007. As a result, the outlook is only marginally different than before; real growth is very slightly stronger in the first half and slightly weaker in the latter half. On balance for the remainder of the forecast period there is virtually little change in the outlook. Differences in the outlook for job growth mirrors closely the prospects for real growth in 2007, but with good productivity gains expected out over the foreseeable future, job gains are now at lower rate, but not substantially so.

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 still believe (and some signs are surfacing) that the sector and any major hit to the economy are not out of the question and may remain so for another year or more. Other risks reside with the trajectory of oil and gas prices and the course of the U.S. dollar in the foreign exchange markets.

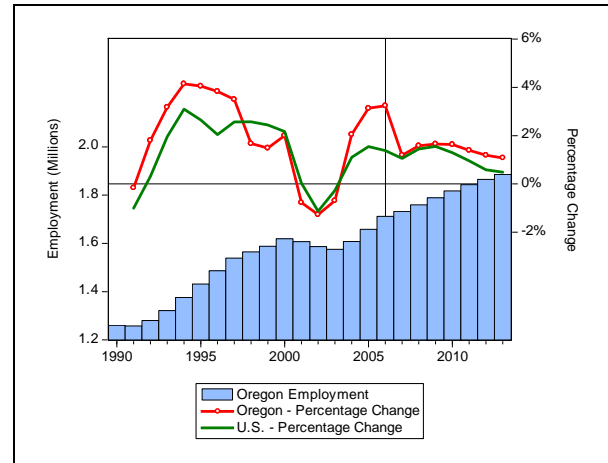
Table 1 on page 4 summarizes these, as well as several other national economic indicators. The transportation revenue forecast is consistent with Department of Administrative Services' December 2006 *Oregon Economic & Revenue Forecast* and the associated baseline macroeconomic forecast from *Global Insight Inc.* (GII). Further discussion of the national economic outlook is relegated to an appendix for the interested reader. In addition, a detailed treatment of the national and state economic outlooks is available at the web site of the Office of Economic Analysis (<http://www.oea.das.state.or.us/>).

## OREGON ECONOMIC OUTLOOK

Oregon's job markets continued to show dramatic gains 2006. 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 percent (annualized rate). Subsequent quarterly growth dropped off considerably from this very fast pace, to the mid-one percent range, but this growth still leaves the string of consecutive quarters of positive job growth unbroken at 14. Overall, it looks as if 2006 displayed the strongest annual job growth experienced by the state since 1997, just slightly outpacing 2005's 3.1 percent. The jobs recovery over the 2004-2006 span was quite remarkable, far surpassing expectations from 3 years ago. Concurrent with this exuberant expansion in employment, the state's unemployment rate has also fallen from its peak of 8.7 percent from the summer of 2003. It is currently holding steady at 5.4 percent, its lowest level since March 2001. Further declines from this level will most likely be extremely modest, if any at all. Oregon's long run average unemployment rate back to the 1970s is slightly above 7 percent, notwithstanding that Oregon's economy was far more natural resources-based at that time.

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

**Figure 1: Oregon and U.S. Employment Trends**



In 2006, many sectors of the Oregon economy experienced notable job gains. Manufacturing employment grew steadily throughout 2005 and 2006, at an average annual rate of approximately 2.6 percent. This was in stark contrast to their being down years nationally. Within Oregon's durable manufacturing industries, Transportation Equipment manufacturing – traditionally one of Oregon's strongest segments – was the standout with a strong 6.3 percent growth rate in 2006, following up on two very strong years in 2004-2005. Stronger growth than expected also occurred in both our Computer & Electronics and Other Durables sectors, at 3 and 4.3 percent respectively for 2006. The state's Wood Products industry was essentially flat year-over-year, after two comparatively strong years in 2004 and 2005. This was a reflection of swings in the nation's housing markets. Non-durable manufacturing, the mainstay of which is the state's Food Manufacturing sector, also exhibited stronger than expected job growth at 4 percent over 2005.

Going forward, job levels for our manufacturing sector as a whole are expected

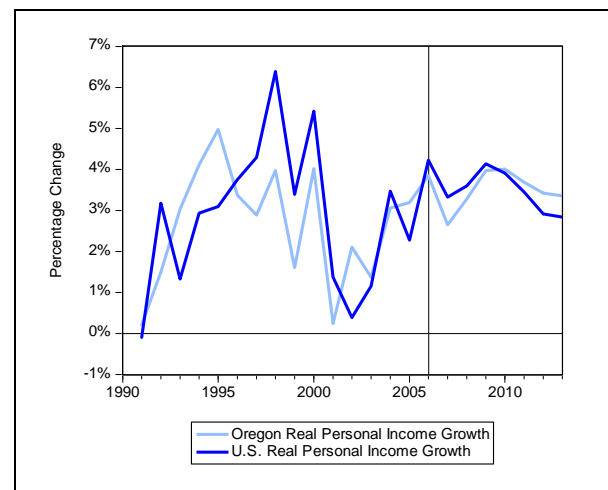
to level off during the forecast period, coincident with the stagnant manufacturing job levels predicted for the national economy. Productivity growth, rather than employment gains, is what will drive the growth in value added for manufacturing both in Oregon and nationally. In addition, for the Transportation Equipment industry segment, implementation of emission standards on heavy trucks is anticipated to curtail future demand as buyers accelerated orders to beat the deadline for the new standards.

Several other sectors exhibited relatively brisk employment growth during 2006. For example, construction employment grew by approximately 10 percent in 2006, the second consecutive year of double-digit jobs gains. This strong growth primarily resulted from the housing boom that was fueled by low mortgage interest rates, as well as emerging activity in commercial and public infrastructure projects. A number of Service sector industries (which account for roughly 9 out of every 10 private industry jobs in the state) also experienced growth: Professional and Business Services, Education (non-government) and Health Services, and Financial Activities all grew at rates well in excess of 3 percent. Employment in Retail Trade and Wholesale Trade, both of which have a pronounced impact on the outlook for State Highway Fund revenues, expanded by 3.7 and 2.7 percent, respectively.

As with manufacturing, slower growth is expected throughout the forecast period as a result of softening economic conditions as the nation's economy reverts to long-term growth trends. Notably, the decline in housing construction jobs will be a significant drag as this sector winds down from the breakneck pace of 2003-2006. Oregon's residential real estate market looks to lag developments across the country by about 12 months this time around.

