

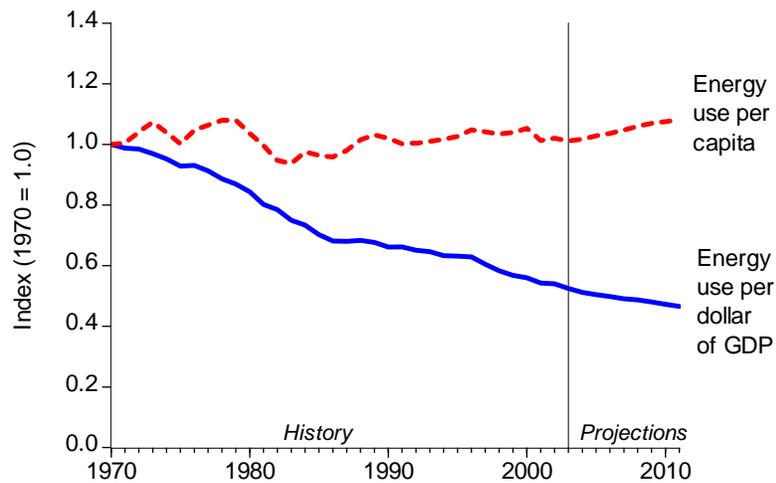


Summary of Transportation Economic and Revenue Forecasts

June 2005
(Released September 2005)

Prepared by
Financial Services
Central Services Division

Energy use per capita and per dollar of gross domestic product



Source: US Dept. of Energy, Energy Information Administration

FOREWORD

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

This forecast is consistent with Department of Administrative Services May 2005 forecast and the associated baseline macroeconomic forecast from *Global Insight Inc.* (GII).

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This document is also available on the ODOT Web Site:

<http://www.oregon.gov/ODOT/CS/EA/reports.shtml> and scroll down to “Transportation Revenue Forecasts.”

On the Cover:

With news about the prices of crude oil and gasoline grabbing the headlines since early spring, it is reasonable to wonder about the impact to the State Highway Fund Revenue Forecast. After all, unless the law of demand has been repealed, shouldn't we be seeing a drop in gas consumption from such a material rise in prices at the pump? The effects from rapidly rising and sustained increases in gasoline and diesel fuel prices are largely twofold.

First, there is the direct effect of how the relative price of gas affects driving behavior and fuel consumption. However, this is a "derived demand" because gasoline is not desired by consumers for its own sake, unlike most consumer goods and services. Transportation and fuel usage is an intermediate element in being able to consume goods and services and to engage in leisure pursuits. Because of this, the effects of price on consumption, while they exist, are somewhat muted. This is especially true in the short-run when the stock of light vehicles is largely fixed.

The second, and by far the more dominant impact of continued increases in fossil fuel costs, is the overall impact on the pace of economic activity. Transportation is an intermediate step in much of our personal and work/business activities. Since price spikes are like a lump sum tax, it diverts spending away from normal spending patterns. Moreover, in the case of oil it represents a leakage in production and income creation outside the domestic economy. Such a large and perverse "tax" would lower the pace of activity and lead to lower economic growth. It is this result that poses the larger impact on overall gas demand and concomitant impact on fuel tax revenues to the State Highway Fund.

Such effects have been of considerable concern of late – that high gas and oil prices would tip the economy toward recession, customarily a period when fuel tax revenues can take a turn downward. Prices have remained buoyant since the spring of 2004, interrupted with brief respites from time to time. This situation has led many to question why the impacts on economic activity have not been more pronounced. One of the key explanations resides in the energy intensity of the nation's economy¹. This information is captured in the chart on our cover.

Energy's role, both as a raw material for processing into intermediate goods and as the basis for individual and commercial travel, has gradually declined over the past 35 years. The figure reflects that the nation as a whole uses only one-half the BTUs per dollar of GDP than it did in the 1970s. This significant move is attributable to several sources. First, there was the steep rise in fuel prices relative to other factors of production, which encouraged dramatic factor substitution (capital for energy inputs) during the 1970s and early 1980s. Second, there were gains due to regulations and standards promulgated to promote energy efficiency; these also occurred largely in the 1980s.

With this greatly diminished energy intensity the recent price spikes have not carried anywhere near the same punch to the economy that would have occurred decades ago when crude oil prices rose dramatically, by over 900 percent in the span from 1973 to 1980. On the other hand, since the spring of 2004 prices for crude are up about 75 percent. So, not only has the price run-up been considerably less than experienced in the

¹ Of course, this is all final energy, not just petroleum-based fuels.

decade of the 1970s, the reliance of the economy on energy in general has been greatly reduced in terms of a dollar of GDP.

The second relationship portrayed in the chart gives some additional perspective regarding the role of energy use in the economy in terms of its use on a per capita basis. Here, in contrast to declining energy intensity of the economy over time, there has been a nearly constant relationship in energy use per person. This indicates that while we are relying on less energy inputs per unit of production – and will continue to do so – final energy demand will continue to grow with population gains, but only somewhat proportionally.

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EXECUTIVE SUMMARY

Revenues in fiscal year 2005 (FY05) came in nearly as projected in our prior forecast. Our forecast was off by only \$1.8 million in gross revenues, or about 0.2 percent. All three of the major revenue groups (Motor Carrier, DMV, and motor fuel taxes) were also individually close to forecasts. In the latter case of motor fuels, the accuracy was a little surprising in that the economic outlook on which we based forecast simulations seriously missed the steep and persistent rise in oil and gas prices. Our prediction for motor fuels was only off by minus 0.6 percent, indicating a very slight over-prediction. The diesel fuel component – “use fuels” – served to prop up overall motor fuels consumption.

Motor carrier (predominately weight-mile taxes) and DMV gross revenue totals came in very close as well. To the extent that diesel fuel prices, which have been even more sensitive to oil prices than gasoline prices, affect operating costs of shippers and freight haulers, the favorable forecasting performance is also a little surprising. Widespread use of fuel surcharges may have insulated this sector somewhat from the crunch of higher fuel costs, coupled with strength in demand for truck-based shipping services overall.

As a result of 2003 Legislation, this forecast reflects 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 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 expansion in the long-run. The fee and tax increases embodied in the bill apply to both passenger vehicles and heavy vehicles, as well as to an increase in the weight-mile tax for heavy trucks.

Partly as a result of this legislation, gross revenues rose in FY04 by nearly \$70.5 million to \$828.1 million, a 9.3 percent increase over FY03. The amount attributable to OTIA III in its entirety was \$49.2 for the partial fiscal year. For FY05, the forecast increase in revenue year-over-year is \$72.8 million, or nearly 8.8 percent more. In the post 2005 years, the incremental effects of HB 2041 fee and tax increases are completely phased in and growth in revenues flattens out considerably thereafter. FY06 and FY07 gross revenues show only modest gains at this point, 0.8 and 1.4 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 through the first half of 2005 has been particularly encouraging. Real growth and job gains finally got in gear during the past year and a half. Real Gross Domestic Product (GDP) growth came in at 4.4 percent for 2004, well above the economy’s long-run potential of roughly 3.5 percent. 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 the first half of 2005 have been significant and somewhat more consistent month to month, notwithstanding a “soft patch” encountered this past spring and summer due to inventory adjustments. The slow down in productivity recently 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 2006 to 2007 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 or slightly less. This is still considered by economists to be strong growth, particularly vis-à-vis the economies of the member nations in the Organization for Economic Co-operation and Development (OECD).

Oregon’s employment recession has faded from view. The expected rebound in Oregon’s employment growth finally materialized in the last 18 months. Through the first half of this year, the gains have been above expectations. 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 percent, but it currently hovers around 6.5 percent. It should continue to slide down 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 6.3 percent over the 2005-2008 timeframe. This is slightly under

the long-term average experienced over the past thirty years.

Although the state’s job growth has been stellar, growth rates start to diminish slightly in the balance of this year and the years thereafter. Indications are that the strongest job growth will be in the Professional and Business Services, Transportation and Warehousing, Health Care, and Leisure and 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 pre-recession peak in the current state forecast through 2011. On a gross state product basis, however, it should be noted that the state’s manufacturing sector will show that it has passed its peak value from 2000 in either 2004 or 2005, when the data is officially released.

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 problems in moving goods at west coast ports have 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 the table below.

Percentage Change in Transactions for Key Transportation Variables

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	03	04	05	06	07	08	09
MOTOR VEHICLE FUELS (GALLONS)	-0.2%	0.6%	0.8%	1.4%	2.1%	1.8%	1.8%
ORIGINAL CLASS C LICENSES	3.7%	-5.1%	3.6%	1.4%	5.3%	6.5%	3.3%
PASSENGER VEHICLE REGISTRATIONS	-1.9%	-1.0%	0.6%	-0.5%	0.1%	6.1%	1.0%
TITLE TRANSFERS	-0.2%	-2.8%	-1.0%	-1.0%	0.4%	1.0%	0.1%
TRUCKING ACTIVITY (WEIGHT-MILE)	8.4%	5.6%	5.3%	-0.4%	1.6%	1.8%	2.1%

This forecast is consistent with Department of Administrative Services May 2005 forecast and the associated baseline macroeconomic forecast from *Global Insight Inc. (GII)*. When possible, the same model structure that was used in the past several forecasts is retained here for motor fuels and DMV, subject to only updated data for model estimation. There have been major changes in our structural approach to forecasting Motor Carrier revenues and transactions that are very promising. These will remain under close evaluation during the foreseeable future, as will the results from our old specifications of this module.

