

OREGON DEPARTMENT OF TRANSPORTATION

**SUMMARY of TRANSPORTATION
ECONOMIC and REVENUE FORECASTS**

December 2003

**PREPARED BY
FINANCIAL SERVICES,
CENTRAL SERVICES DIVISION**

(Revised March, 2004)

Foreword

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

This document is issued in conjunction with the current General Fund revenue forecast and is consistent with the conventions and results contained therein. This forecast is consistent with Department of Administrative Services September 2003 forecast and the associated baseline macroeconomic forecast.

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This document is also available on the ODOT Web Site: <http://www.oregon.gov/odot/CS/FS/>

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December 2003 Economic and Revenue Forecast

EXECUTIVE SUMMARY

Revenues in fiscal year 2003 were slightly stronger than anticipated in the prior forecast. Gross revenues to the Highway Fund were \$23.9 million, or 3.3 percent, more than expected. Both motor fuel tax receipts and weight-mile taxes were the sources of additional revenue. Despite somewhat higher gasoline prices and an ailing state economy, gasoline sales were remarkably resilient over the year. Weight-mile revenues were stronger than forecast primarily because assumptions relating to reporting simplifications for trucking companies were not realized.

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

Largely as a result of this legislation, gross revenues are slated to rise in FY2004 by nearly \$42 million to \$796.4 million, a 5.5 percent increase over FY2003. Full year effects of the new legislation will not be felt until FY2005, however. On this basis, the forecasted increase in revenue year-over-year is \$76.2 million, or 9.6 percent more. In the post 2005 years, the incremental effects of HB 2041 fee and tax increases are complete and growth in revenues flattens out considerably. FY2006 and FY2007 gross revenues show only modest gains at this point: 1.2 and 1.5 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.

Until very recently, the economic backdrop nationwide has been far from encouraging. While we normally would not expect a sharp rebound after a relatively “soft-landing” in the economy, the outlook for real growth and, importantly, for job creation has continued to be less than optimistic. Real GDP growth for the first half of 2003 registered a tepid 2.4 percent rate, annualized. And this was nearly a year-and-a-half after the economy was determined to be out of recession.

The recent economic performance reported for the third quarter of 2003 is, however, very encouraging for the prospects for stronger economic growth. Real GDP growth was pegged preliminarily at an annual rate of 8.2 percent in 2003:III. Despite such a robust number (the strongest showing in twenty years), consensus forecasts have been slow to ratchet up expected growth for the next four to five quarters out to early 2005. However,

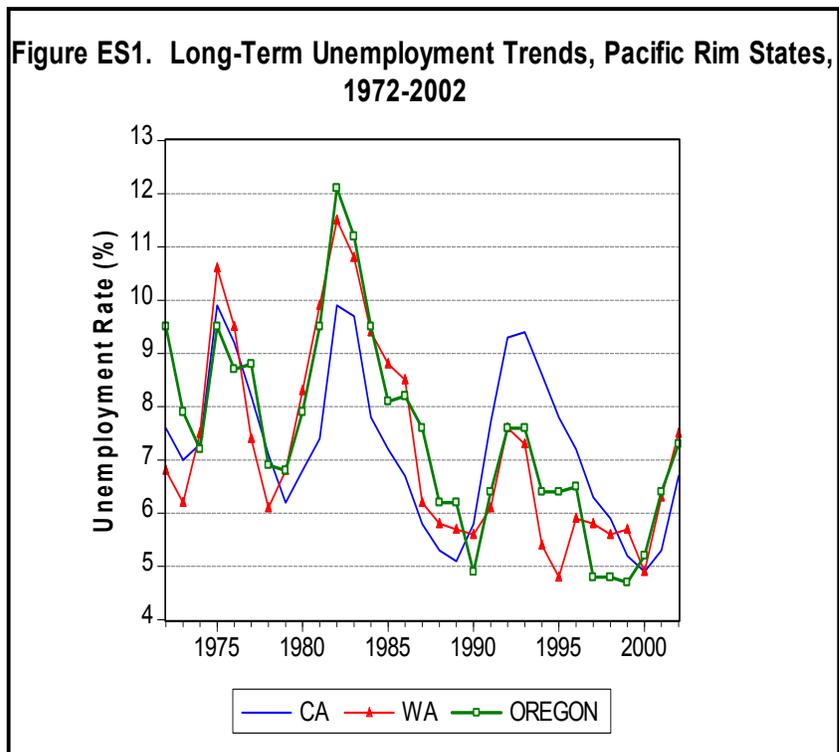
against the setting of fiscal stimulus and stable monetary policy, such “high leverage” sectors of spending as business fixed investment, exports, and planned inventory accumulation could cause expectations to be raised significantly. In the mean time, real growth is still anticipated to be at only trend (3.5 percent) or slightly above (4 to 4.5 percent) for 2004.

Drawing parallels with the 1990-1991 recession (also deemed a “soft-landing” recession) and the ensuing recovery is compelling. This time around, it is widely expected, however, that the Federal Reserve will refrain from over-tightening as they briefly did in 1994, two years into that recovery.

Oregon’s employment recession vis-à-vis other states, and the nation as a whole, has been widely recognized. Unlike for the nation, parallels with the 1990-1991 downturn are less compelling here, as the state economic narrative discusses below. Oregon still has the highest unemployment rate of any state (currently tied with Michigan), a rank it has held for a majority of months stretching back to early 2002.

The outlook for improvement in the state’s unemployment rate is somewhat guarded at this point. Currently at about the 7 ½ percent level (7.3 percent as recently as November 2003, seasonally adjusted), the rate is forecast by the Oregon Department of Consumer and Business Services to hover at 7.7 percent for all of 2003. It then declines only slightly in 2004 to 7.5 percent, on average, and declines only gradually to 6.7 percent over the three years after that.

It’s worth noting that the state’s unemployment rate has averaged 7.2 percent for the past thirty years. Figure ES1 shows the historical pattern, along with a comparison with the adjoining states of California and Washington. Over the shorter period from 1988 to 2002, however, the rate for Oregon is considerably lower at 6.0 percent. This may signify a structural shift away from being predominately a natural resource based economy.



Although the state continued to see job losses in the third quarter of this year, things have seemingly stabilized and job growth is anticipated to kick

in by the spring time frame. However, with continued, strong gains in productivity, job growth at rates above overall population growth does not occur until 2005 on an annual basis. Indications are that the strongest job growth will be in the Professional & Business Services and the Health Care sectors. Growth in manufacturing jobs seriously lags behind overall job creation, at only about one-half the rate of total employment growth. Moreover, the level of manufacturing employment does not regain its peak in the current state forecast.

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. The industries that traditionally have pronounced impacts on heavy vehicle transactions are currently languishing, and they are expected to remain so for the foreseeable future. As a result, trucking activity is forecast to be far less robust than during some of the boom periods of the 1980s and 1990s. A summary of these is presented in Table ES1.

| Calendar Year | Actual | | Forecast | | | | |
|------------------------------|--------|-------|----------|-------|-------|-------|-------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Motor Vehicle Fuels | 0.6% | 2.3% | -1.1% | 0.7% | 1.6% | 1.8% | 1.9% |
| New Titles | -13.6% | -1.7% | -1.5% | -4.0% | -1.0% | -1.6% | -2.9% |
| Original Cl C Licenses | -1.0% | -4.5% | 3.8% | 3.1% | 2.4% | 2.3% | 2.2% |
| Passenger Veh. Registrations | -1.3% | 6.1% | -3.2% | -7.7% | 0.6% | -3.8% | 1.1% |
| Trucking Activity (Wt.Mile) | -0.3% | -3.2% | 3.2% | 0.6% | 2.9% | 2.3% | 2.1% |
| Heavy Veh. Registrations | -11.3% | 16.6% | -6.2% | 2.6% | 3.9% | 4.1% | 4.1% |

The current forecast is based on the September 2003 State Economic Forecast and on the macroeconomic forecast from Global Insights Inc. (“GII”) on which it was based. All transactions and economic data for the forecast use actuals available through the second quarter of 2003. The forecast interval, therefore, begins in 2003:III and extends through 2009. Insofar as possible, the same model structure as used in the past several forecasts is retained here, subject to only updated data for model estimation. It is contemplated that there will likely be some major changes in the near future to the stochastic forecasting equations of the model, stemming from revisions to data and from an evaluation of forecast accuracy.

