

Financial Services

Update

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GREETINGS FROM FINANCIAL SERVICES:

Financial Services' Financial and Economic Analysis Unit produces an update of the *Summary of Transportation Economic and Revenue Forecast* on a semi-annual cycle. The forecast report provides detailed information on the key components of the State Highway Fund: DMV revenues, Motor Carrier revenues, and Motor Fuels revenues.

This update highlights some of the key results of the December 2006 forecast. The forecast reflects a slowing of growth in the Oregon economy and its subsequent effect on the State Highway Fund.

As always, I welcome your comments and suggestions on these and other financial issues of importance to the Department. Please email me at:

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Deb Tennant,

Interim Chief Financial Officer



Transportation Revenue Growth to Slow Slightly

Financial Services' December 2006 *Summary of Transportation Economic and Revenue Forecast* is currently available. This report, which now projects State Highway Fund revenues out to fiscal year 2013, forecasts moderate growth in revenues through the next two biennia. This Financial Services Update highlights some of the key results. For additional information, please see the complete forecast report which is available at:

http://www.oregon.gov/ODOT/CS/EA/reports/Dec_2006_Forecast.pdf.

Outlook for the Oregon Economy

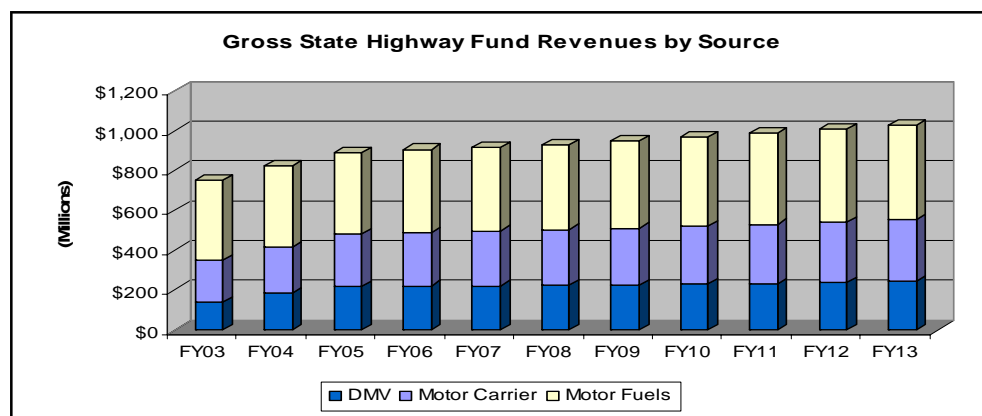
Although Oregon's economy displayed vigorous growth during the past several years, it has begun to slow dramatically. Oregon's economy will continue to grow throughout the forecast period, but at only a moderate pace as economic conditions nationwide become less conducive to continued rapid economic expansion. Stagnation in the residential construction sector, both regionally and nationwide, is a large part of this anticipated slowdown.

Nevertheless, Oregon's job and personal income growth rates are still expected to slightly outpace the nation's for the foreseeable future. In sum, although positive economic growth will continue throughout the forecast period, there are few signs that it will be as robust as recently experienced.

Outlook for State Highway Fund Revenues

Changes in both state and national economic conditions affect each of the primary revenue sources for the State Highway Fund. Because growth in many of the economic variables affecting transportation-related activities is projected to be moderate for the next several years, the forecast reflects the impacts from this slowdown in the pace of economic activity on projected revenues.

State Highway Fund revenues consist of three main categories: DMV revenues, Motor Carrier revenues, and Motor Fuels tax revenues. Motor Fuels tax



Financial Services Vision

To be recognized by customers and stakeholders as the most accountable, responsive and innovative finance organization in Oregon state government

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Financial Services is a branch of ODOT's Central Services Division.

Financial Services provides centralized accounting, financial reporting, payroll and benefits, budget development, economic and financial analysis, business planning, debt administration, cash management, the Oregon Transportation Infrastructure Bank, tax collection and auditing, revenue forecasting, tax policy analysis and cost allocation services.

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revenues are the largest, making up about 46 percent of gross Highway Fund revenues. Motor Fuels revenues reached approximately \$415 million in fiscal year 2006 and are expected to grow at an average annual rate of nearly two percent throughout the forecast period. Motor Carrier revenues are the second largest source of Highway Fund revenues. These include weight-mile taxes, as well as motor carrier registration and fee revenues. In fiscal year 2006, almost \$269 million in Motor Carrier revenues was collected. This forecast anticipates that these revenues will also increase at an average annual rate of almost two percent between fiscal years 2007 and 2013. DMV revenues, which primarily include vehicle registration, titles, and driver fees, reached \$222 million in fiscal year 2006. These revenues are expected to grow by an average annual rate of 1.4 percent during the forecast period, largely mirroring demographic trends.

In sum, the overall outlook is for nearly two percent average annual growth in gross revenues (see figure on the previous page). It should be noted that this growth in revenues, which are measured in current dollars, is less than the expected escalation of costs for the agency's construction and maintenance programs.

Comparison to Previous Forecast

Differences between the current and prior forecast originate from several

sources. First, the current forecast incorporates updated data on transportation transactions used for model estimation purposes. Second, it reflects the most recent revisions to the state economic outlook. Third, the forecast takes into account changes in the national macroeconomic outlook that affect transportation revenues but are not directly captured in the state forecast. And fourth, the forecast reflects rising program costs in many areas. Because the forecast is based on current law only, it does not take into account new fee proposals that may be enacted in the current legislative session to address these rising program costs.

The current forecast anticipates slightly lower net State Highway Fund revenues than predicted in the previous forecast (see figure below). For fiscal years 2007 and 2008, net revenues are projected to be \$2.4 million and \$9.9 million lower than in the prior forecast. On an average annual basis, these differences translate into a diminution of 1.3 percent. The remaining years of the forecast have been revised downward, as well. Over the period out to fiscal year 2011, projected net revenues to the State Highway Fund are about 1.8 percent lower than in the prior forecast, a comparatively minor change overall. This stems predominately from higher program costs in lieu of fee changes that are likely to occur in the current legislative session.