NATIONAL ECONOMIC OUTLOOK

After a very strong performance of real growth in 2004, the economy appears to be downshifting from overdrive, albeit not without some slips here and there. Last year witnessed real growth at a 4.4 percent rate, well above trend and even above potential. Despite this impressive growth, overall employment gains were not completely up to par. Strong gains in productivity – output per hour worked – allowed businesses to meet growing demand without commensurate hiring. 2005 is also expected in the forecast to finish the year with above trend growth, although only slightly. (A caveat resides with the second half of the year, however, given the recent shocks to the economy from severe storm activity in the Gulf Coast region. The current consensus is that whatever diminution these shocks cause to growth – and growth is still expected – it will be made up with stronger growth in the first of 2006, perhaps spilling over beyond that.)

Beyond 2005, the national outlook in terms of real economic growth is somewhat weaker than in our prior forecast. Growth is about

one-half of a percentage point lower, largely due to the impact of higher energy prices and the shifts in spending that they precipitate. By 2008, however, oil prices are expected to drop to levels more closely aligned with fundamentals and real growth becomes higher by about a half percentage point in that and the ensuing years. Employment growth, on the other hand, is weaker than in our prior forecast, and it remains weaker uniformly over the 2005-2011 forecast horizon. Table 1 summarizes these, as well as several other economic indicators. This is the baseline outlook from *Global Insight's* forecast, used in both our forecasting model and in the state economic forecasting model. Further discussion of the national economic outlook is relegated to an appendix for the interested reader. In addition, a detailed treatment of the national, as well as 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, Percentage Change in Key Variables

	Actual		Forecast				
	CY 03	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09
CONSUMER PRICE INDEX (CPI)	2.3%	2.7%	2.7%	2.0%	2.1%	2.3%	2.5%
EMPLOYMENT	-0.3%	1.1%	1.7%	1.4%	0.8%	0.8%	0.8%
HOUSING STARTS	8.3%	5.4%	1.0%	-9.7%	-2.4%	-0.7%	-1.0%
POPULATION	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
PRIME LENDING RATE (level)	4.7%	4.1%	4.3%	6.2%	7.3%	7.3%	7.5%
REAL GROSS DOMESTIC PRODUCT (GDP)	3.0%	4.4%	3.7%	3.0%	2.8%	3.1%	3.1%
REAL PERSONAL INCOME	1.3%	3.3%	3.3%	3.8%	3.2%	3.5%	3.3%
REAL PRICE OF GASOLINE	14.2%	15.4%	8.3%	-6.1%	-3.4%	-2.1%	-2.0%
UNIT SALES OF NEW AUTOMOBILES	-6.0%	-1.7%	-1.6%	1.2%	-1.1%	1.1%	-0.3%

Overall, the dominant issues in the macro outlook, if not globally, remain what the prognosis is 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. Regardless, their continued persistence has tended to ignite some skepticism. Even a pessimistic scenario at this juncture, which carries a one in five probability, does not have the economy sinking into a recession.

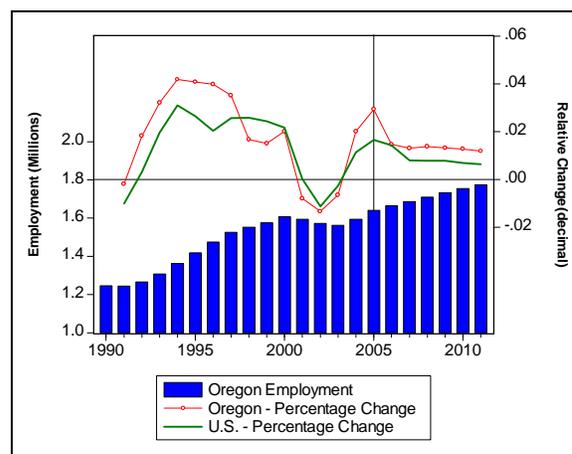
OREGON ECONOMIC OUTLOOK

The rebound in Oregon's employment growth continues to reflect considerable progress into the first half of 2005. For the past year and a half, the gains are the strongest since 1997. Indeed, the state has been among the top five or so of all states in percentage job growth over this period. The leading sources of this expansion have resided with Oregon's durable good manufacturers, construction industry, and professional/business services. The health services sector has also been prominent among the growth areas. Attendant with this job expansion, Oregon's unemployment rates have also displayed marked improvement. In the summer of 2003, the rate peaked at 8.7 percent, now it seems stuck at around the 6.5 percent level. It is expected to slide down yet remain above 6.0 percent. The unemployment rate from the household surveys is the result of more than just hiring decisions by businesses; it also reflects the complex mix of decisions by people to enter or exit the labor force. This suggests some ambiguity in using the unemployment rate as a gauge to assess growth prospects.

Figure 1 contains a chart of the annual data on the state's Total Nonfarm Employment, as well as the forecast from the Office of Economic Analysis. During the first quarter of this year, the state appears to have convincingly regained all the jobs lost from the downturn in 2001-2002. This was ahead of the schedule expected in our last report. Coupled with the protracted job recovery, job growth will peak in 2005, and then to decline gradually to about the 1.5 percent range thereafter. This expansion path is slimmed down somewhat from the prior outlook, which was closer to 2 percent annually. 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. Some of this is attributable to our higher population growth rates in the forecast horizon.

Figure 1: Oregon and U.S. Employment Trends



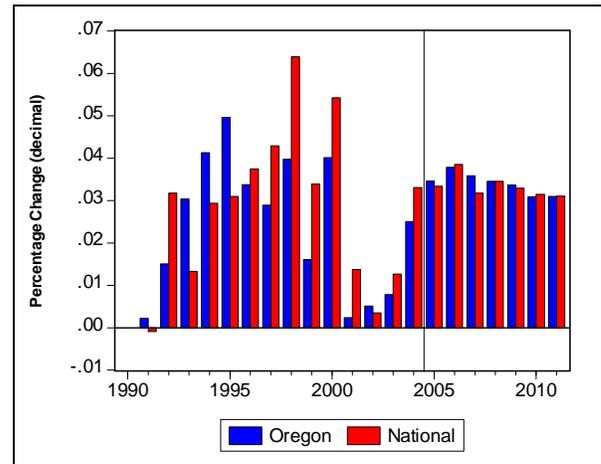
Recovery in our manufacturing sector continues to be bleaker in the sense that the jobs peak in this sector, established early 1998, is never regained in the forecast out to 2011. Our vaunted manufacturing sector, anchored by high-tech manufacturing, does continue gradual growth from its low point in early 2003. However, this sector is forecast to face serious head winds in early 2006 and remains essentially flat out to 2011. Despite this, the state forecast is for the pattern in manufacturing to be at a pace marginally better than for the nation as a whole. Our non-durables manufacturing industries, which partly reflect the state's natural resource strengths, are projected to stay stagnant over the forecast horizon. These include primarily food and kindred products processing, paper and allied products, and printing/publishing activities. The outlook for these sectors is 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, and Utilities sectors. In early 2005 Wholesale Trade employment recovered to its peak levels achieved in 2000. Retail Trade employment surpassed its late 2000 peak in the mid part of 2005 as well. The Transportation, Warehousing, and Utilities industries similarly regained their employment highs in mid 2005. While all three sectors reflect strong gains in 2005, the outlook beyond this year is for marginally slower growth than in our prior forecast. As for other sectors across the board, stronger growth in 2004-05 seems to have borrowed from growth in the out years of the economic 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 on the following page. The overall assessment is for 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 has Oregon's income growth slightly outpacing the nation for most years. Figure 2 provides a comparison of Oregon and the U.S. going back to 1991, along with the current base forecast. Despite some major revisions to the income data across the states, the personal income outlook is not materially different than our prior forecast.

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



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 slightly outpace 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 continued, elevated prices for oil and gas have started to seriously hurt consumers' 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. Despite rising short-term interest rates, long-term interest rates have remained low and serve, along with personal income gains, to prop up the housing market. While Oregon's housing market is not considered to be as frothy as some others, and hence not likely to be susceptible to a bubble, it is expected to slow down substantially in 2006 and beyond if long-term rates move upward as forecast. Slowing productivity gains augur 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 of some economic indicators for the state is contained Table 2 below.