NATIONAL ECONOMIC OUTLOOK

Some highlights of the macroeconomic outlook* used to generate the ODOT transactions and revenues are reported in Table 1 below. The economic outlook has not materially changed at the national level over the recent, past forecasts. Notwithstanding the robust third quarter results recently advanced by the Department of Commerce, the economic recovery and growth are in place, but the overall long-term outlook is still somewhat tepid nonetheless. This is no more apparent than on the job-creation front as has been widely recognized.

| TABLE 1. NATIONAL ECONOMY | Actual | Forecast | | | | |
|--|---------------|-----------------|-------------|-------------|-------------|-------------|
| C.Y. Percent Change (as of Sep 2003) | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Gross Domestic Product (GDP) | 3.6% | 3.6% | 5.5% | 5.7% | 6.1% | 5.9% |
| Real GDP | 2.4% | 2.0% | 3.8% | 3.4% | 3.6% | 3.4% |
| Real Business Fixed Investment | -1.1% | 2.3% | 8.0% | 9.5% | 10.5% | 9.3% |
| Consumer Confidence | 0.4% | -4.4% | 4.5% | -0.5% | 2.3% | -0.3% |
| Average Price of a Light vehicle (Current \$) | 3.9% | 2.4% | 2.5% | 1.5% | 3.2% | 2.8% |
| Fuel Efficiency of Light Vehicles | -0.1% | -0.1% | -0.2% | -0.1% | 0.0% | 0.0% |
| Personal Consumption Index (chain weighted) | 1.4% | 1.7% | 1.4% | 2.3% | 2.4% | 2.5% |
| Price Of Gasoline Index (chain weighted) | -6.6% | 12.7% | -9.7% | 1.9% | 0.9% | 3.2% |
| Employment Growth | -1.1% | -0.1% | 1.2% | 1.7% | 1.8% | 1.6% |
| US Personal Income | 2.7% | 3.2% | 4.5% | 5.0% | 5.6% | 5.8% |
| Real Personal Income | 1.3% | 1.4% | 3.0% | 2.7% | 3.1% | 3.3% |

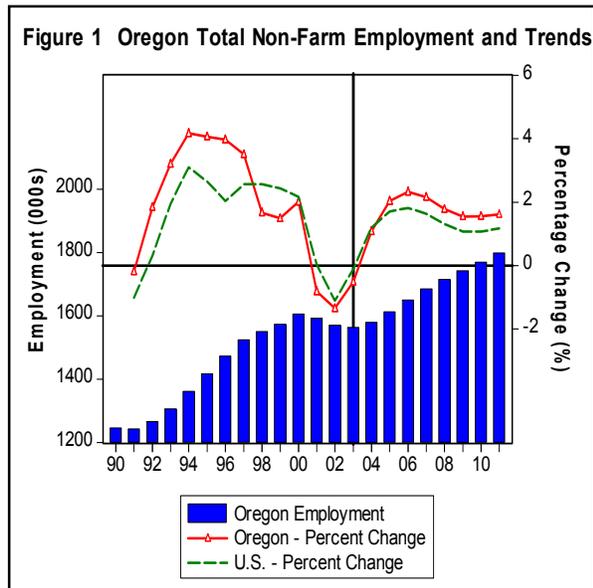
Since the more dramatic impacts in this revenue forecast stem from legislative initiatives from the 2003 Regular Session, further discussion of the national economic outlook is relegated to an appendix for the interested reader (Appendix A). In addition, a detailed treatment of the national and state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

OREGON ECONOMIC OUTLOOK

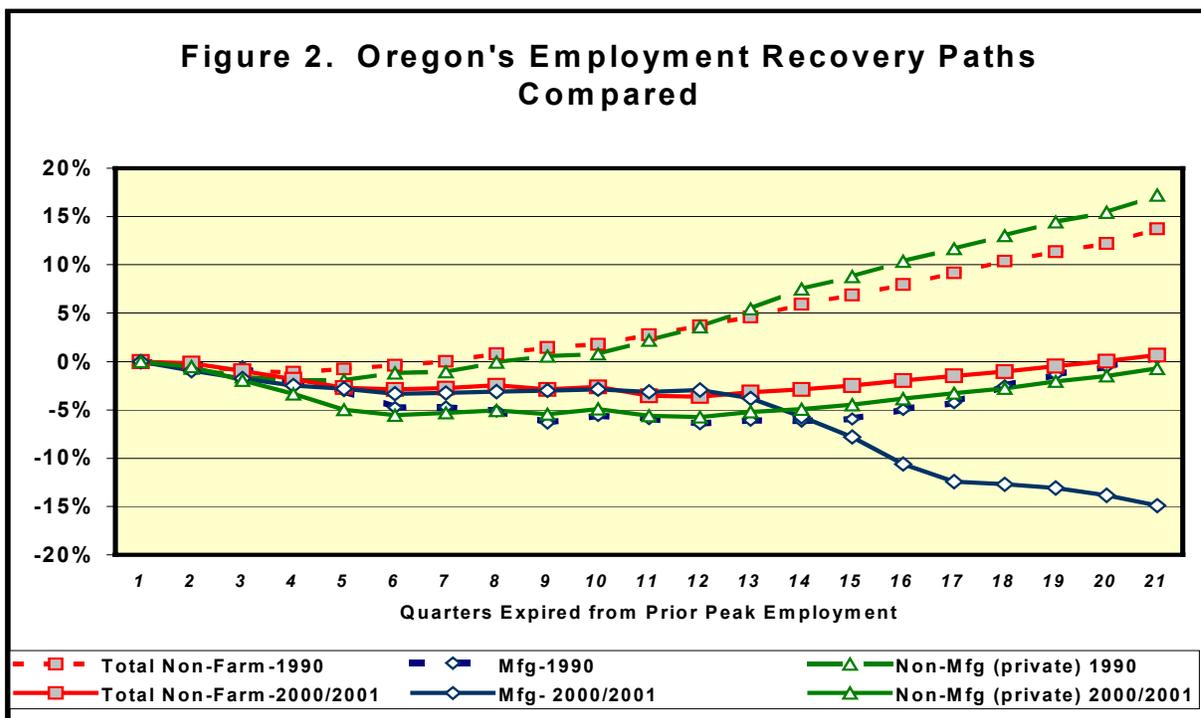
The expected rebound in Oregon's employment growth has continued to be postponed somewhat. While not dead last in job-growth as we were in late 2001 and early 2002, Oregon is still in the bottom quartile in job creation. This year we will see the third consecutive year of job losses, something not seen since the much deeper recession of 1980-1982. The current forecast for the economy doesn't show the state's Total Non-Farm Employment rising above its 2000:IV peak until the third quarter of 2005, nearly two more years away.

* "A Year of Two Halves?" *Global Insights, Inc.*, (July, 2003).

Figure 1 contains a chart of the annual data on the state's Total Non-Farm Employment, as well as the current forecast from the Office of Economic Analysis. Coupled with the delayed and lethargic job recovery, annual growth rates are seen to rise gradually to somewhat above 2 percent, and then to decline gradually to slightly below the 2 percent range thereafter. Not surprisingly, this mimics the U.S. employment outlook, with the caveat that Oregon's is parametrically higher by about one-half a percent. Most of this is attributable to our higher population growth rates in the forecast horizon.



The employment picture is typically somewhat muddy during the recovery phase as the economy emerges from recessions. Each recession and ensuing recovery are different in some respect or another. Figure 2 lays out a comparison of our current situation with the experience of the 1990/1991 recession that underscores the predicament facing the state. At the national level, both recessions have generally been regarded as being of the “soft-landing” variety. However, the current outlook in Oregon is less optimistic, in that our recovery will not be anywhere near as robust as the prior one in the early nineties.



The chart shows the number of quarters it takes for employment levels to match their prior peak, before the onset of a downturn in economic activity. Three industry categories are selected as a frame of reference: Total Non-Farm Employment, All Manufacturing (“Mfg”), and All Non-Manufacturing-Private (“Non-Mfg”). At the Total Non-Farm Employment level, the expected recovery is now considerably more protracted. It is anticipated to take 20 quarters, or five years, for the total jobs level to surpass the prior peak. In contrast, the chart reveals the peak-to-peak cycle from the 1990 downturn took only 7 quarters. Moreover, the situation is even more perverse for Oregon’s composite of manufacturing industries. Oregon’s Manufacturing sector took 21 quarters to surpass its peak levels in the 1990 recession; now the sector is not expected to regain its prior peak at all over the forecast horizon. Strong productivity gains and manufacturing job-losses to “off-shore” plants are an often cited explanation for this prospect. However, it does occur within the backdrop of a long-term trend of a rising share of jobs in the Services sector and a diminishing share in Manufacturing. It is also noteworthy in the current situation that at the 12-14 quarter mark, there is a conspicuous divergence between the two recovery patterns.

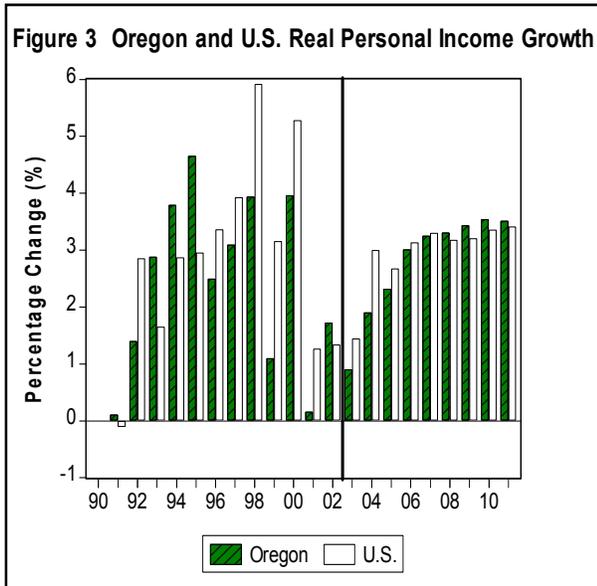
Non-manufacturing employment, on the other hand, adjusts to full recovery after only 8 quarters, compared to 7 in the prior recession. Oregon’s Non-Manufacturing Sector (private industry only) dominates our employment makeup, about 5 jobs for every 1 in Manufacturing. Largely because of this, the recovery path here largely drives the pattern of recovery for Total Non-Farm Employment.