As with employment, Oregon personal income showed continued gains during 2006. Personal income, about 55 percent of which is derived from wage and salary income sources, increased by 6.6 percent in 2006. This is about on par with what was predicted in the previous forecast. When adjusted for inflation, real personal income for Oregonians grew by about 3.9 percent during 2006, slightly less than the nation's real growth of 4.1 percent. Oregon's real personal income is anticipated to continue rising in future years, and yet is not expected to reach the high growth rates experienced during the mid-1990s. Moreover, Oregon's personal income is expected to grow at roughly the same rates as the U.S. during the forecast period. Figure 2 provides additional details on the growth trends for Oregon and U.S. real personal income, as well as the 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 only 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. Another drag could be if the persistent geopolitical uncertainty lingers,



undermining gains consumer confidence and deterring normal consumer spending patterns. 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 addition, any post-Hurricane Katrina increase in demand for Oregon's wood products and

processed foods is expected to wind down going forward. In sum, although positive growth is expected throughout the forecast period, there are few signs that the very robust economic expansion we've experienced the past three years can 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	CY	CY	CY	CY	CY	CY
	04	05	06	07	08	09	10
CONSUMER PRICE INDEX (CPI)	2.7%	3.4%	3.3%	2.2%	2.0%	1.8%	1.8%
EMPLOYMENT	1.1%	1.5%	1.4%	1.1%	1.4%	1.6%	1.3%
HOUSING STARTS	5.2%	6.3%	-11.8%	-12.8%	4.7%	2.1%	2.1%
POPULATION	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
REAL GROSS DOMESTIC PRODUCT (GDP)	3.9%	3.2%	3.3%	2.4%	3.3%	3.3%	3.2%
REAL PERSONAL INCOME	3.5%	2.3%	4.2%	3.3%	3.6%	4.1%	3.9%
REAL PRICE OF GASOLINE	14.7%	18.2%	10.5%	-6.6%	-2.4%	-2.4%	-2.0%
UNIT SALES OF NEW AUTOMOBILES	-1.4%	2.2%	1.3%	-1.7%	-0.7%	-0.6%	0.8%

**Table 2: Oregon Economy, Percentage Change in Key Variables**

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	04	05	06	07	08	09	10
EMPLOYMENT--TOTAL	2.0%	3.1%	3.2%	1.2%	1.6%	1.7%	1.6%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	0.9%	1.5%	3.0%	-2.7%	-2.4%	-1.9%	-1.6%
EMPLOYMENT--RETAIL TRADE	1.8%	3.1%	3.7%	1.9%	2.3%	2.1%	1.9%
EMPLOYMENT--TRANSPORTATION	2.0%	0.2%	1.2%	2.0%	2.6%	2.9%	2.6%
EMPLOYMENT--WHOLESALE TRADE	1.3%	3.3%	2.7%	1.0%	1.1%	1.0%	1.2%
EMPLOYMENT--WOOD PRODUCTS	3.4%	1.3%	-0.6%	-3.5%	-2.0%	0.0%	0.2%
HOUSING STARTS	8.6%	12.6%	-8.2%	-9.1%	4.2%	3.4%	3.7%
POPULATION	1.2%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
PORTLAND METRO CONSUMER PRICE INDEX	2.6%	2.6%	2.7%	2.7%	2.5%	2.2%	2.2%
REAL PERSONAL INCOME	3.1%	3.2%	3.9%	2.7%	3.3%	4.0%	4.0%
TIMBER HARVEST	11.2%	-2.1%	-2.4%	-3.5%	-0.6%	-0.6%	0.0%

**Table 3: Percentage Change in Transactions for Key Transportation Variables**

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	04	05	06	07	08	09	10
MOTOR VEHICLE FUELS (GALLONS)	0.6%	1.5%	1.2%	1.5%	1.7%	2.2%	2.3%
ORIGINAL CLASS C LICENSES	-5.1%	6.5%	1.8%	4.1%	0.7%	0.0%	-0.2%
PASSENGER VEHICLE REGISTRATIONS	0.9%	-2.7%	0.8%	-1.6%	2.8%	0.8%	1.5%
TITLE TRANSFERS	-2.7%	-2.1%	-1.7%	4.6%	2.3%	2.6%	2.3%
TRUCKING ACTIVITY (WEIGHT-MILE)	6.0%	4.1%	2.7%	1.0%	1.8%	2.4%	2.3%

## 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 DMV forecasts is provided below.

### Motor Fuels Usage

The growth in the use of taxable gasoline and diesel fuels in Oregon has continued to be in a comparative soft patch. Actual consumption has fallen slightly short of our prior forecast. For example, in our last published forecast (June 2006), we projected a 1.6 percent increase in usage for 2006. Actual usage grew by only a 1.2 percent rate for the last year. On the basis of total gallons the margin of forecast error was, nevertheless, very slight at about 0.4 of a percentage point.

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. This pattern has been common across the entire nation, as well.

A number of factors account for the relative buoyancy of gas/diesel taxable sales, and these serve to shore up our outlook for what is in store. First, the far most dominate factor in gas consumption statewide is the pace of

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

In sum, had Oregon not experienced very strong job growth 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, our forecasting model has continued to do very well in forecasting usage. For 2006, the forecast model over-predicted usage by only about 0.4 of a percentage point. The prior forecast slightly over-predicted usage

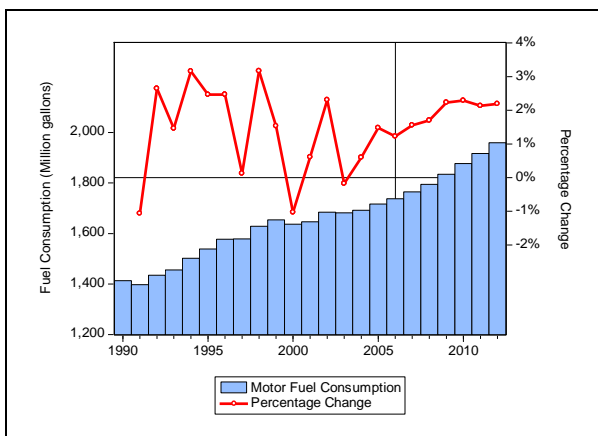
for the latter half of the year, principally a period of weak demand on a seasonal basis.

Figure 3 presents some recent history of usage and the outlook through 2012. In the very near term, the forecast reflects an extremely slight up-tick in growth over what was seen in 2006, at 1.5 percent for 2007. 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 2 percent or a bit more throughout the forecast horizon. This is not much different than the average growth rate over the historical span of 1990-2005.

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

[http://www.oregon.gov/ODOT/CS/EA/reports/forecast\\_0904.pdf](http://www.oregon.gov/ODOT/CS/EA/reports/forecast_0904.pdf)

**Figure 3: Fuel Consumption & Growth**



## Motor Carrier

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

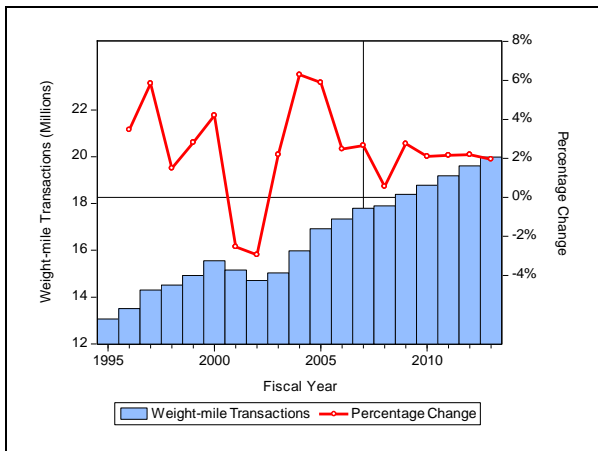
The weight-mile tax is the largest source of trucking-related revenue. This highway use tax applies only to trucks with a gross weight over 26,000 pounds. Generally, the tax paid by a motor carrier varies with the weight of the vehicle, the number of miles traveled, and the axle configuration. Certain 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 revenue for a given time period by the average weight-mile tax rate paid by the typical heavy vehicle. The forecasting model incorporates several employment measures as well as real fuel prices to estimate the weight-mile transactions. The resulting transaction forecast is then converted back to total revenues under the weight-mile tax levy.