Table 2: Oregon Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY 03	CY 04	CY 05	CY 06	CY 07	CY 08	CY 09
EMPLOYMENT--TOTAL	-0.7%	2.0%	2.9%	1.5%	1.3%	1.4%	1.3%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	-6.9%	1.5%	1.8%	0.7%	1.4%	2.2%	1.2%
EMPLOYMENT--RETAIL TRADE	-0.5%	2.0%	2.9%	1.3%	1.5%	1.4%	1.5%
EMPLOYMENT--TRANSPORTATION	-0.4%	1.7%	3.4%	0.6%	1.4%	1.9%	2.1%
EMPLOYMENT--WHOLESALE TRADE	1.0%	0.9%	2.6%	0.8%	0.1%	-0.1%	0.1%
EMPLOYMENT--WOOD PRODUCTS	-4.5%	2.8%	1.9%	-3.4%	-3.1%	-2.1%	-1.1%
HOUSING STARTS	13.0%	8.8%	7.0%	-4.9%	-2.6%	-2.4%	-2.2%
POPULATION	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
PORTLAND METRO PRICE INDEX	1.3%	2.6%	2.8%	2.4%	2.2%	2.5%	2.6%
REAL PERSONAL INCOME	0.8%	2.5%	3.5%	3.8%	3.6%	3.5%	3.4%
TIMBER HARVEST	2.3%	-0.1%	-2.6%	-2.5%	-0.8%	0.3%	0.3%

TRANSPORTATION TRANSACTIONS

Table 3 contains the highlights of changes in the number of transactions for the major transportation variables in the current forecast. Additional discussion of the Motor

Fuels, Motor Carrier, and DMV forecasts are provided below.

Table 3: Percentage Change in Transactions for Key Transportation Variables

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	03	04	05	06	07	08	09
MOTOR VEHICLE FUELS (GALLONS)	-0.2%	0.6%	0.8%	1.4%	2.1%	1.8%	1.8%
ORIGINAL CLASS C LICENSES	3.7%	-5.1%	3.6%	1.4%	5.3%	6.5%	3.3%
PASSENGER VEHICLE REGISTRATIONS	-1.9%	-1.0%	0.6%	-0.5%	0.1%	6.1%	1.0%
TITLE TRANSFERS	-0.2%	-2.8%	-1.0%	-1.0%	0.4%	1.0%	0.1%
TRUCKING ACTIVITY (WEIGHT-MILE)	8.4%	5.6%	5.3%	-0.4%	1.6%	1.8%	2.1%

Motor Fuels Usage

The growth in the use of taxable gasoline and diesel fuels in Oregon has hit somewhat of a soft patch. Notwithstanding, in both 2003 and 2004, actual consumption has slightly outpaced our prior forecasts. For example, in our last published forecast (September 2004), we projected only a 0.1 percent increase in usage for 2004, in other words virtually flat. However, actual gallons taxed rose 0.6 percent; still somewhat anemic but in excess of the forecast.

The surprise in the outcomes highlighted above is not really that sales have stayed somewhat tepid or flat, but rather that they didn't drop off materially in the face of fairly steep rises in gas and oil prices. On an annual average basis, for instance, consumers confronted gasoline prices at the pump that

were over 40 percent higher in 2004 than in 2002, the year before the onslaught of the increases. Similarly, crude oil prices were well over 50 percent higher in 2004 than in 2002. Despite these very elevated, and somewhat sustained, price levels, gas consumption has not markedly deteriorated. This pattern has been common across the entire nation as well.

A number of factors account for the relative buoyancy of gas/diesel taxable sales, and these serve to shore up our outlook for what is in store. First, the far most dominate factor in gas consumption statewide is the pace of overall economic activity. Job growth and increased volumes of business underlie strong demand for transportation services and travel demand. Consumers and businesses do

respond to higher prices for motor fuels, but in the net the price effects can appear to be somewhat muted. Recent reactions to the higher prices have been tempered or counteracted by changing spending habits in the short-run. Consumers collectively have been saving less or dipping into assets in order to cover the rising share of energy spending in their budgets. Spending on energy may be displacing spending on other more discretionary goods or services in the typical household budget. This can't endure indefinitely; if prices remain elevated, pretty soon permanent adjustments in mode choice and in the fuel efficiency of the passenger vehicle fleet will begin to take place so as to restore consumers' more traditional spending patterns.

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

Despite the turbulence in the petroleum markets, our forecasting model did very well in forecasting usage in 2004. For the year as a whole, the forecast model under-predicted usage by only about 0.42 of a percentage point. It under-predicted usage somewhat in the spring months of the year, but was very nearly on for most of the remaining months.

Motor Carrier

Trucking activity and the freight industry affect the amount of revenue available to the State Highway Fund through the weight-mile tax, heavy vehicle registration fees, and other motor carrier fees. Each of these revenue sources is influenced by changes in general

economic conditions within Oregon and the nation as a whole. Because growth in many of the economic variables affecting motor carrier activity appears moderate for the next several years, this forecast of motor carrier revenues reflects this softness.

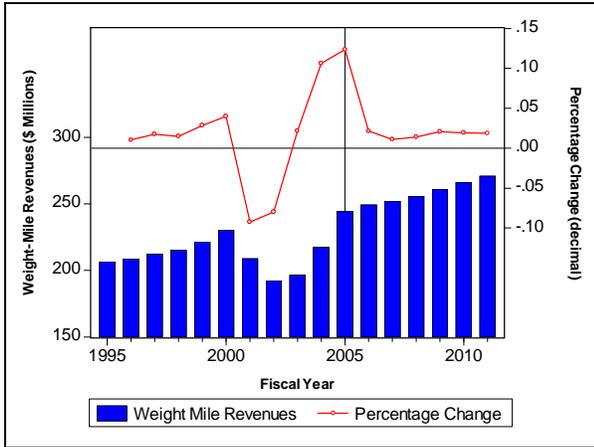
The weight-mile tax is the largest source of trucking-related revenue. This highway use tax applies only to trucks with a gross weight over 26,000 pounds. Generally, the tax paid by a motor carrier varies with the weight of the vehicle and the number of miles traveled. Certain qualifying motor carriers,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

In FY05, total weight-mile revenues reached \$245.0 million. Weight-mile revenues grew by 12.8 percent over the FY04 level, just slightly above the 11.5 percent growth rate predicted by the last forecast. The current forecast, which replicates the methodology of previous forecasts while incorporating updated economic data, predicts much slower growth than this for future years. At this time, an average annual growth rate of approximately 1.6 percent is expected through FY11.

An estimation of weight-mile "transactions" provides the basis for the current forecast of weight-mile revenues. This methodology, also used for prior forecasts, constructs a measure of weight-mile transactions by dividing revenue for a given time period by the average weight-mile tax rate paid by the typical heavy vehicle. The forecasting model incorporates several employment measures as well as real gasoline prices to estimate the weight-mile transactions. The resulting transaction forecast is then converted back to revenues. This methodology will be reevaluated for the next forecast and a more

disaggregate approach of revenue estimation will also be examined.

Figure 3: Weight Mile Revenues



Another source of revenues to the State Highway Fund emanates from heavy vehicle registrations, trip permits, and other fees paid by motor carriers. Previous forecasts summed these elements to construct a composite measure of revenues. This composite was then estimated using a model that took into account several economic variables that influence trucking activities. The current forecast adopts an alternative approach, estimating each of the eight largest components separately. This method allows for additional flexibility by allowing each model to take into account varying renewal cycles and only those economic factors that influence each particular revenue source.

International Registration Plan (IRP) registration and miscellaneous fee revenues make up the largest component of heavy vehicle revenues, equaling approximately 47 percent of the total. 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. The IRP fees paid to Oregon totaled approximately \$13.8 million in FY05. This total reflects growth of 15.3 percent over

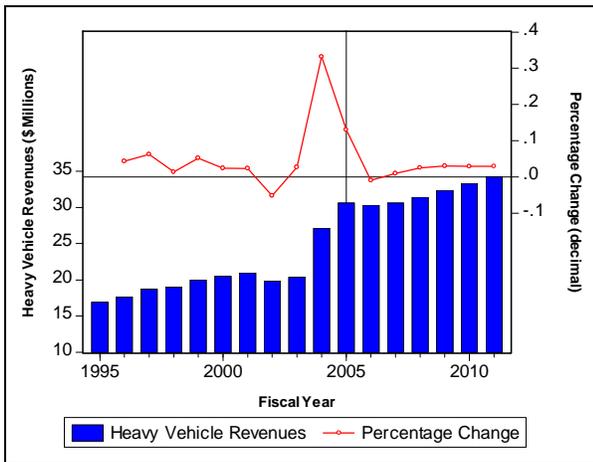
FY04 levels. Much of the increase in total IRP revenue paid to Oregon was driven by sizable growth in registration fee revenue from carriers based outside of the state; this revenue grew by 25.7 percent during FY05. To forecast IRP revenues, separate models were used to estimate registration revenues from Oregon-based carriers, registration revenues from carriers based elsewhere, and miscellaneous fees related to the IRP program. Adding these forecasted revenues provides an estimate for total IRP revenues. Overall, the forecast shows growth averaging about 3.2 percent for the remaining years of the forecast period.

