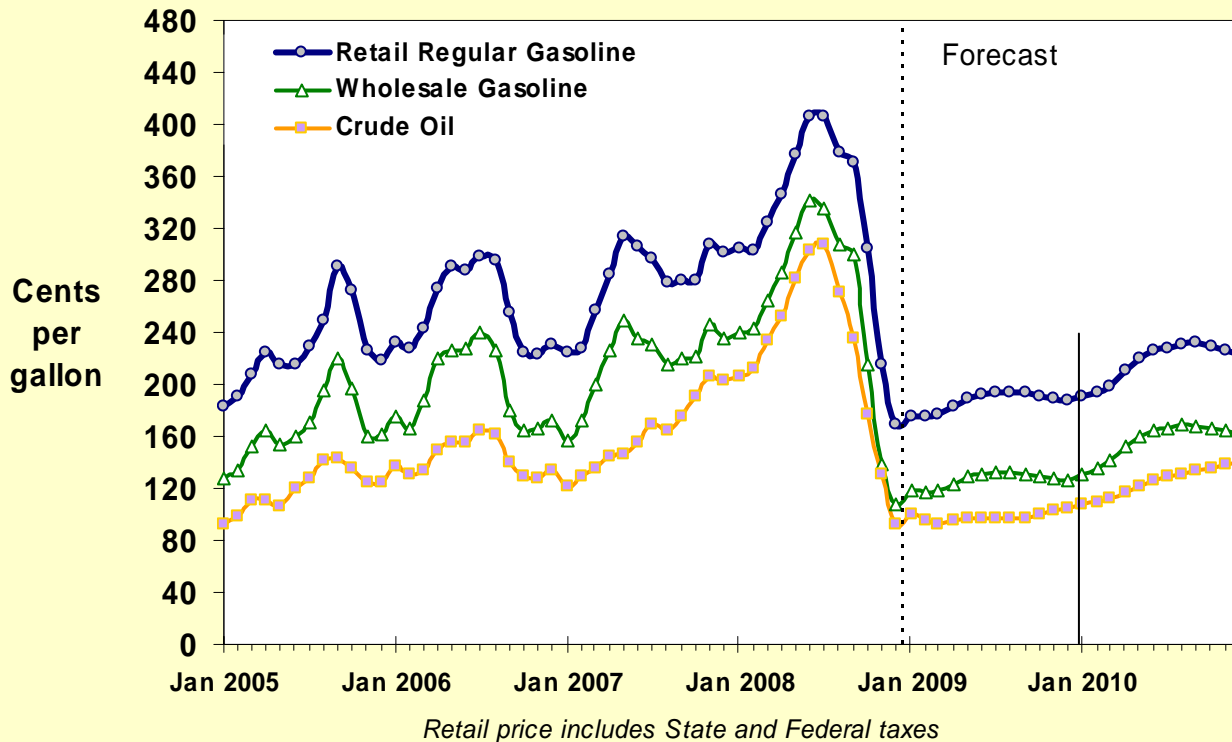




SUMMARY OF TRANSPORTATION ECONOMIC AND REVENUE FORECASTS

Recent Gas Prices and Baseline Outlook - Nationally



Short-Term Energy Outlook, January 2009



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 in financial planning and the formulation of transportation budgets and to support other decision-making activities. The forecast is consistent with the Department of Administrative Services' *Oregon Economic & Revenue Forecast (Vol. XXVIII, #4, December, 2008)* and the associated baseline macroeconomic forecast from *IHS Global Insight Inc. (GII)*.

This document is also available online at:

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

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On the Cover:

Oregon drivers may have become somewhat accustomed to price volatility at the gas pump for the past 5-6 years, dating back to 2003. However, the extreme volatility since July 2008 is unprecedented. Fortunately, the direction of the recent price changes presents some very beneficial aspects for the strained budgets of households and for businesses, as well. From a high of well over \$4 per gallon last July, prices have cratered to as low as \$1.65-1.75 recently. While the ultimate run-up to \$4-plus gas helped to precipitate "demand destruction" in the market for motor fuels, it is tempting to ask if there is a flip side in the form of "demand stimulation" with the drastic price declines in oil and gasoline. The answer resides in the structural determinants in the derived demand for motor fuels.

Gasoline is used, or demanded, not for its direct, consumptive benefits, but rather as a key ingredient for travel. It is the energy input necessary to provide mobility in travel, which itself is an activity engaged in getting to daily work, personal, and leisure activities. As such, the price of fuel by itself exerts a comparatively small influence on this derived demand within reasonable limits. As we experienced during the price run-ups over the 2003-2007 period, the short-run response due to price was relatively muted. The push in consumption we saw until 2008 was driven by robust economic activity that stimulated the need for travel. While high prices caused drivers to make some short-run adjustments such as tire pressure, telecommuting, and some alterations in mode choice in order to reduce spending on gas, the need to travel to engage in household and business activities more than dominated the effect from higher prices. For example, households continued to travel, albeit slightly less, at high gas prices by making cutbacks in other household spending areas that were not as "essential" or were more discretionary, such as spending on meals out. The pace of overall activity began its nosedive in Oregon in the spring of 2008, and it still remains stuck in a lower gear. This was, and continues to be, the primary source of the slow-down in fuel usage, coupled with high prices.

Now, after the sharp decline in gas prices, we are looking at just the opposite situation. Will this stimulate gas consumption by itself?

Only slightly. The real effect on usage will be largely registered through the indirect impact of enhanced discretionary spending by households, which may necessitate additional travel. Nationwide, it is estimated that for every \$1 drop in retail gas prices that endures over a year, household budgets have an extra \$100-130 billion more in spending power; a remarkable injection of stimulus not available otherwise. It is the increased travel demand that results which is the pre-dominant effect on the downside, just as it was on the upswing. The price drop for motor fuels also has direct implications for our revenue forecast for the State Highway Fund. These are highlighted in the main report below.

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EXECUTIVE SUMMARY

As has been chronicled in headlines nationally, Oregon's economy also appears to be confronting very significant headwinds. The string of 19 consecutive quarters of job gains ended in the second quarter of 2008, a 4 ¾-year span going back to the third quarter of 2003. This pales, somewhat unfortunately, to the very long-lived boom covering 39 consecutive quarters that occurred in the 1991 – 2000 period.

In the macroeconomic backdrop used for this forecast, weak job markets nationwide are expected to endure for at least eight quarters through the fall of 2009. Having been in decline since December 2007, this will mark one of the most severe recessions in the post-war period.

Oregon's economy, while a little late to the current "recessionary party," tends to swing somewhat more than the national economy in both downturns and upturns. Thus, our job losses are now expected to be far more than proportional to those incurred nationally. However, in the recovery phase, our job markets are also somewhat more resilient. Unless net-migration into the state is materially affected by the current economic malaise, these patterns are expected to be preserved.

Presumably with the effective implementation of economic stimulus initiatives and judicious monetary policies/coordination, the state's economic and job growth should get back on track in the 2010 timeframe.

As we would expect, a sharp economic downturn in jobs and real personal incomes does not bode well for the outlook for transportation revenues. For those Highway

Fund revenues that are linked to the pace of economic activity (fuel and weight-mile taxes largely), the impacts are pronounced compared to the prior forecast in June 2008:

- Motor fuels usage taxes are lower on average by \$17.4 million per year over the FY09-FY15 period; almost 4 percent lower than before. Ethanol blending in gasoline props revenues up a bit, otherwise the drop off would be worse.
- Weight-mile use taxes decline on average by nearly \$16 million annually; about 4.8 percent lower than in the prior forecast.

For fee revenues not tied as closely to the usage rates on the highway and roads system, the revenue impacts are slightly more muted:

- DMV yearly revenues are down on average by \$8.4 million per year, or about minus 3.7 percent from the previous forecast. It is noteworthy that with the depressed new car market, new titles and new registration fee revenues are reflecting more sensitivity to the economy than has routinely been the case for the past several decades.

After dipping in FY09 from FY08 (about a 4 percent decline), gross revenues are projected to grow at an annual average rate of 2.5 percent out through FY15, as the Oregon economy regains its projected longer-run growth path.

The outlays and investment spending by ODOT that are necessary to maintain, preserve, and modernize the State Highway System will not materially change with weaker travel demands going forward, however. With these costs being largely fixed,

the funding gap with diminished usage tax revenues is only exacerbated. The shortfall is further compounded by substantial construction cost escalation that has been buffeting the Agency's budget. This has markedly reduced the purchasing power of a construction dollar for the past four to five years. With the deflation in commodity prices since the summer of 2008, we should expect some welcomed mitigation of this erosion in purchasing power going forward, but this serves nevertheless to only partly ameliorate the problems challenging ODOT's highway and bridge budgets.

NATIONAL ECONOMIC OUTLOOK

It has been roughly a year and a half since the onset of the full-blown credit crisis buffeting our financial markets, fueled by the housing meltdown and the subsequent seizures in the money markets. While the list of headline economic news events, both globally as well as nationally, has been unparalleled stretching back the past 30-40 years, some of the leading ones this far into the new year span a sobering range:

- The economy has been officially in recession since December, 2007; albeit real economic growth only began to significantly decline in the fourth quarter of 2008.
- Precipitous drops in commodity prices around the globe from record levels, particularly for crude petroleum and petroleum products.
- Big 3 automakers hemorrhaging money and in need of major restructuring, coupled with federal bailout assistance.
- Housing markets have yet to bottom.
- Banks continue to be plagued with liquidity and toxic asset problems'
- Unprecedented, for recent times, government intervention into financial markets and federal economic stimulus legislation.

So, instead of the worst of the economic slowdown being largely behind us by now (as anticipated in the prior macro outlook), it looks presently like it may well be ahead of us, stretching out well into the late 2009-2010 time frame. The effect on travel demands nationwide and on user tax revenues across the states will be for similar weakness.

