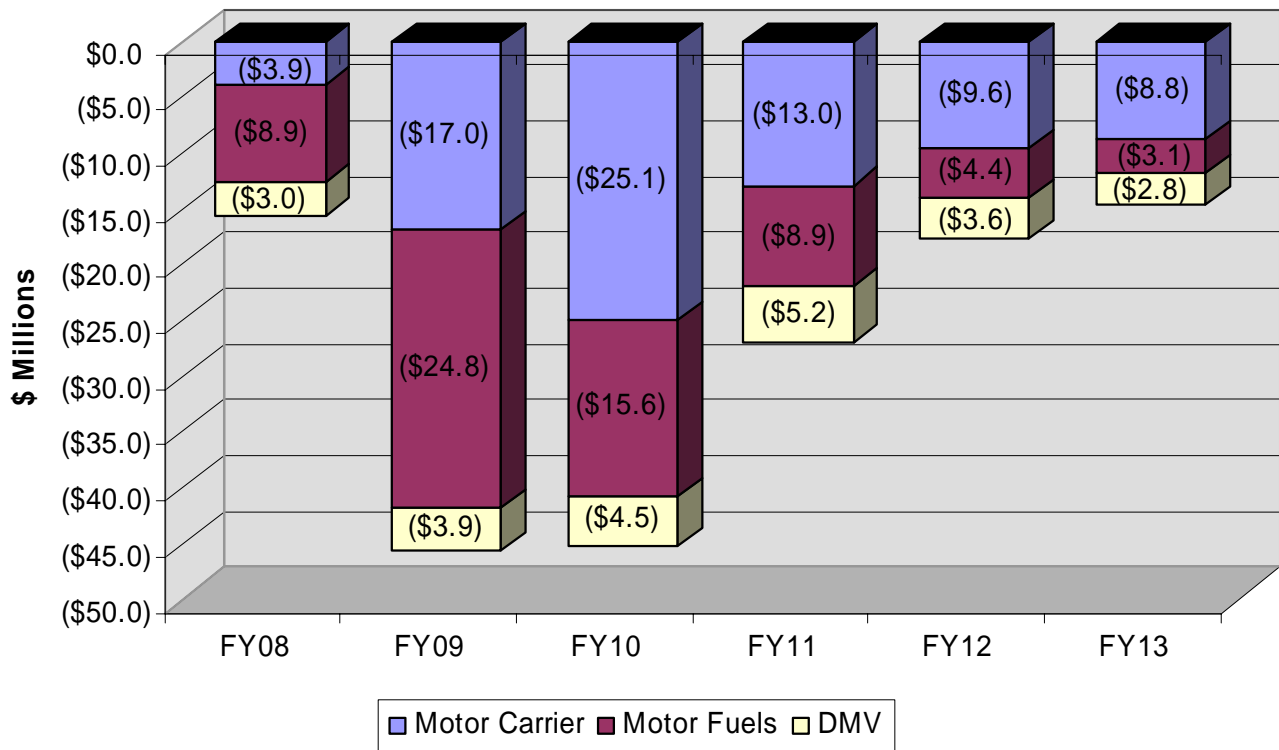


# SUMMARY OF TRANSPORTATION ECONOMIC AND REVENUE FORECASTS

### Erosion in the Outlook for Gross Revenues Since the Dec. 07 Forecast



## **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 forecast is consistent with the Department of Administrative Services' *Oregon Economic & Revenue Forecast (Vol. XXVIII, #2, June 2008)* and the associated baseline macroeconomic forecast from *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:**

Since the December 2007 forecast, the economies of both Oregon and the nation have hit rocky patches. Slowing economic growth and job losses have taken a toll on the forecast for gross State Highway Fund revenues, as well.

As the cover chart illustrates, projected gross revenues for the State Highway Fund are considerably lower than previously forecast. These reductions in overall forecast revenues range from \$45.7 down to \$11.7 million per fiscal year, with the largest reductions occurring unfortunately during FY09 and FY10.

The declines in forecast revenues are not spread equally among the three sources of State Highway Fund revenues. Driver and Motor Vehicle (DMV) revenues show the smallest decline as a percent of revenue, averaging about 1.7 percent lower per fiscal year. This muted response of DMV revenues to the changing economy occurs because DMV revenues are driven primarily by demographics rather than the pace of economic activity. On the contrary, Motor Carrier and Motor Fuels revenues are much more responsive to economic activity and show larger declines in forecast revenues, averaging 5.0 and 2.6 percent lower per fiscal year, respectively.