Truck registration through DMV and Commercial truck registration fees also compose large portions of the total heavy vehicles revenues, with 29 percent and 20 percent shares respectively. Trucks weighing between 8,001 and 26,000 pounds pay registration fees through DMV rather than the Motor Carrier Transportation Division (MCTD). Registration fees for these vehicles equaled \$8.7 million in FY05, an increase of 17.6 percent from the previous year. Commercial registration fees apply to trucks weighing more than 26,000 pounds that are Oregon-based and operate exclusively in Oregon. Approximately \$7.0 million in Commercial registration fees were collected in FY05, growing 3.6 percent from the previous year's level. Slower growth is forecast for future years, with each of these types of registration revenues expected to experience a decline in FY06 followed by increasing growth throughout the forecast period. The remainder of the heavy vehicle revenues comprises revenues from Commercial Trip Permits, Heavy Trailer registrations, and Charitable Vehicle registrations. Each of these components, which total to less than \$1 million per year, was also forecasted individually.

When taken in total, heavy vehicle revenue reached \$30.5 million in FY05, reflecting

12.5 percent growth over the previous year. Although forecasted separately, estimation of each component of heavy vehicle revenues took into account renewal cycles, areas of operation, and relevant economic conditions. Summing these forecasts suggests a slight decline in heavy vehicle revenues during FY06. The growth rate is expected to increase slowly throughout the remaining years of the forecast period, approaching a 3 percent annual growth rate by FY11.

Figure 4: Heavy Vehicle Revenues



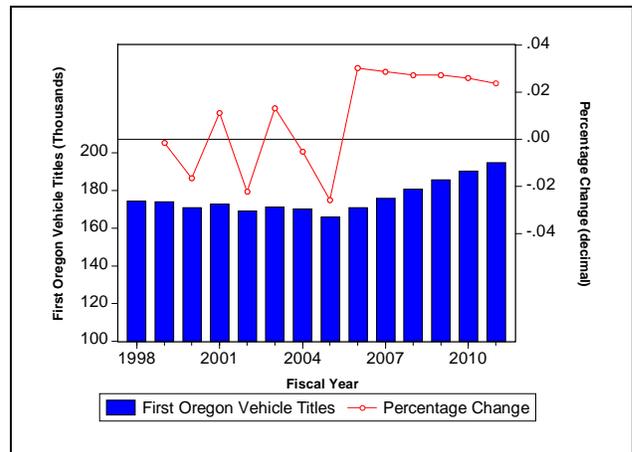
Driver and Motor Vehicles

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

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

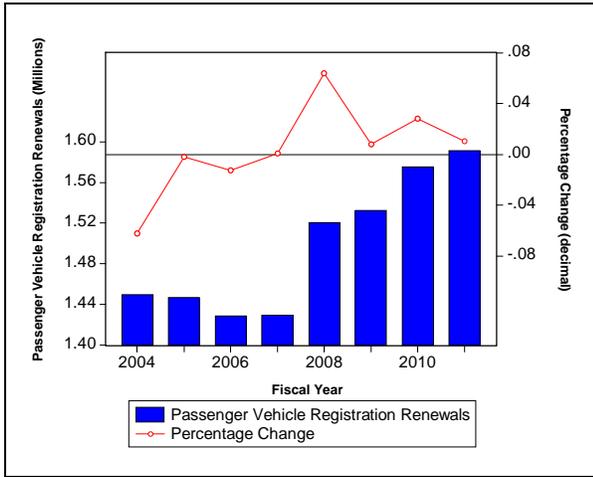
real per capita personal income are two variables in the model predicting the level of light vehicles titled in Oregon for the first time. Both of these variables are predicted to grow in the forecast years and contribute to a growth in vehicles titled in Oregon for the first time. These titles combined with new light vehicle titles are important in predicting the number of passenger vehicle registrations.

Figure 5: First Oregon Title Transactions



Passenger vehicle registrations are an illustrative example of legislative changes affecting the volume of DMV activities. 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. Due to these changes, passenger registration renewals show a decline beginning in 2004, which will last until 2008 when new vehicles registered in 2004 come up for renewal.

Figure 6: Passenger Vehicle Registration Renewals



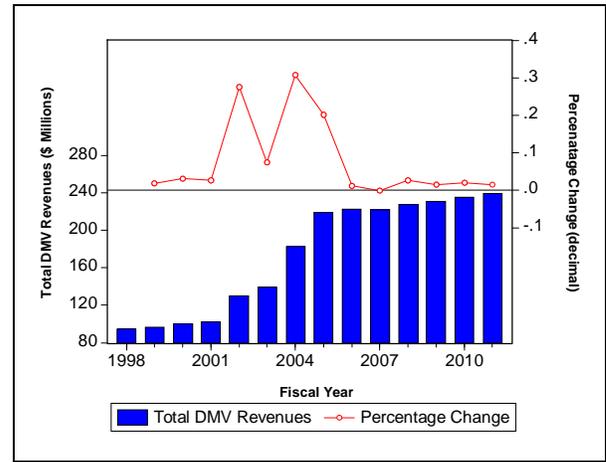
Changes in the level of transaction activity and legislative changes in fee structures impact the amount of revenue available. The OTIA III legislation passed during the 2003 session significantly increased fees for a number of DMV activities. How the fee increases affect Oregonians' willingness to pay for the same activities is an important consideration. With more than a year of data since the OTIA III fee increases were implemented, the results are beginning to show a lower level of activity than would be expected without the fee increases. The reduced volumes of transactions generally occur where the percent changes in fees are the greatest, or where the fees represent a larger share of the value of the vehicle.

Overall, the DMV revenue forecast differs little from the previous forecast, as Table 4 shows. Refinements in the estimating equations account for the shift from forecasting lower revenues in next couple years to higher revenues in the out years.

Total DMV revenues are shown in Figure 7. The increase in revenues beginning in FY02 result from fee increases in the 2001 and 2003 sessions and other legislative adjustments. The full effect of the OTIA III related fee increases begin in FY05, and growth is

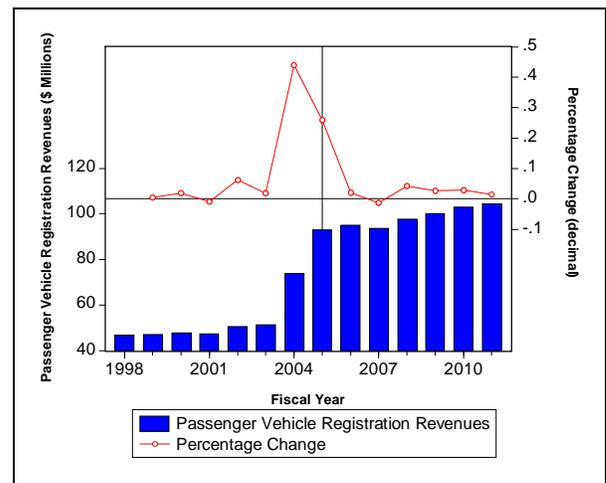
predicted to be mild through the forecast period.

Figure 7: Total DMV Revenues



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

Figure 8: Passenger Vehicle Registration Revenues

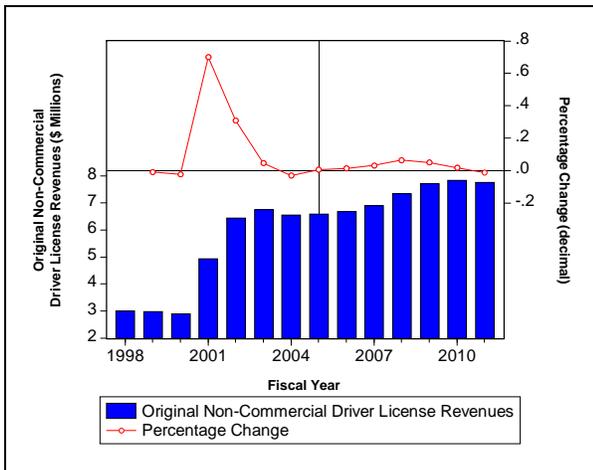


Vehicle registrations make up the majority of DMV revenues, highlighted by passenger vehicle registrations, which alone account for 80 percent of vehicle registration revenues, and 40 percent of total DMV revenues. Registration revenues are expected to total almost \$107.7 million in FY05, an increase of

23.4 percent over FY04, a result of the first full fiscal year following the OTIA III fee increases. Beyond FY05 growth fluctuates in FY06 and FY07 due to shifting from four to eight year registration renewals, and growth from FY08 through FY11 declines from 3.9 percent to 1.7 percent.

Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues are expected to total almost \$34.7 million in FY05, an 11.7 percent increase over FY04. Revenue growth in the forecast period is expected to fluctuate between slight positive and slight negative growth, with an overall impact of negligible growth through FY11. A shift from a four to eight year renewal cycle for commercial and non-commercial licenses is largely responsible for the negative growth. However, positive growth in original non-commercial driver license revenue is also expected to increase through FY10 as net migration growth trends upward and the population of 16-year olds increases.