While the prognosis for the precise juncture when the economy starts a meaningful recovery is somewhat fluid, major job gains may be absent at least until the first half of 2010. Real economic growth, which typically leads job growth, is anemic until the final quarter of 2009, mimicking both weaknesses in consumer spending and weak business fixed investment spending – largely industrial equipment and commercial structures. Residential fixed investment (aka “housing” and the Achilles heel of our economy in the present cycle) stays quite weak nationwide overall and is sub-par into nearly 2011 before housing markets get back to some semblance of vitality.

Not only is the timing of the downturn, its depth and duration somewhat uncertain at present, the risks in the macro outlook for the pace of a rebound are complicated further by Federal Reserve monetary policy going forward.

The major sources of uncertainty surrounding the path to sustained economic growth are:

- End of collapsing housing markets
- Stabilization of money and capital markets, coupled with sounder footings for financial institutions.
- Degree of global monetary coordination, and the strength of the dollar in foreign exchange markets.
- Net effects of both federal and state-level fiscal initiatives to stimulate the economy

The markets for crude oil and transportation fuels continue to be very perplexing, notwithstanding the considerable price drops

since late July 2008. The macroeconomic outlook has changed markedly from our prior forecast. Now, the West Texas Intermediate price for crude is forecast to be in the \$30-40 range for 2009. It then is projected to rise gradually to the \$65-75 per barrel range in the 2011 timeframe. While there are still considerable geopolitical risks in this outlook for fossil fuel prices there is considerable stimulus in these price levels going forward, as the cover narrative highlighted. As economic activity is stimulated, we should contemplate a similar boost in travel demands and transportation fuel consumption.

Table 1 on page 5 summarizes a number of key national economic indicators. The

transportation revenue forecast is consistent with the Department of Administrative Services' *December 2008 Oregon Economic & Revenue Forecast* and the associated baseline macroeconomic forecast from *IHS Global Insight Inc.* (GII). For the interested reader, a more detailed treatment of both the national and state economic outlooks is available at the web site of the Office of Economic Analysis:

<http://www.oea.das.state.or.us/DAS/OEA/docs/economic/forecast1208.pdf>

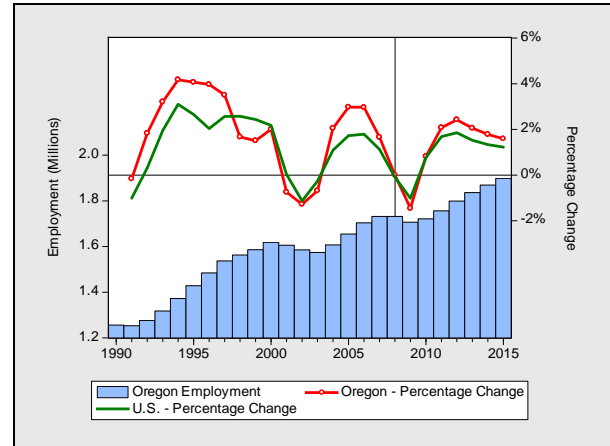
OREGON ECONOMIC OUTLOOK

Growth in Oregon's job markets began to slow in the second quarter of 2007. Beginning in the second quarter of 2008 Oregon has experienced negative job growth ending Oregon's streak of 19 consecutive quarters of job gains. Although job growth for the first quarter of 2008 came in at a 1.5 percent annual rate, the second quarter lost jobs at a 1.7 percent annual rate, more than negating the gain in the first quarter. The third quarter job losses were at a 0.9 percent annual rate. However, on average **Total Non-Farm Employment** for 2008 is expected to be comparable to 2007. In 2009 the employment picture is expected to worsen as the economy continues to slide deeper into a recession. Employment growth is expected to be negative through the third quarter of 2009, growing slowly from there.

Historically, average employment growth in Oregon is stronger than in the U.S. The exceptions usually occur during recessionary conditions, where Oregon's particular industry mix can lead to greater employment declines compared to the U.S. as a whole. While both the U.S. and Oregon are expected to experience anemic growth in total employment during 2008, on a percentage basis, Oregon is expected to shed more jobs in relative terms for 2009 than the U.S. as the recessionary conditions peak. However, Oregon's employment growth is expected to outpace the national average throughout the remainder of the forecast period. An average annual growth rate of 1.8 percent is expected for Oregon between 2010 and 2015, while national employment is expected to grow at just 1.4 percent during the same period.

A more detailed look at specific Oregon industry growth can help shed light on where the strengths and weaknesses are currently, and what the outlook is for these sectors.

Figure 1: Oregon and U.S. Employment Trends



Oregon's **manufacturing** sector continues to shrink, with a decline of 9.7 percent (annual rate) during the third quarter of 2008. **Durable goods** manufacturing, which represents over 70 percent of all manufacturing in Oregon, declined at a rate of 7.7 percent in the third quarter. While **Metals & Machinery** showed a 1.7 percent increase in jobs during the third quarter of 2008, helped by expanding exports, other durable goods manufacturing industries did not perform as well. Employment in **Computers & Electronics**, fell 7.6 percent, mild compared to the 22.4 percent drop in **Transportation Equipment** employment, and a 17.1 percent drop in **Other Durable Goods** employment. **Non-durable manufacturing**, led by the state's food manufacturing sector, experienced significant employment losses in the third quarter of 2008, decreasing 14.7 percent, with **Food Manufacturing** declining 22.4 percent. Going forward, job levels for the state's manufacturing sector as a whole are expected to continue declining but a decelerated rate through the first half of 2010 when the sector is expected to rebound with strong growth through the first quarter of 2012. Growth is

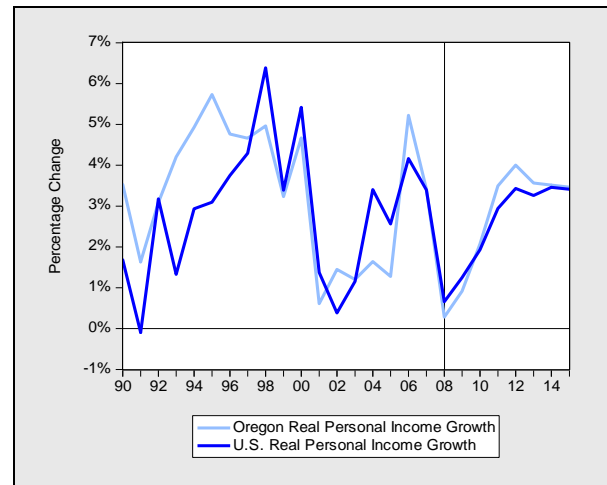
expected to level off through the remainder of the forecast period. Average annual growth of approximately 1.3 percent is anticipated for the period covering 2010 through 2015.

Generally, the non-manufacturing sector has performed better in recent quarters than the manufacturing sector, although growth is expected to be flat in 2008 and negative in 2009. Overall, private **non-manufacturing** employment declined 1.4 percent during the third quarter of 2008. An employment decline, but much less compared to the manufacturing sector. **Educational & Health Services** along with **Leisure & Hospitality Services** both posed employment gains of 8.2 and 1.0 percent, respectively. **Professional & Business Services, Trade, Transportation & Utilities**, and the **Information** sectors all declined at about a 3.0 percent rate annualized. As expected job losses in the **Financial Activities** sector were larger at 5.7 percent. The third quarter saw a continued deterioration of the **Natural Resources & Mining** sector, falling 5.3 percent. Also the **Construction** industry continued to be hit hard by the housing downturn with employment declining at a 10.1 percent annual rate. Overall, the forecast for non-manufacturing jobs predicts a rather subdued rate of growth that averages just 2.2 percent throughout the forecast horizon covering 2010 through 2015.

Although employment growth has been negative in recent quarters, Oregon **personal income** has demonstrated continued gains. Personal income, about 55 percent of which is derived from wages and salaries, increased 6.1 percent in 2007 and is expected to grow by 4.0 percent in 2008. When adjusted for inflation, this increase translates into a 3.4 percent change in real personal income for Oregonians in 2007, and 0.3 percent in 2008. As shown in Figure 2, this growth rate mirrors than the nation's real growth in personal income of 3.4 percent in 2007 and is expected to be slightly lower than the national rate of

0.7 percent in 2008. The forecast predicts personal income growth of 0.9 percent for Oregon in 2009 and 1.25 percent for the nation during 2009. Beyond 2009, growth is expected to rise sharply. Oregon's growth in real personal income will surpass the nations for the forecast period, averaging 3.4 percent annually compared to the nation's 3.1 percent from 2010 through 2015.

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



In sum, Oregon's economy is expected to continue shrinking throughout 2009 as national and state economic conditions worsen, and to recover slowly into 2010 as credit markets thaw and the housing market corrects. Beyond 2010 moderate growth is expected as consumers begin spending again although at more subdued rates, and global expansion increases the demand for Oregon commodities and manufactured goods. However, there are some notable risks to growth. A stronger dollar could lessen demand for Oregon goods as they become more expensive overseas. Geopolitical risks could cause a spike in fuel prices and a decline in consumer confidence, leading to a decline in disposable incomes and spending. All of these negatively effect growth. A summary of economic indicators for Oregon is contained in Table 2 below.