As Figure 4 reveals, the number of weight-mile transactions grew quite strongly in both FY04 and FY05, by 6.3 and 5.9 percent respectively. Growth in transactions slowed to

2.5 percent during FY06. Weight-mile transactions are forecast to increase at an average annual rate of just 1.9 percent over the balance of the forecast horizon.

**Figure 4: Weight-mile Transactions**



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

Heavy vehicle registration revenues include both Commercial and International Registration Plan (IRP) truck registration fees. IRP registration and miscellaneous fee revenues account for nearly 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. Each of these sources of

registration revenue is forecast with separate equations.

The balance of the heavy vehicle revenues includes Commercial Trip Permits, Over-Dimension Permits, and the Road Use Assessment Fee. These revenues summed to just over \$3.0 million in FY06. Together, they are expected to reach nearly \$3.1 million in FY07.

### Driver and Motor Vehicles

The Driver and Motor Vehicle Division (DMV) is responsible for administration of driver and motor vehicle related activities. Revenues collected from the fees charged for the various DMV activities flow to the Highway Fund, 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

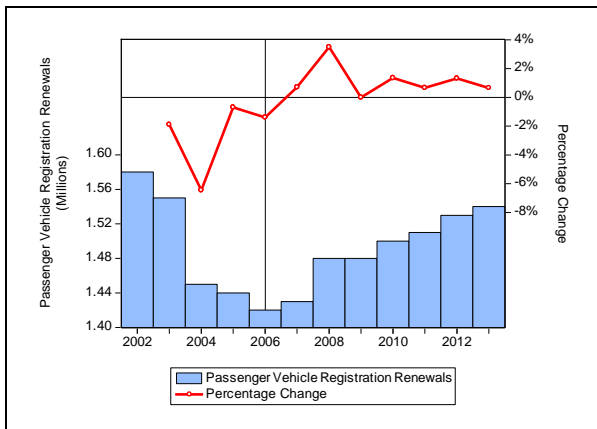
shown a decline beginning in 2002, with the effects of the changes lasting through 2007. However, due to the vehicle manufacturers attempts to stimulate their sales after September 11, 2001 by offering low interest car loans and other incentives on new vehicle purchases, two-year registrations increased year-over-year for the eight months following September 2001. 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 mirror the demographic changes in Oregon.

two and a half years of data since the OTIA III fee increases were implemented, the results are showing a decreased level of activity for most of the affected transactions. This is expected and consistent with economic theory. The reduced volumes of transactions generally occur where the percent changes in fees are the greatest, or where the fees represent a larger share of the value of the vehicle. However, as we move further from the implementation of the fee increases, the effects should diminish as people begin to accept the new fees as the status quo. This is already occurring for some transaction types.

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 grow slowly over the coming years with a slight decline in FY07. However, future legislation will undoubtedly affect the DMV transactions forecast and resulting revenues.

**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. With

## HIGHWAY FUND REVENUE FORECAST

Our current forecast shows a slight, negative change in the overall gross revenues from our prior outlook (June, 2006). The current outlook indicates that gross revenues are about \$3 million less starting in FY07 and widening to about \$10 million less by 2013. On a biennium basis for the 2007-2009 period, the forecast is nearly \$16 million lower.

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 model estimation. 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.

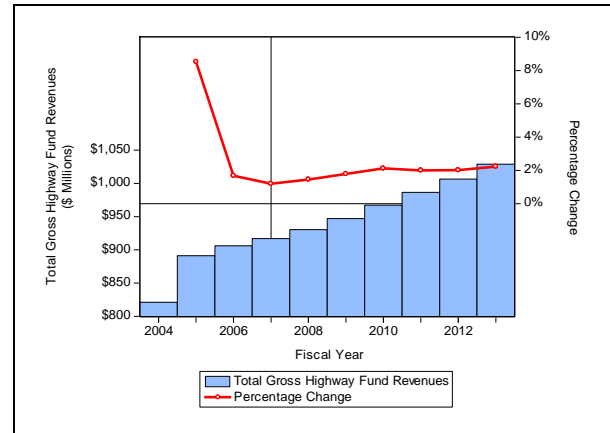
Figure 6 shows the recent behavior of gross revenues and the current forecast out to 2013. The past several forecasts have fully reflected the prospective impacts of OTIA III (HB 2041) and other legislative initiatives passed in the 2003 Regular Legislative Session. Most of the implementation of this legislation commenced in January 2004, and the effects are fully felt starting in FY2005, as reflected by the comparatively pronounced jump in revenues for that year (shown by the bar column portion in the chart). Thereafter, revenue trends converge more toward the economic and demographic trends of the state.

The current outlook forecasts that gross revenues will be lower than the prior forecast, but by only relatively modest amounts. For FY07 through FY08, revenues are expected to be \$3.2 million and \$8.4 million lower than in the prior forecast, respectively. On an average

annual basis this difference translates into well less than a 1.0 percent change 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 1.9 percent between FY07 and FY13, unchanged from our prior forecast.

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 to support Maintenance, Preservation, and Modernization Programs will continue to erode.

**Figure 6: Total Gross Highway Fund Revenues**



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 Agency's Requested Budget ("ARB") used in the revenue forecast. Several initiatives captured

in the budget have significant costs associated with them (e.g. the Federal Real ID Act). Under current law there are no specific provisions for increasing revenues through fee changes to cover incurred costs to the Agency. While it is very likely that new legislation in the 2007 Regular Session may legislate such fee increases, it is open to speculation at the present time as to what these might be and when they would be implemented. In a post-session update to the ODOT revenue forecast, new legislation would be incorporated into the forecast. As a result we would expect the drop cited above for net revenues to be ameliorated either totally or partially.

Among the broad components of the forecast (fuel taxes, DMV collections, and Motor Carrier revenues), fuel tax revenues are lower than before by about \$3 million for FY07, and are lower as well over the remaining years of the forecast period by an average of \$4 million. DMV revenues are virtually unchanged from the forecast from last time. Motor Carrier revenues are roughly \$4 to \$5 million lower than in our prior publication.

In sum, for the broad revenue streams that are more closely linked to the daily pace of economic activity and variations in travel demands – namely fuel taxes and weight-mile revenues from heavy trucks – receipts are a bit weaker than before. This stems from the changes we see for the state’s economy in the December 2006 state economic forecast.

### **Highway Fund Forecast**

Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes constitute the largest single source of revenue at forecast levels of approximately \$420 to \$475 million per year. These are levied on motor fuels used in passenger vehicles, as well as in light to medium trucks that are not

subject to the weight-mile tax. The weight-mile tax is levied on heavy trucks on a per mile basis, but is graduated in proportion to the weight of the truck. For very large truck configurations, there is a tax schedule that slightly lowers the tax rates and is based on the number of axles. Weight-mile taxes are the second largest source of revenue at forecast levels of \$250 to \$280 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 \$245 million.