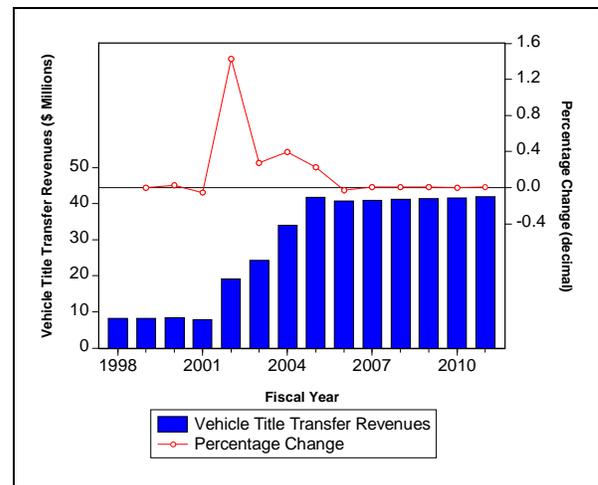
Figure 9: Original Non-Commercial Driver License Revenue



Vehicle titles include title transactions such as light and heavy new, first to Oregon, and transfers, as well as salvage titles, and all other DMV transactions not elsewhere included. The largest component of the titles section is title transfers, accounting for over

50 percent of revenues in this section. Vehicle title revenues for FY05 are expected to be \$77.1 million, an 18.6 percent increase over FY04. However, as noted above, FY05 is the first full fiscal year under the OTIA III fee increases and consequently the year-over-year percentage change primarily reflects the fee increases, not an increase in demand. Beyond FY05 revenue growth is expected to be fairly constant around 1 percent per fiscal year through the forecast period.

Figure 10: Vehicle Title Transfer Revenues



HIGHWAY FUND REVENUE FORECAST

Our current forecast shows only a slight change in the overall gross revenues from our prior outlook. Both forecasts fully 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 principally driven by updates to the model's data sets of transportation transactions used for model estimation purposes and from 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. The latter two are the primary sources for the changes, but again even these are comparatively minor as our summary of the state economic backdrop would indicate.

On an after-the-fact basis, it appears as if the last forecast predicts FY05 almost exactly, being off by just 0.2 percent. Transfers and collection/administrative costs remain virtually unchanged from last time, so the net revenues before apportionment do not materially change.

We now forecast gross revenues to be slightly lower than before by very modest amounts. For FY06 through FY07 we now expect revenues to be \$3.8 million and \$7.1 million lower than in the prior forecast. On an average annual basis this difference translates into only a 0.5 percent change from the prior forecast. This is not a material change overall given the precision of the estimated model. The forecast for FY08 is \$6.3 million lower as well, but the forecast for FY09 year is virtually unchanged. The current forecast shows revenues growing by 1.9 percent in FY09 and FY10, and by 1.7 percent in FY11.

Among the broad components of the forecast (fuel taxes, DMV collections, and Motor Carrier revenues), fuel taxes are uniformly lower across the forecast period by \$7 to \$8 million annually. However, this shortfall is made up with somewhat stronger DMV revenues based on growing demographics. There are few changes to the outlook for heavy vehicle revenue sources from last time out to FY08; they then become a little lower in the latter part of the forecast horizon.

HB 2041 Legislation – OTIA III

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 reflected 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 sustain Oregon's economic expansion over the long run.

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 increased, beginning January 1, 2004, to \$55 from \$30, an 83 percent increase. Passenger vehicle registration fees rose to \$54 from \$30 every two years, an 80 percent increase. Registration for mopeds and

motorcycles also rose, as did the fee for other specialty classes of vehicles such as government vehicles, fixed load vehicles and special interest vehicles.

In the Motor Carrier Division, weight-mile tax rates on heavy vehicles in excess of 26,000 pounds increased 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 increased by 9.9 percent as well. Registration fees for heavy commercial vehicles were 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://egov.oregon.gov/ODOT/docs/2003LegislativeSummary.pdf>.

OTIA III – Local Portion

Another piece of legislation passed in the 2003 Regular Session was HB 2388. In combination with Sections 47-56 of HB 2041, revenues from this law generate the “Local Portion” of OTIA III, which are apportioned exclusively among local government entities and are non-pledgeable for supporting OTIA III debt-serviced projects. The law required that car dealers and towers scrape the registration stickers off vehicle license plates if the dealer does not process the DMV title and registration papers at the time of sale. The buyer of a vehicle with scraped stickers is required to purchase a 10-day trip permit from the dealer to allow time for completing the title transfer with the DMV. These buyers would also have to pay the DMV for replacement stickers, along with the necessary title transfer fee and, possibly, registration renewals.

At the time of the last forecast, there was not sufficient data reflecting the implementation of this new legislation to provide an empirical basis for the generated revenue. The effects of the law are complicated by focusing on increments in revenue over what would be generated had the legislation not passed and been enacted. The midpoint from a probable range was used as an educated “placeholder” until more experience was gained and additional data became available to produce reliable estimates.

Two empirical studies were undertaken to determine the incremental revenue effects produced by HB 2388. One was a dealer survey to randomly sample representative transactions in the year prior to enactment of the law. This constituted our baseline information. Post-HB 2388, a random sample from the special NS-Trip Permits that were sold to car buyers was developed to make statistical inferences about compliance behavior under the new law. This is the post-enactment case and its difference with the baseline serves as the estimated incremental revenues attributable to the sticker scraping law. Our analysis of the data thus far indicates approximately \$2.03 million in incremental revenues on an annual basis, about twice the placeholder estimate that was employed in the prior forecast. Future forecasts of the revenue will be adaptively adjusted to the additional information as it becomes available and is analyzed, and it is unclear at this juncture how stable this revenue will be.

The HB 2388 revenue is combined with the other revenue components due to fee increases associated with Sections 47-50 of HB 2041. County and city governments are then apportioned this revenue on a 60/40 basis, respectively. Total revenues under the Local Portion average \$7.62 million over the five-year period spanning to FY09. They grow slightly to an annual level of about \$8.2 million by FY10.

Highway Fund Forecast

Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes constitute the largest source of revenue at forecast levels of approximately \$410 to \$450 million per year. These are levied on motor fuels used in passenger vehicles, as well as in light to medium trucks that are not subject to the weight-mile tax. The weight-mile tax is levied on heavy trucks on a per mile basis, but is graduated in proportion to the weight of the truck. For very large truck configurations, there is a tax schedule that slightly lowers the tax rates and is based on the number of axles. Weight-mile taxes are the second largest source of revenue at forecast levels of \$250 to \$270 million a year. Licensing, vehicle registrations, and titles make up the next primary source of State transportation revenue with gross annual forecast revenues of \$220 to \$240 million.

DMV Revenues

DMV collections are summarized in Table 4 under the updated economic and demographic forecast for the state, along with the impacts from the significant effects from legislation passed in 2003. Gross revenues from DMV transactions are about \$4.3 million higher for FY06 than in the prior forecast. This difference from the last forecast shrinks in FY07 but quickly grows in FY08 and FY09. Revenues are projected to grow at annual rates of 1.9 percent in FY10 and 1.5 percent in FY11. Implementation of HB 2041 does very little to affect collections, administration, and program costs. As a result, the fee increases largely flow through to net revenues. The last row of Table 4 summarizes the change in net revenue from the previous forecast.

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

	Actual	Forecast							Forecast			
	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
VEHICLE REGISTRATIONS	\$87.3	\$107.7	\$109.5	\$108.4	\$112.7	\$115.6	\$118.9	\$120.9	\$194.9	\$217.9	\$228.3	\$239.8
DRIVER LICENSES & OTHER	\$31.1	\$34.7	\$35.2	\$35.2	\$35.7	\$35.2	\$35.4	\$35.9	\$65.8	\$70.3	\$70.8	\$71.3
TITLE, PLATE & OTHER	\$65.0	\$77.1	\$77.5	\$78.2	\$79.3	\$80.3	\$81.2	\$82.4	\$142.1	\$155.7	\$159.6	\$163.6
TOTAL DMV COLLECTIONS	\$183.4	\$219.5	\$222.1	\$221.8	\$227.6	\$231.1	\$235.6	\$239.2	\$402.9	\$444.0	\$458.7	\$474.7
Change from Previous Forecast	\$0.4	\$0.8	\$4.3	\$3.7	\$7.6	\$11.1	NA	NA	\$1.3	\$8.0	\$18.6	NA
COLLECTION/ADMINISTRATION & PROGRAM COST	(\$55.6)	(\$56.8)	(\$60.4)	(\$62.8)	(\$65.2)	(\$67.8)	(\$71.1)	(\$72.5)	(\$112.4)	(\$123.2)	(\$133.0)	(\$143.7)
TRAFFIC SAFETY TRANSFER	(\$0.6)	(\$0.6)	(\$0.7)	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.9)	(\$0.9)	(\$1.2)	(\$1.5)	(\$1.6)	(\$1.7)
DEPARTMENT OF EDUCATION TRANSFER	(\$0.1)	\$0.0	(\$0.1)	\$0.0	(\$0.1)	\$0.0	(\$0.1)	\$0.0	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
ODOT CENTRAL SERVICES ASSESSMENT	(\$14.9)	(\$15.2)	(\$17.1)	(\$17.8)	(\$18.5)	(\$19.3)	(\$20.2)	(\$20.6)	(\$30.1)	(\$35.0)	(\$37.8)	(\$40.8)
REVENUE TRANSFER TO OTIA I & II	(\$7.4)	(\$6.5)	(\$7.0)	(\$6.8)	(\$6.9)	(\$6.8)	(\$6.8)	(\$6.8)	(\$14.0)	(\$13.7)	(\$13.6)	(\$13.6)
REVENUE TRANSFER TO OTIA III	(\$38.0)	(\$75.0)	(\$76.0)	(\$76.0)	(\$78.6)	(\$80.4)	(\$82.2)	(\$83.3)	(\$113.0)	(\$152.1)	(\$159.1)	(\$165.5)
NET DMV REVENUE	\$66.7	\$65.4	\$60.8	\$57.6	\$57.5	\$56.0	\$54.2	\$55.1	\$132.2	\$118.5	\$113.5	\$109.3
Change from Previous Forecast	\$1.4	\$1.5	\$2.5	\$1.9	(\$2.3)	(\$0.7)	NA	NA	\$2.9	\$4.4	(\$3.0)	NA