Despite some of the apparent similarities in the job recovery patterns overall, greater significance for revenues to the Highway Fund resides in some of the sub-sectors of aggregate employment. Oregon’s much vaunted High-Tech Manufacturing sector never fully recovers to its prior peak level in the state forecast. It does, however, stabilize in the 2007 timeframe. The state’s Non-Durable Manufacturing industries, which include primarily food processing, paper and allied products, and printing/publishing activities, display virtually no job-growth in the outlook.

Other sectors of the state economy that have a pronounced impact on Highway Fund revenues are the Wholesale Trade, Retail Trade, and the combined Transportation/Warehousing/Utilities sectors. Wholesale Trade employment never recovers in the forecast horizon to its peak levels from 2000:IV, and Retail Trade employment is projected to not surpass its late 2000 peak until early in 2006. The Transportation/Warehousing/Utilities industries are similarly slow to regain their employment highs. It is not until early 2007 that employment levels here pass their prior peak from early 2000, as well.

The year-over-year percentage growth rates of Total Non-farm Employment and these selected sectors are contained in the top portion of Table 2. The overall assessment is not very encouraging for dramatic improvement on the job-growth front.

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. The present forecast shows income growth in Oregon trailing slightly that of the nation for the next several years. However, Oregon's growth in the post-2005 time frame starts to outpace the nation's somewhat, owing to a slightly stronger population trend. Figure 3 provides a comparison of Oregon and the U.S. going back to 1991, along with the current base forecast.



In sum, the population growth and growing personal income in the outlook are somewhat encouraging in that they outpace the nation's as a whole. However, the slow growth in jobs, especially in the higher wage sectors such as Manufacturing is discouraging. Anecdotal evidence from the freight sector, coupled with very strong economic growth in the third quarter just completed, may be early signs of a stronger economic rebound than contained in base or consensus forecasts.

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

| TABLE 2. OREGON ECONOMY C.Y. Percent Change | Actual | Forecast | | | | |
|--|--------|----------|-------|------|------|-------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Total Non-Farm Employment | -1.4% | -0.5% | 1.1% | 2.0% | 2.3% | 2.2% |
| High Technology Employment | -11.1% | -5.4% | 2.8% | 4.6% | 1.6% | 1.0% |
| Wood Products Employment | -2.4% | -3.5% | -1.8% | 0.4% | 0.6% | 0.6% |
| Transportation Employment | -1.4% | -2.1% | -0.4% | 1.7% | 3.2% | 3.5% |
| Trade Employment - Wholesale | -2.3% | -0.1% | 1.1% | 0.9% | 1.2% | 0.9% |
| Trade Employment - Retail | -1.9% | -0.5% | 1.0% | 1.6% | 2.0% | 1.9% |
| Population | 1.0% | 1.0% | 1.2% | 1.2% | 1.2% | 1.2% |
| Portland-Metro Price Index | 0.8% | 2.0% | 2.3% | 2.8% | 2.9% | 3.0% |
| Timber Harvest | 2.9% | 2.4% | 1.6% | 0.6% | 0.0% | -0.5% |
| Housing Starts | 4.8% | 4.9% | -2.3% | 0.6% | 2.1% | 1.6% |
| OR Personal Income (Current \$) | 2.5% | 2.9% | 4.3% | 5.2% | 6.0% | 6.4% |

CONVERSION TO NEW INDUSTRY CLASSIFICATIONS

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

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

Thus, on several fronts, some analysis of the issues created by the NAICS conversion is warranted, and there will be work conducted on these and related issues in the interim period between this and the next forecast.

TRANSPORTATION TRANSACTIONS

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

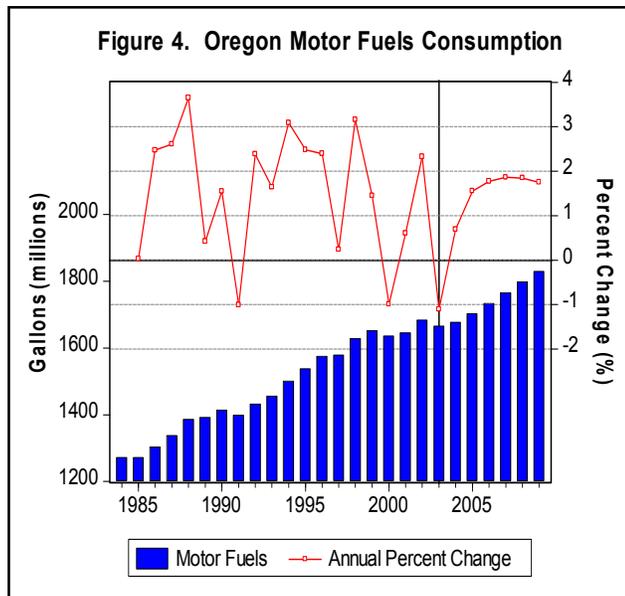
Table 3: Percent Change in Transactions for Key Transportation Variables

| Calendar Year | Actual | | Forecast | | | | |
|------------------------------|--------|-------|----------|-------|-------|-------|-------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Motor Vehicle Fuels | 0.6% | 2.3% | -1.1% | 0.7% | 1.6% | 1.8% | 1.9% |
| New Titles | -13.6% | -1.7% | -1.5% | -4.0% | -1.0% | -1.6% | -2.9% |
| Original Class C Licenses | -1.0% | -4.5% | 3.8% | 3.1% | 2.4% | 2.3% | 2.2% |
| Passenger Veh. Registrations | -1.3% | 6.1% | -3.2% | -7.7% | 0.6% | -3.8% | 1.1% |
| Trucking Activity (Wt.Mile) | -0.3% | -3.2% | 3.2% | 0.6% | 2.9% | 2.3% | 2.1% |
| Heavy Veh. Registrations | -11.3% | 16.6% | -6.2% | 2.6% | 3.9% | 4.1% | 4.1% |

Motor Fuels Usage

Historically for CY2002, gallon sales of motor fuels revealed more strength than had been originally forecast. For a year in which Oregon was still in the grips of an employment recession, gasoline and use-fuel sales were surprisingly strong. CY2002 volume was up a robust 2.3 percent over 2001, which itself was only slightly higher than usage in 2000. Ironically, motor fuels usage had its most pronounced dip in 2000, somewhat before the depths of the state's economic downturn.

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



In the forecast, this steady trend tends to re-assert itself in the out years, starting in CY2005. In the intervening years of 2003 and 2004, the outlook is for somewhat slower usage rates. Indeed, the forecast dip of 1.1 percent for all of 2003 is largely an outgrowth of the

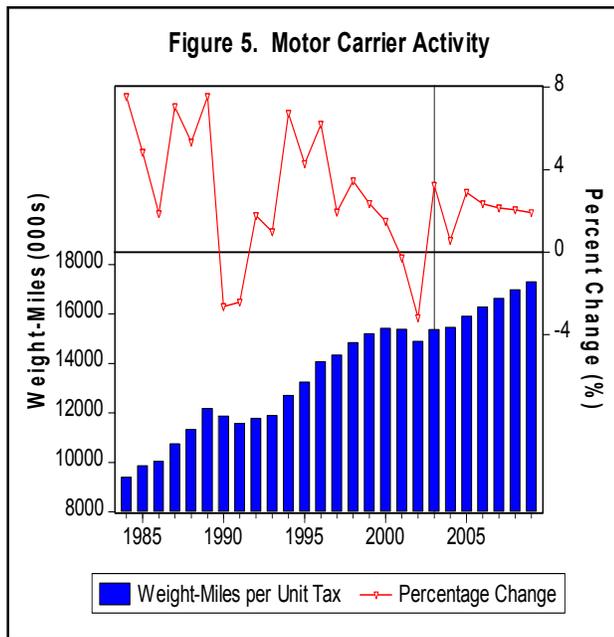
unexpectedly strong sales in 2002, which exceeded the model’s prediction by a sizable margin due presumably to elements outside the scope of the model. The current form of the forecasting equation is briefly summarized below. Additional specification and testing issues will be the focus of future work on this segment of the revenue forecast model.

Sales of motor fuels in 2004 are forecast to grow only marginally, at about one-half the rate previously forecast. Although the absolute level of usage is very nearly the same, the delayed economic recovery, coupled with the strong blip in observed usage in 2002, makes the year-over-year comparison somewhat pale when compared with the prior forecasts.

The forecasting equation for motor fuels (which is a composite of both gasoline and diesel fuel sales) accounts for the impacts of a variety of economic and technological aspects. These currently span the price of gasoline (adjusted for inflation), real personal income for Oregon in the aggregate, overall employment levels statewide, consumer sentiment nationally, and the average fuel efficiency of the light vehicle fleet nationally. The model is estimated in some instances with delayed or lagged effects to capture inertia or incomplete adjustments to changes in these economic variables.

Motor Carrier

The economic slowdown has had a particularly harsh impact on trucking activity and the freight industry in Oregon, although not seemingly much different than witnessed in the 1990-1991 downturn (Figure 5). Many of the economic variables affecting motor carrier activity have declined over the past several years. Compared to the prior forecast in January 2003, weight-mile “transactions” are forecast to grow at slightly slower rates in 2003 and 2004. However, both forecasts still exhibit largely the same pattern of growth in the out years to 2009, stemming from comparatively similar economic backdrops.