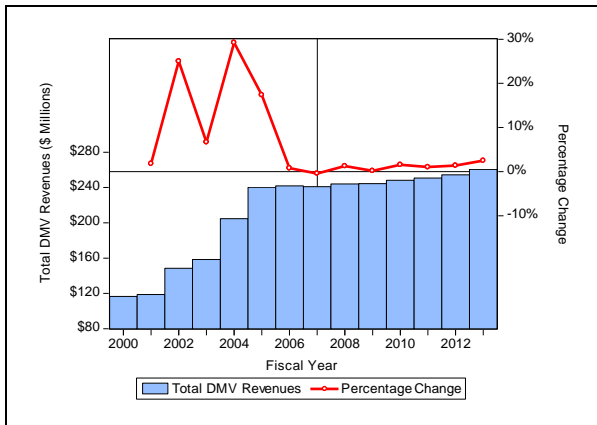
### **DMV Revenues**

Total DMV revenues are contained in row 4 of Table 4 and in Figure 7. The significant increase in revenues in FY02 and FY04 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 1.2 percent throughout the forecast period. These gross revenues include the effects of the broad base of fee changes resulting from HB 2041 from the 2003 legislative session. Implementation of HB 2041 does very little to affect collections, administration, and program costs as shown in row 6 of the table. As a result, the fee increases largely flow to the OTIA III revenue transfer shown in row 11. Net DMV revenues, as represented in row 12, are expected to decline through FY10 as costs increase at a quicker pace than future revenue growth under existing fee levels.

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**



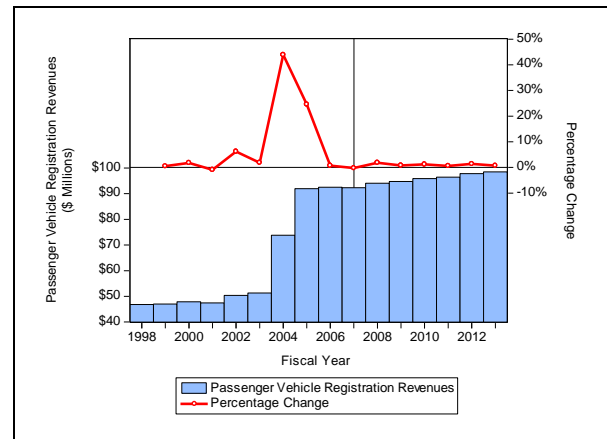
Continued refinements in the estimating equations have increased the overall accuracy of our DMV forecasts both individually and collectively. They have also served to decrease the variation from one forecast to the next when exogenous conditions are largely invariant.

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

The DMV revenue forecast is grouped into three, major categories reflecting the DMV's three 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 \$110.9 million in FY06, an increase of 1.1 percent over FY05. Beyond FY06, growth is expected to average 1.0 percent throughout the forecast period, despite a slight 1.4 percent decline in FY07.

**Figure 8: Passenger Vehicle Registration Revenues**

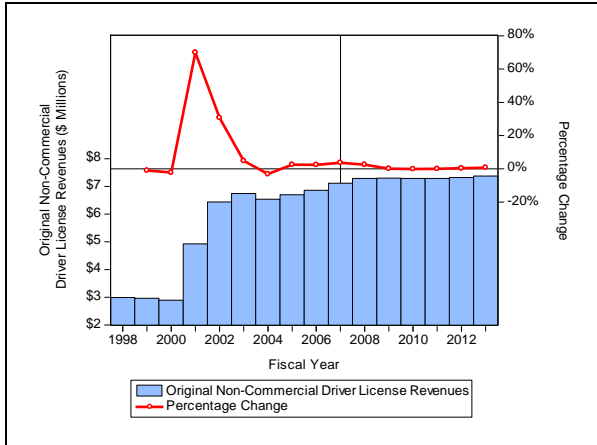


Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues, as shown in row 2, totaled \$34.0 million in FY06, a 0.3 percent decrease over FY05. Revenue growth in the forecast period is expected to move from slightly positive to negative growth through FY09, and then reflects positive growth through FY13. Overall, an average annual growth rate of 1.8 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.

Although license renewal revenues are predicted to fall slightly during FY08 and FY09, positive growth in original non-commercial driver license revenue is expected through FY09, as net migration growth trends upward and the population of 16-year olds increases.

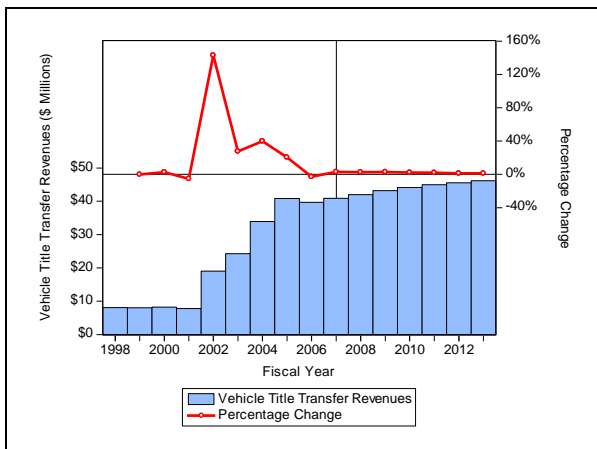


**Figure 9: Original Non-Commercial Driver License Revenues**



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 expected to be \$76.7 million, a 0.4 percent increase over FY05. Beyond FY05 revenue growth is expected to average 1.6 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	\$110.9	\$109.3	\$112.0	\$113.2	\$115.2	\$116.0	\$118.1	\$119.0	\$220.3	\$225.2	\$231.2	\$237.0
2 DRIVER LICENSES & OTHER	\$34.1	\$34.0	\$34.2	\$34.1	\$32.3	\$33.1	\$33.9	\$34.2	\$38.7	\$68.2	\$66.4	\$66.9	\$72.9
3 TITLE, PLATE & OTHER	\$76.4	\$76.7	\$78.0	\$79.2	\$80.7	\$82.1	\$83.4	\$84.6	\$85.7	\$154.7	\$159.8	\$165.5	\$170.3
4 <b>TOTAL DMV COLLECTIONS</b>	<b>\$220.3</b>	<b>\$221.7</b>	<b>\$221.5</b>	<b>\$225.2</b>	<b>\$226.2</b>	<b>\$230.4</b>	<b>\$233.3</b>	<b>\$236.9</b>	<b>\$243.3</b>	<b>\$443.2</b>	<b>\$451.4</b>	<b>\$463.7</b>	<b>\$480.3</b>
5 Change from Previous Forecast		(\$1.3)	(\$0.9)	(\$1.2)	(\$0.4)	(\$0.6)	(\$1.1)	NA	NA	(\$2.2)	(\$1.6)	(\$1.6)	NA
6 COLLECTION/ADMINISTRATION & PROGRAM COST	(\$56.8)	(\$60.4)	(\$62.8)	(\$71.5)	(\$74.4)	(\$78.0)	(\$79.6)	(\$84.2)	(\$85.9)	(\$123.2)	(\$145.9)	(\$157.6)	(\$170.2)
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)	(\$21.5)	(\$22.5)	(\$23.0)	(\$24.3)	(\$24.8)	(\$35.0)	(\$42.1)	(\$45.5)	(\$49.1)
10 REVENUE TRANSFER TO OTIA I & II	(\$6.6)	(\$6.8)	(\$6.8)	(\$6.8)	(\$6.7)	(\$6.7)	(\$6.6)	(\$6.6)	(\$6.7)	(\$13.6)	(\$13.5)	(\$13.3)	(\$13.3)
11 REVENUE TRANSFER TO OTIA III	(\$76.6)	(\$77.3)	(\$76.9)	(\$78.6)	(\$79.6)	(\$81.0)	(\$81.8)	(\$83.1)	(\$83.9)	(\$154.2)	(\$158.2)	(\$162.8)	(\$167.0)
12 <b>NET DMV REVENUE</b>	<b>\$64.6</b>	<b>\$59.3</b>	<b>\$56.4</b>	<b>\$46.8</b>	<b>\$43.2</b>	<b>\$41.3</b>	<b>\$41.5</b>	<b>\$37.6</b>	<b>\$41.1</b>	<b>\$115.6</b>	<b>\$90.1</b>	<b>\$82.8</b>	<b>\$78.7</b>
13 Change from Previous Forecast		(\$0.8)	(\$0.5)	(\$9.2)	(\$9.3)	(\$9.9)	(\$10.5)	NA	NA	(\$1.3)	(\$18.6)	(\$20.4)	NA