Motor Carrier Revenues

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and heavy vehicle registration fees. The revenue detail is contained in Table 5, along with projected collection/administration costs and transfers out. Total revenues for FY06 are unchanged from the prior forecast. For the next three years, gross revenues are a little lower, on the range of \$3 to \$6 million, due to the slightly softer economic outlook. For FY10 and FY11, this segment reflects annual growth of 2.0 percent. The last row of Table 5 provides a summary of the aggregate differences of net revenues from the prior forecast.

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

	Actual	Forecast							Forecast			
	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
WEIGHT-MILE TAX	\$217.1	\$245.0	\$248.1	\$250.9	\$254.5	\$259.8	\$264.8	\$269.8	\$462.0	\$499.0	\$514.3	\$534.6
IRP, COMMERCIAL VEHICLE REGISTRATIONS, & RUAF*	\$21.2	\$25.1	\$25.4	\$25.7	\$26.2	\$26.9	\$27.6	\$28.3	\$46.2	\$51.0	\$53.2	\$56.0
TRIP PERMITS & OTHER HEAVY	\$2.2	\$3.7	\$3.7	\$3.7	\$3.7	\$3.7	\$3.8	\$3.9	\$5.8	\$7.5	\$7.4	\$7.7
TOTAL MCTD COLLECTIONS	\$240.4	\$273.7	\$277.2	\$280.3	\$284.4	\$290.4	\$296.2	\$302.0	\$514.1	\$557.5	\$574.8	\$598.2
Change from Previous Forecast	(\$4.1)	\$0.4	\$0.0	(\$3.0)	(\$5.9)	(\$5.5)	NA	NA	(\$3.8)	(\$3.0)	(\$11.5)	NA
COLLECTION/ADMINISTRATION & PROGRAM COST	(\$21.7)	(\$22.2)	(\$23.0)	(\$23.9)	(\$24.8)	(\$25.8)	(\$27.0)	(\$27.6)	(\$43.9)	(\$46.8)	(\$50.6)	(\$54.6)
IFTA COST RECOVERY**	\$1.0	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2	\$1.3	\$1.9	\$2.1	\$2.3	\$2.5
ODOT CENTRAL SERVICES ASSESSMENT	(\$5.5)	(\$5.6)	(\$5.8)	(\$6.1)	(\$6.3)	(\$6.6)	(\$6.9)	(\$7.0)	(\$11.0)	(\$11.9)	(\$12.9)	(\$13.9)
REVENUE TRANSFER TO OTIA I & II	(\$10.3)	(\$9.7)	(\$10.3)	(\$10.1)	(\$10.2)	(\$10.1)	(\$10.2)	(\$10.1)	(\$19.9)	(\$20.4)	(\$20.2)	(\$20.2)
REVENUE TRANSFER TO OTIA III	(\$11.2)	(\$32.5)	(\$32.7)	(\$32.9)	(\$33.4)	(\$34.1)	(\$34.8)	(\$35.6)	(\$43.8)	(\$65.6)	(\$67.4)	(\$70.4)
NET MCTD REVENUE	\$192.7	\$204.7	\$206.6	\$208.4	\$210.9	\$215.1	\$218.6	\$223.0	\$397.5	\$415.0	\$426.1	\$441.6
Change from Previous Forecast	(\$1.8)	\$3.6	\$3.4	\$1.0	(\$5.2)	(\$3.2)	NA	NA	\$1.9	\$4.4	(\$8.4)	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 collects fuel tax revenues. Fuel tax collections are shown in Table 6. The fuel tax revenue forecasts have been very accurate, despite the price volatility in petroleum markets the past two years. Actual revenues versus forecast revenues for the past several years have been within plus/minus 1 percent.

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

The current forecast shows slightly less fuel tax revenue than the prior forecast. In the years FY06 and beyond, it is about \$8 million per year less, or about 2 percent lower than before. This stems from the somewhat slower rebound in fuel consumption owing to dramatically higher gas prices and to some minor recalibration to the fuels time series data. However, just as fuels usage recovers from the pause due to the 2001 recession and the recent spike in gas and diesel prices, so do fuel tax revenues. Revenues are forecast to increase at an annual rate of 2.4 percent in FY07, after being nearly flat in FY06, and then increasing at somewhat more tempered rates of about 1.8 percent on average thereafter.

In the current biennium, revenues are forecast to be up about 1.9 percent, or a little more than \$15.1 million, from the 2003-05 biennium. This is somewhat weaker than the prior projection of 4.2 percent or \$34.0 million in revenue growth. Revenue growth is forecast to regain strength in the next biennium, increasing by 4.0 percent or \$33.4 million.

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

With an average annual base of approximately \$424 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 \$17.7 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 on average about \$28 million gross and \$25 million net a year.

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

	Actual	Forecast							Forecast			
	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
MOTOR FUELS TAX	\$404.3	\$407.7	\$408.7	\$418.4	\$426.3	\$434.2	\$442.1	\$449.5	\$812.0	\$827.1	\$860.5	\$891.6
TOTAL FSB COLLECTIONS	\$404.3	\$407.7	\$408.7	\$418.4	\$426.3	\$434.2	\$442.1	\$449.5	\$812.0	\$827.1	\$860.5	\$891.6
Change from Previous Forecast	\$2.3	\$0.6	(\$8.1)	(\$7.8)	(\$8.0)	(\$7.2)	NA	NA	\$2.9	(\$15.9)	(\$15.1)	NA
COLLECTION/ADMINISTRATION COST	(\$1.0)	(\$1.0)	(\$1.2)	(\$1.3)	(\$1.3)	(\$1.4)	(\$1.5)	(\$1.5)	(\$2.0)	(\$2.5)	(\$2.7)	(\$2.9)
ODOT CENTRAL SERVICES ASSESSMENT	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.4)	(\$0.4)	(\$0.4)
SNOWMOBILE TRANSFER	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.8)	(\$1.4)	(\$1.4)	(\$1.4)	(\$1.5)
CLASS I ATV TRANSFER	(\$1.3)	(\$1.7)	(\$2.1)	(\$2.3)	(\$2.5)	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.0)	(\$4.4)	(\$5.3)	(\$6.4)
MARINE BOARD TRANSFER	(\$5.5)	(\$5.5)	(\$5.3)	(\$5.3)	(\$5.3)	(\$5.3)	(\$5.3)	(\$5.3)	(\$11.0)	(\$10.6)	(\$10.6)	(\$10.6)
CLASS II ATV TRANSFER	(\$0.9)	(\$1.0)	(\$1.1)	(\$1.2)	(\$1.3)	(\$1.4)	(\$1.5)	(\$1.6)	(\$1.8)	(\$2.4)	(\$2.7)	(\$3.2)
CLASS III ATV TRANSFER	(\$0.7)	(\$0.6)	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.9)	(\$1.0)	(\$1.0)	(\$1.3)	(\$1.5)	(\$1.7)	(\$2.0)
TRANSPORTATION OPERATING FUND (TOF)	(\$7.9)	\$0.0	(\$8.1)	\$0.0	(\$8.3)	\$0.0	(\$8.5)	\$0.0	(\$7.9)	(\$8.1)	(\$8.3)	(\$8.5)
AVIATION TRANSFER	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.3)
REVENUE TRANSFER TO OTIA I & II	(\$19.5)	(\$17.7)	(\$18.4)	(\$18.7)	(\$18.6)	(\$18.8)	(\$18.6)	(\$18.8)	(\$37.3)	(\$37.1)	(\$37.3)	(\$37.4)
REVENUE TRANSFER TO OTIA III	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
NET FSB REVENUE	\$366.6	\$379.2	\$370.7	\$387.7	\$387.0	\$402.6	\$401.6	\$416.9	\$745.8	\$758.4	\$789.6	\$818.5
Change from Previous Forecast	\$1.0	\$1.4	(\$7.8)	(\$7.8)	(\$9.5)	(\$10.0)	NA	NA	\$2.4	(\$15.6)	(\$19.4)	NA