Table 1: National Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	06	07	08	09	10	11	12
CONSUMER PRICE INDEX (CPI)	3.2%	2.9%	4.3%	1.3%	2.1%	2.4%	2.5%
EMPLOYMENT	1.8%	1.1%	-0.1%	-1.0%	0.8%	1.7%	1.8%
HOUSING STARTS	-12.6%	-26.0%	-29.8%	-15.4%	38.1%	31.7%	16.6%
POPULATION	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
REAL GROSS DOMESTIC PRODUCT (GDP)	2.8%	2.0%	1.5%	0.2%	2.4%	3.1%	3.3%
REAL PERSONAL INCOME	4.2%	3.4%	0.7%	1.3%	1.9%	2.9%	3.4%
REAL PRICE OF GASOLINE	9.7%	5.4%	14.3%	-31.1%	14.7%	11.8%	2.3%
UNIT SALES OF NEW AUTOMOBILES	1.5%	-2.5%	-10.1%	0.2%	9.1%	9.7%	7.5%

Table 2: Oregon Economy, Percentage Change in Key Variables

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	06	07	08	09	10	11	12
EMPLOYMENT--TOTAL	3.0%	1.7%	0.0%	-1.5%	0.8%	2.1%	2.4%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	1.5%	-3.2%	-5.0%	-4.5%	-0.9%	4.4%	0.2%
EMPLOYMENT--RETAIL TRADE	2.0%	1.8%	0.2%	-2.2%	1.4%	1.4%	2.1%
EMPLOYMENT--TRANSPORTATION	2.0%	0.5%	-0.1%	-1.2%	1.1%	1.9%	1.7%
EMPLOYMENT--WHOLESALE TRADE	2.6%	0.7%	-0.2%	-2.6%	0.5%	2.3%	1.9%
EMPLOYMENT--WOOD PRODUCTS	-0.8%	-8.0%	-7.5%	-7.0%	-3.8%	3.5%	4.0%
HOUSING STARTS	-10.7%	-20.9%	-40.2%	-17.4%	30.3%	24.5%	16.7%
POPULATION	1.6%	1.5%	1.3%	1.3%	1.4%	1.3%	1.3%
PORTLAND METRO CONSUMER PRICE INDEX	2.6%	3.7%	4.0%	2.9%	2.1%	2.3%	2.4%
REAL PERSONAL INCOME	5.4%	2.3%	0.0%	-0.5%	1.7%	3.3%	3.8%
TIMBER HARVEST	9.4%	-12.2%	-2.7%	0.5%	2.4%	0.5%	-0.4%

Table 3: Percentage Change in Transactions for Key Transportation Variables

	Actual		Forecast				
	CY	CY	CY	CY	CY	CY	CY
	06	07	08	09	10	11	12
MOTOR VEHICLE FUELS (GALLONS)	1.3%	-0.3%	-3.5%	2.5%	3.6%	1.2%	2.3%
ORIGINAL CLASS C LICENSES	1.2%	-5.4%	-9.9%	-3.8%	1.5%	2.4%	2.3%
PASSENGER VEHICLE REGISTRATIONS	-1.8%	0.9%	0.4%	1.5%	1.5%	1.2%	1.9%
TITLE TRANSFERS	-3.9%	-2.7%	-7.7%	7.0%	0.4%	-4.9%	-2.1%
TRUCKING ACTIVITY (WEIGHT-MILE)	1.3%	0.7%	-5.3%	0.1%	4.7%	3.4%	2.5%

TRANSPORTATION TRANSACTIONS

Table 3 on page five contains highlights of annual rates of change in a number of transactions for the major transportation variables in the current forecast. A supporting narrative of the Motor Fuels, Motor Carrier, and Driver and Motor Vehicles forecasts is provided below.

Motor Fuels Usage

With the price of regular unleaded cracking the \$4 per gallon barrier this past spring, we have a good indication of the point at which “demand destruction” in the market for transportation fuels¹ occurs. Heretofore, gasoline and diesel fuel users seemed to continually defy expectations for the point at which travel demand patterns would change measurably. It didn’t materialize at \$3 in the immediate after-effects of Hurricanes Katrina and Rita in 2005, nor during the driving season of 2006. By the summer of 2007, prices persistently in the neighborhood of \$3 and more seemed to have finally taken hold of drivers’ attitudes somewhat.

This is pretty much as we have maintained in our past narratives: prices affect drivers’ behavior with a lag, and, moreover, transitory price spikes have only a fleeting impact in altering gasoline and diesel fuel usage. When the price hikes are perceived to be long lasting, drivers’ shifts in reducing overall usage start to occur with more permanency.

From almost any vantage point, the drop in the demand for transportation fuels is unmistakable. For the first part of 2008, motor fuels sales were lower, although only

modestly. In calendar year 2008, motor fuel volumes declined by 3.5 percent from 2007. The second half of the year witnessed a particularly large drop. From the peak volumes established in late 2006, usage is only off by about nearly 4 percent for the 25-month span since.

All in all, the drop off is not quite as bad as elsewhere and nationwide. For the nation as a whole, the reports indicate declines on the order of 5 percent; or about four-tenths more dramatic as what we are witnessing in Oregon so far into this business cycle.

Several factors account for this contrast and the relatively muted drop-offs in Oregon.

First, while the price hikes have been sizeable – and on an-inflation-adjusted basis, at all time highs – we can be sure that the decline in fuels demand is not entirely due to price sensitivity.

Second, the pace of economic activity in the state is a far more potent driver for usage than price effects themselves, within reasonable limits of course. Two elements surface in this regard in so far as the price elasticity is concerned. The first is that job gains disappeared statewide beginning in the spring quarter of 2008. Moreover, this is not expected to be reversed until well into the later part of 2009, at the soonest. Second, as developed in more detail immediately below, what may be occurring is that the gas price pressures on the state’s economy are affecting transportation fuel sales in a multifaceted way. Drivers continue to make short-run adjustments in their driving and transportation mode habits, they start to make choices over the fuel efficiency of their vehicle(s), and they have to do considerable belt tightening and

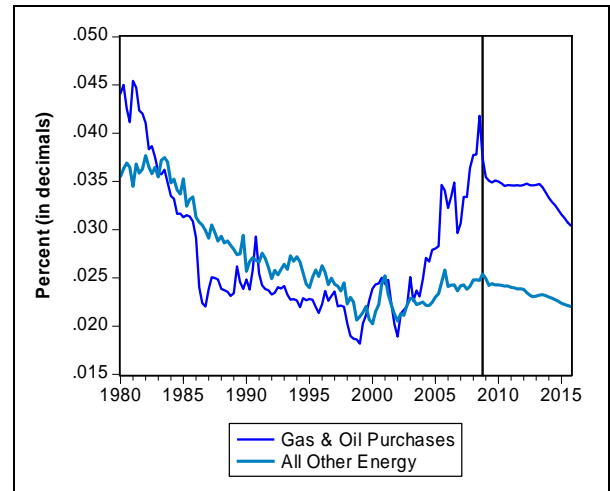
¹ And indeed, closer to \$4.75 for diesel fuel.

perhaps forego temporarily spending on activities and items that are not essential.

Figure 3 provides an idea of how higher gas prices and energy prices in general have been impacting households recently, and what the implication is for overall consumer spending which comprises roughly two-thirds of all spending on final goods and services. By the early 1980s, the share of personal disposable income directed to gas purchases rose substantially to 4.5 percent as an outgrowth of the oil embargo and Middle East conflicts (dark blue line in the figure). Other energy spending (light blue line) followed suit, but not quite as dramatically. From the mid-1980s to 2003, the expenditure share of gas has declined precipitously to levels even lower than the period leading up to the oil crisis starting in the fall of 1973. Thus, households were, at least for the first several years of the recent run-up in gas prices, able to absorb the price increases without having to reduce usage significantly. Another element that underlies the downward trend in budget shares is the economy's increase in energy efficiency, which has significantly lowered the overall energy intensity of both business and household activities alike.

Going forward, the macroeconomic outlook is somewhat more sanguine about the hit that household budgets are likely to take: Price pressure from transportation fuels on household spending shares are likely to diminish toward the levels experienced in the 1985 to 2003 period. This should bode well for household spending to resume at healthier, more normal rates, and for the economy at large.

Figure 3: Household Budget Shares, 1980 – 2015

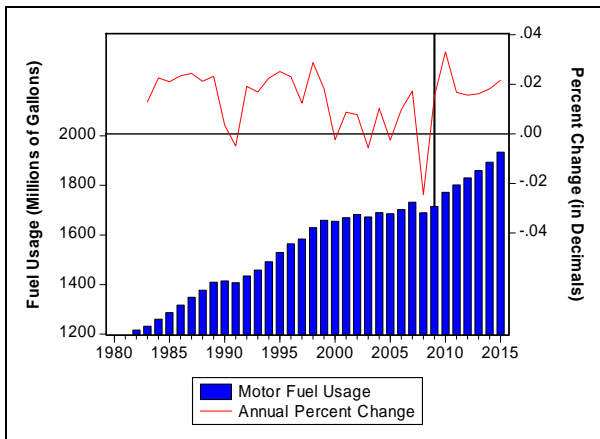


With the extreme and partly unforeseen volatility in the markets for petroleum products, along with a job creation slowdown in Oregon during much of 2008, our forecasting model for motor fuels usage has started to systematically miss consumption rates on the up side. Relative errors are about 4 % off target; some 2 to 3 times our customary level of forecast precision. Turning points are notoriously difficult to predict precisely, and we definitely appear to be at such a juncture. Moreover, factors such as HB210 implementation (discussed in more detail below) make the fuels forecast more than challenging in this very difficult economic environment.

Figure 4 presents the outlook through CY15 for motor fuels sales, along with historical consumption back to CY80. For calendar year 2008 we are forecasting an overall drop off of 3.5 percent, reflected in the figure with the conspicuous dip into negative territory. This is largely an outgrowth of the baseline state and macro economic forecasts. There is job contraction expected for Oregon (1.4 percent) in 2009, and there is some softening in the price for crude oil and petroleum products, particularly in inflation-adjusted terms. A further prop to our forecast for sales growth in 2009, and especially in the years beyond

2008, stems from recent legislation relating to reformulated gasoline.

Figure 4: Motor Fuel Consumption



In the fall of 2007, Congress passed and the President signed new energy legislation as an outgrowth of somewhat unfavorable developments in global oil markets and concerns with climate change. One component of the legislation deals with the fuel efficiency of light passenger vehicles. The law requires car and light truck makers to improve the miles per gallon (mpg) of vehicles under the CAFE standards to 35 miles per gallon by the year 2020. Since this is considerably beyond the horizon of our present forecast, and will be for a number of years, its effects are not captured in our fuel demand forecasts. (It will be, however, part of our long-range projections. These are done on an as-needed basis and routinely go out 20-25 years into the future to help the Agency gauge the long-term prospects for fuels tax revenues.)