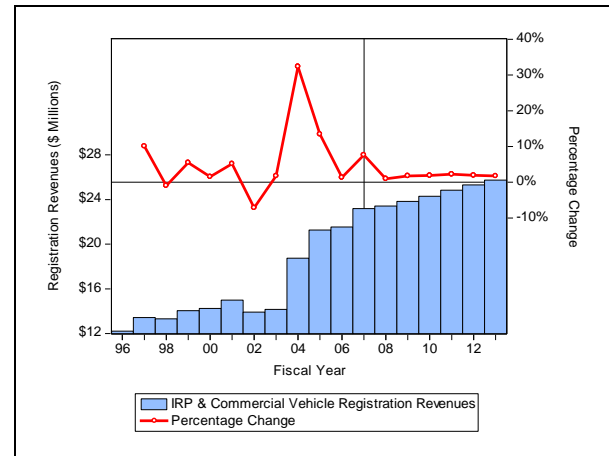
## Motor Carrier Revenues

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and heavy vehicle registration fees. Table 5 contains the forecast revenue detail, along with projected collection/administration costs and transfers out. Row 4 reports the total gross revenues for the Motor Carrier Division. Total revenues for FY07 decrease by less than one million from the prior forecast, as shown in row 5. Overall, gross revenues are expected to grow at an average annual rate of 1.9 percent during the forecast period. Costs, as shown in rows 6 and 8, are also expected to increase. Because the rate of increase for costs is expected to 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, which replicates the methodology of previous forecasts while incorporating updated economic data, predicts that total weight-mile revenues will reach nearly \$247.6 million in FY07. This total represents growth of close to 3.1 percent for the fiscal year. At this time, an average annual growth rate of approximately 1.9 percent is expected through FY13. This growth rate falls below the average annual rate of 2.4 percent that was predicted in our June 2006 forecast.

Row 2 of Table 5 contains IRP registration fees, commercial registration fees, and road use assessment fees. These fees totaled \$22.9 million in FY06. Overall, an average annual growth rate of 2.5 percent is predicted for the forecast period of FY07 through FY13. As with weight-mile revenues, this growth rate is slightly lower than the 2.9 percent average annual growth rate predicted in our previous forecast.

**Figure 11: Heavy Vehicle Registration Revenues**



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 drivers' license-related fee increases make up the OTIA III fee increments. Overall, the total of trip permits and other heavy vehicle revenues reached \$4.5 million in FY06. It is expected to grow slowly throughout the remainder of the forecast period, averaging 1.8 percent annual growth.

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

	Actual		Forecast							Forecast				
	FY	FY	FY	FY	FY	FY	FY	FY	FY	BI	BI	BI	BI	
	05	06	07	08	09	10	11	12	13	05-07	07-09	09-11	11-13	
1	WEIGHT-MILE TAX	\$235.3	\$241.3	\$247.6	\$249.0	\$255.9	\$261.3	\$267.0	\$272.8	\$278.2	\$488.9	\$505.0	\$528.3	\$551.0
2	IRP, COMMERCIAL VEHICLE REGISTRATIONS, & RUAF*	\$22.5	\$22.9	\$24.8	\$24.7	\$25.2	\$25.7	\$26.3	\$26.8	\$27.2	\$47.7	\$49.9	\$51.9	\$54.0
3	TRIP PERMITS & OTHER HEAVY	\$4.5	\$4.5	\$4.6	\$4.7	\$4.8	\$4.8	\$4.9	\$5.0	\$5.1	\$9.1	\$9.4	\$9.8	\$10.1
4	<b>TOTAL MCTD COLLECTIONS</b>	<b>\$262.3</b>	<b>\$268.7</b>	<b>\$277.1</b>	<b>\$278.4</b>	<b>\$285.8</b>	<b>\$291.8</b>	<b>\$298.2</b>	<b>\$304.6</b>	<b>\$310.5</b>	<b>\$545.8</b>	<b>\$564.2</b>	<b>\$590.0</b>	<b>\$615.1</b>
5	Change from Previous Forecast		(\$0.1)	(\$0.7)	(\$4.1)	(\$3.0)	(\$3.3)	(\$5.3)	NA	NA	(\$0.7)	(\$7.1)	(\$8.6)	NA
6	COLLECTION/ADMINISTRATION & PROGRAM COST	(\$22.2)	(\$23.0)	(\$23.9)	(\$25.9)	(\$27.0)	(\$28.3)	(\$28.8)	(\$30.5)	(\$31.1)	(\$46.8)	(\$52.8)	(\$57.1)	(\$61.6)
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)	(\$6.4)	(\$6.7)	(\$7.0)	(\$7.1)	(\$7.6)	(\$7.7)	(\$11.9)	(\$13.1)	(\$14.2)	(\$15.3)
9	REVENUE TRANSFER TO OTIA I & II	(\$9.4)	(\$9.9)	(\$10.2)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$20.1)	(\$20.0)	(\$20.0)	(\$20.0)
10	REVENUE TRANSFER TO OTIA III	(\$29.7)	(\$29.8)	(\$31.0)	(\$31.1)	(\$31.9)	(\$32.5)	(\$33.2)	(\$33.9)	(\$34.6)	(\$60.9)	(\$63.0)	(\$65.8)	(\$68.5)
11	<b>NET MCTD REVENUE</b>	<b>\$196.5</b>	<b>\$201.2</b>	<b>\$207.0</b>	<b>\$206.1</b>	<b>\$211.4</b>	<b>\$215.2</b>	<b>\$220.1</b>	<b>\$223.9</b>	<b>\$228.4</b>	<b>\$408.2</b>	<b>\$417.4</b>	<b>\$435.3</b>	<b>\$452.3</b>
12	Change from Previous Forecast		(\$0.0)	(\$0.7)	(\$4.8)	(\$3.9)	(\$4.3)	(\$6.0)	NA	NA	(\$0.7)	(\$8.7)	(\$10.3)	NA

\*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 within plus/minus 1 percent.