Highway Revenue Forecast Summary

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.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 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11
TOTAL MCTD COLLECTIONS	\$240.4	\$273.7	\$277.2	\$280.3	\$284.4	\$290.4	\$296.2	\$302.0	\$514.1	\$557.5	\$574.8	\$598.2
TOTAL FSB COLLECTIONS	\$404.3	\$407.7	\$408.7	\$418.4	\$426.3	\$434.2	\$442.1	\$449.5	\$812.0	\$827.1	\$860.5	\$891.6
TOTAL DMV COLLECTIONS	\$183.4	\$219.5	\$222.1	\$221.8	\$227.6	\$231.1	\$235.6	\$239.2	\$402.9	\$444.0	\$458.7	\$474.7
TOTAL GROSS HIGHWAY FUND	\$828.1	\$900.9	\$908.1	\$920.5	\$938.3	\$955.7	\$973.8	\$990.7	\$1,729.0	\$1,828.6	\$1,894.0	\$1,964.5
COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	(\$198.7)	(\$244.2)	(\$262.5)	(\$259.2)	(\$275.0)	(\$274.0)	(\$291.2)	(\$287.6)	(\$442.8)	(\$521.7)	(\$548.9)	(\$578.8)
NET REVENUE TO HIGHWAY FUND	\$629.4	\$656.7	\$645.5	\$661.3	\$663.3	\$681.8	\$682.6	\$703.1	\$1,286.2	\$1,306.8	\$1,345.1	\$1,385.7
OTIA I & II SET ASIDE - memo	\$37.3	\$33.9	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$71.2	\$71.2	\$71.2	\$71.2
DEBT SERVICE (OTIA I & II)	(\$7.3)	(\$16.3)	(\$14.3)	(\$33.7)	(\$34.2)	(\$33.8)	(\$33.8)	(\$33.8)	(\$23.6)	(\$48.0)	(\$67.9)	(\$67.6)
OTIA III Dedicated Revenues - memo	\$45.5	\$99.5	\$100.6	\$100.8	\$103.5	\$105.7	\$108.1	\$110.0	\$145.0	\$201.3	\$209.2	\$218.0
DEBT SERVICE (OTIA III)	\$0.0	(\$20.7)	(\$20.7)	(\$26.2)	(\$47.6)	(\$69.6)	(\$82.9)	(\$84.0)	(\$20.7)	(\$46.9)	(\$117.2)	(\$166.8)
NET OTIA I & II REVENUE FOR DISTRIBUTION	\$30.0	\$17.6	\$21.3	\$1.9	\$1.4	\$1.8	\$1.8	\$1.8	\$47.6	\$23.2	\$3.3	\$3.6
NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	\$19.3	\$21.6	\$22.0	\$22.1	\$23.2	\$24.2	\$25.2	\$26.0	\$40.9	\$44.1	\$47.4	\$51.2
NET OTIA III REVENUE FOR DISTRIBUTION -STATE	\$26.2	\$57.2	\$57.9	\$52.4	\$32.6	\$11.9	\$0.0	\$0.0	\$83.4	\$110.3	\$44.6	\$0.0
TOTAL NET REVENUE FOR DISTRIBUTION	\$704.9	\$753.2	\$746.8	\$737.7	\$720.6	\$719.7	\$709.6	\$730.9	\$1,458.1	\$1,484.4	\$1,440.3	\$1,440.6

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

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

	Distribution Percentage	Actual	Forecast								Forecast			
		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	BI 03-05	BI 05-07	BI 07-09	BI 09-11	
COUNTY APPORTIONMENT (ORS 366.524)	24.38%	\$152.6	\$158.3	\$155.6	\$159.4	\$159.8	\$164.2	\$164.4	\$169.4	\$310.9	\$315.0	\$324.1	\$333.9	
SPECIAL COUNTY		(\$0.50)	(\$0.50)	(\$0.50)	(\$0.50)	(\$0.50)	(\$0.50)	(\$0.50)	(\$0.50)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	
COUNTY APPORTIONMENT (OTIA I & II)	30.00%	\$9.0	\$5.3	\$6.4	\$0.6	\$0.4	\$0.5	\$0.5	\$0.5	\$14.3	\$7.0	\$1.0	\$1.1	
COUNTY APPORTIONMENT (OTIA III)	25.48%	\$11.6	\$25.3	\$25.6	\$25.7	\$26.4	\$26.9	\$27.5	\$28.0	\$36.9	\$51.3	\$53.3	\$55.6	
DEDICATED TO DEBT SERVICE (OTIA III)	85.00%	\$0.0	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$35.2)	(\$35.2)	(\$35.2)	
NET COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	\$2.0	\$4.4	\$4.5	\$4.5	\$4.7	\$4.8	\$4.9	\$4.9	\$6.5	\$9.0	\$9.5	\$9.8	
NET COUNTY APPORTIONMENT		\$174.8	\$175.3	\$174.0	\$172.0	\$173.2	\$178.5	\$179.3	\$184.8	\$350.0	\$346.0	\$351.7	\$364.1	
CITY APPORTIONMENT (ORS 366.524)	15.57%	\$97.5	\$101.1	\$99.4	\$101.8	\$102.1	\$104.9	\$105.0	\$108.2	\$198.6	\$201.1	\$207.0	\$213.2	
SPECIAL CITY		(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	
CITY APPORTIONMENT (OTIA I & II)	20.00%	\$6.0	\$3.5	\$4.3	\$0.4	\$0.3	\$0.4	\$0.4	\$0.4	\$9.5	\$4.6	\$0.7	\$0.7	
CITY APPORTIONMENT (OTIA III)	16.99%	\$7.7	\$16.9	\$17.1	\$17.1	\$17.6	\$18.0	\$18.4	\$18.7	\$24.6	\$34.2	\$35.5	\$37.0	
DEDICATED TO DEBT SERVICE (OTIA III)	15.00%	\$0.0	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	(\$3.1)	(\$6.2)	(\$6.2)	(\$6.2)	
NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	\$1.4	\$2.9	\$3.0	\$3.0	\$3.1	\$3.2	\$3.3	\$3.3	\$4.3	\$6.0	\$6.3	\$6.5	
NET CITY APPORTIONMENT		\$112.1	\$120.9	\$120.1	\$118.7	\$119.4	\$122.8	\$123.4	\$126.9	\$232.9	\$238.8	\$242.3	\$250.3	
HIGHWAY DIVISION (including small City/County)	60.05%	\$375.9	\$389.9	\$383.2	\$392.6	\$393.6	\$404.6	\$405.0	\$417.3	\$765.9	\$775.8	\$798.2	\$822.3	
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)	
HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	\$15.0	\$8.8	\$10.7	\$0.9	\$0.7	\$0.9	\$0.9	\$0.9	\$23.8	\$11.6	\$1.6	\$1.8	
HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	\$26.2	\$57.2	\$57.9	\$58.0	\$59.5	\$60.8	\$62.2	\$63.3	\$83.4	\$115.8	\$120.3	\$125.4	
DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	\$0.0	\$0.0	\$0.0	(\$5.5)	(\$26.9)	(\$48.9)	(\$62.2)	(\$63.3)	\$0.0	(\$5.5)	(\$75.8)	(\$125.4)	
STATE APPORTIONMENT (OTIA III)	0.00%	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
NET HIGHWAY DIVISION		\$416.4	\$455.2	\$451.0	\$445.2	\$426.2	\$416.6	\$405.2	\$417.5	\$871.6	\$896.1	\$842.9	\$822.6	
HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		\$52.5	\$56.7	\$55.8	\$57.6	\$57.7	\$59.6	\$59.7	\$61.5	\$109.2	\$113.5	\$117.2	\$121.2	
NET COUNTY APPORTIONMENT		\$174.8	\$175.3	\$174.0	\$172.0	\$173.2	\$178.5	\$179.3	\$184.8	\$350.0	\$346.0	\$351.7	\$364.1	
NET CITY APPORTIONMENT		\$112.1	\$120.9	\$120.1	\$118.7	\$119.4	\$122.8	\$123.4	\$126.9	\$232.9	\$238.8	\$242.3	\$250.3	
NET HIGHWAY DIVISION		\$416.4	\$455.2	\$451.0	\$445.2	\$426.2	\$416.6	\$405.2	\$417.5	\$871.6	\$896.1	\$842.9	\$822.6	
NET HIGHWAY FUNDS REVENUE		\$703.2	\$751.4	\$745.0	\$735.9	\$718.9	\$717.9	\$707.9	\$729.2	\$1,454.6	\$1,480.9	\$1,436.8	\$1,437.1	
SPECIAL COUNTY/CITY TRANSFERS TO ALLOTMENT FUND		\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$3.5	\$3.5	\$3.5	\$3.5	
TOTAL NET REVENUES FOR DISTRIBUTION		\$704.9	\$753.2	\$746.8	\$737.7	\$720.6	\$719.7	\$709.6	\$730.9	\$1,458.1	\$1,484.4	\$1,440.3	\$1,440.6	

