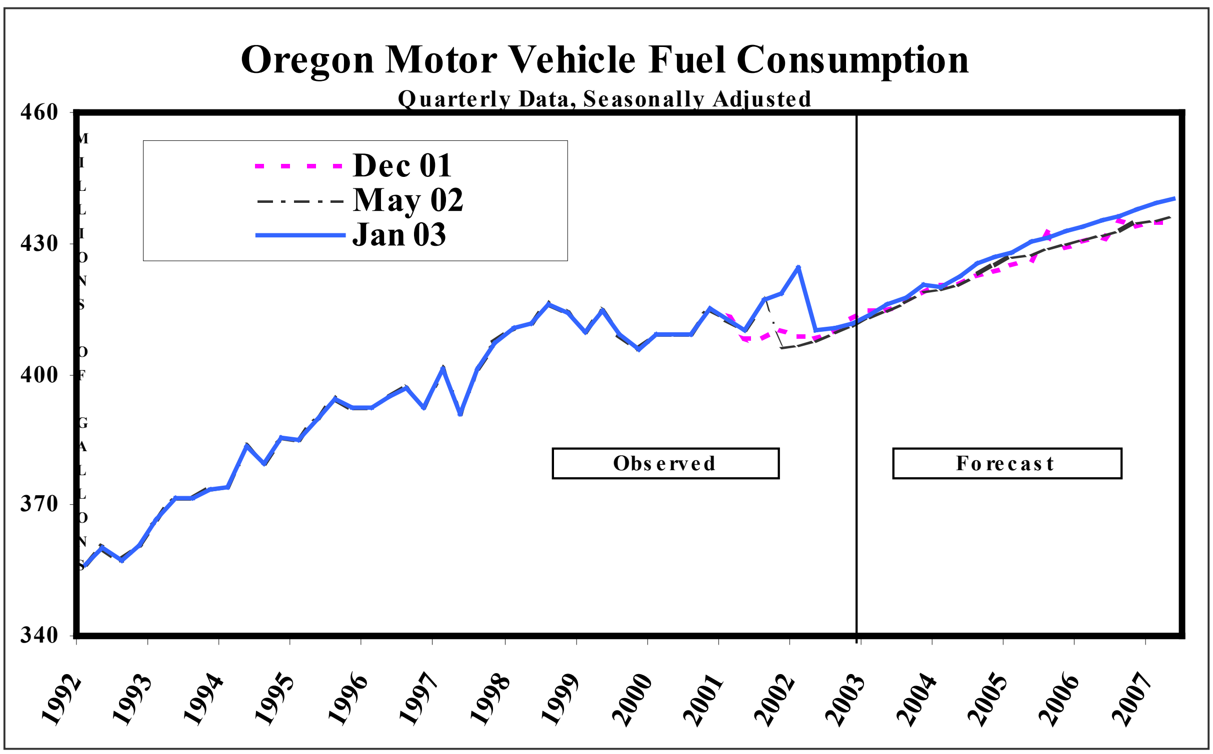
OREGON DEPARTMENT OF TRANSPORTATION

SUMMARY OF TRANSPORTATION ECONOMIC & REVENUE FORECAST

JANUARY 2003

PREPARED BY FINANCIAL SERVICES, CENTRAL SERVICES DIVISION



Issued February 2003

Foreword

This document summarizes 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 decision making processes. The intent of this document is to open the revenue forecasting process to public review. This forecast is reviewed by a group of experts from the various divisions in ODOT.

This document is issued in conjunction with the current General Fund revenue forecast and is consistent with the assumptions and results contained therein. This forecast is consistent with Department of Administrative Services December 2002 forecast and the associated November 2002 Global Insight, Inc. baseline forecast.

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This document can also be found on ODOT WebPages: http://www.oregon.gov/odot/CS/FS/

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EXECUTIVE SUMMARY

This forecast is based on third quarter 2002 national economic variables and forecasts, released in late November by Global Insight, Inc. (GII). All Oregon transportation-related data are not yet known for the fourth quarter, although certain national data now are available through December and have been beneficial for understanding events shaping 2003. This forecast continues to use the same models as used in the June forecast, but with updated historical data and a longer forecast horizon. This forecast will form the revenue base for the Oregon Department of Transportation's (ODOT) legislative analysis.

The current law forecast for the Highway Fund for the next two biennia is little changed from the June 2002 forecast. Revenue for the current 2001-03 biennium appears to be a bit higher than expected, primarily from slow conversion of weight-mile tax payments to a quarterly basis. Highway Fund collections (at the gross level) for the 2001-03 biennium are forecasted to be $21.9 million higher than the June 2002 forecast, or 1.5 percent. Net revenue to the Highway Fund is expected to be $20.5 million more. For the 2003-05 biennium, the gross revenue forecast is slightly less, by $2.5 million, and $4.0 million lower for 2005-07.

According to the Bureau of Economic Analysis's final adjustment of the numbers, Real Gross Domestic Product (GDP) increased at a 4.0 percent annual rate in the third quarter of 2002, and estimated to slow to a 0.7 rate in the fourth quarter. Annual Real GDP growth is preliminarily estimated at 2.4 percent for 2002. Final demand for 2002, technically reported as "final sales of domestic product," is expected to have increased 1.7 percent in real growth over 2001. Personal Income, after adjusting for inflation, is forecasted to move up with GDP growth in the next few years. For C.Y. 2002, U.S. Real Personal Income growth is expected to reach 1.8 percent. Personal Income in Oregon has not kept the same growth profile as national personal income. Oregon has lagged the national growth rate for the past three years, but is forecasted to match or exceed the national rate over the next six years.

Inflation has not been an issue during the recession. Prices are expected to increase modestly in 2003 but remain under 3 percent annual increase over the next four years. The price of oil, elevated but fluctuating on fears of U.S. military action against Iraq, Middle East and Venezuelan strife, and a cold winter in most of the U.S., has increased in recent weeks. The GII national forecast shows a sharp spike in oil prices when the expected war commences, but then prices are expected to drop sharply within a few weeks.

The Oregon economy was in recession, and the third quarter seasonally adjusted gain in employment indicates that we are into a recovery. The general consensus is that the recession bottomed-out in the third quarter of 2002 and that there will be improved, yet slow, growth in 2003. Export data for Oregon are encouraging, as are vehicle registrations, gas consumption and other licensing data.

Trade sector employment was weak in 2002 with a U.S. decline of 1.0 percent. Battered by a weakening economy, declining stock market, and the events of September 11, consumers slowed their spending in 2001and 2002. Lower production, employment and stock market indices continued through most of 2002. Consumer sentiment in 2002 rose, fell, and has risen again to about the level of just before September 11.

Motor vehicle fuel consumption increased in 2002. Final data are not yet in, but the monthly trends are encouraging. The national recession and economic weakness in Oregon were expected to exert downward pressure on fuel consumption in 2002. However, it seems that the lower price of fuel offset other negative forces. This forecast for motor vehicle fuel, aggregated over the forecast horizon, remains virtually unchanged from the previous forecast, with revenue only slightly higher than earlier forecasted in the 2001-03 biennium.

The economic slowdown in Oregon and the nation has impacted the trucking activity and the goods moving industry in a significant way. Many of the economic factors influencing motor carrier activities were in negative territory. In contrast to motor fuels, the forecast for growth in motor carrier activity is revised downward for the next three biennia. This revision is a reduction in the rate of growth based on forecasted changes to the underlying economic variables. Revenues will be affected by the rate of conversion to quarterly weight-mile reporting.

Following the passage of the 2001 DMV Fee bill and Oregon Transportation Investment Act (HB 2142), the official title transaction forecasts have been evaluated. Recent data (through November 2002) were compared to October 2001 - June 2003 estimates, and to the 2003-05 biennium estimate in this forecast. Since the base forecast for title transactions developed in December 2000, Oregon has experienced the effects of a recession, of September 11 and high unemployment. Oregon now is expected to have about an 8 percent reduction in overall title transactions by June 30, 2003 compared to the original December 2000 forecast. Because of the structure of HB 2142, the State portion of the Highway Fund has lost ground. Small windfalls have been transferred to stakeholders funded with ATV and Snowmobile title funds. In addition to the reduction in title revenue to the Highway Fund, there has been a shortfall from the utility permit portion of HB 2142. Although $4.6 million was expected to go into the Highway Fund to support bonding, it was redirected by legislation to the Transportation Operating Fund. Less than $1 million has been realized to date from utility permits. The impact of the shortfall, therefore, is absorbed by the state share of the Highway Fund and by the Transportation Operating Fund.

Following on Table 1 is a summary of percentage changes, on a biennial basis, for key transportation transaction variables. Biennial revenue changes, summarized at the end of this report, will vary somewhat from these transaction percentages, as there are various fee changes and filing transitions that are being phased-in.