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

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

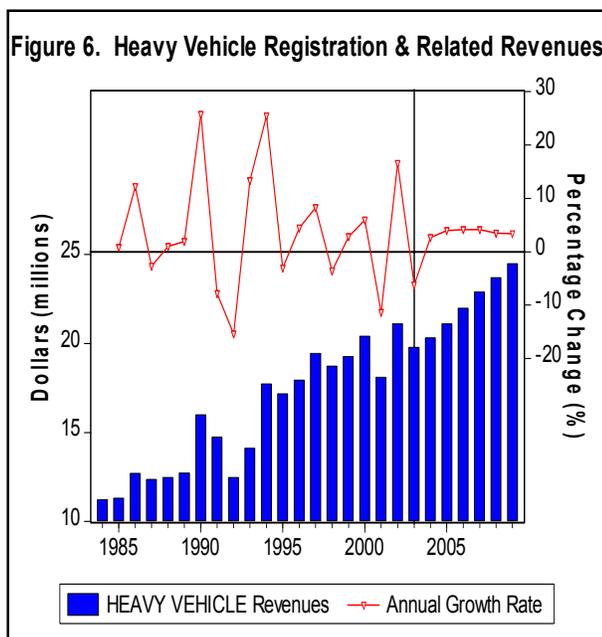
The economic variables in the weight-mile forecasting equation have routinely included employment (both total employment statewide, as well those engaged specifically in the wholesale and retail trades and in the high-tech manufacturing sector), real growth in national GDP, and real gasoline prices. As with the other stochastic equations in the forecasting model, lagged relations are present to capture some of the behavioral dynamics. This forecast relies on an estimated relationship that conforms somewhat more closely with prior forms, in contrast to the equation used in the *January 2003 Report*. Specification and data measurement issues in the weight-mile model appear to be increasingly prominent based on recent developments. These aspects will also be systematically examined and tested prior to the next forecast.

Trucking activity for 2002 was about 3.2 percent less than in 2001, which itself was a bit of an off year from 2000. However, with the economic recovery underway, we forecast 2003 will show a 3.2 percent increase and, yet, 2004 will grow only at the anemic rate of 0.6 percent. The latter is largely an outgrowth of the year-over-year comparison from the strong snap back in activity in 2003 and to the delayed and slow job recovery. The forecast then indicates that revenues will resume fairly stable annual growth in the range of 2 percent per year thereafter.

Another source of revenues to the State Highway Fund emanates from registration fees for these heavy motor carrier vehicles, as well as special trip permits and other fees. The economic variables that influence trucking activity also affect heavy vehicle registrations, although the timing can be more varied.

Heavy Vehicle Registrations declined about 11 percent in 2001, rebounded strongly at 16.6 percent in 2002 and are forecast currently to decline by about 6 percent in 2003. In dollar terms, the heavy registration components of motor carrier receipts declined to \$18.1 million in 2001 from \$20.4 million in 2000, and increased back to \$21.0 million in 2002. It appears to be on course for a down tick to about \$19.8 million for CY2003.

Figure 6 shows heavy vehicle registrations annually over the period 1984 to 2002, plus the forecast out to 2009. After a rebound in 2004, growth in revenues

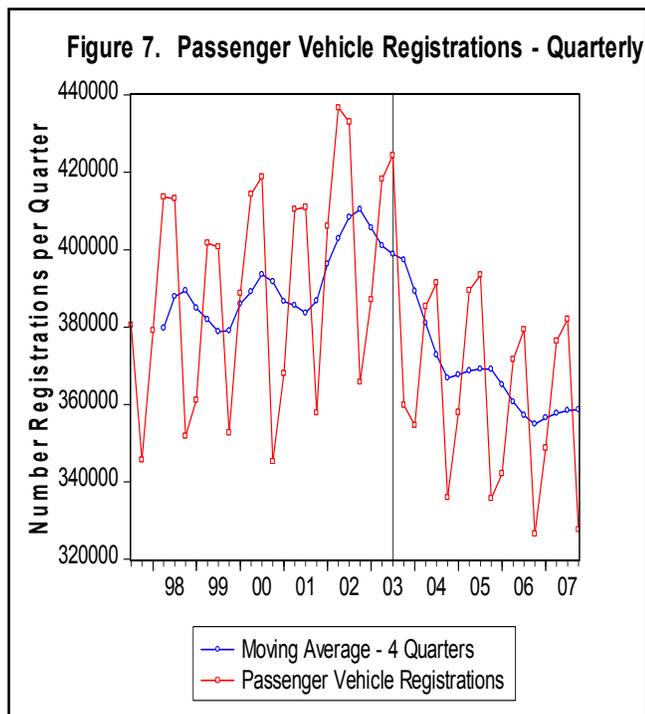


levels out to about the 3.5 to 4 percent rate for the remainder of the forecast period. Within a given year, there is substantial quarterly variation. The actual dollar amount per quarter typically is highest in the fourth quarter of the calendar year, but sometimes payments fall into the first quarter of the next calendar year. Most registrations are made in December.

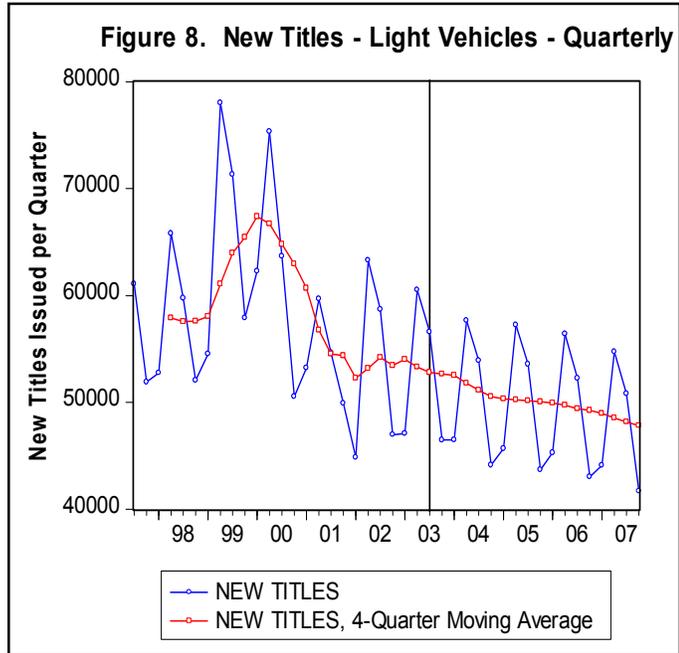
Driver and Motor Vehicles

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

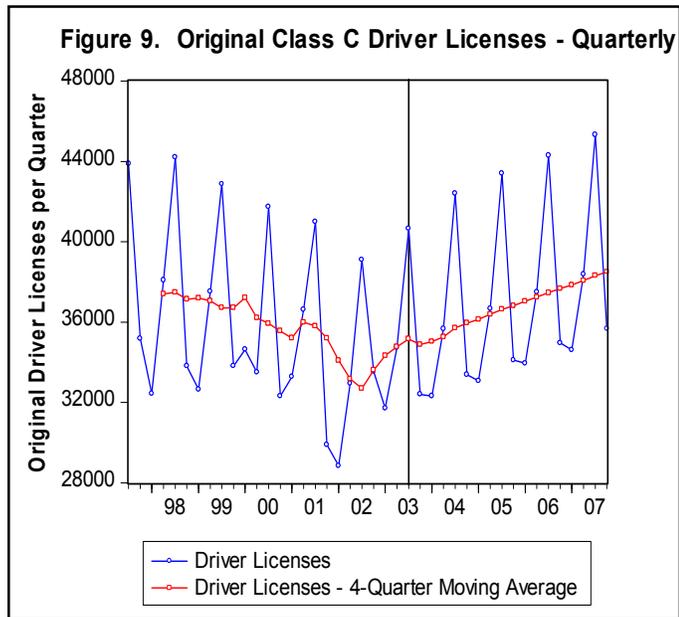
The moving average trend line in Figure 7 shows that average passenger vehicle registrations have increased through the third quarter of 2002, but are expected to decrease over the next six years. The current forecast is not perceptibly different from the prior one, primarily because it is largely determined from the state’s demographics and statutes. 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 it is being implemented in two phases. The 2003-05 biennium will show the biggest impact. Registration of passenger vehicles was fairly robust in 2002 and 2003 year-to-date. The large number of vehicles currently being re-registered, coupled with a favorable climate for interest rates and rebate incentives, have continued to help 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 largely unchanged from the prior forecast. There has been a slight upturn in 2002 over 2001, but the trend is for a diminution in the rate of expansion in new title transactions. Figure 8 contains a time series plot of recent history and the forecast. The forecasting model for this variable is sensitive to interest rates, and the expected increase in rates will likely serve to dampen growth in new titles. The data show that the second quarter of the year typically is seasonally the most active for this particular transaction at DMV. The four-quarter moving average clearly reveals that new titles are forecast to be on a gradually declining trend for the next four years.



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



The conversion of all licenses to an eight-year cycle 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 overall economic health of the state. Data for 2002, showing a bottom in new license issues, and a slight gain into 2003, are ostensibly a signal from a recovering economy overall.