Effects of House Bill 2210

In the 2007 Regular Session, the Oregon Legislature passed House Bill 2210, the *Biofuels Bill*. Several sections of the bill pertain to the required use of ethanol as a blend with gasoline in lieu of using methyl tertiary butyl ether (“MTBE”) to make reformulated gasoline that burns cleaner and

mitigates ozone and carbon emissions. The Department of Agriculture promulgated administrative rules (O.A.R. 603-027) to implement the legislation in the fall of 2007. The mandate to distributors and retailers to implement the blending of ethanol spanned three phases across the state. For the nine counties in the northwestern part of the state, blends with 10 percent ethanol (E10) needed to be in place no later than January 15, 2008. The nine counties in the southwestern part of the state were to meet the blending requirements in mid-April. Finally, the remaining 18 counties, largely in the regions east of the Cascades, were to have the blends in place no later than September 16, 2008. As of this report, full implementation statewide has now been in place for three months.

Eschewing a comprehensive discussion of the pros and cons of using ethanol to oxygenate gasoline, it is well known that ethanol-blended gas is less fuel efficient than MTBE blended gas. There is considerable debate over the actual extent of lower gas mileage that drivers are likely to experience, however.

Lower fuel efficiency by the light vehicle fleet will partly manifest itself in more gallons being consumed and somewhat larger gas tax revenues.² While some estimates are for as much as a 10 percent loss in efficiency, most indications are for a probable range of 2 to 5 percent losses. (On a pure BTU basis, E10 is roughly 3.8 percent lower than MTBE-blended gasoline by our calculations.) Coupled with this uncertainty over the lower mpg likely to result from E10, the staggered implementation of the bill’s requirements makes an assessment of the likely effect of this new law on the State Highway Fund somewhat problematic at best.

² There are no material or similar considerations, however, applying to the impacts of the bill in promoting biodiesel blends in use fuels, which is predominately diesel fuel.

A statistical analysis would be of considerable utility in this regard, but the necessary data will not be available until well into calendar year 2009. Even then, the findings may lack statistical significance and may not be definitive. In the meantime, some simulated alternative scenarios will have to suffice to provide some bounds for the probable outcome of HB 2210 implementation. A range of fuel efficiency losses of 2 to 10 percent was examined, overlaid with the staggered phased-in implementation. The scenario adopted for this forecast rests on the most reasonable assumption that there will be, on net, a 2 percent decline in fuel efficiency with the new blend. In the event that fuel efficiency losses are greater than this baseline scenario, the positive revenue impact on the State Highway Fund will be understated. As such, the forecast will turn out to be conservative and, in essence, serve as a lower bound for the motor fuels revenue prospects, all else equal.

Against these economic and current law backdrops, the outlook is for consumption to grow at a somewhat steady annual average rate of 2.4 percent once the dip in 2008-2009 is behind us. This is about the same as prior forecast once Oregon and the nation climbs back on their respective growth paths. A large part of this rebound stems from the impacts from HB 2210 on passenger vehicle fuel efficiency.

Motor Carrier

Trucking activity and the freight industry affect the amount of revenue available to the State Highway Fund through the weight-mile tax, heavy vehicle registration fees, and other Motor Carrier fees. Changes in economic conditions within Oregon and the nation as a whole influence each of these revenue sources. Because many aspects of the national and state economies are predicted to weaken

during the next few years, the forecast of Motor Carrier revenues reflects similar softness.

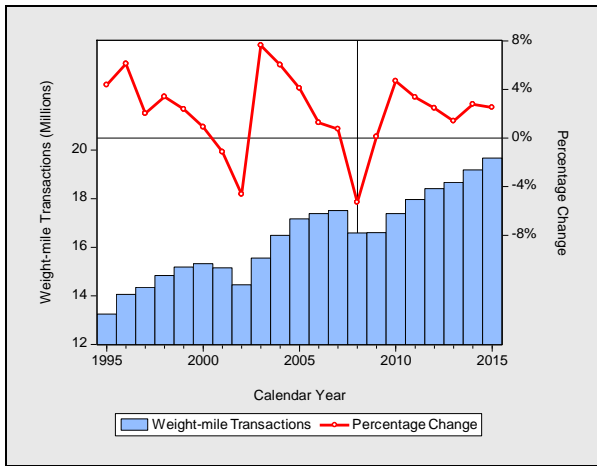
The **weight-mile tax** is the largest source of trucking-related revenue. This highway use tax applies to trucks with a gross weight over 26,000 pounds. Generally, the tax paid by a motor carrier varies with the weight of the vehicle, the number of miles traveled, and the axle configuration. Certain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

An estimate of weight-mile “transactions” provides the basis for the current forecast of weight-mile revenues. This methodology, also used for prior forecasts, constructs a measure of weight-mile transactions by normalizing revenue by the tax rate paid by the typical heavy vehicle. The forecasting model incorporates several employment measures, as well as real fuel prices to estimate weight-mile transactions.

As Figure 5 illustrates, the number of weight-mile transactions grew strongly between CY03 and CY05, averaging about 5.9 percent annual growth. Following these years of strong growth, CY06 and CY07 were much more mild, averaging only about 1.0 percent. CY08 is expected to end with a strong decline in excess of 5 percent and virtually no growth in CY09. The primary causes of the declines include high fuel prices, the national economy moving into recession, and a reduction in Oregon durable goods manufacturing and construction employment. The forecast anticipates a return to strong positive growth in weight-mile transactions in CY10 as the national economy recovers and Oregon employment begins to rebound. Beyond 2010 growth is expected to be a bit more tepid

averaging 2.5 percent from CY11 through CY15.

Figure 5: Weight-Mile Transactions



Other sources of heavy vehicle revenues to the State Highway Fund include **heavy vehicle registrations, permits and passes, Road Use Assessment Fees (RUAUF)**, and other fees paid by motor carriers. The current forecast methodology involves estimating the revenues of each of the largest components separately. Discussion of these revenue forecasts appears in the Highway Fund Revenue Forecast section below.

Driver and Motor Vehicles

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

DMV activities are affected by various economic and demographic variables and provide a reflection of some very broad undercurrents in the state. The impacts of

changes in population, employment, migration, and economic production are readily evident in many of the DMV data series. In our current economic climate, as the components of economic growth slow down there is an effect on DMV transactions. However, DMV activities are in general more strongly affected by demographic changes rather than by economic changes, and so they are somewhat more immune to cyclical swings typical with economic variables.

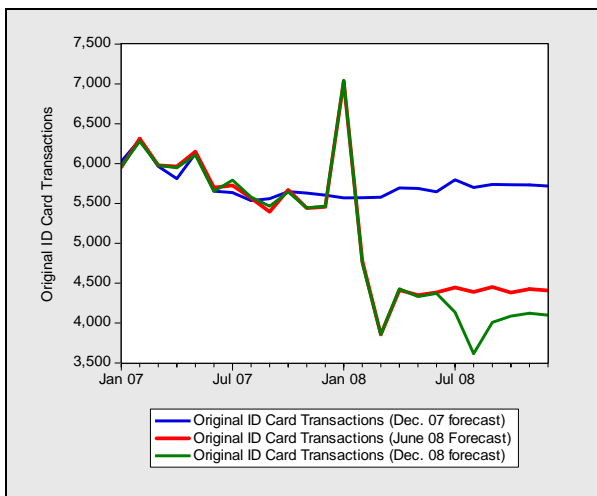
Due to the stabilizing effect of demographics on DMV activities, legislative changes are easily noticeable in the different DMV series. The most recent and readily apparent change is the temporary rule implemented on February 4, 2008 and subsequent passage of SB 1080³. The temporary rule requires applicants that desire to obtain, renew, or replace a driver license, permit, or ID Card to provide proof of identity along with a valid Social Security Number. If an individual does not have a verifiable SSN, certain other documents can be used instead. SB 1080 adds a legal presence requirement to the rule, keeping the SSN and identity requirements intact. Prior to implementation of the temporary rule, individuals could obtain a driver license, permit, or ID Card easier as the documentation requirements were much less strict.

In the month prior to the temporary rule taking effect, issuance and renewal rates of driver licenses and ID Cards were higher than normal. Since that time, issuance and renewal rates have dropped as individuals who would have been eligible to receive a license or ID Card are no longer able to do so. With implementation in July of the increased requirements as part of SB 1080 ID Card demand has fallen even further. Figure 6

³ SB 1080 passed in the 2008 Special Session requires proof of legal presence in the U.S. along with a Social Security number or proof of ineligibility for a Social Security number. The law becomes effective July 1, 2008.

compares the December 2007 forecast to the June 2008 and the current forecast through calendar year 2008 for issuance of a photo ID Card. The values are seasonally adjusted, removing the typical ups and downs that are common in the DMV data series over each year. The December 2007 forecast began in July of 2007, the 2008 forecast began in April of 2008, and the December 2008 forecast begins in October 2008. Notice that in January of 2008 there is a big spike in issuances followed by a rapid drop. This reflects the rush to obtain an ID Card prior to the temporary rule taking effect and the subsequent drop once the rule was in place. In July of 2008 there is another drop in issuance corresponding to implementation of SB 1080. The combined result of the temporary rule and implementation of SB 1080 has led to a 30 percent decline in ID Card issuances, a significant impact.

Figure 6: Original ID Card Transactions



The other legislative change that can affect an individual's choice to use a DMV service is the price. The OTIA III legislation passed during the 2003 session increased fees for a number of DMV activities. How the fee increases affect Oregonians' willingness to pay for the same activities is an important consideration for future legislation. With four years of data since implementation of the OTIA III fee increases, a surprising result is

the persistent impact the fee increases have had on demand for DMV services. We expected demand to be reduced for a few quarters after implementation of the fee increases, and then once individuals became accustomed to the new fees they would adjust their budgets to accommodate the increased fees and demand would adjust upwards. While this has been true for some transactions, others have shown a significant decrease related to the fee increases beyond the first several quarters. In some cases, the fee increases have had a lasting impact on transactions. This effect is seen most notably in some of the title transactions and commercial licenses. It may well be, for instance, that some individuals have had secondary vehicles or commercial licenses that were not being used, and therefore they decided it is not worth paying the increased fee for something that they are unlikely to need in the near future.

The reduced volume of transactions generally occurs where the percent changes in fees are the greatest, or where the fees represent a larger share of the value of the vehicle. As we move further away from 2004, the fee change impact tends to diminish or becomes difficult to discern from other impacts in the models.