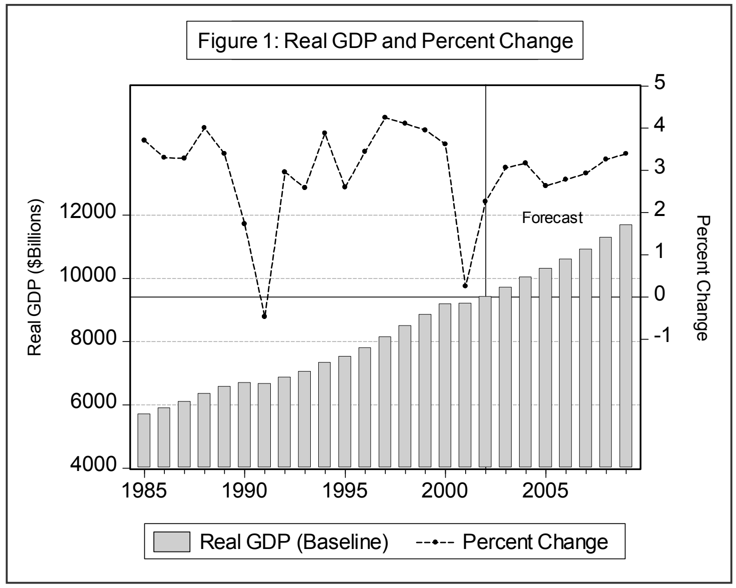
TABLE 1: KEY TRANSPORTATION VARIABLES, BIENNIAL PERCENT CHANGE

	2001-03	2003-05	2005-07	2007-09
Motor Vehicle Fuel	0.6%	1.6%	3.1%	2.4%
New Titles	-13.8%	-2.0%	-3.0%	-0.5%
Original Class C Licenses	-6.4%	6.0%	5.1%	3.0%
Passenger Registration	4.0%	-4.8%	-3.4%	0.1%
Heavy Registration	0.2%	1.5%	8.9%	8.2%
Weight-Mile	-4.6%	4.8%	3.4%	3.0%

NATIONAL ECONOMIC VARIABLES:

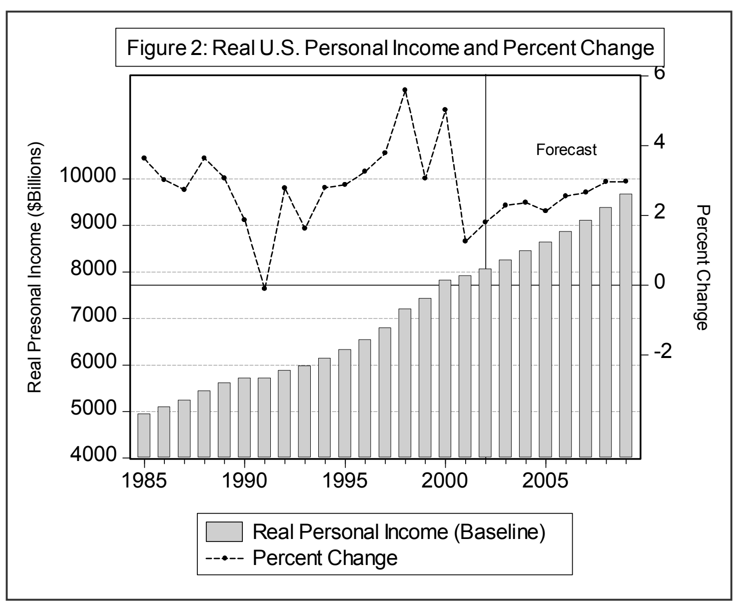
Oregon's transportation forecast is influenced by national economic trends. Changes in production, employment, prices and incomes affect the Oregon economy and have an effect on the transportation forecast. The various measures of those national trends, such as the Gross Domestic Product (GDP) and Personal Income, are used in the transportation econometric models to determine the general direction and timing of Oregon's transportation forecast. Oil and gasoline prices, inflation, vehicle prices, fleet fuel efficiency, consumer confidence, and employment levels are variables important to the forecast.

The national economic forecast is provided quarterly by Global Insight, Inc. (GII, formerly DRI-WEFA). Oregon's Department of Administrative Services, Office of Economic Analysis (OEA), produces the Oregon Economic and Revenue forecast using the GII forecast of national variables. Highlights of the GII and OEA forecasts are presented here as background for the Oregon transportation forecast.



As seen on Figure 1, real Gross Domestic Product (GDP) growth was barely positive in CY 2001, but has improved in CY 2002. Real GDP increased at a 4.0 percent annual rate in the third quarter of 2002, according to recent data from Global Insight, Inc., but then slowed to a 1.0 seasonally adjusted annual rate in the fourth quarter. For all of 2002, real GDP is estimated to have increased 2.3 percent over the prior year. Real growth for 2003 is expected to be at 3.2 percent and about the same for 2004. These assumptions have been used in the transportation forecast. However, newly released information (not fully incorporated into the Oregon transportation revenue forecast) now expects a stronger 2004, above 4 percent, then slowing to 3.3 percent in 2005.

"Gross Domestic Product" is the total dollar value of final goods and service produced in a year. Growth in GDP, shown in Figure 1, shows the economy no longer is in recession (with recession defined as two consecutive quarters of decreasing GDP). However, most people view the health of the economy in terms of their jobs, incomes and increasingly by their investments and retirement funds. U.S. Personal Income growth, after adjustment for inflation, continues to grow, but is expected to grow at a lesser rate than GDP over the next few years. For calendar year 2002, U.S. Real Personal Income growth is estimated at 1.8 percent. However, in the years 2003 through 2009, total personal income in real terms is projected to increase to 2.3 to 3 percent.



Population growth, productivity, employment levels, prices, trade and a host of other variables affect total personal income growth. Showing "real" growth simply removes the effect of inflation for comparison over time. "Per capita real" personal income eliminates the effect of inflation and population growth over time. As is shown on Figure 3, growth in real per capital personal income for the U.S. has remained positive since the 1991 recession, but barely so in 2001. Growth in CY 2002 is expected to be just under 1.0 percent, and increase to about 1.5 percent for the next three years.

As shown later in this report (in Figure 9), real Personal Income growth in Oregon has lagged behind the nation from 1998 through the 2001 recession. For 2002 and the next few years, Oregon Real Personal Income is expected to have faster growth than U.S. Real Personal Income. Oregon's Transportation forecast variables such as fuel consumption, truck activities and weight-mile taxes are closely related to changes in personal income.

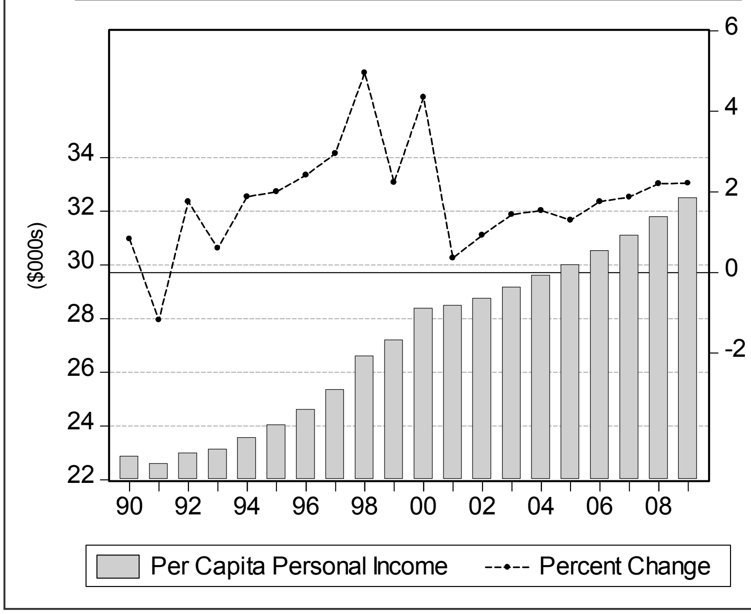


Figure 3: U.S. Real Per Capita Income and Percent Change

Discussion of Real GDP and Real Personal Income show economic change devoid of changes in the general level of prices. Inflation, the measure of price level increases, has decreased since 2000 and is substantially less than in the early 1990s. Prices are still going up, just less rapidly than in prior decades. In the latter part of 2002 there was speculation among academics and financial forecasters about the possibility of deflation, a protracted decline in the general price level. Indeed, GII stated In November that "*World inflation has fallen to a little above 0%--less than 2% for developed countries. Outright price declines have been seen in Japan and selected other countries such as Argentina.*"

Some prices have decreased in specific U.S. markets, such as computers and used cars, but not in the overall price level for a sustained period. As the economy recovers, general prices measured by the Consumer Price Index (CPI) or the Consumer Purchases Index (PCWC) are forecast to increase. The level of increase expected in the current national forecast may be exacerbated by the likelihood of war and accompanying federal spending. Energy prices are expected to spike, but then come down quickly after a short duration war.