Unlike for DMV and MCTD transactions, there have been no changes to the tax rates for gasoline and use fuels (largely diesel). So, the 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 FY07 and beyond, it is about \$3 to \$4 million per year less, or about less than 1 percent lower. This is well within the precision of the forecast equation and, so, is not a significant change. Revenues are forecast to increase at an annual rate of 0.7 percent in FY07, after being up about 1.7 percent in FY06. Fuel tax revenues then increase at a slightly stronger rate of about 2 percent on average out through FY13, due to the continued economic growth prospects for the state.

In the current biennium, revenues are forecast to be up about 2.5 percent, or a little more than \$20 million, from the 2003-05 biennium. This is slightly weaker than the prior projection. Revenue growth is forecast to regain strength in the next biennium, increasing by 3.3 percent or \$27.5 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 \$447 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 \$18.6 million gross and \$17.9 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 \$31 million gross and nearly \$29 million net a year.

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

	Actual		Forecast							Forecast				
	FY	FY	FY	FY	FY	FY	FY	FY	FY	BI	BI	BI	BI	
	05	06	07	08	09	10	11	12	13	05-07	07-09	09-11	11-13	
1	MOTOR FUELS TAX	\$408.6	\$415.7	\$418.4	\$426.7	\$434.9	\$444.9	\$454.9	\$464.8	\$474.9	\$834.1	\$861.6	\$899.8	\$939.7
2	<b>TOTAL FSB COLLECTIONS</b>	<b>\$408.6</b>	<b>\$415.7</b>	<b>\$418.4</b>	<b>\$426.7</b>	<b>\$434.9</b>	<b>\$444.9</b>	<b>\$454.9</b>	<b>\$464.8</b>	<b>\$474.9</b>	<b>\$834.1</b>	<b>\$861.6</b>	<b>\$899.8</b>	<b>\$939.7</b>
3	Change from Previous Forecast		(\$0.0)	(\$3.0)	(\$3.9)	(\$4.4)	(\$4.4)	(\$3.9)	NA	NA	(\$3.0)	(\$8.3)	(\$8.3)	NA
4	COLLECTION/ADMINISTRATION COST	(\$1.0)	(\$1.2)	(\$1.3)	(\$1.4)	(\$1.4)	(\$1.5)	(\$1.5)	(\$1.6)	(\$1.7)	(\$2.5)	(\$2.8)	(\$3.0)	(\$3.3)
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)	(\$18.7)	(\$18.8)	(\$18.9)	(\$18.9)	(\$18.9)	(\$18.9)	(\$19.0)	(\$18.9)	(\$37.6)	(\$37.7)	(\$37.9)	(\$37.9)
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	<b>NET FSB REVENUE</b>	<b>\$379.8</b>	<b>\$381.4</b>	<b>\$383.3</b>	<b>\$391.0</b>	<b>\$398.6</b>	<b>\$408.0</b>	<b>\$417.3</b>	<b>\$427.4</b>	<b>\$437.8</b>	<b>\$764.7</b>	<b>\$789.6</b>	<b>\$825.3</b>	<b>\$865.1</b>
16	Change from Previous Forecast		(\$0.0)	(\$3.2)	(\$4.2)	(\$4.8)	(\$4.8)	(\$4.4)	NA	NA	(\$3.3)	(\$9.0)	(\$9.2)	NA

## **Highway Revenue Forecast Summary**

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

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

	Actual		Forecast							Forecast				
	FY	FY	FY	FY	FY	FY	FY	FY	FY	BI	BI	BI	BI	
	05	06	07	08	09	10	11	12	13	05-07	07-09	09-11	11-13	
1	TOTAL MCTD COLLECTIONS	\$262.3	\$268.7	\$277.1	\$278.4	\$285.8	\$291.8	\$298.2	\$304.6	\$310.5	\$545.8	\$564.2	\$590.0	\$615.1
2	TOTAL FSB COLLECTIONS	\$408.6	\$415.7	\$418.4	\$426.7	\$434.9	\$444.9	\$454.9	\$464.8	\$474.9	\$834.1	\$861.6	\$899.8	\$939.7
3	TOTAL DMV COLLECTIONS	\$220.3	\$221.7	\$221.5	\$225.2	\$226.2	\$230.4	\$233.3	\$236.9	\$243.3	\$443.2	\$451.4	\$463.7	\$480.3
4	<b>TOTAL GROSS HIGHWAY FUND</b>	<b>\$891.2</b>	<b>\$906.1</b>	<b>\$917.0</b>	<b>\$930.3</b>	<b>\$947.0</b>	<b>\$967.1</b>	<b>\$986.4</b>	<b>\$1,006.3</b>	<b>\$1,028.8</b>	<b>\$1,823.1</b>	<b>\$1,877.3</b>	<b>\$1,953.5</b>	<b>\$2,035.1</b>
5	COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	(\$242.1)	(\$256.2)	(\$262.0)	(\$278.0)	(\$285.3)	(\$294.2)	(\$298.9)	(\$309.8)	(\$314.7)	(\$518.2)	(\$563.3)	(\$593.1)	NA
6	<b>NET REVENUE TO HIGHWAY FUND</b>	<b>\$649.0</b>	<b>\$649.9</b>	<b>\$655.0</b>	<b>\$652.3</b>	<b>\$661.7</b>	<b>\$672.9</b>	<b>\$687.5</b>	<b>\$696.5</b>	<b>\$714.0</b>	<b>\$1,304.9</b>	<b>\$1,314.0</b>	<b>\$1,360.4</b>	<b>\$1,410.6</b>
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	\$98.1	\$99.1	\$99.7	\$101.3	\$103.1	\$105.0	\$106.5	\$108.4	\$109.7	\$198.8	\$204.4	\$211.5	\$218.1
10	DEBT SERVICE (OTIA III)	(\$20.7)	(\$21.7)	(\$37.8)	(\$47.3)	(\$67.8)	(\$81.1)	(\$81.9)	(\$83.0)	(\$83.8)	(\$59.5)	(\$115.0)	(\$163.0)	(\$166.9)
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	\$21.0	\$21.4	\$21.6	\$22.3	\$23.1	\$23.9	\$24.5	\$25.3	\$25.9	\$43.0	\$45.4	\$48.4	\$51.2
13	NET OTIA III REVENUE FOR DISTRIBUTION - STATE	\$56.5	\$56.0	\$40.2	\$31.7	\$12.2	\$0.0	\$0.0	\$0.0	\$0.0	\$96.2	\$43.9	\$0.0	\$0.0
14	<b>TOTAL NET REVENUE FOR DISTRIBUTION</b>	<b>\$744.1</b>	<b>\$747.5</b>	<b>\$732.6</b>	<b>\$710.5</b>	<b>\$701.4</b>	<b>\$701.3</b>	<b>\$716.5</b>	<b>\$726.4</b>	<b>\$744.5</b>	<b>\$1,480.1</b>	<b>\$1,411.9</b>	<b>\$1,417.9</b>	<b>\$1,470.9</b>