Overall, demographic and economic changes, combined with legislative impacts, explain most of the variation in total DMV transactions over time. Total DMV transactions increased in FY08 and are expected to decline sharply in FY09. For the remainder of the forecast horizon transactions are expected to average slight growth of 1.2 percent. However, future legislation will undoubtedly affect the DMV transactions forecast and resulting revenues.

HIGHWAY FUND REVENUE FORECAST

Overall, the current State Highway Fund revenue forecast is lower than the previous forecast. DMV revenues, which are driven largely by demographic changes, decreased the least from the June 2008 forecast, being reduced on average by a little over \$8 million each year of the forecast period. The slowing national and Oregon economies have greater impacts on Motor Carrier and Motor Fuels revenues. The forecast of Motor Carrier revenues is reduced between \$0 and \$28 million per year throughout the forecast period. The outlook for Motor Fuels revenues is similar but not as variant, with reductions of \$7 to \$23 million from previous forecast levels.

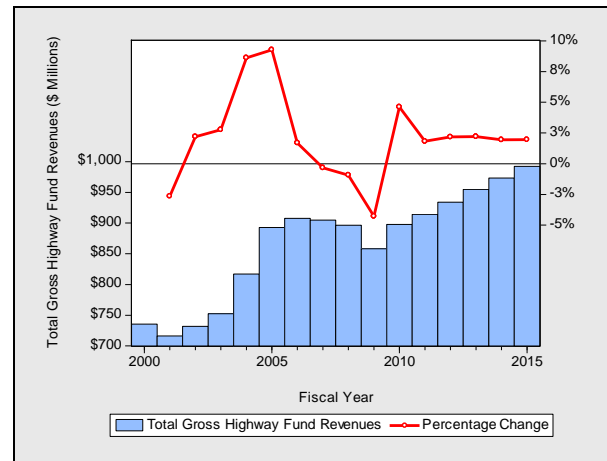
Differences between the current and prior forecast can originate from four primary sources. First, the forecast incorporates updated data on transportation transactions used for the purpose of estimating the parameters of equations contained in the forecast model. Second, it integrates the most recent revisions to the state economic outlook. Third, the forecast takes into account changes in the national macroeconomic outlook that affect transportation revenues, but may not be directly captured in the state forecast. And fourth, incorporating the effective implementation of new legislation can account for differences, as well.

Figure 7 shows the recent behavior of gross revenues and the current forecast out to 2015. The past several forecasts have reflected the impacts of OTIA III (House Bill 2041) and other legislative initiatives passed in the 2003 Regular Legislative Session. Most of the implementation of this legislation commenced in January 2004, and the effects were fully registered at the start of FY05, as reflected by the comparatively pronounced jump in revenues for that year. Thereafter, revenue

trends converge more toward the economic and demographic trends of the state, in lieu of any new revenue initiatives by the Legislature.

The current outlook forecasts that gross revenues will be lower than the prior forecast. For FY08 revenues were a little under \$1 million less than was previously forecast. For FY09 and FY10, revenues are expected to be \$31.3 million and \$14.1 million lower than in the prior forecast, respectively. This sudden drop in FY09 revenues is mainly due to the rapidly deteriorating economy. A rebound in FY10 is expected now where previously year-over-year growth was expected to be more mild. On an average annual basis, this difference translates into a 2.5 percent decrease from the prior forecast. The remaining years of the forecast are also lower than in the prior forecast. Overall, total gross revenues are expected to grow at an average annual rate of 1.5 percent between FY09 and FY15, a rate that is significantly lower to our prior revenue projection of 2.3 percent over the same period.

Figure 7: Total Gross Highway Fund Revenues



However, this growth in nominal revenues is somewhat below the expected rate of cost escalation for construction and maintenance activities confronting the Agency’s Highway Programs. As a result, the spending power of the State Highway Fund to support Maintenance, Preservation, and Modernization Programs will continue to erode.

Compared to the previous forecast, revenues available for apportionment after collection, administration, and program costs (“Net Revenues,” before OTIA-related set-aside and pledged revenues) are lower across the board over the forecast period. In FY09-FY10, they are lower than our prior outlook by about 4 percent, stemming largely from reduced fuel taxes, softer weight-mile tax revenues, and a sharp decline in vehicle sales. The current forecast is for weaker apportioned revenues throughout the forecast horizon.

One additional note relates to Senate Bill 994, passed during the 2007 Session. This legislation will have an effect on the resource capability of the Highway Fund. One aspect of this bill directs ODOT to distribute \$56.2 million from the State Highway Fund to Oregon counties. The implementation of this particular legislation is captured in the apportionment table (Table 7B on page 23). There is a one-time apportionment to the counties in FY09 and a commensurate decrease from the net to the State Highway Fund in the same year. Should the Secure Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393) be reauthorized, the counties would be required under Section 16 of SB 994 to match 10.9 percent of the funds received from the State.

Highway Fund Forecast

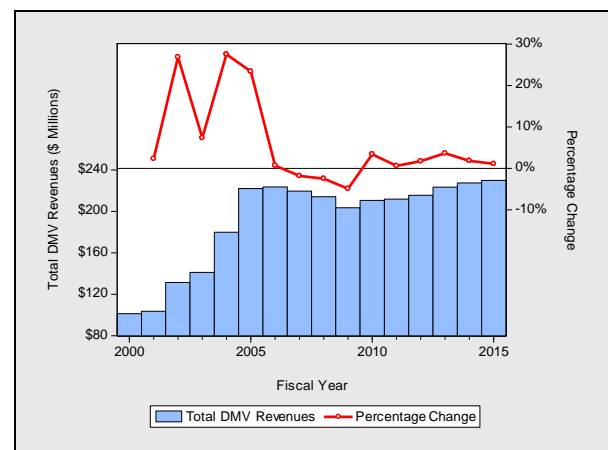
Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes

constitute the largest single source of revenue at forecast levels of approximately \$401 to \$461 million per year. These taxes are levied on motor fuels used in passenger vehicles and light to medium trucks that are not subject to the weight-mile tax. The weight-mile tax is levied on heavy trucks on a per mile basis, but is graduated in proportion to the weight of the truck. For very large truck configurations, there is a tax schedule that is based on gross weight and number of axles. Weight-mile taxes are the second largest source of revenue at forecast levels of \$223 to \$266 million a year. Licensing, vehicle registrations, and titles make up the third largest source of Highway Fund revenue with gross annual forecast revenues ranging from \$204 to just over \$230 million.

DMV Revenues

Total DMV revenues are contained in row 4 of Table 4 and in Figure 8. These revenues are expected to oscillate around \$210 million through FY11, experience strong growth in FY13, and then to grow slowly throughout the remainder of the forecast period.

Figure 8: Total DMV Revenues



Rows 6 through 11 enumerate the costs associated with administration of DMV and transfers of the DMV revenues out of the Highway Fund to support OTIA projects or other statutory purposes. Starting in FY08

there is a significant increase in collection costs as shown in row 6. The major source of the change is the expected increase in costs related to the Federal Real ID Act and Senate Bill 640, which was passed in 2005 and became effective July 1, 2008. Senate Bill 640 authorizes the Department to increase fees on certain transaction types by up to \$3 to cover the cost of implementing the legislation. Beginning in July of 2008, fees for selected transactions were increased as part of SB 1080, increasing revenue by about \$1.5 million in FY09.

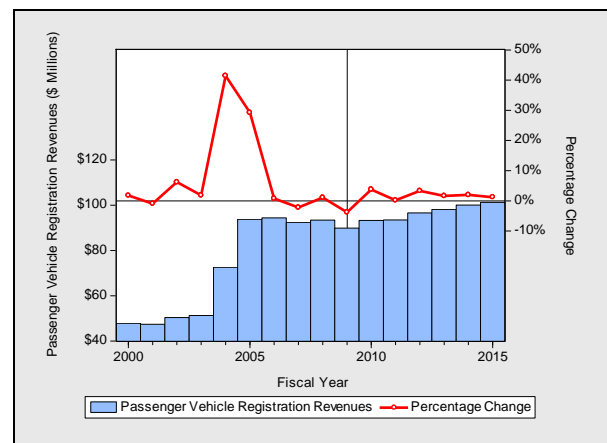
Net DMV revenues, as represented in row 14, show sudden drops in FY08 and FY09, and continue to decline through the forecast period, with the exception of FY13, as costs increase at a quicker pace than revenues under existing fee levels.

Rows 5 and 15 summarize the change in gross (row 5) and net (row 15) revenues from the previous forecast. The gross and net fiscal year revenues are considerably lower than the previous forecast, especially in FY09. The primary sources for this decrease is the implementation of the Governor’s Executive Order in February of 2008, the implementation of SB 1080 in July of 2008, and the sharp decline in the economy. The Executive Order and SB 1080 changes have primarily led to a decrease in driver license applications and renewals, whereas the economic downturn has most strongly impacted vehicle sales and subsequent title applications.

Continued refinements in the estimating equations have increased the overall accuracy of our DMV forecasts, both individually and collectively. However, currently with so much uncertainty in the economy and the big swings we’ve seen in fuel prices the forecast errors are somewhat more pronounced than in previous forecasts.

The DMV revenue forecast is grouped into three major categories reflecting the primary revenue sources: vehicle registrations, driver licenses, and vehicle titles. Vehicle registrations make up the dominant portion of DMV revenues, led significantly by **passenger vehicle registrations**, which alone account for 80 percent of vehicle registration revenues and 40 percent of total DMV revenues. Registration revenues, as reported in row 1 of Table 4, totaled \$112.9 million in FY08, an increase of 1.2 percent over FY07. FY09 revenues are expected to be \$108.9 million, a decrease of 3.6 percent over FY08. Beyond FY08, growth is expected to average 1.2 percent throughout the forecast period.