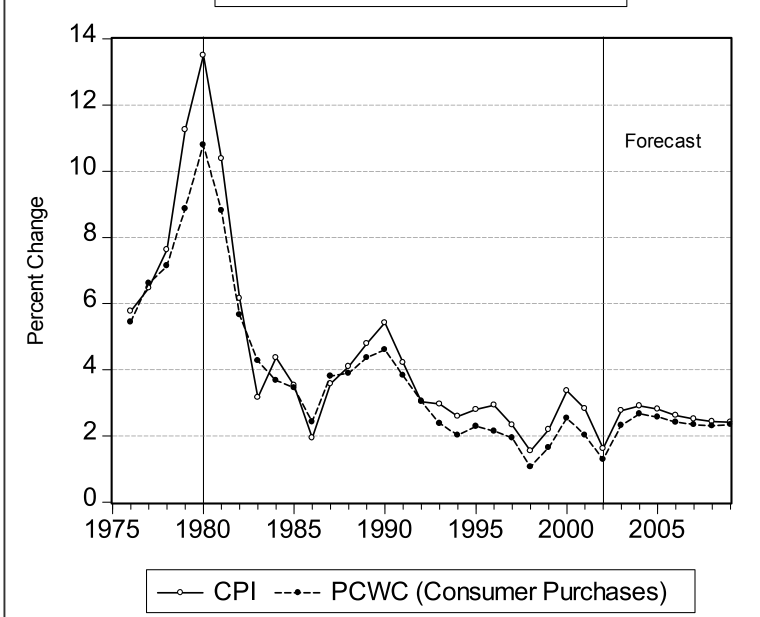
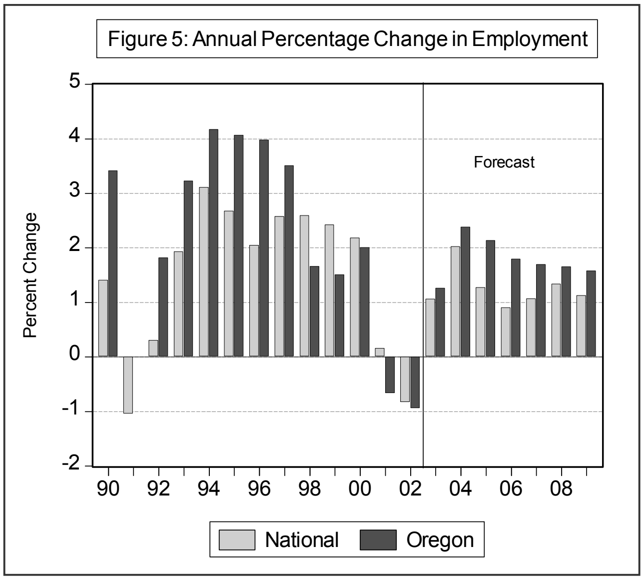
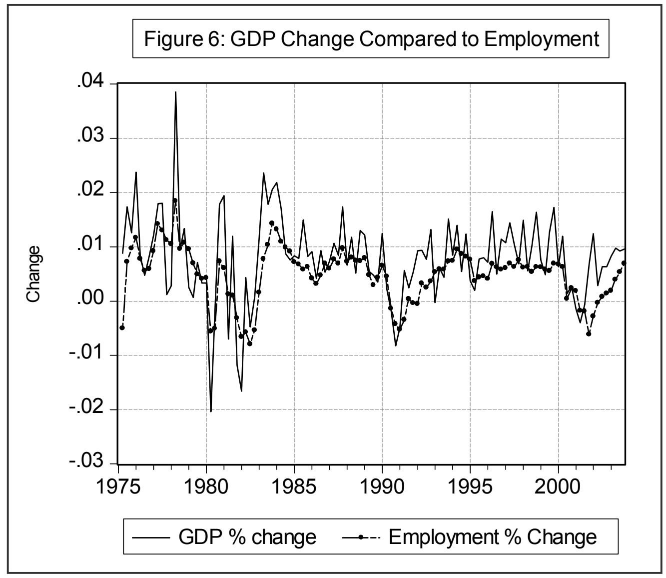


Figure 4: Two Measures of Inflation

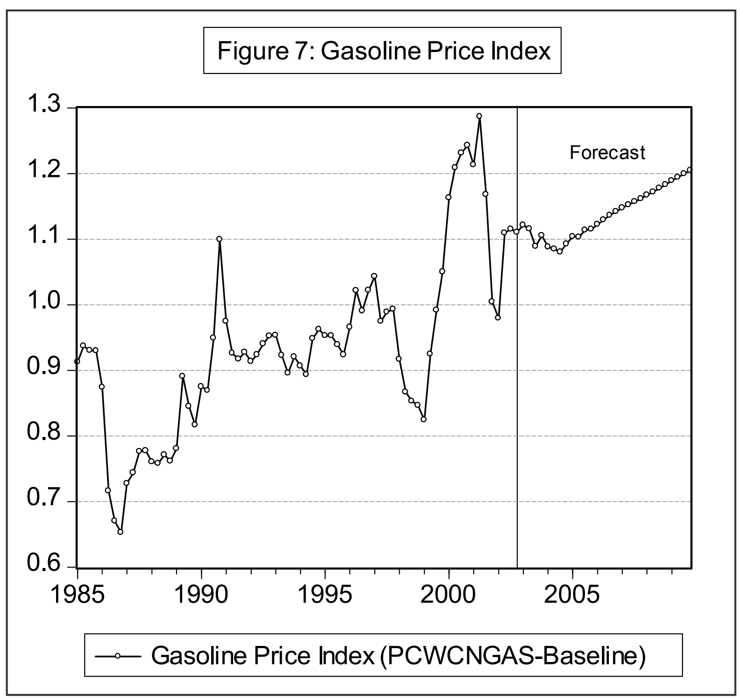
The transportation forecast historically has used the Personal Consumption Deflator as the measure of inflation. Specifically, the measure is a "chain-weighted" index of consumer prices—an index that periodically is re-weighted for changes in the composite basket of priced items.

Some analysts alternatively prefer to use the Consumer Price Index. Both indexes are shown in Figure 4, and both capture the same relative magnitude of change in price levels over the recent past and future forecast. The low and stable level of inflation through 2007 should be conducive to economic growth and higher transportation revenue. As shown on Figure 5, U.S. employment growth was barely positive in 2001 and is expected to have





decreased by 0.8 percent in 2002. Oregon employment, on the other hand, decreased both years, but is expected to grow faster than the nation over the next six years. Figure 6 shows the behavior of U.S. employment growth compared to U.S. real GDP growth. Employment has less fluctuation, but it is easy to see why workers in 2002 have trouble believing the recession has turned around.



As 2002 ends and 2003 begins, the prospect of war seems imminent. Forecasters at GII have included a first quarter 2003 war of short duration into their baseline forecast. Oil prices are expected to spike as a result of initiation of war, but also are expected to drop quickly upon a successful conclusion for the U.S. Also, the forecast assumes that Venezuelan output will be depressed for several weeks. The overall effect, however, is to have the average annual price of gasoline in 2003 increase by 2.7 percent over 2002. Fluctuations on a quarterly basis in 2003 are expected to be more pronounced.

The average price of a new vehicle plays an important role in determining the number of new and new-to-Oregon titles, as well as vehicle registration volumes. The average price of a new light vehicle increased by roughly 2.6 percent in 2002. New vehicle prices are expected to increase slightly, in the 2.6 to 2.9 percent annual rate for the following six years (see Table 2). Auto manufacturers have relied on incentives such as subsidized interest rates and rebates to maintain demand, and may get an additional boost from Congress. *USA Today* recently reported that part of President Bush's economic stimulus package is a one-year deduction of up to $75,000 for small business or self-employed purchases of new vehicles weighing 6,000 pounds or more, which mainly are full-size SUVs and pickups.

Consumer sentiment, as monitored by the University of Michigan's Consumer Sentiment Index, rose 1.3 percent in 2002. The index is expected to fall in 2003, mainly as a result lagging employment and uncertainty about war.