Finally, an idea of the overall accuracy of the forecast model is accessible by focusing on the column reported for FY08. The composite difference from the December 2007 forecast for FY08 essentially represents a look at the one-year-ahead forecast error for our model. The combined over-prediction of \$13.3 million compared to a gross revenue level of \$900 million is quite small, being just 1.5 percent in relative terms, which is quite good in terms of forecast precision.

# CONTENTS

FOREWORD .....	i
CONTENTS .....	ii
LIST OF TABLES AND FIGURES .....	iii
Tables .....	iii
Figures .....	iii
EXECUTIVE SUMMARY .....	iv
NATIONAL ECONOMIC OUTLOOK.....	1
OREGON ECONOMIC OUTLOOK.....	3
TRANSPORTATION TRANSACTIONS.....	6
Motor Fuels Usage .....	6
Effects of House Bill 2210 .....	8
Motor Carrier.....	9
Driver and Motor Vehicles.....	10
HIGHWAY FUND REVENUE FORECAST .....	12
Highway Fund Forecast .....	13
DMV Revenues .....	13
Motor Carrier Revenues .....	17
Motor Fuels Tax Revenues.....	19
Highway Revenue Forecast Summary .....	21
APPENDIX .....	24
National Economic Outlook.....	24

## **LIST OF TABLES AND FIGURES**

### ***Tables***

Table 1: National Economy, Percentage Change in Key Variables.....	5
Table 2: Oregon Economy, Percentage Change in Key Variables.....	5
Table 3: Percentage Change in Transactions for Key Transportation Variables .....	5
Table 4: Highway Fund Revenue Collected by DMV (Millions of Dollars).....	16
Table 5: Highway Fund Revenue Collected by MCTD (Millions of Dollars).....	18
Table 6: Highway Fund Revenue Collected by Financial Services Branch (Millions of Dollars) .....	20
Table 7A: Highway Fund Revenue by Fiscal Year and Biennium (Millions of Dollars).....	22
Table 7B: Distribution of Total Net Revenues (Millions of Dollars) .....	23

### ***Figures***

Figure 1: Oregon and U.S. Employment Trends.....	3
Figure 2: Oregon and U.S. Real Personal Income Growth Trends .....	4
Figure 3: Household Budget Shares, 1980 – 2015.....	7
Figure 4: Motor Fuel Consumption.....	8
Figure 5: Weight-Mile Transactions .....	10
Figure 6: Original ID Card Transactions.....	11
Figure 7: Total Gross Highway Fund Revenues .....	12
Figure 8: Total DMV Revenues .....	13
Figure 9: Passenger Vehicle Registration Revenues.....	14
Figure 10: Non-Commercial Driver License Renewal Revenues.....	15
Figure 11: Vehicle Title Transfer Revenues .....	15
Figure 12: Heavy Vehicle Registration Revenues .....	17
Figure 13: Real GDP and Real GDP Growth.....	24
Figure 14: Gasoline Prices (Regular Unleaded).....	24
Figure 15: GDP Growth and Business Capital Spending .....	25
Figure 16: Oregon and U.S. Employment Trends.....	25
Figure 17: U.S. Real Personal Income per Capita.....	26

## EXECUTIVE SUMMARY

*Note to readers:* Much of this report's narrative was written in the late summer time frame. Obviously the calamities that have since hit financial markets both here and increasingly abroad make the economic backdrop to our forecast somewhat impertinent. It is, nevertheless, fairly consistent with the outlook from the most recent State Economic Forecast (Sept. 2008).

As for the nation overall, Oregon's economy appears to be confronting considerable headwinds. The string of 19 consecutive quarters of job gains appears to have ended in the second quarter of 2008, a 4 ¾-year span going back to 2003: III. This pales, somewhat unfortunately, to the very long-lived boom covering 39 consecutive quarters that occurred in the 1991 – 2000 period.

Softening in the job markets nationwide is expected to last for about five quarters out through the spring of 2009. Oregon, on the other hand, is not anticipated to endure such a lengthy malaise. This contrast emanates in large part from the nature of this business cycle compared to the past two cycles in 1990-1991 and in 2001-2003.

While memories of the job recession induced by the "dot-com" bust in 2001-2003 are understandably more vivid, that downturn was led by a collapse in business fixed investment spending in equipment and software. The present cycle is being driven, in contrast, by the housing collapse and attendant troublesome times for the balance sheets of a wide variety of financial institutions. The current situation has more similarities to the housing and S & L crisis in 1990-91 than to the dot-com calamity in 2001-03. So, while the Oregon economy is expected to have several pronounced drops in

employment levels for several quarters (one percent or more on an annualized basis), it's expected to come back stronger than the nation's as the housing situation stabilizes nationwide.