HIGHWAY FUND REVENUE FORECAST

The current forecast shows a fairly dramatic increase in revenues compared to prior forecasts. This is largely due to the expected impacts from new legislation passed in the 2003 Regular Session that will be implemented January 1, 2004. Principal among these is HB 2041 (“OTIA III”) that represents a major initiative in investing in Oregon’s highways, roads, and bridge infrastructure. Other differences in this forecast can be attributed to slight changes in the forecasting equations and to an updated economic outlook at both the state and national levels.

Realized revenues to the State Highway Fund in FY2003 (for the fiscal year ending June 30, 2003) were somewhat stronger than earlier forecasts. Gross collections were nearly \$24 million higher for last year, or about 3.3 percent more than in the past forecast. The sources of this unexpected strength emanated out of the motor fuel collections and from weight-mile tax receipts. Both of these revenue gains are a direct outgrowth of the increased transaction volumes, as discussed earlier. After collection costs, transfers, and set-asides for OTIA I and II, net revenues to the Highway Fund were still higher than old forecasts by nearly \$24 million, as well.

Overall, the new revenue forecast projects Gross Highway Fund Revenue to be nearly \$64 million higher for FY2004 than the prior forecast made in early CY2003. In the following years of FY2005, FY2006, FY2007, the increases over the prior forecast are \$111 million, \$109 million, and \$115 million, respectively. As indicated above, this is the composite difference from the prior forecast, but it largely stems from the new legislation. This is especially true in the out years where the effects of slight updates to the forecasting equations and to the economic outlook are almost imperceptible. Some of the major, new legislation is highlighted below.

HB 2041 Legislation

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

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

Title-related transactions administered by DMV are increased, beginning January 1, 2004, to \$55 from \$30, an 83 percent increase. Passenger vehicle registration fees will rise to \$54 from \$30 every two years, an 80 percent increase. Registration for mopeds

and motorcycles will also rise, as will the fee for other specialty classes of vehicles such as a variety of government vehicles, antique cars and special interest vehicles.

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

The legislation embodied in HB 2041 is very extensive. The reader is referred to the ODOT web site for a compendium from 2003 legislation, both House and Senate, that affects transactions and activities under Agency oversight. The reader is directed to <http://www.odot.state.or.us/home/catalog/> and click on “2003 Legislative Summary.”

HB2388 Legislation

Another piece of legislation passed in the 2003 Regular Session was HB 2388. This law requires that car dealers and towers scrape off the registration stickers on the vehicle license plates in the event the dealer does not process the DMV title and registration papers at the point of sale. The dealers/towers would also sell to the buyers at most two special trip permits (per vehicle) for the buyer to be able to consummate title transfer with the DMV directly. These buyers would also have to pay DMV for replacement stickers, along with the necessary title transfer fee and, possibly, registration renewals. An initial DMV impact assessment amounted to \$3.1 million in gross revenues per biennium under fees prior to HB 2041. With the new, higher HB2041 fees, the level of revenues would be about \$4.2 million per biennium, if there were no behavioral responses by car buyers to the new fees and the new law, a somewhat improbable outcome.

In lieu of having adequate data about the nature of the probable transactions created under HB 2388, the revenue forecast from the implementation of this legislation is highly speculative at the present time. Moreover, the probable behavioral responses in adjusting to the new provisions may serve to change the ultimate amounts of revenues realized. The extent of these is not known at this juncture either. Given this wide band of uncertainty, a level of \$2.1 million on a biennium basis is uniformly inserted into our overall forecast (gross revenues before costs). This represents a mid-point between no revenues and the fore-mentioned \$4.2 million. The actual revenues may be higher or lower than this \$2.1 million level biennially, but it is felt there is about equal probability of the realized amounts being either above or below our judgment. A research plan is currently being developed to track transactions under HB 2388, and to develop reasonably unbiased estimates of the revenues generated from implementation. Coupled with this, future forecasts of the expected transactions and revenues will be adaptively adjusted to the new information as it is gathered and analyzed over time.

Highway Fund Forecast

Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes constitute the largest source of revenue at about \$400 million per year. These are levied on passenger vehicles, as well as on light to medium trucks that are not subject to the weight-mile tax. The weight-mile tax is levied on heavy trucks on a per mile basis, but graduated in proportion to the weight of the truck. Weight-mile taxes are the second largest source of revenue at about \$220-230 million a year. Licensing, vehicle registrations and titles make up the next primary source of State transportation revenue with gross annual revenues of nearly \$220 million.

Three different ODOT Divisions collect revenue. DMV collections are summarized in Table 4 for the new economic outlook, along with the effects from new legislation. Gross revenues from DMV transactions are nearly \$40 million higher in FY2004 than in the prior forecast, owing to HB2041 impacts mostly. Since the new law becomes effective half way into FY2004, the entire effect for the year is diluted, by about one-half. In FY2005 through FY2007, the full, annual effects are approximately \$77-79 million more in gross revenues.

TABLE 4. HIGHWAY FUND REVENUE COLLECTED BY DMV

| In Millions of Dollars | Actual | | Forecast with New Legislation | | | | Actual | Forecast | |
|---|----------------|----------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 | FY 07 | BI 01-03 | BI 03-05 | BI 05-07 |
| DMV COLLECTIONS | | | | | | | | | |
| VEHICLE REGISTRATIONS | \$60.7 | \$61.9 | \$85.0 | \$109.7 | \$108.0 | \$107.7 | \$122.6 | \$194.7 | \$215.7 |
| DRIVER LICENSES & OTHER | \$27.1 | \$28.6 | \$30.9 | \$34.4 | \$34.9 | \$34.7 | \$55.7 | \$65.2 | \$69.7 |
| TITLE, PLATE & OTHER | \$42.1 | \$48.3 | \$62.9 | \$76.0 | \$75.4 | \$75.3 | \$90.4 | \$138.9 | \$150.8 |
| TOTAL REG., LIC., ETC. (WITH OTIA III) | \$129.9 | \$138.8 | \$178.7 | \$220.1 | \$218.4 | \$217.7 | \$268.7 | \$398.9 | \$436.1 |
| Change from Previous Forecast Gross | \$0.0 | (\$0.8) | \$39.2 | \$78.7 | \$77.2 | \$77.3 | (\$0.7) | \$117.9 | \$154.5 |
| COLL./ADMIN & PROGRAM COST | (\$56.1) | (\$57.2) | (\$55.6) | (\$56.8) | (\$59.5) | (\$61.9) | (\$113.3) | (\$112.4) | (\$121.4) |
| TRAFFIC SAFETY TRANSFER | (\$0.6) | (\$0.6) | (\$0.6) | (\$0.6) | (\$0.5) | (\$0.5) | (\$1.3) | (\$1.2) | (\$1.0) |
| DEPT OF EDUCATION TRANSFER | (\$0.1) | \$0.0 | (\$0.1) | \$0.0 | (\$0.1) | \$0.0 | (\$0.1) | (\$0.1) | (\$0.1) |
| FROM TOF COST RECOVERY | \$0.0 | \$0.3 | \$0.2 | \$0.1 | \$0.0 | \$0.0 | \$0.3 | \$0.2 | \$0.1 |
| ODOT CS ASSESSMENT | (\$15.37) | (\$15.68) | (\$14.91) | (\$15.21) | (\$15.94) | (\$16.59) | (\$31.1) | (\$30.1) | (\$32.5) |
| REV. TRANSFER TO OTIA I & II | (\$5.7) | (\$8.2) | (\$7.0) | (\$6.9) | (\$6.8) | (\$6.7) | (\$13.9) | (\$13.8) | (\$13.4) |
| REV. TRANSFER TO OTIA III | \$0.0 | \$0.0 | (\$41.3) | (\$82.1) | (\$80.7) | (\$80.4) | \$0.0 | (\$123.4) | (\$161.1) |
| NET REVENUE (WITH OTIA I, II, III) | \$52.0 | \$57.3 | \$59.4 | \$58.6 | \$55.0 | \$51.7 | \$109.3 | \$118.0 | \$106.7 |
| Change in Previous Forecast Net | \$0.0 | (\$0.4) | \$2.1 | \$1.0 | (\$1.0) | (\$0.6) | (\$0.4) | \$3.1 | (\$1.6) |

Implementation of HB 2041 does very little to affect collections, administration, and program costs. As a result, the fee increases largely flow through to net revenues, as shown in Table 4. The DMV transactions represented in the Transportation Operating Fund (TOF) are separated from the Highway Fund activities as in past forecasts. The last row of Table 4 features the composite difference with the prior forecast.

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and heavy truck registration fees. The revenues are shown in Table 5, along with projected collection/administration costs and transfers out. The current forecast continues to reflect some weakness in weight-mile activity induced by the slow economic recovery, and it continues to forecast only modest gains in the near future. Net revenue for FY2003 came in higher than forecast by about 8 percent, or \$16 million. This is due to the return to earlier modeling conventions and to the fact that carriers have not taken advantage of the reporting simplification, as presumed in earlier forecasts. HB 2041 also has an impact on Motor Carrier revenues, but not as dramatic as for DMV transactions.