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



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

	Distribution Percentage	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	COUNTY APPORTIONMENT (ORS 366.524)	24.38%	\$156.4	\$156.7	\$157.8	\$157.2	\$159.4	\$162.2	\$165.7	\$167.9	\$172.1	\$314.5	\$316.6	\$327.8	\$340.0
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%	\$25.0	\$25.3	\$25.4	\$25.8	\$26.3	\$26.8	\$27.1	\$27.6	\$28.0	\$50.7	\$52.1	\$53.9	\$55.6
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%	\$4.5	\$4.4	\$4.5	\$4.6	\$4.7	\$4.7	\$4.7	\$4.8	\$4.8	\$9.0	\$9.3	\$9.4	\$9.6
7	<b>NET COUNTY APPORTIONMENT</b>		<b>\$173.3</b>	<b>\$174.5</b>	<b>\$174.6</b>	<b>\$170.9</b>	<b>\$173.8</b>	<b>\$177.1</b>	<b>\$181.0</b>	<b>\$183.7</b>	<b>\$188.4</b>	<b>\$349.1</b>	<b>\$344.7</b>	<b>\$358.1</b>	<b>\$372.1</b>
8	CITY APPORTIONMENT (ORS 366.524)	15.57%	\$99.9	\$100.0	\$100.8	\$100.4	\$101.8	\$103.6	\$105.8	\$107.2	\$109.9	\$200.8	\$202.2	\$209.4	\$217.1
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%	\$16.7	\$16.8	\$16.9	\$17.2	\$17.5	\$17.8	\$18.1	\$18.4	\$18.6	\$33.8	\$34.7	\$35.9	\$37.1
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%	\$3.0	\$3.0	\$3.0	\$3.1	\$3.1	\$3.1	\$3.1	\$3.2	\$3.2	\$6.0	\$6.2	\$6.3	\$6.4
14	<b>NET CITY APPORTIONMENT</b>		<b>\$119.3</b>	<b>\$120.1</b>	<b>\$120.1</b>	<b>\$117.7</b>	<b>\$119.5</b>	<b>\$121.6</b>	<b>\$124.2</b>	<b>\$125.9</b>	<b>\$128.9</b>	<b>\$240.2</b>	<b>\$237.2</b>	<b>\$245.8</b>	<b>\$254.8</b>
15	HIGHWAY DIVISION (including small City/County)	60.05%	\$385.3	\$385.9	\$388.8	\$387.1	\$392.7	\$399.4	\$408.1	\$413.5	\$424.0	\$774.6	\$779.8	\$807.5	\$837.5
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%	\$56.5	\$57.0	\$57.4	\$58.3	\$59.3	\$60.4	\$61.3	\$62.4	\$63.1	\$114.4	\$117.6	\$121.7	\$125.5
20	DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	\$0.0	(\$1.0)	(\$17.1)	(\$26.6)	(\$47.1)	(\$60.4)	(\$61.3)	(\$62.4)	(\$63.1)	(\$18.2)	(\$73.7)	(\$121.7)	(\$125.5)
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	<b>NET HIGHWAY DIVISION</b>		<b>\$449.8</b>	<b>\$451.2</b>	<b>\$436.1</b>	<b>\$420.1</b>	<b>\$406.4</b>	<b>\$400.9</b>	<b>\$409.6</b>	<b>\$415.0</b>	<b>\$425.5</b>	<b>\$887.3</b>	<b>\$826.5</b>	<b>\$810.5</b>	<b>\$840.5</b>
23	HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		\$55.5	\$56.1	\$56.3	\$57.0	\$58.3	\$59.6	\$60.9	\$62.1	\$63.5	\$112.5	\$115.3	\$120.5	\$125.6
24	NET COUNTY APPORTIONMENT		\$173.3	\$174.5	\$174.6	\$170.9	\$173.8	\$177.1	\$181.0	\$183.7	\$188.4	\$349.1	\$344.7	\$358.1	\$372.1
25	NET CITY APPORTIONMENT		\$119.3	\$120.1	\$120.1	\$117.7	\$119.5	\$121.6	\$124.2	\$125.9	\$128.9	\$240.2	\$237.2	\$245.8	\$254.8
26	NET HIGHWAY DIVISION		\$449.8	\$451.2	\$436.1	\$420.1	\$406.4	\$400.9	\$409.6	\$415.0	\$425.5	\$887.3	\$826.5	\$810.5	\$840.5
27	<b>NET HIGHWAY FUNDS REVENUE</b>		<b>\$742.3</b>	<b>\$745.8</b>	<b>\$730.8</b>	<b>\$708.7</b>	<b>\$699.7</b>	<b>\$699.6</b>	<b>\$714.8</b>	<b>\$724.6</b>	<b>\$742.7</b>	<b>\$1,476.6</b>	<b>\$1,408.4</b>	<b>\$1,414.4</b>	<b>\$1,467.4</b>
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	<b>TOTAL NET REVENUES FOR DISTRIBUTION</b>		<b>\$744.1</b>	<b>\$747.5</b>	<b>\$732.6</b>	<b>\$710.5</b>	<b>\$701.4</b>	<b>\$701.3</b>	<b>\$716.5</b>	<b>\$726.4</b>	<b>\$744.5</b>	<b>\$1,480.1</b>	<b>\$1,411.9</b>	<b>\$1,417.9</b>	<b>\$1,470.9</b>

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

## APPENDIX

### National Economic Outlook

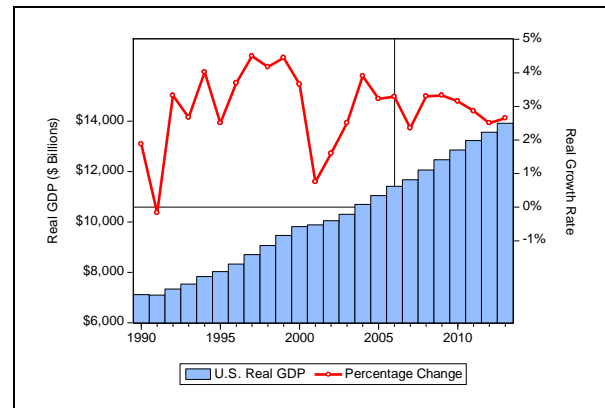
The national economic outlook does not materially differ from the prior forecast. Highlights of the key elements that affect our revenue outlook from a macro-level view follow below.

Figure 12 displays the recent trends in the levels and growth rates in real GDP, along with the base case forecast over the 2005-2013 time frame. The fairly robust recovery out of the downturn in 2001 looks as if it will be limited to the three-year period spanning 2004 to 2006, although positive growth is expected to continue throughout the forecast period. In 2006, the preliminary data indicate that the economy grew in the mid-three percent range. However, the economy displayed much slower growth starting in the spring of 2006 and continuing into last summer. This stemmed largely from the Federal Reserve's uncharacteristically gradual shift from monetary stimulus to neutrality over the two-year period from June 2004 to August 2006. As well, the depressing effects of high oil and gas prices effectively taxed away a substantial portion of consumers' buying power at the retail level. The housing sector has played a prominent part in the slowdown, a combined outcome of the firming in monetary policy and from the excess of the real estate booms in a number of selected regional markets. This alone has taken roughly 1 to 1.5 percentage points off of real growth since the spring of last year.