As we would expect, an economic downturn in jobs and real personal incomes does not bode well for the outlook for transportation revenues. For revenues that are linked to the pace of economic activity (fuel and weight-mile taxes), the impacts are pronounced compared to the prior forecast in December 2007:

- Motor fuels usage taxes are lower on average by \$11.4 million per year over the FY09-FY13 period; about 2.6 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 \$15 million annually; about 5.2 percent lower than the prior forecast.

For fee revenues not closely tied to the intensity of usage on the highway and roads system, the revenue impacts are somewhat more muted:

- DMV yearly revenues are down on average by \$1.7 million per year, or only about minus 0.6 percent.

The expenditures by ODOT that are necessary to maintain, preserve, and modernize the State Highway System, however, will not materially change with weaker travel demands going forward. With these costs being largely fixed, the funding gap with diminished user tax revenues is only exacerbated. The shortfall is further

compounded by substantial construction cost escalation that has been buffeting the Agency's budget that reduces the purchasing power of a construction dollar over the past four to five years.

In sum, gross revenues are projected to grow at an annual average rate of 2.1 percent out through FY15, as the Oregon economy regains its projected longer-run growth path. This is not materially different than in the prior forecast ending in FY13, notwithstanding the revenue erosion we are forecasting in FY09 and FY10.

## NATIONAL ECONOMIC OUTLOOK

*Note to readers:* Much of this report's narrative was written in the late summer time frame. Obviously the calamities that have since hit financial markets both here and increasingly abroad make the economic backdrop to our forecast somewhat impertinent. It is, nevertheless, fairly consistent with the outlook from the most recent State Economic Forecast (September, 2008).

It has been roughly one year 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 has been quite hefty thus far into 2008, some of the leading ones insofar as Oregon's economy and the demands on our highway and road system are:

- Unexpectedly, the nation's economy managed to skirt recession in the first half of this year, according to most conventional indicators (although there are some doubters who assert it may have actually begun late 2007).
- Not surprisingly, the financial meltdown is becoming more contagious, necessitating unprecedented "innovations" by the both Federal Reserve and the Treasury to stop declining confidence in the credit markets from infecting deleteriously the "real" economy.
- We saw crude oil prices shoot to record levels by early summer, spawning demand destruction for transportation fuels of fairly significant proportions.
- Consumer spending was buttressed momentarily by the federal fiscal stimulus package this summer, but record high gas prices, as well as high CPI-inflation overall, job losses and lackluster patterns

in real wages continue to buffet the spending power of households.

So, instead of the worst of the economic slowdown being behind us by now (as anticipated in our prior macro outlook), it looks presently like it is still ahead of us, stretching out to the late 2008 to early 2009 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 to recover is somewhat fluid, major job gains are absent until the mid-to-late stages of 2009. Real economic growth is anemic until the spring/summer of 2009, mimicking both weakening 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.

In reaction to the seizure in financial markets last year (both here and abroad), the Fed initiated a somewhat belated campaign of lowering the fed funds rate, as well as introducing a variety of longer termed lending instruments to both conventional and, heretofore, unconventional financial institutions. Clearly, these initiatives were aimed at stemming any additional

deterioration in financial markets from spilling over to the production and job markets. While the latter might have been accomplished with just a more modest drop in the fed funds rate, the low rate (stopping at 2 percent in April 2008, down from 5.25 percent initially) seemingly spawned a depreciation of the dollar in both foreign exchange markets and commodity markets as a harbinger of excessive inflationary pressures. Of course, the leading commodity being crude oil with potent consequences for U.S. consumers and businesses as we have seen. A weaker dollar only makes our domestic inflation worse and monetary policy more challenging, since imports – particularly oil imports – take more dollars to acquire than before. Clearly, monetary policy has had to shift from viewing inflation as the leading risk to economic health to shoring up employment and incomes in the very near-term.

Fortunately, in this particular circumstance the Fed will not be operating in a vacuum. Foreign economies - most notably Europe, Japan, and Canada (comprising a considerable portion of our trading partners) are weakening appreciably under higher interest rates and strong currencies. Lower interest rates in those economies may be in store soon. This should give additional strength to the dollar, and help cool off import inflation due to cheaper goods in dollars from abroad. Should the dollar not appreciate measurably and the Fed keep rates too low for very much longer, it will fall behind the curve and the bond markets will become the policy makers *de jure*.<sup>1</sup> Without both a slight nudge soon in short-term interest rates (post election ostensibly) and continued strengthening of the dollar, the adjustments necessary are only being deferred, not avoided. Moreover, the

extent of adjustments down the road are most likely to be larger, if not sharper, making the prospects even less sanguine for strong economic growth in the intermediate term in lieu of these policy events.