TABLE 5. HIGHWAY FUND REVENUE COLLECTED BY MCTD

| In Millions of Dollars | Actual | | Forecast with New Legislation | | | | Actual | | |
|--|----------------|----------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 | FY 07 | BI 01-03 | BI 03-05 | BI 05-07 |
| MCTD COLLECTIONS | | | | | | | | | |
| WEIGHT MILE TAX | \$192.3 | \$196.5 | \$198.6 | \$219.6 | \$225.1 | \$229.9 | \$388.8 | \$418.2 | \$455.0 |
| IRP, COMM. VEH. REG., RUAF* | \$14.9 | \$15.1 | \$19.3 | \$26.0 | \$26.8 | \$28.0 | \$30.0 | \$45.3 | \$54.8 |
| TRIP PERMIT & OTHER HEAVY | \$0.6 | \$0.7 | \$1.9 | \$3.0 | \$3.0 | \$3.1 | \$1.4 | \$4.9 | \$6.1 |
| MCTD & HEAVY (WITH OTIA III) | \$207.8 | \$212.3 | \$219.8 | \$248.6 | \$254.9 | \$261.0 | \$420.1 | \$468.4 | \$515.9 |
| Change from Previous Forecast Gross | \$0.9 | \$16.8 | \$26.0 | \$33.7 | \$33.7 | \$37.1 | \$17.7 | \$59.6 | \$70.8 |
| COLL./ADMIN & PROGRAM COST FROM IFTA COST RECOVERY | (\$21.5) | (\$21.9) | (\$21.7) | (\$22.2) | (\$23.2) | (\$24.2) | (\$43.3) | (\$43.9) | (\$47.4) |
| ODOT CS ASSESSMENT | \$1.0 | \$1.1 | \$1.0 | \$1.1 | \$1.1 | \$1.2 | \$2.1 | \$2.1 | \$2.3 |
| REV. TRANSFER TO OTIA I & II | (\$5.2) | (\$5.3) | (\$5.5) | (\$5.6) | (\$5.8) | (\$6.1) | (\$10.5) | (\$11.0) | (\$11.9) |
| REV. TRANSFER TO OTIA III | (\$7.4) | (\$11.0) | (\$9.2) | (\$9.4) | (\$9.5) | (\$9.6) | (\$18.4) | (\$18.6) | (\$19.0) |
| | \$0.0 | \$0.0 | (\$12.1) | (\$32.7) | (\$33.5) | (\$34.5) | \$0.0 | (\$44.8) | (\$68.0) |
| NET REVENUE (WITH OTIA I, II, III) | \$174.9 | \$175.2 | \$172.3 | \$179.9 | \$183.9 | \$188.0 | \$350.0 | \$352.2 | \$371.9 |
| Change in Previous Forecast Net | \$0.9 | \$16.0 | \$13.2 | (\$0.3) | (\$2.0) | \$0.5 | \$16.9 | \$12.9 | (\$1.5) |

*RUAF: Road User Assessment Fees

Overall, on a full fiscal year basis, gross revenues to the Motor Carrier Division are about \$33-37 million higher in our forecast period. These are due almost entirely to HB 2041 raising registration fees and to the uniform increases in both the weight-mile and flat-fee tax rates. For the current FY2004, revenues are about \$26.0 million higher than the past forecast. This outcome is about equally attributable to the effects from new legislation and from specification adjustments and data updates to the model. To date, freight companies have revealed little propensity to use the quarterly reporting simplification, and have apparently chosen to remain with the monthly cycle for the time being. The last row of Table 5 reports the composite difference of net revenues with the prior forecast.

The Central Services Division–Financial Services collects fuel tax revenues. Fuel tax collections are shown in Table 6. Fuel tax gross and net receipts in fiscal year 2003 came in nearly \$9 million above the prior forecast. As discussed above, fuel sales in FY2003 were particularly buoyant, despite the run up of fuel prices. For the following years, gross fuel tax revenues are forecast to expand at very nearly the same rate as prior

forecasts, once an allowance is made for the under prediction for 2003 in the prior forecast. Passage of HB 2041 legislation does not affect gas and use-fuel tax rates.

TABLE 6. HIGHWAY FUND REVENUE FROM MOTOR FUELS TAX

| In Millions of Dollars | Actual | | Forecast with New Legislation | | | | Actual | Forecast | |
|--|----------------|----------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 | FY 07 | BI 01-03 | BI 03-05 | BI 05-07 |
| FSB COLLECTIONS MOTOR FUELS TAX (WITH OTIA III) | \$397.9 | \$403.5 | \$397.9 | \$403.9 | \$410.0 | \$417.2 | \$801.5 | \$801.8 | \$827.2 |
| Change from Previous Forecast Gross | \$0.0 | \$8.7 | (\$0.3) | (\$0.6) | (\$1.1) | \$1.6 | \$8.7 | (\$0.9) | \$0.5 |
| COLL./ADMIN. COST | (\$0.92) | (\$0.94) | (\$0.97) | (\$0.99) | (\$1.04) | (\$1.08) | (\$1.9) | (\$2.0) | (\$2.1) |
| ODOT CS ASSESSMENT | (\$0.15) | (\$0.15) | (\$0.14) | (\$0.14) | (\$0.15) | (\$0.15) | (\$0.3) | (\$0.3) | (\$0.3) |
| SNOWMOBILE TRANSFER | (\$0.36) | (\$0.58) | (\$0.49) | (\$0.54) | (\$0.54) | (\$0.55) | (\$0.9) | (\$1.0) | (\$1.1) |
| CLASS I ATV TRANSFER | (\$0.64) | (\$1.09) | (\$1.27) | (\$1.52) | (\$1.90) | (\$1.92) | (\$1.7) | (\$2.8) | (\$3.8) |
| MARINE BOARD TRANSFER | (\$5.47) | (\$5.47) | (\$5.27) | (\$5.42) | (\$5.41) | (\$5.46) | (\$10.9) | (\$10.7) | (\$10.9) |
| CLASS II ATV TRANSFER | (\$0.76) | (\$0.82) | (\$0.89) | (\$1.00) | (\$1.09) | (\$1.10) | (\$1.6) | (\$1.9) | (\$2.2) |
| CLASS III ATV TRANSFER | (\$0.49) | (\$0.59) | (\$0.65) | (\$0.64) | (\$0.73) | (\$0.74) | (\$1.1) | (\$1.3) | (\$1.5) |
| TRANS OPR FUND (TOF) | (\$0.20) | (\$7.50) | (\$3.68) | (\$3.64) | (\$3.57) | (\$3.53) | (\$7.7) | (\$7.3) | (\$7.1) |
| AVIATION TRANSFER | (\$0.12) | (\$0.12) | (\$0.12) | (\$0.12) | (\$0.13) | (\$0.13) | (\$0.2) | (\$0.2) | (\$0.3) |
| REV. TRANSFER TO OTIA I & II | (\$16.06) | (\$22.86) | (\$19.42) | (\$19.32) | (\$19.34) | (\$19.41) | (\$38.9) | (\$38.7) | (\$38.8) |
| REV. TRANSFER TO OTIA III | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.0 | \$0.0 | \$0.0 |
| NET REVENUE (WITH OTIA I, II, III) | \$372.8 | \$363.4 | \$365.0 | \$370.5 | \$376.1 | \$383.2 | \$736.2 | \$735.6 | \$759.2 |
| Change in Previous Forecast Net | \$0.0 | \$9.0 | \$1.5 | \$1.2 | \$0.3 | \$3.0 | \$9.0 | \$2.7 | \$3.3 |

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 \$17.4 million gross and \$16 million net per year in fuel tax revenue through this forecast horizon. The same penny of tax plus its weight-mile equivalent produces about \$25 million gross and \$23.9 million net per year, on average.

Table 7 summarizes the updated revenue outlook with the new legislation. 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.

| TABLE 7A: HIGHWAY FUND REVENUE BY FISCAL YEAR AND BIENNIUM | | | | | | | | | |
|---|----------------|----------------|--------------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|
| | Actual | | Forecast with New Legislation | | | | Actual | Forecast | |
| | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 | FY 07 | BI 01-03 | BI 03-05 | BI 05-07 |
| (Row and columns sums may vary slightly due to rounding.) | | | | | | | | | |
| WEIGHT MILE, TRUCK REG., & RUAF* | \$207.8 | \$212.3 | \$219.8 | \$248.6 | \$254.9 | \$261.0 | \$420.1 | \$468.4 | \$515.9 |
| MOTOR FUELS TAX | \$397.9 | \$403.5 | \$397.9 | \$403.9 | \$410.0 | \$417.2 | \$801.5 | \$801.8 | \$827.2 |
| REGISTRATION, LICENSING & TITLES | \$129.9 | \$138.8 | \$178.7 | \$220.1 | \$218.4 | \$217.7 | \$268.7 | \$398.9 | \$436.1 |
| TOTAL GROSS HIGHWAY FUND | \$735.7 | \$754.6 | \$796.4 | \$872.6 | \$883.2 | \$896.0 | \$1,490.3 | \$1,669.0 | \$1,779.2 |
| Collection, Programs & Transfers (including OTIA) | (\$136.1) | (\$158.7) | (\$195.9) | (\$256.0) | (\$260.7) | (\$265.6) | (\$294.8) | (\$452.0) | (\$526.4) |
| NET REVENUE TO HIGHWAY FUND | \$599.6 | \$595.9 | \$600.5 | \$616.5 | \$622.5 | \$630.4 | \$1,195.5 | \$1,217.0 | \$1,252.9 |
| OTIA I & II SET ASIDE-memo | \$29.1 | \$42.1 | \$35.6 | \$35.6 | \$35.6 | \$35.6 | \$71.2 | \$71.2 | \$71.2 |
| Less Debt Service & Reserve (OTIA I & II) | (\$8.2) | (\$37.0) | (\$10.1) | (\$23.8) | (\$29.8) | (\$34.2) | (\$45.2) | (\$34.0) | (\$64.0) |
| OTIA III SET ASIDE-memo | \$0.0 | \$0.0 | \$49.3 | \$106.6 | \$106.0 | \$106.6 | \$0.0 | \$155.9 | \$212.6 |
| Less Debt Service & Reserve (OTIA III) | \$0.0 | \$0.0 | (\$1.6) | (\$25.5) | (\$48.8) | (\$56.5) | \$0.0 | (\$27.0) | (\$105.3) |
| NET OTIA I & II REVENUE FOR DISTRIBUTION | \$20.9 | \$5.1 | \$25.5 | \$11.8 | \$5.8 | \$1.4 | \$26.0 | \$37.2 | \$7.2 |
| NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL | \$0.0 | \$0.0 | \$19.4 | \$26.6 | \$26.4 | \$26.6 | \$0.0 | \$46.0 | \$53.0 |
| NET OTIA III REVENUE FOR DISTRIBUTION -STATE | \$0.0 | \$0.0 | \$28.4 | \$54.5 | \$30.8 | \$23.5 | \$0.0 | \$82.8 | \$54.3 |
| TOTAL NET REVENUE FOR DISTRIBUTION | \$620.6 | \$601.0 | \$673.7 | \$709.4 | \$685.5 | \$681.9 | \$1,221.6 | \$1,383.1 | \$1,367.4 |