Figure 9: Passenger Vehicle Registration Revenues

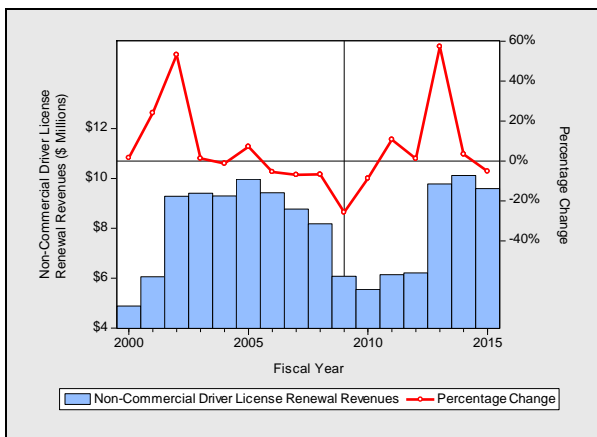


Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues, as shown in row 2, totaled \$32.2 million in FY08, a decrease of 4.4 percent over FY07. The FY09 revenues are expected to be \$28.6 million, a 10.9 percent decrease over FY08. Revenue growth in the forecast period is expected to be mostly positive beyond FY09 with an average annual growth rate of 1.2 percent for FY09 through FY15. The shift from a four- to eight-year renewal cycle for commercial and non-commercial licenses, along with SB 1080, largely accounts for the negative growth exhibited during the FY07-FY09 period. The

large increase in FY13 is the result of the legislation that affects the duration of the driver license renewal cycle. That transition to the longer cycle was completed in October of last year.

What remains to be seen is the long-term effect that SB 1080 will have on driver licenses and ID Cards. With each additional forecast we will have more data and be able to refine our forecast estimates.

Figure 10: Non-Commercial Driver License Renewal Revenues



Vehicle titles include a variety of title transactions. These span new light and heavy vehicle purchases, vehicles that are new to Oregon due to in-migration, and used vehicle transactions, as well as salvage titles and all other DMV transactions not elsewhere included. The largest component of the titles section is title transfers, accounting for over 50 percent of revenues in this group. Vehicle title revenues, as shown in row 3 of Table 4, for FY08 are \$69.1 million, a 7.1 percent decrease from FY07. FY09 revenues are expected to be \$66.1 million, a 4.3 percent decrease over FY07. Revenue growth is expected to average 0.7 percent per year through the forecast period. The large declines in growth for the FY07-FY09 period are due to high fuel prices in FY07 and FY08 and then the downturn in the economy, primarily effecting FY09.

Figure 11: Vehicle Title Transfer Revenues

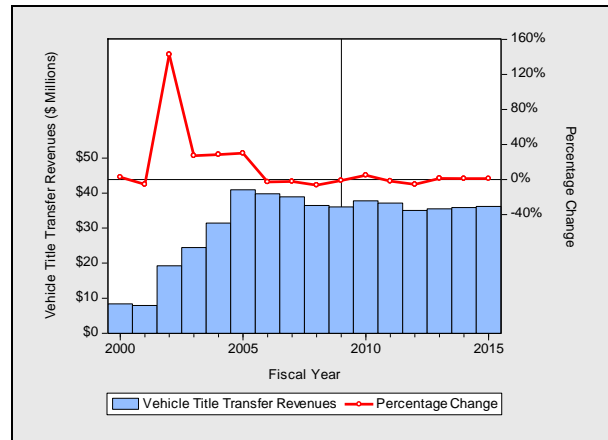


Table 4: Highway Fund Revenue Collected by DMV (Millions of Dollars)

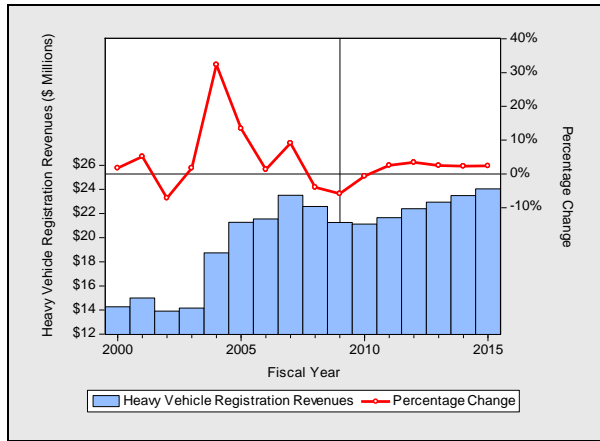
	Actual		Forecast							Forecast			
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 VEHICLE REGISTRATIONS	\$111.5	\$112.9	\$108.9	\$112.5	\$113.1	\$116.7	\$118.7	\$120.9	\$122.5	\$221.8	\$225.7	\$235.3	\$243.4
2 DRIVER LICENSES & OTHER	\$33.6	\$32.2	\$28.6	\$28.7	\$29.7	\$30.2	\$34.4	\$35.1	\$34.9	\$60.8	\$58.4	\$64.6	\$70.1
3 TITLE, PLATE & OTHER	\$74.4	\$69.1	\$66.1	\$69.4	\$69.0	\$68.7	\$70.4	\$71.5	\$72.7	\$135.2	\$138.4	\$139.1	\$144.1
4 TOTAL DMV COLLECTIONS	\$219.6	\$214.2	\$203.6	\$210.6	\$211.9	\$215.6	\$223.4	\$227.5	\$230.1	\$417.8	\$422.5	\$439.0	\$457.6
5 Change from Previous Forecast	\$0.0	(\$0.6)	(\$10.4)	(\$6.5)	(\$7.7)	(\$9.7)	(\$8.9)	(\$8.1)	(\$7.2)	(\$11.0)	(\$14.2)	(\$18.7)	(\$15.3)
6 COLLECTION/ADMINISTRATION & PROGRAM COST	(\$62.8)	(\$71.7)	(\$74.7)	(\$76.3)	(\$77.8)	(\$82.5)	(\$84.2)	(\$89.3)	(\$91.1)	(\$146.4)	(\$154.1)	(\$166.7)	(\$180.4)
7 TRAFFIC SAFETY TRANSFER	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$1.5)	(\$0.8)	(\$0.8)	(\$0.9)
10 DEPARTMENT OF EDUCATION TRANSFER	\$0.0	(\$0.1)	\$0.0	(\$0.1)	\$0.0	(\$0.1)	\$0.0	(\$0.1)	\$0.0	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
11 ODOT CENTRAL SERVICES ASSESSMENT	(\$17.8)	(\$20.6)	(\$21.4)	(\$24.5)	(\$25.0)	(\$26.5)	(\$27.0)	(\$28.7)	(\$29.2)	(\$42.0)	(\$49.4)	(\$53.5)	(\$57.9)
12 REVENUE SET-ASIDE TO OTIA I & II	(\$6.7)	(\$7.1)	(\$6.0)	(\$6.4)	(\$6.3)	(\$6.3)	(\$6.5)	(\$6.5)	(\$6.4)	(\$13.2)	(\$12.7)	(\$12.8)	(\$12.9)
13 REVENUE PLEDGED TO OTIA III	(\$79.4)	(\$79.1)	(\$75.4)	(\$78.3)	(\$78.4)	(\$79.7)	(\$81.4)	(\$82.8)	(\$84.0)	(\$154.5)	(\$156.8)	(\$161.1)	(\$166.9)
14 NET DMV REVENUE	\$52.0	\$34.8	\$25.3	\$24.7	\$24.0	\$20.0	\$24.0	\$19.7	\$18.9	\$60.1	\$48.7	\$43.9	\$38.6
15 Change from Previous Forecast	\$0.0	(\$0.6)	(\$6.7)	(\$4.7)	(\$5.6)	(\$6.6)	(\$6.3)	(\$5.9)	(\$5.4)	(\$7.3)	(\$10.2)	(\$13.0)	(\$11.3)

Motor Carrier Revenues

The Motor Carrier Transportation Division (MCTD) collects weight-mile taxes and other heavy vehicle fees. Table 5 contains the forecast revenue detail, along with projected collection/administration costs and transfers.

Row 1 contains information on the amount of weight-mile and flat fee revenues collected each fiscal year. In FY08, weight-mile and flat-fee revenues reached \$236.8 million. This represented a slight increase of 0.1 percent from FY07. As the economy worsens, revenues are expected to drop sharply in FY09 by 5.7 percent over FY08, but it will rebound in the remaining forecast years averaging 3.0 percent growth per year between FY10 and FY15.

Figure 12: Heavy Vehicle Registration Revenues



Row 2 of Table 5 shows heavy vehicle registration fee revenues. It includes both International Registration Plan (IRP) registration fees paid by interstate carriers and Commercial registration fees paid by intrastate carriers. Together these heavy vehicle registration fees totaled \$22.6 million in FY08. Registration fees are expected to total \$21.9 million in FY09, a 5.9 percent decline. The forecast indicates that an additional decline in FY10 will be followed by a rebound in FY10, with positive growth

of 2.7 percent per year on average expected through the remainder of the forecast period.

Row 3 shows the revenues from Road Use Assessment Fees (RUAF), permits, passes, and credentials such as weight receipts and cab cards. This row also includes OTIA III fee increments from the DMV heavy vehicle portion of the Local Fund. Revenues from weight receipt and commercial driver's license fee increases make up the OTIA III Local Fund fee increments. Overall, the total of these heavy vehicle revenues reached \$9.7 million in FY08. The forecast predicts a sharp decline of approximately 8.0 percent for FY09 and a smaller decline of 2.3 percent in FY10. Positive growth in revenues is expected to return in FY11, with annual growth averaging 4.6 percent between FY11 and FY15.

Row 4 reports the total gross revenues for the Motor Carrier Division. Gross revenues are lower than the previous forecast over the forecast horizon. Driven by weight-mile revenues, FY09 revenues are expected to be \$9.9 million lower with a rebound in FY10 that is just slightly lower than the June 2008 forecast value for FY10. Beyond FY10, growth is lower than in the previous forecast resulting in an increased shortfall in revenue over the June forecast. Overall, the forecast predicts that gross revenues will grow at an average annual rate of just 2.9 percent between FY10 and FY15. The forecast indicates that collection and administration costs, as shown in rows 6 and 8, will also increase. Because of the escalation rate for these costs will likely exceed that of projected gross revenues, net revenues in row 11 will grow more slowly than gross revenues throughout the forecast period. Row 12 of Table 5 provides a summary of the aggregate differences of net revenues from the prior forecast.