The outlook for real growth remains steady, right around 3 percent for most of the post-2006 period, with the exception of a more pronounced softening in 2007 before resuming. Although consumer spending may slow down, business fixed investment outlays

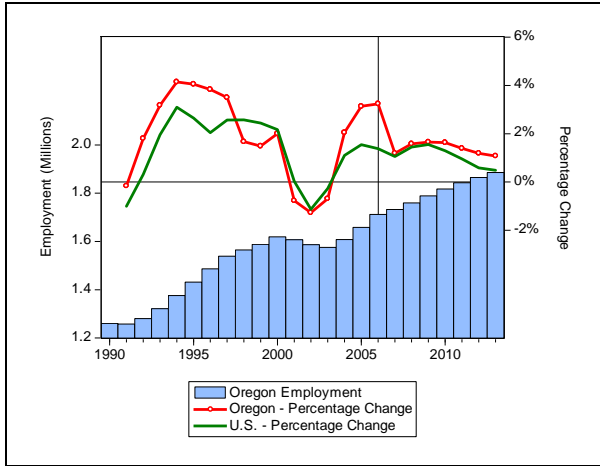
and export growth look to pick up some of the slack.

**Figure 12: Real GDP and Real GDP Growth**



With such trend rates of growth, coupled with gains in productivity, the outlook for overall job growth remains somewhat less sanguine. Figure 13 reproduces the employment chart from the Oregon Outlook section to this report. The chart reveals that good job growth nationally occurred in both 2005 and 2006, although Oregon's growth comfortably surpassed these by a wide margin. The outlook reflects the fact that as productivity growth diminishes from recent rates, demand for workers should be stimulated in order for firms to meet their production and output targets. In the 2004-2006 time frame, job growth exceeded the average annual growth rate between 1991 and 2003. Yet slower growth, below the average annual growth rate, is expected for the remaining years of the forecast. Thus, any marked improvements from here that continue to lower the nation's unemployment rate (currently resting at 4.5 percent) will likely face considerable headwind.

**Figure 13: Oregon and U.S. Employment Trends**

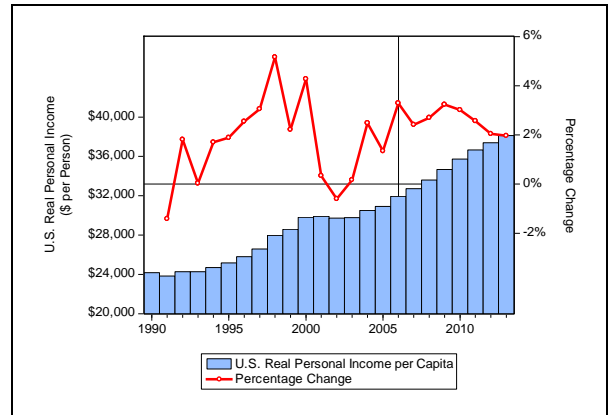


With the national unemployment rate at 4.5 percent, there has been the concern that slack in the labor markets has dissipated. While this may seem ironic with the slower than typical job gains experienced overall in this recovery, tight labor markets are a precondition to rising employment costs to firms (benefits, as well as wages and salaries) and this may very well set the stage for inflationary pressures to continue. This could be further “fueled” by price pressures from higher energy prices as they creep into the economy’s core segments. A potentially encouraging aspect is that corporate cash flows have been at all time highs in this recovery and are expected to remain at healthy levels. This may serve as a buffer in accommodating real wage demands, as well as helping prop up consumer spending down the road a couple of years from now.

Real income per capita also showed a strong rebound in 2005-2006. However, growth is not at anywhere near the rates witnessed in the latter half of the 1990s. The data in Figure 14 show average real income per capita growing steadily to slightly above \$38,000 by 2013, in 2000 dollars. While 2.0 percent average annual growth is the forecast norm in the out years, it should be noted that this is relative to population growth of about 1 percent per year nationally. So, real aggregate personal income is increasing at a 3 percent

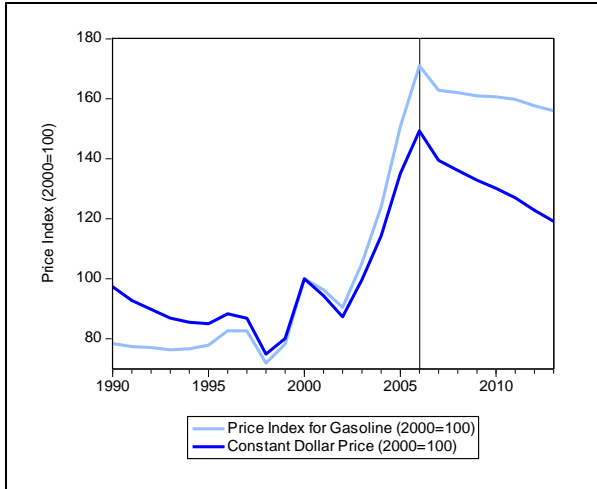
clip per year, a healthy rate that augurs well for sustained personal consumption spending by households.

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



Prices for gasoline and diesel fuel are among the important determinants of fuel usage in light vehicles (passenger cars and light trucks under 10,000 pounds). Figure 15 gives the recent history and the forecast for the price of gas at the national level from the *Global Insight’s* macro-econometric forecasting model as of the December 2006 forecast. Gasoline prices in their baseline or most probable outlook suggest the spike in prices will have occurred in the 2005-2007 timeframe. The outlook from the macro-forecasting model is for prices to slowly recede out through 2013 to levels only marginally lower than present. Based on our experience over the past four years, this indicated stability probably belies the recent volatility inherent in the global marketplace for oil. Thus, actual experience is likely to stray from the projected path shown, and perhaps in highly unpredictable ways. It is worth noting that, when adjusted for inflation, the chart reveals that the real price of gas declines in the forecast period to levels comparable to those seen in 2004. This is consistent with most base case forecasts based on market fundamentals.

**Figure 15: Gasoline Prices (Regular Unleaded)**



A prominent feature of the recent recession was the collapse in capital spending by businesses (CAPEX), largely precipitated by the overexpansion in the technology sector as a direct outgrowth of the “dot.com” euphoria. This was unlike the 1990-91 downturn, which was largely driven by weaker retail spending by consumers and by an associated inventory adjustment in consumer durables. Figure 16 underscores the very sharp decline in the growth of CAPEX (inflation adjusted) from 1998 to 2001. Currently, the baseline outlook is for investment spending to continue to exhibit real growth in excess of the overall economy, after smartly rebounding in 2004-

06. However, as seen in the chart, it is unlikely that growth will approach the rates observed during much of the 1990s. This component of aggregate demand, as well as improvements in exports, is expected to be a key element in sustaining the expansion going into its more intermediate stages. In addition, strong spending here is vital for sustaining long-term gains in productivity. Not only does strong business spending domestically augur well for Oregon’s manufacturing sectors, but the prospects of strong plant and equipment spending worldwide does as well.

**Figure 16: GDP Growth and Business Capital Spending**