The markets for crude oil and transportation fuels continue to be very perplexing, notwithstanding the price drops since late July. The macroeconomic outlook continues to ramp-up the forecasts for crude, and concomitantly for gasoline and diesel, in what has been an all too customary under prediction of prices. Presently, crude is expected to remain well in excess of \$100 barrel, in contrast to the outlook from December 2007 being in the \$75 range. A silver lining in this revised forecast is, however, for prices to remain reasonably flat going forward out to 2015, with the caveat that geopolitical events pose the most risk to this outlook. The drag on consumer and business spending – both domestically and abroad – poses a major concern for economic growth, as well as a reduction in travel demands and transportation fuel consumption.

Table 1 on page 5 summarizes several national economic indicators. The transportation revenue forecast is consistent with the Department of Administrative Services' *June 2008 Oregon Economic & Revenue Forecast* and the associated baseline macroeconomic forecast from *Global Insight Inc.* (GII). Further discussion of the national economic outlook is relegated to an appendix for the interested reader. In addition, a detailed treatment of 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>).

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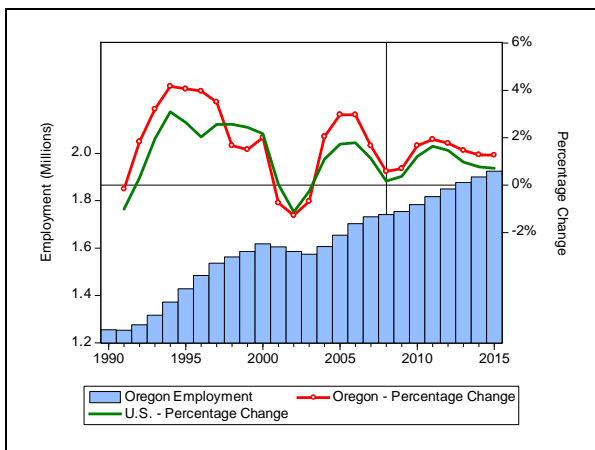
<sup>1</sup> Currently, the “target” rate on fed funds appears to be consistent with about 6 – 8 percent inflation in the personal consumption spending index, very substantially above the traditional policy goal of no more than two percent.

## OREGON ECONOMIC OUTLOOK

Growth in Oregon's job markets began to slow in the second quarter of 2007, following the dramatic gains of 2005 and 2006. Although job growth for the first quarter of 2007 came in at a 2.6 percent annual rate, subsequent quarterly growth dropped off considerably from this pace. Nevertheless, this slow growth of less than 1.0 percent kept alive Oregon's streak of 19 consecutive quarters of job gains. Overall, **Total Non-Farm Employment** rose by just 1.7 percent in 2007.

Although growing at a sluggish rate, total employment in Oregon continues to grow more rapidly than the U.S. average, as shown in Figure 1 below. While both the U.S. and Oregon are expected to experience anemic growth in total employment during 2008, Oregon's 0.6 percent growth will slightly outpace the national average of 0.2 percent. An average annual growth rate of 1.4 percent is expected for Oregon between 2009 and 2015, while national employment is expected to grow at just 1.0 percent during the same period.

**Figure 1: Oregon and U.S. Employment Trends**

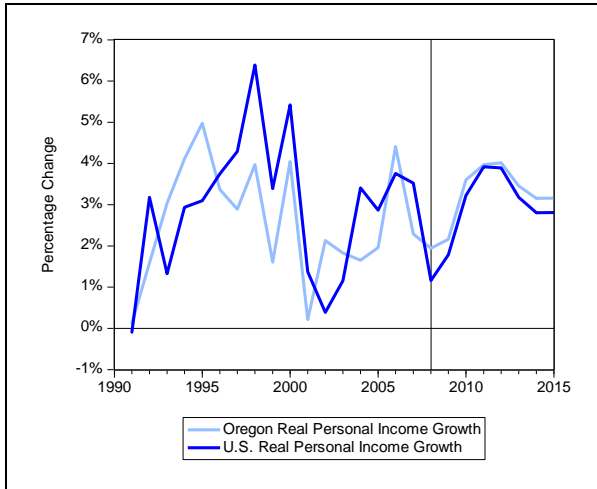


Oregon's **manufacturing** sector demonstrated continued weakness, with a decline of 4.3 percent during the first quarter of 2008. **Durable goods** manufacturing continues to struggle, with employment declining nearly 6.7 percent in the first quarter. While **Metals & Machinery** showed a 2.7 percent increase in jobs during the first quarter of 2008, helped by expanding exports, other durable goods industries did not perform as well. Employment in **Computers & Electronics**, **Wood Products**, and **Transportation Equipment** manufacturing all experienced job losses in excess of 5.0 percent. **Non-durable manufacturing**, led by the state's **Food** manufacturing sector, performed better with a first quarter gain of 2.3 percent. Going forward, job levels for the state's manufacturing sector as a whole are expected to continue a slow decline into 2009. Average growth of approximately 0.6 percent is anticipated for 2010 through 2015.