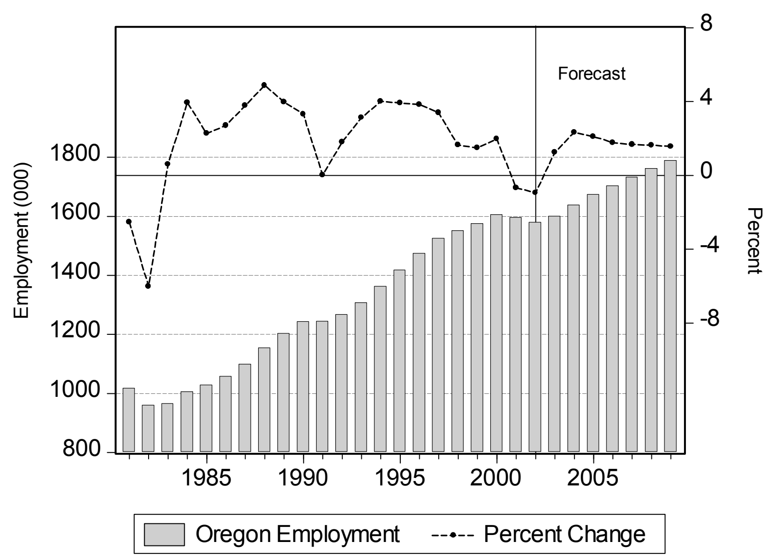
The baseline fuel efficiency of light vehicles as forecast by GII is now expected to decrease slightly over the next three years, then remain constant. Decline in gasoline prices in 2001 and 2002, modest increases over the next few years, and incentives for larger and more inefficient vehicles results in little improvement of average fuel efficiency over the near future. Fuel efficiency for the existing fleet in part reflects the old average age of the fleet as well as the mix of vehicles and other variables. Efficiency improves in time as, for example, more hybrid cars are added to the fleet and more old gas-guzzlers are retired. A separate analysis by the ODOT's Policy Division shows the long-term impact of the shift to hybrid and fuel cell vehicles.

TABLE 2: NATIONAL ECONOMIC VARIABLES, C.Y. PERCENT CHANGE (AS OF 11/25/02)									
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Domestic Product (GDP)	2.6%	3.6%	5.7%	6.0%	5.2%	5.2%	5.3%	5.6%	5.8%
Real GDP	0.3%	2.3%	3.2%	3.3%	2.7%	2.9%	3.0%	3.4%	3.5%
Consumer Confidence	-17.0%	1.3%	-2.1%	4.3%	-0.9%	-1.4%	1.7%	1.8%	-0.8%
Average Price of a Light Vehicle	3.3%	2.6%	2.8%	2.6%	2.7%	2.9%	2.8%	2.9%	3.1%
Fuel Efficiency of Light Vehicles	-0.2%	-0.2%	-0.1%	-0.2%	-0.1%	0.0%	0.0%	0.0%	0.1%
Personal Consumption Index (chain weighted)	2.0%	1.3%	2.3%	2.7%	2.6%	2.4%	2.3%	2.3%	2.3%
Price Of Gasoline Index (chain weighted)	-3.6%	-7.7%	2.7%	-1.9%	2.0%	2.1%	2.0%	1.8%	1.9%
Employment Growth	0.2%	-0.8%	1.1%	2.0%	1.3%	0.9%	1.1%	1.3%	1.1%
US Personal Income	3.3%	3.2%	4.7%	5.2%	4.8%	5.1%	5.1%	5.4%	5.5%
Real Personal Income	1.3%	1.8%	2.3%	2.4%	2.2%	2.6%	2.7%	3.1%	3.1%

OREGON ECONOMIC VARIABLES:

Oregon fell further in 2001 than the national economy as a whole. As reported in the December and February Oregon Economic Forecasts, data through the third quarter of 2002 suggests the State recession is bottoming out. Jobs are not expected to reach their pre-recession level until the third or fourth quarter of 2003. Figure 8 shows annual non-agricultural employment in Oregon over recent years, the forecast by the Office of Economic analysis, and the annual percentage change.

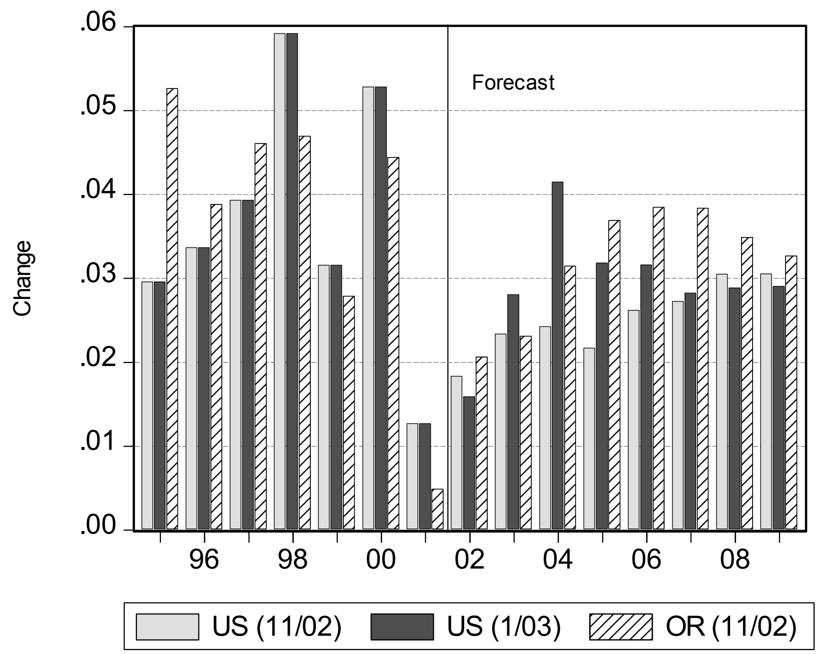
Figure 8: Oregon Employment and Percent Change



As shown in Table 3, Non-Agricultural Employment declined 0.9 percent in 2002 and is expected to grow from that reduced level by 1.3 percent in 2003 and 2.4 percent in 2004. "High Tech" employment, the sector that covers semiconductors and electrical machinery, is expected to show a 7.3 percent decline for 2002. Job growth in that sector is expected to move up slightly from that reduced level with 1.6 percent growth in 2003 and 3.4 percent growth in 2004. Transportation employment is forecast to show a 0.6 percent decline in 2002, a 1.4 percent growth in 2003 and 3.0 percent in 2004. All of these employment sector changes occur with annual population increases of 1.0 percent per year through 2003, after which population is expected to increase by 1.2 to 1.3 percent per year.

The Office of Economic Analysis' (OEA) December 2002 forecast notes that of Oregon's 3.4 million people reported in the 2000 census, "nearly 71 percent of Oregon residents lived in the Willamette Valley and Portland Metropolitan regions. Another 13.0 percent lived east of the Cascades, about 6.0 percent lived in the coastal counties, and 10 percent in the southern counties." Portland had 46 percent of the population and 49.4 percent of the jobs. Assuming no major changes, the population growth and economic recovery suggests that Oregon can expect more traffic, more fuel tax revenue and more congestion.

Figure 9: Annual % Change in Real Personal Income



Oregon Personal Income (current dollars), shown on Table 3, continues to grow, estimated at 3.4 percent in 2002, 4.7 percent in 2003, and at rates of 5.9 to 6.4 for the next four years. Real personal income growth rates for Oregon compared to two recent U.S. forecasts is shown on Figure 9. Two US forecasts by GII are shown because the graph illustrates the uncertainty in projecting US economic growth. The OEA forecast expects Oregon to exceed U.S. real personal income growth after 2004 to 2009.

Forecast Risks: GII observes, "In the end, the most pleasant surprise would be the absence of any negative shocks. After five eventful years—the Asian crisis (1997), the Russian meltdown and the collapse of Long Term Capital Management (1998), the Brazilian crisis (1999) the global high-tech bust (2000), the September 11 terrorist attacks (2001) and the U. S. corporate scandals (2002)—a quiet year would be a welcome respite." There are several factors or potential shocks that can affect the forecast. In a just-released commentary on the U. S. forecast, GII notes that "the fog of uncertainty this year is almost as thick as it was last year." Most of their hypothesized events would jeopardize economic growth in 2003, but some are stimulative. Events noted include war (mildly stimulative for the U.S. if short duration, but not as much impact on Oregon), another major terrorist attack, another stock market dive, a bursting of the housing "bubble" in several urban markets, or a financial crisis triggered by a default in a large emerging market, such as Brazil. On the upside, there is a possibility of better than expected increases in capital spending, as inventory-to-sale ratios are very low and there appears to be pent-up demand for corporate sector net investment. Also, there is hope for possible improvement in Europe, Japan and Asia.