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

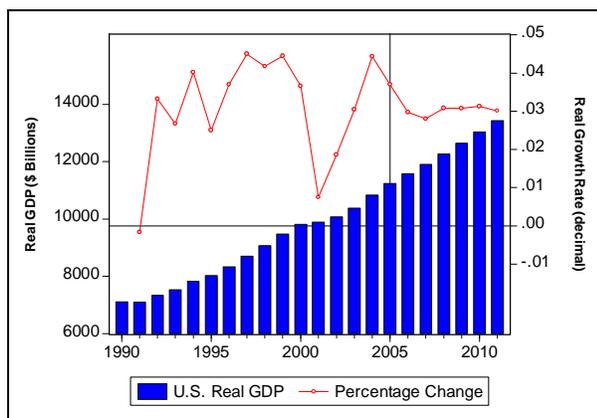
APPENDIX

National Economic Outlook

The overall pattern expected for the economy is somewhat similar to that in the prior forecast, just less robust across the board. Highlights of the key elements in the national outlook follow.

Figure 11 gives the recent trends in real growth of GDP, along with the base case forecast over the 2005-2011 time frame. The rapid recovery out of the downturn in 2001 looks as if it will be limited to 2004. Real growth in 2005 is going to be only slightly above trend, coming in at 3.7 percent. However, the annual real growth rates level off in the post-2005 period, owing largely to a marked slow down in consumer spending. Business fixed investment outlays and export growth look to pick up some of the slack. The growth rates of the 3 percent in the out years are consistent with the growth in the labor force and productivity gains.

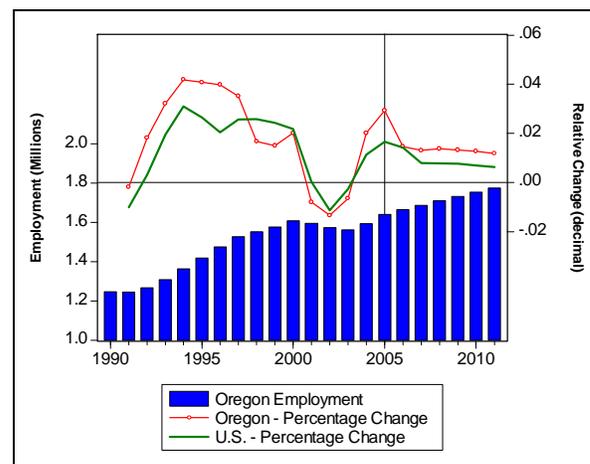
Figure 11: Real GDP and Real GDP Growth



With such trend rates of growth, coupled with gains in productivity, the outlook for overall job growth is somewhat less sanguine. Figure

12 reproduces the employment chart from the Oregon Outlook section to this report. The dashed line represents annual growth in employment nationally, while the solid line and the bar portion apply to Oregon data for comparison purposes. The chart reveals good job growth nationally in 2005, the strongest gain in the economic recovery so far. (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 workers 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 now lower than the average annual growth of overall jobs during the period from 1991 through 2002. Thus, marked improvements from here that continue to lower the nation's unemployment rate will likely face considerable head winds.

Figure 12: Oregon and U.S. Employment Trends

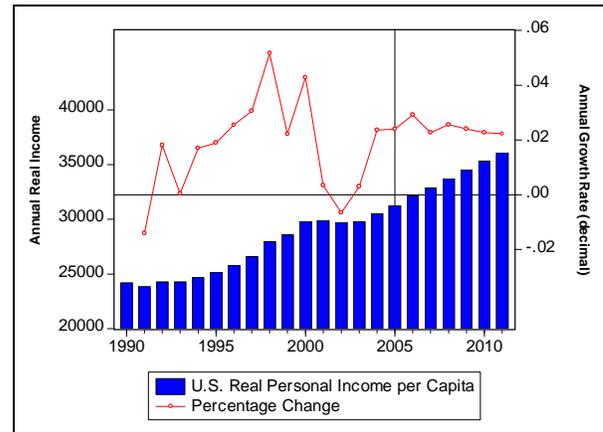


With the national unemployment rate at 4.9 percent, concerns are starting to surface that

slack in the labor markets may be dissipating. While this may seem ironic with the slower than typical job gains experienced overall in this recovery, tight labor markets are a precondition to rising employment costs to firms (benefits, as well as wages and salaries) and this may very well set the stage for inflationary pressures to build. This could be further “fueled” by price pressures from higher energy prices as they creep into the economy’s core segments. The prospects for monetary policy going from “measured” to “neutral” in this instance would seem to be dimmed somewhat. A counterpoint to this scenario may be that conditions in labor markets are not captured well in today’s unemployment rate. Other important dimensions to labor markets such as duration of unemployment and discouraged workers leaving the labor force flesh out some the complexities beyond the simple unemployment rate from a resource point of view.

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 13 show average real income per person growing steadily to about \$33,000 by 2011, in 2000 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 of about 1 percent per year.

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



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 14 gives the recent history and the forecast for the price of gas at the national level from the *Global Insight’s* macro-econometric forecasting model as of the May 2005 forecast. In nominal dollars (the light, dashed line), gasoline prices have remained persistently high over much of 2003-2005 period, in contrast to the prior forecast. The current baseline outlook from the macro forecasting model is for prices to start to recede in 2006. They regain some slight, upward momentum thereafter. Based on our experience over the past thirty years, this indicated stability probably belies the volatility inherent in the global marketplace for oil. Thus, actual experience is likely to stray from the projected path shown in highly unpredictable ways. It is worth noting that when adjusted for inflation the chart reveals that the real price of gas declines in the forecast period to levels comparable to those seen in 2003. This is consistent with most market-fundamentals based forecasts.

Figure 14: Gasoline Prices (Regular Unleaded)

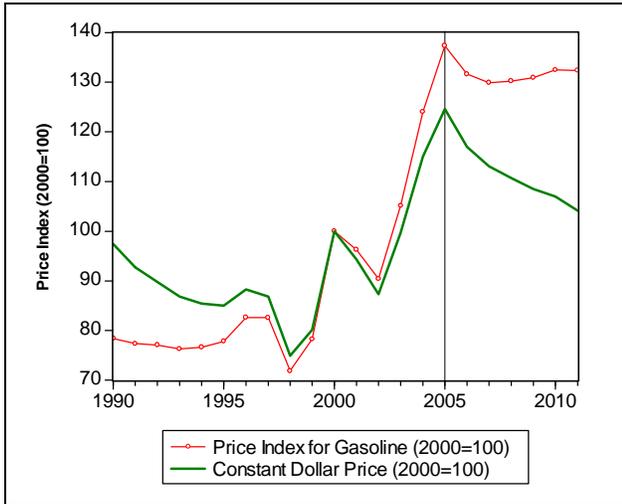
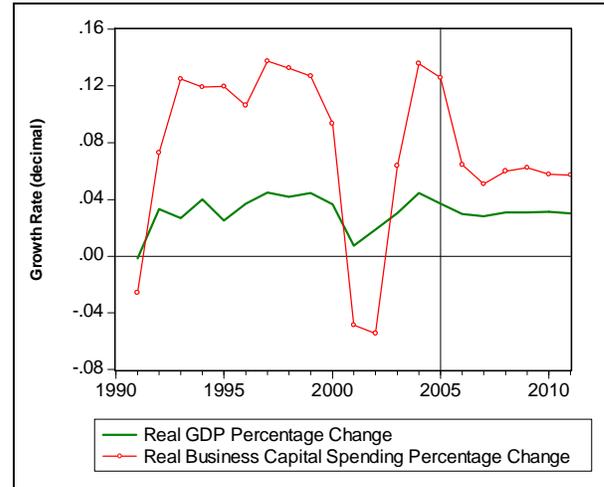


Figure 15: Business Growth and Business Capital Spending



A unique feature of the recent recession was the bust in capital spending by businesses (CAPEX). This is unlike the 1990-91 downturn, which was largely driven by both weaker retail spending by consumers and by the associated final-goods inventory adjustments. Figure 15 underscores the very sharp decline in the growth of CAPEX (inflation adjusted) from 1998 to 2001. Currently, the baseline outlook is for investment spending to continue to exhibit real growth in excess of the overall economy, after smartly rebounding in 2004-05. However, as seen in the chart, it is unlikely that growth will approach the rates observed in much of the 1990s. This component of aggregate demand, as well as improvements in exports, is expected to be a key element in sustaining the expansion going into its intermediate phase. In addition, strong spending here is vital for sustaining long-term gains in productivity.