The non-manufacturing sector performed better in recent quarters. Overall, private **non-manufacturing** jobs increased 2.4 percent during the first quarter of 2008. **Health Services** and **Professional & Business Services** posted the largest job gains, 7.7 and 6.1 percent respectively. **Retail Trade** showed job growth of 4.9 percent while **Wholesale Trade** and **Leisure & Hospitality** grew about 3.0 percent. Job gains of less than 2.0 percent occurred in the **Education Services**, **Information**, **Financial Activities**, and **Transportation, Warehousing & Utilities** industries. The only industries in the non-manufacturing sector that suffered job losses were **Construction** and **Natural Resources & Mining**, with declines of 13.2 and 18.2 percent, respectively. This slowing in the growth of non-manufacturing employment reflects declining consumer and business sentiment as the economy plows

through a rough patch. Overall, the forecast for non-manufacturing jobs predicts a rather subdued rate of growth that averages just 1.6 percent throughout the forecast horizon of 2008 to 2015.

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



Although employment growth has slowed in recent quarters, Oregon **personal income has** demonstrated continued gains. Personal income, about 55 percent of which is derived from wages and salaries, appears to have increased by approximately 6.1 percent in 2007. When adjusted for inflation, this increase translates into a 2.3 percent change in real personal income for Oregonians. As shown in Figure 2, this growth rate falls below the nation’s real growth in personal income of approximately 3.5 percent. The forecast predicts personal income growth of less than 2.0 percent for both Oregon and the nation during 2008. Oregon’s growth in real personal income will surpass the nation’s for the forecast period, averaging 3.2 percent annually compared to the nation’s 2.8 percent.

In sum, Oregon’s economy is expected to grow moderately during the next several years as national economic conditions worsen. Slowing growth, both nationally and globally, may lead to softening demand for Oregon’s goods and services by both businesses and

households. Lingering geopolitical uncertainty, which undermines consumer confidence and alters normal spending habits, could also negatively impact Oregon’s economy. Furthermore, housing and credit troubles will continue to affect consumer behavior in the near future. In sum, although positive growth is expected throughout the forecast period, there are few signs that a robust economic expansion is around the corner. 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%	3.5%	1.6%	1.6%	1.7%	1.9%
EMPLOYMENT	1.8%	1.1%	0.2%	0.4%	1.2%	1.6%	1.5%
HOUSING STARTS	-12.6%	-25.8%	-32.2%	24.1%	27.7%	15.2%	2.8%
POPULATION	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
REAL GROSS DOMESTIC PRODUCT (GDP)	2.9%	2.2%	1.2%	1.7%	3.0%	3.3%	2.9%
REAL PERSONAL INCOME	3.8%	3.5%	1.2%	1.8%	3.2%	3.9%	3.9%
REAL PRICE OF GASOLINE	10.1%	6.0%	8.2%	-9.2%	-4.6%	-4.5%	-2.8%
UNIT SALES OF NEW AUTOMOBILES	1.5%	-2.4%	-7.2%	0.4%	5.4%	5.5%	4.9%

**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%	0.6%	0.7%	1.7%	1.9%	1.8%
EMPLOYMENT--HIGH TECHNOLOGY MFG.	1.5%	-3.2%	-3.1%	-2.1%	1.1%	3.7%	-1.8%
EMPLOYMENT--RETAIL TRADE	2.0%	1.8%	1.6%	1.1%	1.9%	1.1%	1.7%
EMPLOYMENT--TRANSPORTATION	2.0%	0.5%	-1.7%	-0.1%	2.7%	3.4%	3.1%
EMPLOYMENT--WHOLESALE TRADE	2.6%	0.7%	-0.4%	0.0%	1.3%	1.8%	1.5%
EMPLOYMENT--WOOD PRODUCTS	-0.8%	-8.0%	-5.6%	-1.7%	3.8%	0.9%	1.5%
HOUSING STARTS	-10.8%	-20.5%	-39.4%	12.6%	23.7%	12.8%	8.2%
POPULATION	1.6%	1.5%	1.4%	1.4%	1.4%	1.3%	1.3%
PORTLAND METRO CONSUMER PRICE INDEX	2.6%	3.7%	3.3%	2.2%	1.9%	2.0%	2.1%
REAL PERSONAL INCOME	4.4%	2.3%	1.9%	2.2%	3.6%	4.0%	4.0%
TIMBER HARVEST	-2.4%	-3.5%	-7.3%	-1.3%	1.6%	2.4%	0.0%