TABLE 3: OREGON ECONOMIC VARIABLES, C.Y. PERCENT CHANGE (AS OF 11/25/02)									
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Non-Ag Employment	-0.7%	-0.9%	1.3%	2.4%	2.1%	1.8%	1.7%	1.7%	1.6%
High Technology Employment	3.3%	-7.3%	1.6%	3.4%	4.5%	3.2%	1.8%	2.3%	1.9%
Wood Products Employment	-6.1%	0.1%	-1.3%	-0.1%	-0.1%	1.0%	1.1%	0.5%	-1.1%
Transportation Employment	-3.5%	-0.6%	1.4%	3.0%	2.5%	2.2%	2.1%	1.9%	1.9%
Trade Employment	-1.2%	-0.3%	1.8%	2.2%	1.3%	1.1%	1.5%	1.5%	1.3%
Population	1.0%	1.0%	1.0%	1.3%	1.2%	1.2%	1.2%	1.1%	1.1%
Portland-Metro Price Index	2.5%	1.2%	3.3%	3.5%	3.4%	3.0%	2.7%	2.6%	2.6%
Timber Harvest	-9.2%	2.9%	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing Starts	7.2%	6.5%	2.0%	3.4%	2.2%	-0.4%	0.1%	2.9%	1.5%
OR Personal Income	2.5%	3.4%	4.7%	5.9%	6.4%	6.4%	6.3%	5.9%	5.7%

TRANSPORTATION VARIABLES:

Figure 10: Oregon Fuel Consumption and Percent Change

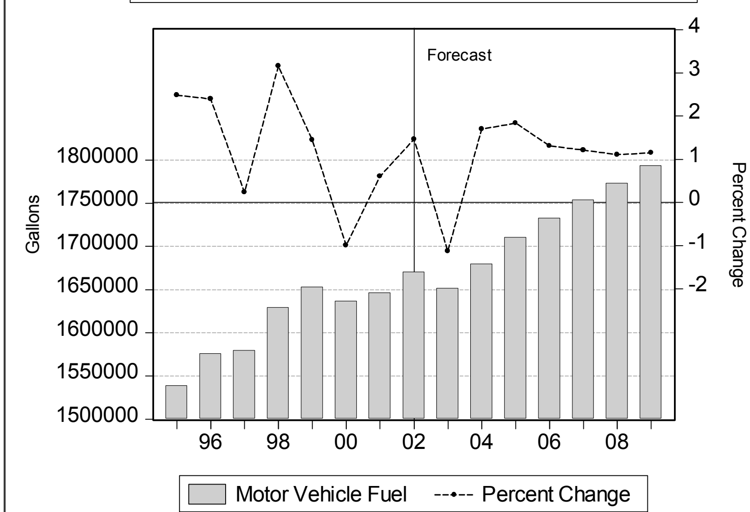
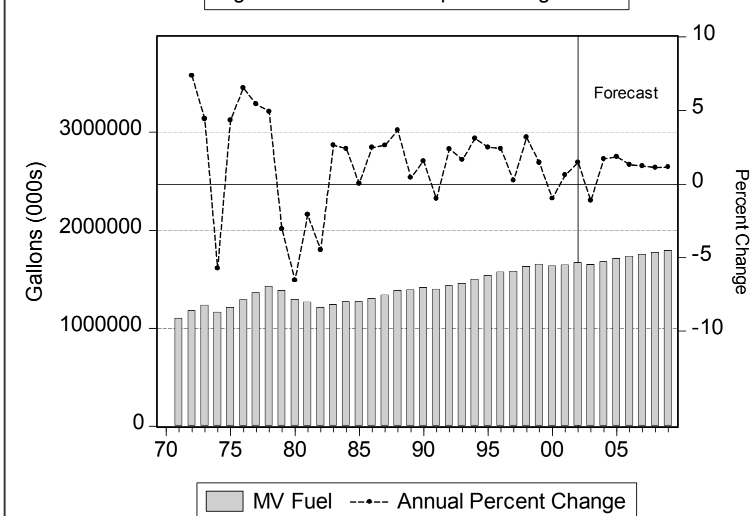


Figure 11: Fuel Consumption--Longer View



Motor vehicle fuel consumption declined in C.Y. 2000, moved back up by 2002 and is expected to decline again in 2003. The national recession and economic weakness in Oregon were expected to pressure fuel consumption in 2002, but that did not happen. The decline in fuel prices in 2001 and 2002 more than offset any negative effects of the general economic slowdown. Employment and personal income growth in 2003 are not predicted to offset the fuel price spike expected with war. By 2004 and successive years, the econometric models expect annual growth around 1.7 percent, gradually tapering off to 1.1 percent for 2008 and 2009. Figure 10 shows the gallons of fuel consumption (gasoline and use fuel for vehicles not paying the weight-mile tax), and the annual percentage change. Actual and forecasted percentage changes are shown on Table 4, below.

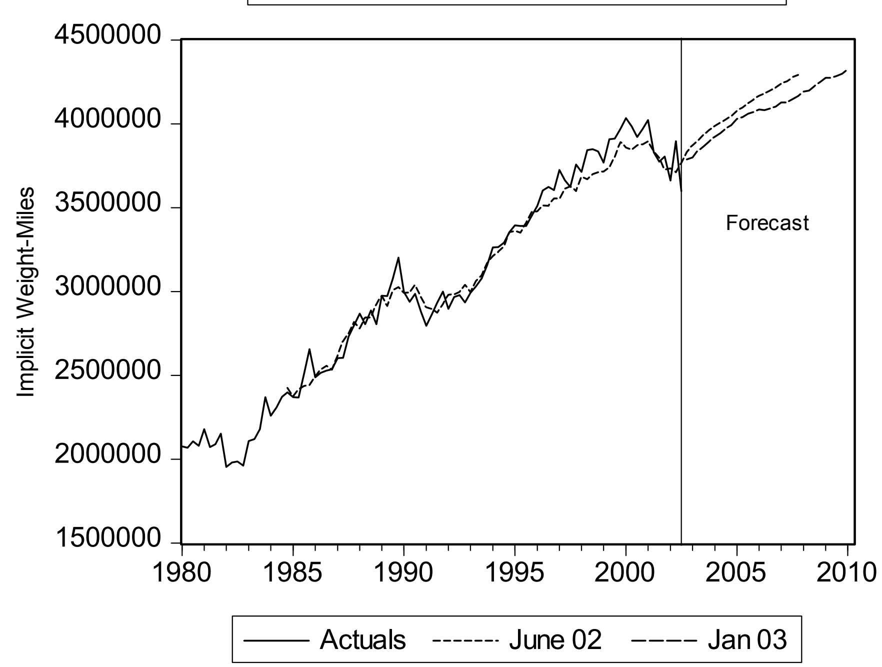
The econometric model attempts to "capture," or explain, the year-to-year changes, by matching past fuel consumption with changes in other economic variables. This permits some fine-tuning for estimating what is likely to happen in the near future. As shown in Figure 10, at times there are some significant fluctuations in growth from one year to the next. However, the choice of how the changes are graphically depicted sometimes masks the broader picture of what is occurring. Figure 11 is an example of how the same data can be viewed differently. By showing more years, and expanding the scale on the axes, it can be seen that motor vehicle fuel consumption in Oregon is rather stable, and generally increasing. The significant dip of a one-percent decline appears less alarming in Figure 11. There have been periods of change, as is seen for the late 1970s. It is hoped that the current economic models will provide some early warning if such change is likely to occur.

This forecast, aggregated over the next four years, is virtually unchanged from the previous forecast. As noted previously, the risks of higher oil prices are ever present with the intensifying strife in the Middle East and the possibility of disruptions in the supplies. If oil prices escalate significantly and remain at a high level for a significant period of time, gasoline consumption as well as the rest of the economy can be impacted severely.

Fuel efficiency of the light-vehicle fleet is expected to decline slightly through 2005, then remain relatively flat through 2009. Oregon consumes about 1.67 billion gallons of gasoline and use-fuel a year, 1.55 billion gallons of gasoline and 0.12 billion gallons of diesel fuel. This amount does not include diesel fuel for heavy trucks. Heavy trucks pay the weight-mile tax and their consumption of fuel is not tracked by Oregon's tax system.

TABLE 4: PERCENT CHANGE IN TRANSACTIONS FOR KEY TRANSPORTATION VARIABLES									
Calendar Years	2001	2002	2003	2004	2005	2006	2007	2008	2009
Motor Vehicle Fuel	0.6%	1.5%	-1.1%	1.7%	1.8%	1.3%	1.2%	1.1%	1.1%
New Titles	-13.6%	-1.9%	-1.1%	-1.3%	-1.0%	-1.6%	-2.9%	3.8%	-2.5%
Original CL C Licenses	-1.0%	-4.8%	3.4%	3.8%	2.4%	2.3%	2.2%	0.8%	0.8%
Pass. Registration	-1.3%	6.5%	-3.6%	-4.8%	0.6%	-3.8%	1.1%	0.2%	0.8%
Trucking Activity/Weight-Mile	-2.1%	-4.8%	4.2%	2.8%	2.3%	1.0%	1.3%	1.8%	1.6%
Heavy Registration	-11.3%	16.5%	-8.2%	4.0%	4.8%	3.8%	4.2%	4.0%	3.5%

Figure 12: Motor Carrier Activity in Oregon



The economic slowdown in Oregon and the nation has had an impact on trucking activity and the goods- moving industry. Many of the economic factors influencing motor carrier activities have declined over the past two years. The June 2002 forecast for motor carrier activity was revised downward for 2002 and the following three years. This current forecast further reduces the weight-mile "transaction" estimate, based on changes in economic variables and in revisions to the base data so as to be more consistent with a published time-series.