*RUAF: Road User Assessment Fees

TABLE 7B: DISTRIBUTION OF TOTAL NET REVENUES

| | Actual | | Forecast with New Legislation | | | | Actual | Forecast | | |
|--|-------------------------|----------------|-------------------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|
| | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 | FY 07 | BI 01-03 | BI 03-05 | BI 05-07 | |
| (Row and column sums may vary slightly due to rounding.) | | | | | | | | | | |
| TOTAL NET REVENUES for DISTRIBUTION | | \$620.6 | \$601.0 | \$673.7 | \$709.4 | \$685.5 | \$681.9 | \$1,221.6 | \$1,383.1 | \$1,367.4 |
| | Distribution Percentage | | | | | | | | | |
| COUNTY APPORTIONMENT (ORS 366.524) | 24.38% | \$146.19 | \$145.28 | \$145.48 | \$148.48 | \$149.92 | \$151.84 | \$291.5 | \$294.0 | \$301.8 |
| SPECIAL COUNTY COUNTY APPORTIONMENT (OTIA I & II) | 30.00% | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.75) | (\$0.75) | (\$0.75) | (\$1.00) | (\$1.25) | (\$1.50) |
| COUNTY APPORTIONMENT (OTIA III) | 25.48% | \$6.3 | \$1.5 | \$7.6 | \$3.5 | \$1.7 | \$0.4 | \$7.8 | \$11.2 | \$2.2 |
| Dedicated To Debt Service & Reserve (OTIA III) | 85.00% | \$0.0 | \$0.0 | (\$1.3) | (\$15.8) | (\$15.8) | (\$15.8) | \$0.0 | (\$17.2) | (\$31.7) |
| NET COUNTY APPORT. (OTIA III-Local) | 60.00% | \$0.0 | \$0.0 | \$2.3 | \$4.5 | \$4.5 | \$4.5 | \$0.0 | \$6.8 | \$9.1 |
| NET COUNTY APPORTIONMENT * | * | \$152.0 | \$146.3 | \$166.1 | \$167.1 | \$166.6 | \$167.4 | \$298.3 | \$333.2 | \$334.0 |
| CITY APPORTIONMENT (ORS 366.524) | 15.57% | \$93.36 | \$92.78 | \$92.91 | \$94.82 | \$95.75 | \$96.97 | \$186.1 | \$187.7 | \$192.7 |
| SPECIAL CITY CITY APPORTIONMENT (OTIA I & II) | 20.00% | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) | (\$1.0) | (\$1.0) | (\$1.0) |
| CITY APPORTIONMENT (OTIA III) | 16.99% | \$4.2 | \$1.0 | \$5.1 | \$2.4 | \$1.2 | \$0.3 | \$5.2 | \$7.4 | \$1.4 |
| Dedicated To Debt Service & Reserve (OTIA III) | 15.00% | \$0.0 | \$0.0 | (\$0.2) | (\$2.8) | (\$2.8) | (\$2.8) | \$0.0 | (\$3.0) | (\$5.6) |
| NET CITY APPORTIONMENT (OTIA III-Local) | 40.00% | \$0.0 | \$0.0 | \$1.5 | \$3.0 | \$3.0 | \$3.0 | \$0.0 | \$4.5 | \$6.1 |
| NET CITY APPORTIONMENT * | * | \$97.1 | \$93.3 | \$107.2 | \$115.0 | \$114.6 | \$115.1 | \$190.3 | \$222.2 | \$229.7 |
| HWY DIV (including small City/County) | 60.05% | \$360.1 | \$357.8 | \$358.3 | \$365.7 | \$369.3 | \$374.0 | \$717.9 | \$724.0 | \$743.3 |
| SPECIAL COUNTY SPECIAL CITY | | (\$0.25) | (\$0.25) | (\$0.25) | (\$0.25) | (\$0.25) | (\$0.25) | (\$0.5) | (\$0.5) | (\$0.5) |
| HWY DIV: TOTAL (OTIA I & II) | 50.00% | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) | (\$0.5) | (\$1.0) | (\$1.0) | (\$1.0) |
| HWY DIV: TOTAL (OTIA III) | 57.53% | \$10.5 | \$2.5 | \$12.7 | \$5.9 | \$2.9 | \$0.7 | \$13.0 | \$18.6 | \$3.6 |
| Dedicated To Debt Service & Reserve (OTIA III) | 100.00% | \$0.0 | \$0.0 | \$28.4 | \$61.3 | \$61.0 | \$61.3 | \$0.0 | \$89.7 | \$122.3 |
| STATE APPORTIONMENT (OTIA III) | 0.00% | \$0.0 | \$0.0 | \$0.0 | (\$6.8) | (\$30.2) | (\$37.8) | \$0.0 | (\$6.8) | (\$68.0) |
| HIGHWAY DIVISION (NET) | | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Highway Modernization Program (Included in HWY DIV NET) | | \$369.8 | \$359.6 | \$398.7 | \$425.3 | \$402.2 | \$397.5 | \$729.4 | \$824.0 | \$799.7 |
| | | \$51.5 | \$50.5 | \$50.5 | \$51.6 | \$52.4 | \$53.3 | \$102.0 | \$102.1 | \$105.7 |
| TOTAL COUNTIES | | \$152.0 | \$146.3 | \$166.1 | \$167.1 | \$166.6 | \$167.4 | \$298.3 | \$333.2 | \$334.0 |
| TOTAL CITIES | | \$97.1 | \$93.3 | \$107.2 | \$115.0 | \$114.6 | \$115.1 | \$190.3 | \$222.2 | \$229.7 |
| TOTAL STATE | | \$369.8 | \$359.6 | \$398.7 | \$425.3 | \$402.2 | \$397.5 | \$729.4 | \$824.0 | \$799.7 |
| NET HIGHWAY FUNDS REVENUE | | \$618.8 | \$599.2 | \$672.0 | \$707.4 | \$683.5 | \$679.9 | \$1,218.1 | \$1,379.4 | \$1,363.4 |
| Special County/City Transfers to Allotment Fund | | \$1.75 | \$1.75 | \$1.75 | \$2.0 | \$2.0 | \$2.0 | \$3.5 | \$3.8 | \$4.0 |
| TOTAL NET REVENUES for DISTRIBUTION | | \$620.6 | \$601.0 | \$673.7 | \$709.4 | \$685.5 | \$681.9 | \$1,221.6 | \$1,383.1 | \$1,367.4 |

*RUAUF: Road Use Assessment Fees

Appendix A

National Economic Outlook

The current economic outlook at the national level is not materially different from the prior forecast, notwithstanding the preliminary number for 2003:III that showed an extremely robust 8.2 percent real growth in GDP (at an annual rate). Essentially, slower growth at the trend rate of 3.5 to 4 percent is generally adhered to in the consensus forecast, as well as in the *Global Insights*' forecast used in both our forecasting model and in the state economic forecasting model. This more sustainable performance in economic growth is attributed to diminishing impacts from fiscal stimulus on consumer spending, and on strong consumer spending from the past several quarters having “borrowed” from future quarters out in the 2004 timeframe.