**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)	1.7%	-0.1%	-0.5%	-0.4%	4.3%	3.5%	2.8%
ORIGINAL CLASS C LICENSES	2.4%	-1.2%	-5.0%	-1.6%	1.6%	1.2%	1.3%
PASSENGER VEHICLE REGISTRATIONS	0.8%	-1.9%	2.9%	1.1%	2.5%	1.1%	2.5%
TITLE TRANSFERS	-2.6%	-2.5%	-4.8%	4.6%	-3.7%	-3.8%	1.2%
TRUCKING ACTIVITY (WEIGHT-MILE)	2.5%	-0.4%	-0.2%	-2.0%	0.4%	8.5%	4.4%

## 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 fuels<sup>2</sup> 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. Year-to-date, sales compared to the similar point in 2007 for Oregon are down only about 1.3 %. On a moving, 12-month cumulative basis (the equivalent of an “annual run rate”), sales are down by only 0.2 to 0.6 of a percent, still only a modest diminution. Finally, from peak volumes in late 2006, usage is only off by about 1.1 percent for the 19-month span.

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 3 to 4 percent; or about 3 to 4 times more dramatic as what we are seeing 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 have disappeared statewide beginning in the spring quarter of 2008. Moreover, this is not expected to be reversed until well into the first half 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

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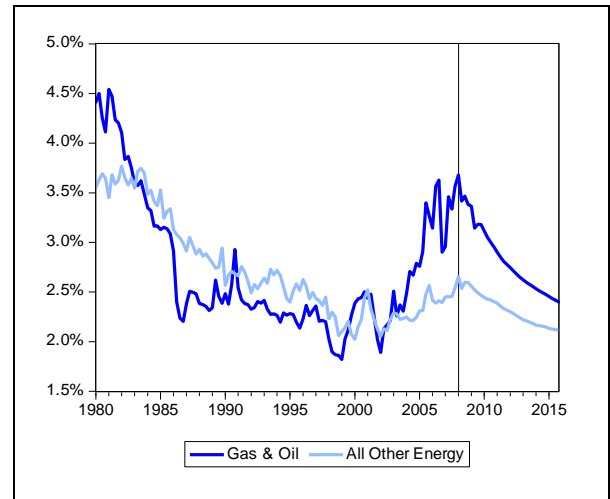
<sup>2</sup> And indeed, closer to \$4.75 for diesel fuel.

have to do considerable belt tightening and 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 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 to healthier normal rates and for the economy at large.

**Figure 3: Household Budget Shares, 1980 – 2015**

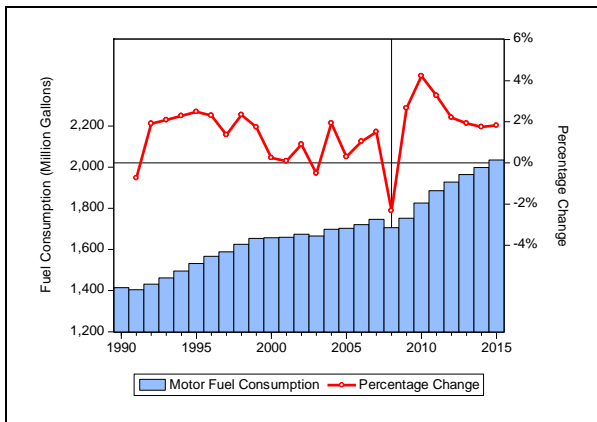


With the extreme and partly unforeseen volatility in the markets for petroleum products, along with a job creation slowdown in Oregon during much of 2008, our forecasting model for motor fuels usage has started to systematically miss consumption rates on the up side. Relative errors are about 5 % off target; some 3 to 4 times our customary level of forecast accuracy. 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 CY90. For calendar year 2008 we are forecasting an overall drop off of 2.3 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 some slight job growth expected for Oregon (0.6 percent) in 2008, 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 2008, 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. Eschewing here a comprehensive discussion of the pros and cons of using ethanol to oxygenate gasoline, it is well known that ethanol 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.

Poorer fuel efficiency by the light vehicle fleet will partly manifest itself in more gallons being consumed and somewhat larger gas tax revenues.<sup>3</sup> 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.

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

<sup>3</sup> 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.

statistical significance and may not be definitive. In the meantime, some simulated alternative scenarios will have to suffice to bound 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 for consumption to grow at a somewhat steady annual average rate of 2.2 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.