Actual weight-mile "transactions," which is rather like vehicle miles traveled, by weight class, is not directly measured. It is possible to show only a derived estimate of Weight-VMT obtained by dividing actual weight-mile revenue by an assumed tax rate. Gross dollars of revenue for a given time period is the only true measure available for heavy vehicle activity. The assumed tax rate is roughly the average rate paid by the typical heavy vehicle, but adjusted for various revenue modifications enacted by the Legislature.

Trucking activity for 2002 was about 4.8 percent less than in 2001. It is expected that with the economic recovery underway, 2003 will show a 4.2 percent increase, which will then taper off to about 2 percent per year.

Economic factors that influence trucking activity also will affect heavy vehicle registrations, although the timing is different. Heavy Vehicle registrations declined 11 percent in 2001, rebounded 16.5 percent in 2002 and are expected to decline by about 8 percent in 2003. In dollar terms, the heavy registration component's revenue declined to $18.1 million in 2001 from $20.4 million in 2000, and increased back to $21.0 million in 2002. Annual and biennial revenue figures are shown at the end of this report.

Figure 13: Heavy Vehicle Registration Revenue, Quarterly

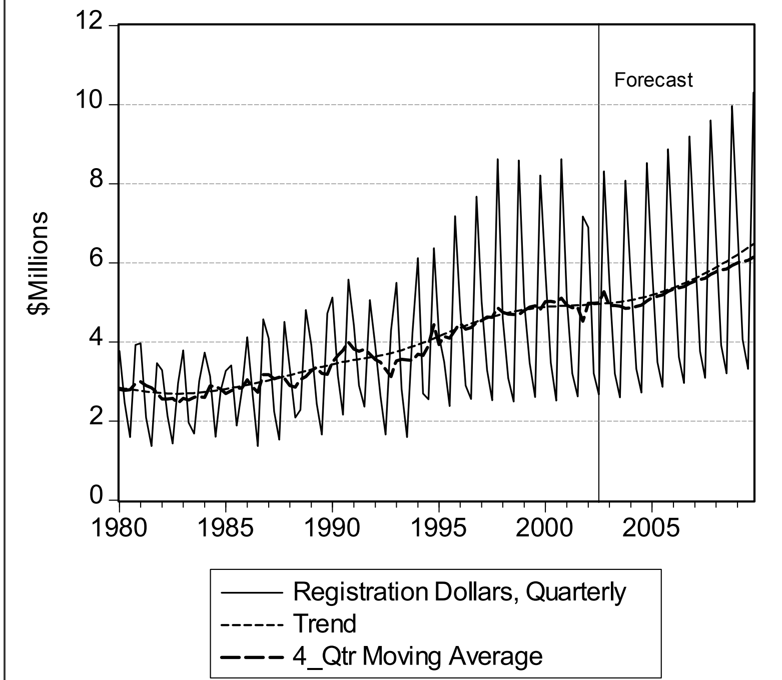
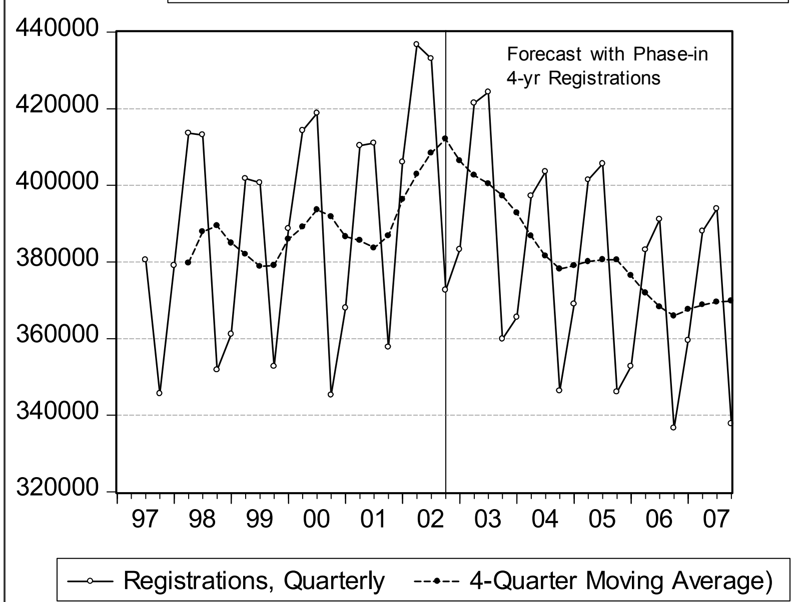


Figure 13 shows heavy vehicle registrations by quarter. Also shown is a smoother four-quarter moving average, to remove some of the cyclical fluctuation, and a smooth trend line. There is substantial quarterly variation over a given year. The actual dollar amount per quarter typically is highest in the fourth quarter of the calendar year, but sometimes payments fall into the first quarter of the next calendar year. Most registrations are made in December. This chart shows that timing does matter when policymakers decide to implement new fees or change registration requirements.

Driver and Motor Vehicles:

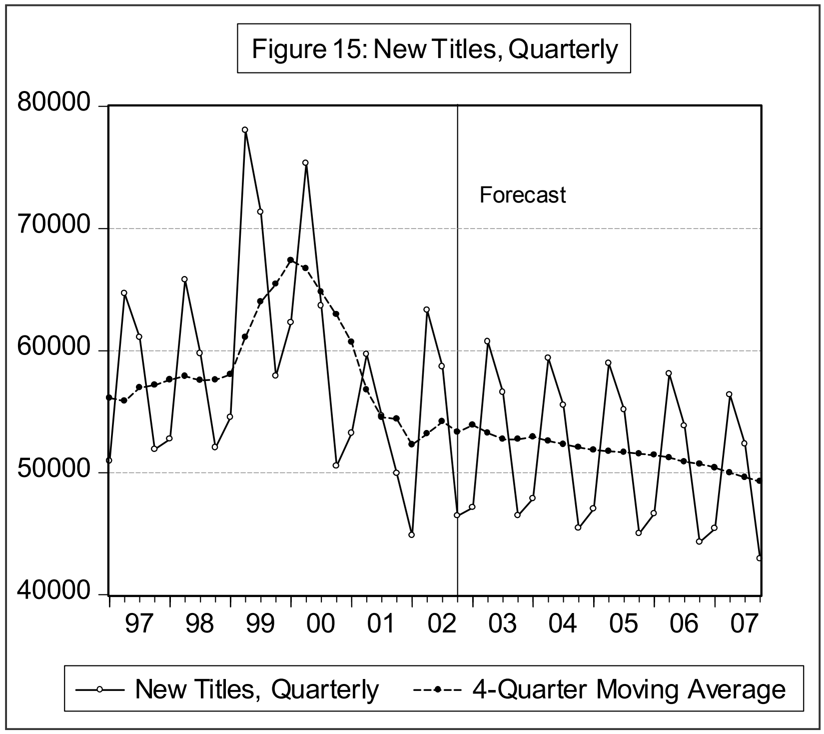
Figure 14: Passenger Vehicle Registrations, Quarterly



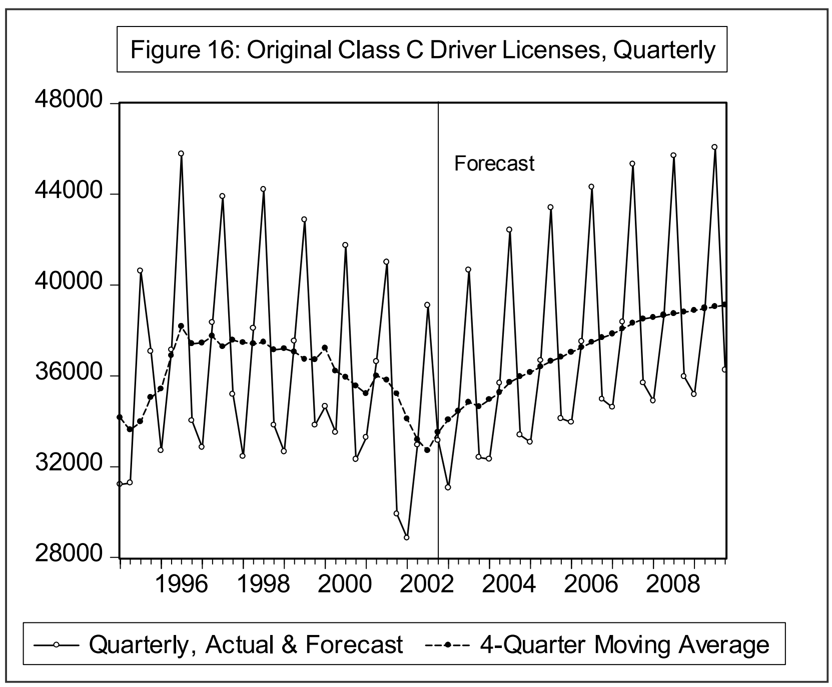
DMV conducts driver and motor vehicle administrative activities. Changes in the level of activity or legislative changes in fee structures impacts the amount of money available to the Highway Fund and to cities and counties for road repair, maintenance and construction. DMV transactions are affected by economic forces and provide some insight to what is occurring at any given time in the Oregon economy. Changes in population, employment, migration and economic production can be evident in the DMV data.