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

	Actual		Forecast							Forecast			
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 WEIGHT-MILE TAX	\$236.6	\$236.8	\$223.4	\$235.1	\$242.7	\$249.5	\$254.1	\$259.6	\$266.1	\$460.2	\$477.8	\$503.6	\$525.7
2 IRP & COMMERCIAL VEHICLE REGISTRATIONS*	\$23.5	\$22.6	\$21.3	\$21.1	\$21.7	\$22.4	\$22.9	\$23.5	\$24.0	\$43.8	\$42.8	\$45.3	\$47.5
3 RUAF, PERMITS, PASSES & CREDENTIALS**	\$9.7	\$9.7	\$8.9	\$8.7	\$9.1	\$9.6	\$10.1	\$10.5	\$10.9	\$18.6	\$17.8	\$19.7	\$21.4
4 TOTAL MCTD COLLECTIONS	\$269.7	\$269.1	\$253.6	\$264.9	\$273.4	\$281.5	\$287.2	\$293.6	\$301.0	\$522.6	\$538.3	\$568.6	\$594.7
5 Change from Previous Forecast	\$0.0	\$0.2	(\$9.9)	(\$0.2)	(\$12.7)	(\$16.6)	(\$20.3)	(\$24.3)	(\$27.6)	(\$9.7)	(\$12.9)	(\$36.9)	(\$51.9)
6 COLLECTION/ADMINISTRATION & PROGRAM COST	(\$23.9)	(\$26.0)	(\$27.0)	(\$28.3)	(\$28.9)	(\$30.6)	(\$31.3)	(\$33.2)	(\$33.8)	(\$53.0)	(\$57.2)	(\$61.9)	(\$67.0)
7 IFTA BUDGETED EXPENDITURES***	\$1.1	\$1.1	\$1.1	\$1.3	\$1.4	\$1.5	\$1.5	\$1.6	\$1.6	\$2.2	\$2.7	\$2.9	\$3.2
8 ODOT CENTRAL SERVICES ASSESSMENT	(\$6.1)	(\$6.8)	(\$7.1)	(\$8.2)	(\$8.3)	(\$8.8)	(\$9.0)	(\$9.6)	(\$9.8)	(\$13.9)	(\$16.5)	(\$17.9)	(\$19.3)
9 REVENUE SET-ASIDE TO OTIA I & II	(\$10.1)	(\$10.9)	(\$8.9)	(\$9.6)	(\$9.8)	(\$9.9)	(\$9.8)	(\$9.8)	(\$9.9)	(\$19.8)	(\$19.4)	(\$19.7)	(\$19.7)
10 REVENUE PLEDGED TO OTIA III	(\$30.4)	(\$30.0)	(\$28.3)	(\$29.2)	(\$30.1)	(\$31.0)	(\$31.7)	(\$32.4)	(\$33.3)	(\$58.2)	(\$59.3)	(\$62.8)	(\$65.7)
11 NET MCTD REVENUE	\$200.4	\$196.5	\$183.3	\$190.9	\$197.6	\$202.5	\$206.8	\$210.2	\$215.9	\$379.8	\$388.5	\$409.3	\$426.1
12 Change from Previous Forecast	\$0.0	\$0.3	(\$8.6)	\$0.2	(\$11.0)	(\$14.6)	(\$17.9)	(\$21.5)	(\$24.5)	(\$8.4)	(\$10.8)	(\$32.5)	(\$46.0)

*IRP: International Registration Plan.

**RUAF: Road Use Assessment Fees.

***IFTA: International Fuel Tax Agreement.

Motor Fuels Tax Revenues

The Central Services Division–Financial Services Branch collects fuel tax revenues. Fuel tax collections are shown in Table 6. The fuel tax revenue forecasts continue to be reasonably accurate, once the forecasting model is evaluated for misses in the macroeconomic forecast. This is despite the price volatility in petroleum markets of the past four years. While actual revenues versus forecast revenues for the past several years have been typically within about plus/minus 1 percent, the disparity is starting to magnify with the economic and financial turbulence.

Unlike for DMV and MCTD transactions, there have been no changes to the tax rates for gasoline and use fuels (largely diesel). Therefore, the revenue outlook mimics closely the fuel consumption forecast laid out above, with the important caveat that the latter was stated in terms of calendar years in order to correspond more closely with the narrative on the state and national economic backdrop.

The current forecast shows a drop off in fuel tax revenue from the prior forecast conducted in June 2008. In year FY09 it is \$11 million lower, and beyond, it is roughly \$16 to \$23 million per year lower. On average, this is a reduction of 3.9 percent, despite the impacts stemming from the implementation of HB 2210⁴ that helps to buoy our forecast. Fuel tax revenues then increase at a slightly stronger rate of about 2.4 percent on average out through FY15, due to the continued, albeit slowing, economic growth prospects for the state and the boost from ethanol blend requirements.

In the current biennium, gross revenues are forecast to be down minutely, at about 2 percent lower, or a little more than -\$17

million, from the 2005-07 biennium. This is somewhat weaker than our prior projection. Going forward, revenue growth is forecast to regain strength in the next biennium, increasing by nearly 5 percent or about \$37 million.

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

With an average annual base of approximately \$433 million over the forecast interval out through FY15, fuels tax collections generate the single largest amount of revenue for the Highway Fund, some 47 percent before collection and program costs. Each penny of gas tax generates about \$18 million gross and \$17.3 million net per year in fuel tax revenue through this forecast horizon. The same penny of tax plus its weight-mile equivalent produces on average about \$28.3 million gross and \$27.3 million net a year.

It is important to recognize the predictive capability of the foregoing “yield” results from gas taxes and weight-mile levies. They are averages and are based on a 1-cent increase only. For tax increases larger than one cent per gallon (say, for example, 5 cents or more), price elasticity effects are likely to cause a diminution in revenue yield. Direct analysis on a case by case basis is strongly suggested over applying “rules of thumb” in such instances.

⁴ See the full discussion of this legislation in the motor fuels transaction forecast on page 8 above.

Table 6: Highway Fund Revenue Collected by Financial Services Branch (Millions of Dollars)

	Actual		Forecast							Forecast			
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 MOTOR FUELS TAX	\$415.5	\$413.2	\$401.0	\$422.3	\$428.9	\$437.1	\$444.2	\$452.2	\$461.3	\$814.2	\$851.2	\$881.3	\$913.5
2 TOTAL FSB COLLECTIONS	\$415.5	\$413.2	\$401.0	\$422.3	\$428.9	\$437.1	\$444.2	\$452.2	\$461.3	\$814.2	\$851.2	\$881.3	\$913.5
3 Change from Previous Forecast	\$0.0	(\$0.4)	(\$11.0)	(\$7.5)	(\$15.8)	(\$20.2)	(\$22.5)	(\$23.1)	(\$22.0)	(\$11.4)	(\$23.3)	(\$42.7)	(\$45.1)
4 COLLECTION/ADMINISTRATION COST	(\$1.3)	(\$1.3)	(\$1.4)	(\$1.3)	(\$1.4)	(\$1.4)	(\$1.5)	(\$1.6)	(\$1.6)	(\$2.7)	(\$2.7)	(\$2.9)	(\$3.1)
5 ODOT CENTRAL SERVICES ASSESSMENT	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.4)	(\$0.3)	(\$0.3)	(\$0.3)
6 SNOWMOBILE TRANSFER	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.8)	(\$1.4)	(\$1.5)	(\$1.5)	(\$1.5)
7 CLASS I ATV TRANSFER	(\$2.3)	(\$2.6)	(\$2.7)	(\$2.9)	(\$3.1)	(\$3.4)	(\$3.7)	(\$4.0)	(\$4.3)	(\$5.3)	(\$6.0)	(\$7.1)	(\$8.3)
8 MARINE BOARD TRANSFER	(\$5.6)	(\$5.6)	(\$5.5)	(\$5.5)	(\$5.5)	(\$5.5)	(\$5.6)	(\$5.6)	(\$5.6)	(\$11.1)	(\$11.1)	(\$11.1)	(\$11.2)
9 CLASS II ATV TRANSFER	(\$1.2)	(\$1.3)	(\$1.4)	(\$1.5)	(\$1.7)	(\$1.8)	(\$2.0)	(\$2.2)	(\$2.4)	(\$2.7)	(\$3.2)	(\$3.9)	(\$4.6)
10 CLASS III ATV TRANSFER	(\$0.8)	(\$0.8)	(\$0.8)	(\$0.8)	(\$0.9)	(\$0.9)	(\$1.0)	(\$1.0)	(\$1.1)	(\$1.6)	(\$1.7)	(\$1.9)	(\$2.1)
11 TRANSPORTATION OPERATING FUND (TOF)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)	(\$8.2)	(\$8.3)	(\$8.3)	(\$8.3)
12 AVIATION TRANSFER	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.3)
13 REVENUE ALLOCATION TO OTIA I & II SET-ASIDE	(\$19.0)	(\$20.9)	(\$17.7)	(\$19.4)	(\$19.4)	(\$19.4)	(\$19.3)	(\$19.3)	(\$19.3)	(\$38.6)	(\$38.8)	(\$38.7)	(\$38.5)
14 REVENUE PLEDGED TO OTIA III	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
15 NET FSB REVENUE	\$380.2	\$375.5	\$366.3	\$385.7	\$391.8	\$399.4	\$406.1	\$413.4	\$421.8	\$741.8	\$777.5	\$805.4	\$835.2
16 Change from Previous Forecast	\$0.0	(\$0.4)	(\$11.2)	(\$7.4)	(\$15.9)	(\$20.3)	(\$22.6)	(\$23.2)	(\$22.2)	(\$11.6)	(\$23.3)	(\$42.9)	(\$45.5)

Highway Revenue Forecast Summary

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

As noted above, the effects of several pieces of legislation from the 2007 Regular Session are incorporated in this forecast. SB 994 (Section 15) is explicitly shown in Table 7B. HB 2210, insofar it affects the volume of sales of gasoline, is implicit in the motor fuels revenue forecast.