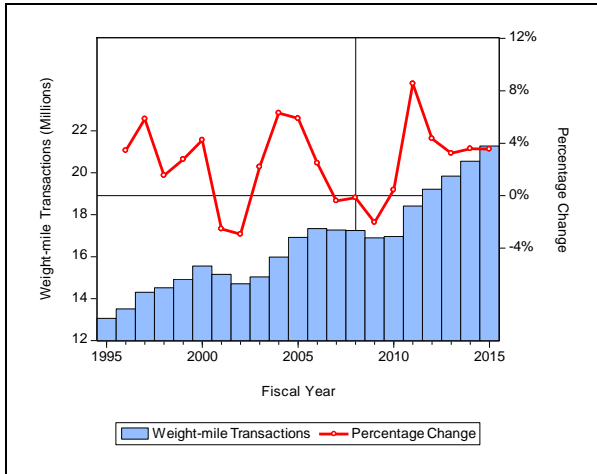
The **weight-mile tax** is the largest source of trucking-related revenue. This highway use

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 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 dividing weight-mile 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 quite strongly between FY03 and FY06, averaging about 4.2 percent annual growth. However, slight declines of less than 1.0 percent occurred during both FY07 and FY08. The primary causes of these declines include high fuel prices, a struggling national economy, and a reduction in Oregon durable goods manufacturing employment. The forecast anticipates a return to positive growth in weight-mile transactions in FY10 as real gasoline prices slowly decline from the current high levels and Oregon employment in durable goods manufacturing begins to rebound. Overall, an average annual growth rate of 3.9 percent is expected between FY10 and FY15.

**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 1080<sup>4</sup>. 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 in its stead. 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.

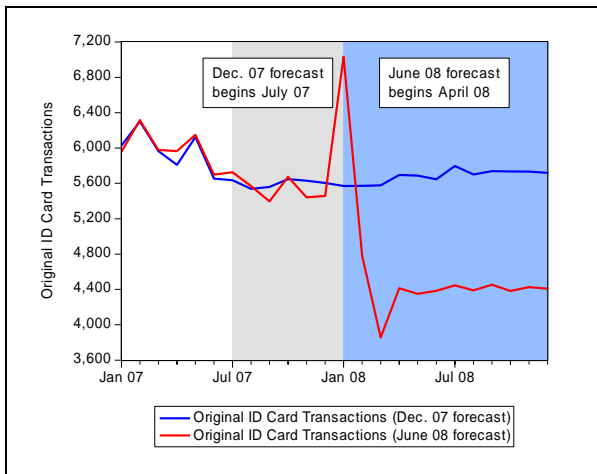
In the month prior to the temporary rule taking effect, issuance and renewal rates of driver licenses and ID Cards were higher than normal. Since that time issuance and renewal rates have dropped as individuals who would have been eligible to receive a license or ID Card are no longer able to do so.

Figure 6 compares the December 2007 forecast to the current forecast through calendar year 2008 for issuance of a photo ID Card. The values are seasonally adjusted,

<sup>4</sup> 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.

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 and the June 2008 forecast begins in April of 2008. Note 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.

**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 use 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 FY07 and are expected to average slight growth of 0.7 percent throughout the forecast period. 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, took the smallest hit, being reduced by less than \$3 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 \$4 and \$26 million per year throughout the forecast period. The outlook for Motor Fuels revenues is similar, with reductions of \$3 to \$25 million from previously forecast levels.

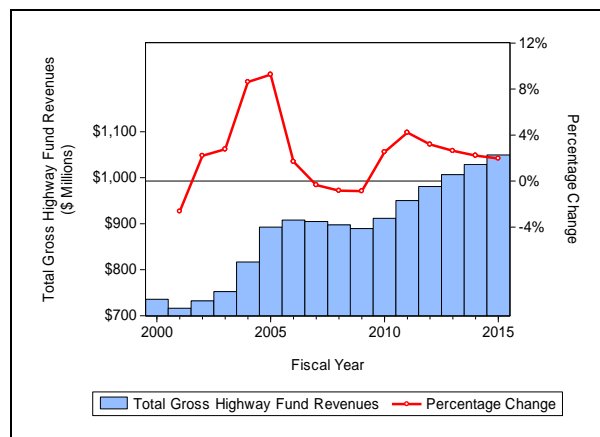
Differences between the current and prior forecast can originate from four primary sources. First, the forecast incorporates updated data on transportation transactions used for the purpose of estimating the parameters of equations contained in the forecast model. Second, it integrates the most recent 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 felt starting in 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 and FY09, revenues are expected to be \$15.8 million and \$45.7 million lower than in the prior forecast, respectively. On an average annual basis, this difference translates into a 3.3 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 2.3 percent between FY08 and FY13, a rate that is not too dissimilar to our prior revenue projection of 2.1 percent.