The moving average trend line on Figure 14 shows that average passenger vehicle registrations have increased through the third quarter of 2002, but are expected to decrease over the next six years. The trend of the June 2002 forecast is virtually unchanged for this forecast. For many years, the law has required passenger vehicles to be registered every two years. Legislation enacted in the 2001 session requires certain new vehicles to be registered for four years, and is being implemented in two phases. The 2003-05 biennium will show the biggest impact. As noted before, the large stock of vehicles currently being re-registered, plus favorable interest rates and/or rebate incentives, have helped mask the impact of the weak economy on car registrations.

New titles are another indicator useful for monitoring the health of the economy. This indicator is largely comprised of new vehicle titles, but also contains titles for motorcycles, trailers and manufactured homes. Again, the forecast is essentially unchanged from the prior forecast. There has been a slight upturn in 2002 over 2001, but the trend is for a gradual decline. The forecasting model for this variable is sensitive to interest rates, and the expected increase in rates will dampen growth in new titles. The data show that the second quarter of the year typically is the largest. The four-quarter moving average shows that new titles are on a gradually declining trend for the next few years.



The aggregate number of Original Class C Driver's Licenses issued each quarter is shown in Figure 16. These are new customers arriving at the DMV who will acquire licenses valid for eight years. When the new law extending the renewal cycle of a drivers license from once every four years to once every eight years is fully implemented, future renewal transactions will be significantly reduced as a result of this change.



The conversion of all licenses to an eight-year cycle will be completed in October 2004, and until then the conversion process impacts the number of driver license renewals paying for 4 years or for 8 years.

The number of Original Class C Driver Licenses is affected by population growth, demographics and migration, which in turn are influenced by the health of the economy. Observed data for 2002 supports the belief that the recession is bottoming out, and the forecast expects steady growth over the next few years.

HIGHWAY FUND REVENUE FORECAST:

Highway Fund collections for the 2001-03 biennium are expected to be higher than the June 2002 forecast by $21.9 million, or 1.5 percent, for gross revenue before deductions and transfers. Updated forecasts for the 2003-05 and 2005-07 biennia are practically unchanged. Gross revenue for 2003-05 is shaved slightly by 0.2 percent, and for 2005-07 by 0.3 percent. The increase for 2001-03 is attributable to weight-mile tax revenue not falling off as expected with the quarterly payment conversions. Also, motor vehicle fuel tax revenue “actuals” for 2002-03 were $2.2 million higher, and thus projected to be an additional $3.4 higher for the current fiscal year.

Net revenue to the Highway Fund, which deducts transfers, dedications and collection costs, is forecast to be above the June estimate by about 1.8 percent ($20.7 million) for the 2001-2003 biennium. In the 2003-2005 biennium, net revenue is 0.6 percent ($7.1 million) above the June forecast. Similarly, the revision for the 2005-2007 biennium is reduced 0.6 percent ($7.4 million).

The Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes at about $400 million a year constitute the largest source of revenue. They are levied on basic (passenger) vehicles, as well as small to medium trucks that are not subject to the weight-mile tax. The weight-mile tax is levied on heavy trucks on a per mile basis, but graduated in proportion to the weight of the truck. Weight-mile taxes are the second largest source of revenue at about $200 million a year. Licensing, vehicle registrations and titles make up the next primary source of State transportation revenue, at about $140 million per year. This category includes the title and vehicle registration taxes for both heavy and light vehicles.

Three different ODOT Divisions collect revenue. DMV collections are shown in Table 5. The forecast for the next six years is practically unchanged from the prior forecast. Gross revenue for the current 2001-03 biennium is increased slightly by $1.4 million, with increases of less than $1 million in each of the next two biennia. Net revenue is up $0.8 million for the current biennium, and down $2.8 million and $2.6 million the next two biennia. The DMV transactions belonging to the Transportation Operating Fund (TOF) are separated from the Highway Fund activities.

TABLE 5: HIGHWAY FUND REVENUE COLLECTED BY DMV

In Millions of Dollars	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
DMV COLLECTIONS						
VEHICLE REGISTRATIONS	$60.6	$61.6	$61.6	$63.0	$62.1	$61.9
DRIVER LICENSES	$27.1	$27.8	$27.9	$28.4	$28.9	$28.4
TITLE, PLATE & OTHER	$42.1	$50.1	$50.1	$49.9	$50.1	$50.1
TOTAL REG./LIC/OTHER	$129.9	$139.5	$139.5	$141.4	$141.2	$140.4
Change from Previous Forecast	*$0.5*	*$0.9*	*($0.3)*	*$0.9*	*$0.5*	*$0.3*
COLL./ADMIN & PROGRAM COST	($56.1)	($57.2)	($58.3)	($59.5)	($60.6)	($63.1)
TRAFFIC SAFETY TRANSFER	($0.6)	($0.6)	($0.6)	($0.6)	($0.5)	($0.5)
DEPT OF EDUCATION TRANSFER	($0.1)	$0.0	($0.1)	$0.0	($0.1)	$0.0
FROM TOF COST RECOVERY	$0.0	$0.3	$0.2	$0.1	$0.0	$0.0
ODOT CS ASSESSMENT	($15.4)	($15.7)	($15.7)	($16.1)	($16.4)	($17.0)
TRANSFER TO OTIA	($5.7)	($8.5)	($7.6)	($7.8)	($7.7)	($7.6)
NET REVENUE TO HWY FUND	**$52.0**	**$57.8**	**$57.3**	**$57.6**	**$56.0**	**$52.3**
Change from Previous Forecast Net	*($0.0)*	*$0.8*	*($1.9)*	*($0.9)*	*($1.2)*	*($1.4)*

The Motor Carrier Transportation Division (MCTD) collects the weight-mile taxes and heavy truck registrations. The collections are shown in Table 6. The current forecast continues to recognize weakness in weight-mile activity induced by the economic slowdown, and continues to forecast an improvement in the near future. The weight-mile transactions (activity) component is further reduced in this forecast compared to the June 2002 forecast, partly because of changes in economic variables and partly to revisions in weight-mile data. Revenue, however, has come in higher for 2001-02 by $4.1 million and is higher at the mid-year mark for 2002-3. Current year revenue is expected to be $10 million above the June 2002 forecast, as the June numbers were discounted substantially for the expected conversion to quarterly reporting. This forecast continues to provide for revenue loss from the conversion, as it still could occur in the next six months, but it is happening more slowly than anticipated in the prior forecast. The deferment of payments as a result of the quarterly reporting was earlier estimated to reach $48 million for the forecast horizon. The assumption that most of the loss/deferment will occur in fiscal years 2003 and 2004 remains unchanged.

TABLE 6: HIGHWAY FUND REVENUE COLLECTED BY MCTD

In Millions of Dollars	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
MCTD Collections						
WEIGHT-MILE TAX	$192.3	$181.1	$179.4	$199.8	$205.4	$207.5
IRP TRUCK REGISTRATIONS,	$9.3	$9.2	$9.1	$9.6	$10.0	$10.3
COMM. VEH. REGISTRATIONS,	$4.7	$4.6	$4.6	$4.9	$5.1	$5.3
TRIP PERMIT REVENUE (MCTD)	$0.6	$0.7	$0.7	$0.7	$0.8	$0.8
TOTAL MCTD COLLECTIONS	**$206.9**	**$195.5**	**$193.8**	**$215.0**	**$221.2**	**$223.9**
Change from Previous Forecast	*$4.1*	*$10.7*	*($2.9)*	*($2.8)*	*($4.2)*	*($6.0)*
COLL./ADMIN & PROGRAM COST	($21.5)	($21.9)	($23.1)	($23.5)	($24.0)	($25.0)
FROM IFTA COST RECOVERY	$1.0	$1.1	$1.0	$1.1	$1.1	$1.1
ODOT CS ASSESSMENT	($5.2)	($5.3)	($5.9)	($6.0)	($6.1)	($6.4)
TRANSFER TO OTIA	($7.3)	($10.3)	($6.8)	($6.2)	($6.3)	($6.2)
NET REVENUE TO HWY FUND	**$174.0**	**$159.1**	**$159.1**	**$180.2**	**$185.9**	**$187.5**
Change from Previous Forecast Net	*$4.0*	*$10.3*	*($3.2)*	*($3.2)*	*($4.5)*	*($6.3)*
ROAD USE ASSESSMENT FEES	**$0.91**	**$0.86**	**$0.91**	**$0.86**	**$0.91**	**$0.86**
TRANSFER TO OTIA	**($0.04)**	**($0.05)**	**($0.05)**	**($0.05)**	**($0.05)**	**($0.05)**
NET REVENUE TO HWY FUND	**$0.86**	**$0.81**	**$0.86**	**$0.81**	**$0.86**	**$0.82**

The Central Service Division collects fuel tax revenues. Fuel tax collections are shown in Table 7. Fuel tax gross and net receipts in fiscal year 2002 are estimated at $2.2 million above the prior forecast. For the following years, gross fuel tax revenues are forecast slightly above the previous forecast, but collection costs, transfers and off-highway use result in little change in net revenue.