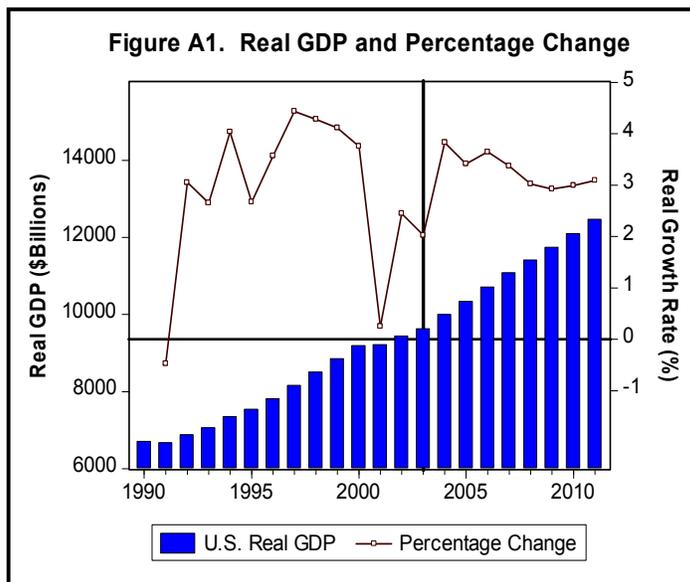
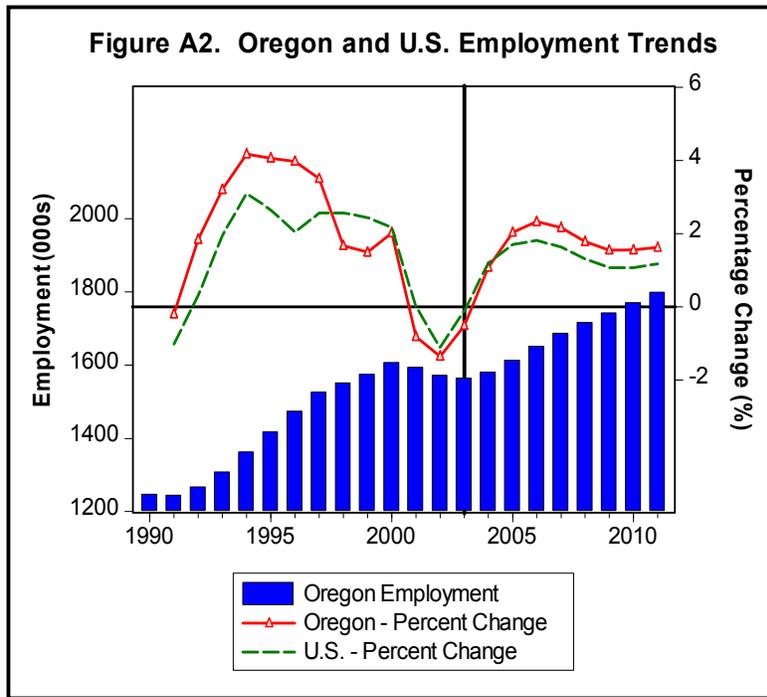
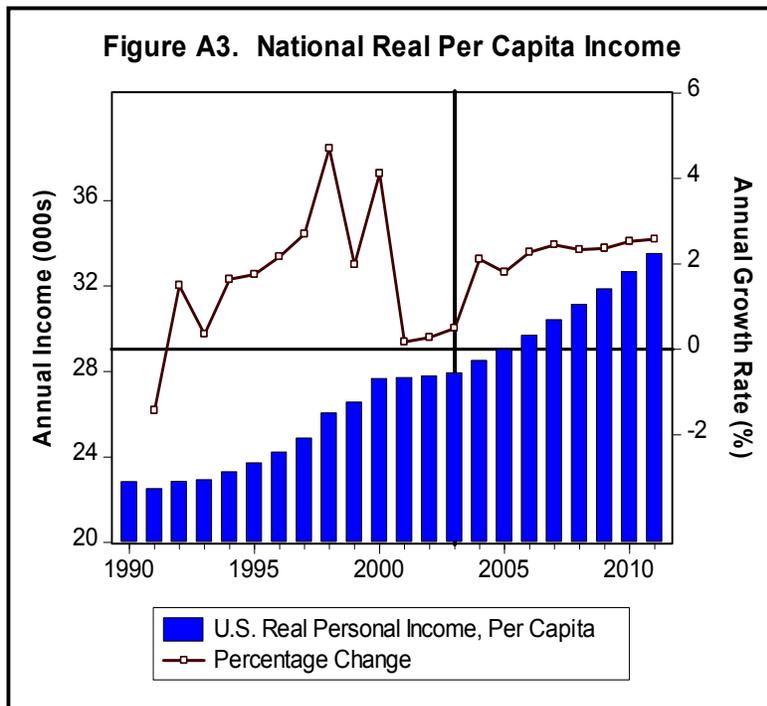


Figure A1 gives the recent trends in real growth of GDP, along with the base case forecast. With the very strong performance displayed in the third quarter recently, 2003's real growth could come in higher than shown in the chart; possibly closer to 3 percent for the year instead of the 2 percent plotted in the chart. It will ultimately depend on the fourth quarter's strength and revisions to the other quarters than come customarily with more refined data.

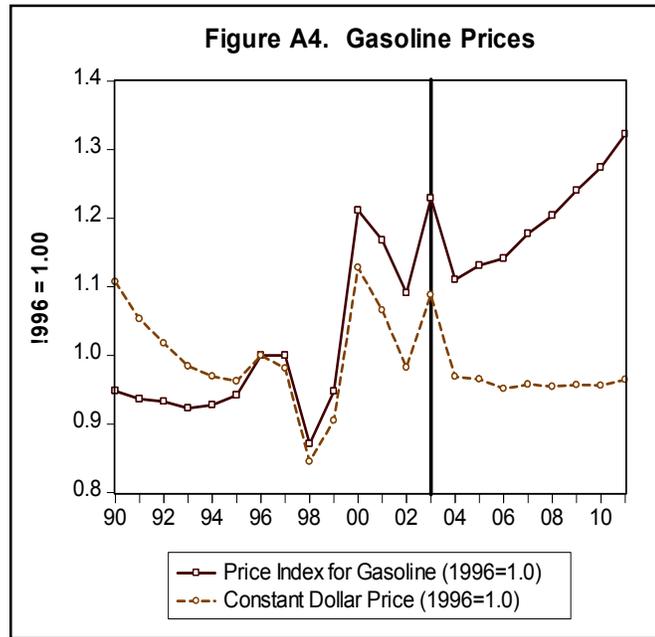
With such a trend growth rate, coupled with strong productivity gains, the outlook for overall job growth is somewhat less sanguine. Figure A2 reproduces the employment chart from the Oregon Outlook section to this report. The dashed line represents annual growth in employment nationally, while the solid line and the bar portion apply to Oregon data for comparison purposes. The graph shows only a modest rebound in 2003 and 2004. However, the steady-state path of job growth thereafter is not significantly different than the average annual growth in overall jobs at 1.7 percent during the 1991-2002 period.



Real income per capita also recovers in 2004, but not at anywhere near the growth rates witnessed in the latter half of the 1990s. The data in Figure A3 show average real income per person growing steadily to about \$33,000 by 2011, in 1996 dollars.

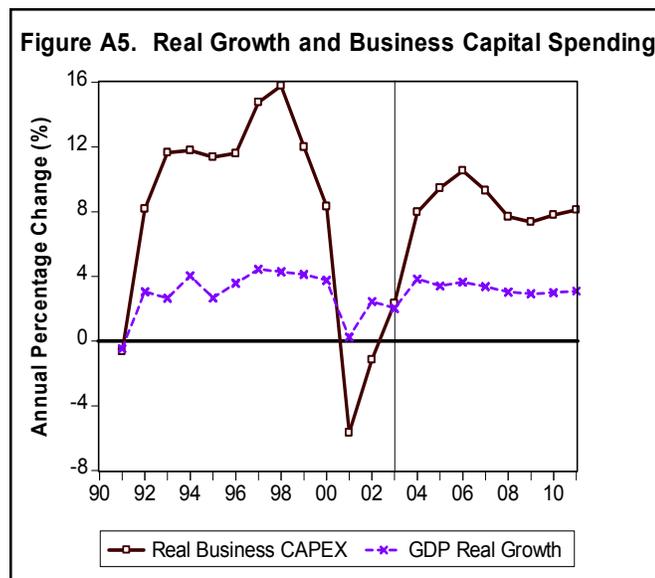


Among the important determinants of fuel usage in light vehicles (passenger cars and light trucks under 8,000 pounds) are the prices of gasoline and diesel fuel. Figure A4 gives the recent history and the forecast for the price of gas at the national level from the *Global Insights'* macro-econometric forecasting model. In nominal dollars (the solid line), the sharp spike in crude oil prices from early 2003 (and continuing somewhat to the present) is expected to weaken considerably in 2004, with a commensurate impact on gas prices understandably. After 2004, nominal prices start to show some appreciation in the baseline outlook.



They rise to 2003 levels again by 2009. It is worth noting that when adjusted for inflation (the correct way that prices influence consumption behavior), the chart reveals that the real price of gas stays virtually flat over the next eight years. Based on our experience over the past thirty years, however, this apparent stability probably belies the volatility inherent in the global marketplace for oil. Thus, actual experience is likely to stray from the projected path shown in highly unpredictable ways, both in real or nominal terms.

A somewhat unique feature of the recent recession was the bust in capital spending by businesses (“CAPEX”). This is unlike the 1990-91 downturn, which was largely driven by both weaker retail spending by consumers and by the associated final-goods inventory adjustments. Figure A5 underscores the sharp decline in the growth of CAPEX (inflation adjusted) from 1998 to 2001. Currently, the baseline outlook is for investment spending to rebound smartly in the 2004-2006 time frame, and then to settle in at growth rates slightly below the average in the 1990s.



There are, however, some emerging signs of somewhat stronger growth patterns for the near term than represented in the chart. The dynamics of this vital

component of spending will be receiving close scrutiny over the next several quarters to see if the fundamentals are in fact even stronger than currently thought.