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

	Actual		Forecast							Forecast			
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 TOTAL MCTD COLLECTIONS	\$269.7	\$269.1	\$253.6	\$264.9	\$273.4	\$281.5	\$287.2	\$293.6	\$301.0	\$522.6	\$538.3	\$568.6	\$594.7
2 TOTAL FSB COLLECTIONS	\$415.5	\$413.2	\$401.0	\$422.3	\$428.9	\$437.1	\$444.2	\$452.2	\$461.3	\$814.2	\$851.2	\$881.3	\$913.5
3 TOTAL DMV COLLECTIONS	\$219.6	\$214.2	\$203.6	\$210.6	\$211.9	\$215.6	\$223.4	\$227.5	\$230.1	\$417.8	\$422.5	\$439.0	\$457.6
4 TOTAL GROSS HIGHWAY FUND	\$904.8	\$896.4	\$858.2	\$897.8	\$914.2	\$934.1	\$954.8	\$973.4	\$992.4	\$1,754.6	\$1,812.0	\$1,888.9	\$1,965.7
5 COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	(\$267.9)	(\$285.6)	(\$278.4)	(\$291.2)	(\$295.7)	(\$307.0)	(\$313.6)	(\$325.7)	(\$331.3)	(\$564.0)	(\$587.0)	(\$620.6)	(\$657.0)
6 NET REVENUE TO HIGHWAY FUND	\$636.9	\$610.9	\$579.7	\$606.6	\$618.4	\$627.1	\$641.2	\$647.6	\$661.1	\$1,190.6	\$1,225.0	\$1,268.3	\$1,308.7
7 OTIA I & II SET ASIDE - memo	\$35.8	\$38.9	\$32.3	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$71.2	\$71.2	\$71.2	\$71.2
8 DEBT SERVICE (OTIA I & II)	(\$22.1)	(\$37.4)	(\$32.2)	(\$33.6)	(\$33.6)	(\$33.6)	(\$33.6)	(\$33.9)	(\$35.6)	(\$69.6)	(\$67.2)	(\$67.3)	(\$69.5)
9 OTIA III Dedicated Revenues - memo	\$101.6	\$101.2	\$96.2	\$99.8	\$100.7	\$102.8	\$105.1	\$107.2	\$109.1	\$197.4	\$200.5	\$207.9	\$216.3
10 DEBT SERVICE (OTIA III)	(\$44.2)	(\$56.5)	(\$67.8)	(\$73.7)	(\$74.3)	(\$75.5)	(\$76.8)	(\$78.0)	(\$73.1)	(\$124.3)	(\$148.0)	(\$152.3)	(\$151.2)
11 NET OTIA I & II REVENUE FOR DISTRIBUTION	\$14.0	\$1.5	\$0.1	\$2.0	\$2.0	\$2.0	\$2.0	\$1.7	(\$0.0)	\$1.6	\$4.0	\$3.9	\$1.7
12 NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	\$23.9	\$25.9	\$24.5	\$26.1	\$26.4	\$27.3	\$28.3	\$29.1	\$36.0	\$50.4	\$52.5	\$55.6	\$65.1
13 NET OTIA III REVENUE FOR DISTRIBUTION -STATE	\$33.5	\$18.9	\$3.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$22.7	\$0.0	\$0.0	\$0.0
14 TOTAL NET REVENUE FOR DISTRIBUTION	\$708.3	\$657.1	\$608.1	\$634.6	\$646.9	\$656.4	\$671.4	\$678.5	\$697.1	\$1,265.2	\$1,281.5	\$1,327.8	\$1,375.5

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

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

	Distribution Percentage	Actual		Forecast							Forecast			
		FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 COUNTY APPORTIONMENT (ORS 366.739)	24.38%	\$153.5	\$147.2	\$139.7	\$146.1	\$149.0	\$151.1	\$154.5	\$156.1	\$159.3	\$286.8	\$295.2	\$305.6	\$315.4
2 SPECIAL COUNTY		(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
3 2007 SESSION SB 994 (Section 15)		\$0.0	\$0.0	\$56.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$56.2	\$0.0	\$0.0	\$0.0
4 COUNTY APPORTIONMENT (OTIA I & II)	30.00%	\$4.2	\$0.5	\$0.02	\$0.6	\$0.6	\$0.6	\$0.6	\$0.5	(\$0.0)	\$0.5	\$1.2	\$1.2	\$0.5
5 COUNTY APPORTIONMENT (OTIA III)	25.48%	\$25.9	\$25.8	\$24.5	\$25.4	\$25.7	\$26.2	\$26.8	\$27.3	\$27.8	\$50.3	\$51.1	\$53.0	\$55.1
6 DEDICATED TO DEBT SERVICE (OTIA III)	84.07%	(\$16.2)	(\$14.4)	(\$13.7)	(\$13.7)	(\$13.7)	(\$13.7)	(\$13.7)	(\$13.8)	(\$8.7)	(\$28.1)	(\$27.4)	(\$27.5)	(\$22.5)
7 NET COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	\$4.5	\$4.3	\$4.1	\$4.3	\$4.3	\$4.4	\$4.4	\$4.5	\$4.5	\$8.4	\$8.6	\$8.8	\$9.0
8 NET COUNTY APPORTIONMENT		\$171.3	\$162.8	\$210.4	\$162.2	\$165.4	\$168.0	\$172.1	\$174.1	\$182.4	\$373.2	\$327.6	\$340.1	\$356.5
9 CITY APPORTIONMENT (ORS 366.739)	15.57%	\$98.0	\$94.0	\$89.2	\$93.3	\$95.2	\$96.5	\$98.7	\$99.7	\$101.8	\$183.2	\$188.5	\$195.2	\$201.4
10 SPECIAL CITY		(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
11 CITY APPORTIONMENT (OTIA I & II)	20.00%	\$2.8	\$0.3	\$0.01	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	(\$0.0)	\$0.3	\$0.8	\$0.8	\$0.3
12 CITY APPORTIONMENT (OTIA III)	16.99%	\$17.3	\$17.2	\$16.3	\$17.0	\$17.1	\$17.5	\$17.8	\$18.2	\$18.5	\$33.5	\$34.1	\$35.3	\$36.7
13 DEDICATED TO DEBT SERVICE (OTIA III)	15.93%	(\$3.1)	(\$2.7)	(\$2.6)	(\$2.6)	(\$2.6)	(\$2.6)	(\$2.6)	(\$2.6)	(\$1.6)	(\$5.3)	(\$5.2)	(\$5.2)	(\$4.3)
14 NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	\$3.0	\$2.9	\$2.8	\$2.8	\$2.9	\$2.9	\$3.0	\$3.0	\$3.0	\$5.6	\$5.7	\$5.9	\$6.0
15 NET CITY APPORTIONMENT		\$117.5	\$111.1	\$105.2	\$110.4	\$112.5	\$114.2	\$116.8	\$118.1	\$121.1	\$216.3	\$222.9	\$230.9	\$239.2
16 HIGHWAY DIVISION (including small City/County)	60.05%	\$378.0	\$362.5	\$344.0	\$360.0	\$367.1	\$372.2	\$380.6	\$384.4	\$392.5	\$706.5	\$727.0	\$752.8	\$776.9
17 SPECIAL COUNTY		(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
18 2007 SESSION SB 994 (Section 15)		\$0.0	\$0.0	(\$56.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$56.2)	\$0.0	\$0.0	\$0.0
19 SPECIAL CITY		(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
20 HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	\$7.0	\$0.8	\$0.03	\$1.0	\$1.0	\$1.0	\$1.0	\$0.8	(\$0.0)	\$0.8	\$2.0	\$2.0	\$0.8
21 HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	\$58.5	\$58.2	\$55.3	\$57.4	\$57.9	\$59.2	\$60.4	\$61.7	\$62.8	\$113.6	\$115.4	\$119.6	\$124.4
22 DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	(\$24.9)	(\$39.3)	(\$51.5)	(\$57.4)	(\$57.9)	(\$59.2)	(\$60.4)	(\$61.7)	(\$62.8)	(\$90.9)	(\$115.4)	(\$119.6)	(\$124.4)
23 STATE APPORTIONMENT (OTIA III)	0.00%	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
24 NET HIGHWAY DIVISION		\$417.8	\$381.4	\$290.8	\$360.2	\$367.3	\$372.4	\$380.8	\$384.5	\$391.7	\$672.2	\$727.5	\$753.3	\$776.3
25 HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		\$59.8	\$58.9	\$56.6	\$59.5	\$60.8	\$62.1	\$63.2	\$64.3	\$65.7	\$115.6	\$120.3	\$125.3	\$130.0
26 NET COUNTY APPORTIONMENT		\$171.3	\$162.8	\$210.4	\$162.2	\$165.4	\$168.0	\$172.1	\$174.1	\$182.4	\$373.2	\$327.6	\$340.1	\$356.5
27 NET CITY APPORTIONMENT		\$117.5	\$111.1	\$105.2	\$110.4	\$112.5	\$114.2	\$116.8	\$118.1	\$121.1	\$216.3	\$222.9	\$230.9	\$239.2
28 NET HIGHWAY DIVISION		\$417.8	\$381.4	\$290.8	\$360.2	\$367.3	\$372.4	\$380.8	\$384.5	\$391.7	\$672.2	\$727.5	\$753.3	\$776.3
29 NET HIGHWAY FUNDS REVENUE		\$706.6	\$655.4	\$606.4	\$632.9	\$645.1	\$654.6	\$669.7	\$676.7	\$695.3	\$1,261.7	\$1,278.0	\$1,324.3	\$1,372.0
30 SPECIAL COUNTY/CITY TRANSFERS TO ALLOTMENT FUND		\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8	\$3.5	\$3.5	\$3.5	\$3.5
31 TOTAL NET REVENUES FOR DISTRIBUTION		\$708.3	\$657.1	\$608.1	\$634.6	\$646.9	\$656.4	\$671.4	\$678.5	\$697.1	\$1,265.2	\$1,281.5	\$1,327.8	\$1,375.5

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