TABLE 7: HIGHWAY FUND REVENUE FROM MOTOR FUELS TAX						
In Millions of Dollars	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**FY 06**	**FY 07**
FSB Collections						
MOTOR FUELS TAX	**$397.9**	**$394.8**	**$398.2**	**$404.5**	**$411.0**	**$415.6**
Change from Previous Forecast	*$2.2*	*$3.4*	*$0.9*	*$1.5*	*$2.2*	*$3.0*
COLL./ADMIN. COST	($0.9)	($0.9)	($1.0)	($1.0)	($1.0)	($1.1)
ODOT CS ASSESSMENT	($0.1)	($0.2)	($0.1)	($0.1)	($0.1)	($0.2)
SNOWMOBILE TRANSFER	($0.4)	($0.6)	($0.6)	($0.6)	($0.6)	($0.6)
CLASS I ATV TRANSFER	($0.6)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)
MARINE BOARD TRANSFER	($5.5)	($5.5)	($5.5)	($5.6)	($5.6)	($5.7)
CLASS II ATV TRANSFER	($0.8)	($0.8)	($0.8)	($0.8)	($0.8)	($0.8)
CLASS III ATV TRANSFER	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.6)
TRANS OPR FUND (TOF)	($0.2)	($7.5)	($3.7)	($3.6)	($3.6)	($3.5)
AVIATION TRANSFER	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)
TRANSFER TO OTIA	($16.1)	($23.2)	($21.1)	($21.6)	($21.6)	($21.8)
NET REVENUE TO HWY FUND	**$372.8**	**$354.4**	**$363.6**	**$369.3**	**$375.8**	**$380.1**
Change from Previous Forecast Net	*$2.2*	*$0.0*	*($0.7)*	*($0.2)*	*($0.1)*	*$0.7*

At an annual base of approximately $400 million, fuels tax collections generate the largest amount of revenue for the Highway Fund. One penny of gas tax generates about $17 million gross and $15 million net per year in fuel tax revenue through this forecast horizon. The same penny of tax plus its weight-mile equivalent will produce about $24 million gross and $21.6 million net per year on average. This net amount, after being split between State and local governments, provides approximately $12.9 million for the State Highway Division, $5.3 million for Counties, and $3.4 million for Cities.

Prior forecasts have separated out various pieces of legislation that created new revenue. This forecast now incorporates those enactments as part of the regular data time-series. Specific allocations are noted in the summary tables at the end of this document, but enough time has passed for the legislative changes to show up in the transaction forecasts, which then are multiplied by old and new tax rates and fees to derive the revenue stream. The econometric model is able to capture effects of totally new transactions, and the rate adjustment component automatically accounts for changes in rates and fees.

TABLE 8: TOTAL HIGHWAY FUND REVENUE

CURRENT LAW.		FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
WEIGHT MILE& TRUCK REG.		$206.9	$195.5	$193.8	$215.0	$221.2	$223.9
MOTOR FUELS TAX		$397.9	$394.8	$398.2	$404.5	$411.0	$415.6
REGISTRATION \ LICENSING & TITLES		$102.8	$111.7	$111.6	$113.0	$112.2	$112.0
DRIVER LICENSES		$27.1	$27.8	$27.9	$28.4	$28.9	$28.4
ROAD USE ASSESSMENT FEES		$0.9	$0.9	$0.9	$0.9	$0.9	$0.9
TOTAL GROSS HWY FUND		$735.6	$730.7	$732.5	$761.7	$774.3	$780.8
Collection, Programs & Transfers (including OTIA)		($136.1)	($158.7)	($151.7)	($153.8)	($155.8)	($160.1)
NET REVENUE TO HWY FUND		$599.6	$572.1	$580.8	$607.9	$618.5	$620.7
TRANSPORTATION INVESTMENT ACT (OTIA)		**$29.1**	**$42.1**	**$35.6**	**$35.6**	**$35.6**	**$35.6**
Debt Service & Reserve		($8.2)	($37.0)	($24.8)	($29.6)	($33.2)	($31.3)
NET OTIA REVENUE FOR DISTRIBUTION		$20.9	$5.1	$10.8	$6.0	$2.4	$4.3
TOTAL REVENUE FOR DISTRIBUTION		**$620.5**	**$577.1**	**$591.6**	**$613.9**	**$620.9**	**$625.0**

REVENUE FOR DISTRIBUTION	Distribution Percentage	**$620.5**	**$577.1**	**$591.6**	**$613.9**	**$620.9**	**$625.0**
COUNTY APPORTIONMENT (HWY FND)	24.38%	$146.2	$139.5	$141.6	$148.2	$150.8	$151.3
SPECIAL COUNTY		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)
COUNTY APPORTIONMENT (OTIA)	30.00%	$6.3	$1.5	$3.2	$1.8	$0.7	$1.3
NET COUNTY APPORTIONMENT		$152.0	$140.5	$144.3	$149.5	$151.0	$152.1
CITY APPORTIONMENT (HWY FUND)	15.57%	$93.4	$89.1	$90.4	$94.7	$96.3	$96.6
SPECIAL CITY		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)
CITY APPORTIONMENT (OTIA)	20.00%	$4.2	$1.0	$2.2	$1.2	$0.5	$0.9
NET CITY APPORTIONMENT		$97.0	$89.6	$92.1	$95.4	$96.3	$97.0
HWY DIV (including small City/County)	60.05%	$360.1	$343.5	$348.8	$365.1	$371.4	$372.7
SPECIAL COUNTY		($0.25)	($0.25)	($0.25)	($0.25)	($0.25)	($0.25)
SPECIAL CITY		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)
HWY DIV: TOTAL (OTIA)	50.00%	$10.5	$2.5	$5.4	$3.0	$1.2	$2.1
HWY DIV: NET		$369.8	$345.3	$353.4	$367.3	$371.9	$374.1
Highway Modernization Program (Included in HWY DIV NET)		$51.7	$49.3	$50.0	$52.4	$53.3	$53.5

	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
TOTAL STATE	$369.8	$345.3	$353.4	$367.3	$371.9	$374.1
TOTAL COUNTIES	$152.7	$141.2	$145.1	$150.3	$151.8	$152.9
TOTAL CITIES	$98.0	$90.6	$93.1	$96.4	$97.3	$98.0
TOTAL ALL FUNDS NET REVENUE	**$620.5**	**$577.1**	**$591.6**	**$613.9**	**$620.9**	**$625.0**

PREVIOUS FORECAST	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**FY 06**	**FY 07**
TOTAL GROSS HWY FUND	**$728.9**	**$715.6**	**$734.6**	**$762.1**	**$775.7**	**$783.4**
NET REVENUE FOR DISTRIBUTION	**$614.3**	**$562.8**	**$587.7**	**$612.5**	**$626.2**	**$629.8**
COUNTY APPORTIONMENT	$151.2	$137.6	$143.6	$149.6	$153.0	$153.9
CITY APPORTIONMENT	$97.1	$88.2	$92.1	$95.9	$98.1	$98.6
HWY DIV: NET	$366.1	$337.0	$352.1	$367.1	$375.1	$377.2

DIFFERENCE FROM PREVIOUS FORECAST

TOTAL DIFFERENCE (GROSS)	**$6.7**	**$15.2**	**($2.2)**	**($0.3)**	**($1.4)**	**($2.6)**
TOTAL DIFFERENCE (NET)	**$6.2**	**$14.3**	**$3.8**	**$1.4**	**($5.4)**	($4.8)
COUNTY APPORTIONMENT	$1.5	$3.7	$1.5	$0.7	($1.3)	($1.0)
CITY APPORTIONMENT	$1.0	$2.4	$1.0	$0.5	($0.8)	($0.7)
HWY DIV: TOTAL	$3.7	$8.3	$1.3	$0.3	($3.3)	($3.1)

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