**Figure 7: Total Gross Highway Fund Revenues**



This growth in nominal revenues is, however, 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 5 – 6 percent, stemming largely from reduced fuel taxes and softer weight-mile tax revenues. The current forecast is for weaker revenues through FY13 than before, as well. However, the disparity diminishes somewhat in the later years of the forecast period with the projection now being about 2 to 3 percent lower under our baseline assumptions.

One additional change from the prior forecast 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

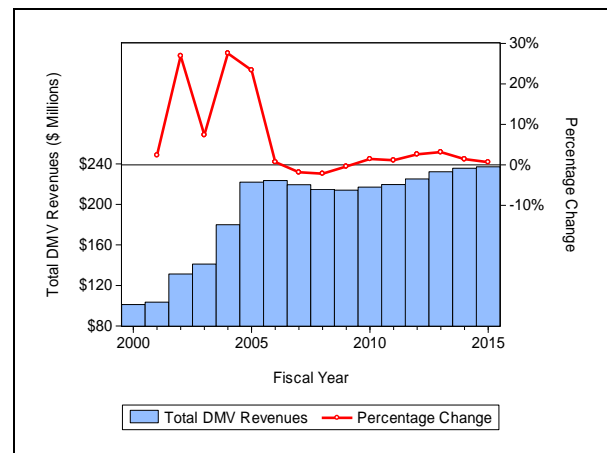
Highway Fund revenues consist of four main sources: vehicle taxes, driver fees, weight-mile taxes, and fuel taxes. Fuel taxes constitute the largest single source of revenue at forecast levels of approximately \$414 to \$483 million per year. These taxes are levied on motor fuels used in passenger vehicles 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 \$236 to \$292 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 \$216 to nearly \$241 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 \$220 million through FY11 and then 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 shown in row 6. The major cause 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. If the fees do increase by \$3, revenues could increase by over \$2 million beginning in FY09. However, these potential, additional revenues are not included in the current forecast.

Net DMV revenues, as represented in row 14, are expected to show a sudden drop in FY08 and continue to decline through FY10 as costs increase at a quicker pace than revenues under existing fee levels. In FY12, and in each successive biennium net revenues are expected to decline in the first year but grow in the second as revenue growth catches up to costs.

Rows 5 and 15 summarize the change in gross (row 5) and net (row 15) revenues from the previous forecast. In row 5, the fiscal year revenues are lower than the previous forecast. The primary cause for this decrease is passage of SB 1080 and implementation of the related temporary rule. These laws have led to a decrease in driver license applications and renewals, along with a decline in used vehicle sales and subsequent title transfers.

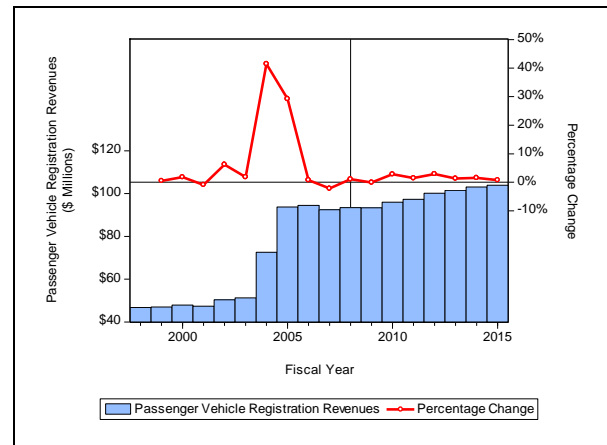
Row 15 shows a net revenue decline from the prior forecast. There are two main reasons for this decline. The first is that gross revenues are down as discussed above, and that carries through to net revenues. The second reason is that collection costs and the central services assessment are around seven million dollars greater than in the previous forecast for the 2009-11 and 2011-13 biennia. This big increase is the main driver for the large decline in 2009-11 and 2011-13 net revenues.

Continued refinements in the estimating equations have increased the overall accuracy of our DMV forecasts, both individually and collectively. For example, the forecast for passenger vehicle registrations is only .04 percent different than the actual registrations for the first five months of 2008. This work

has also served to decrease the variation from one forecast to the next when exogenous conditions are largely invariant, which is not this case this time. With so much uncertainty in the economy and in particular 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 \$111.5 million in FY07, a decrease of 1.5 percent over FY06. FY08 revenues are expected to be \$112.6 million, an increase of 1.0 percent over FY07. Beyond FY07, growth is expected to average 1.6 percent throughout the forecast period.

**Figure 9: Passenger Vehicle Registration Revenues**

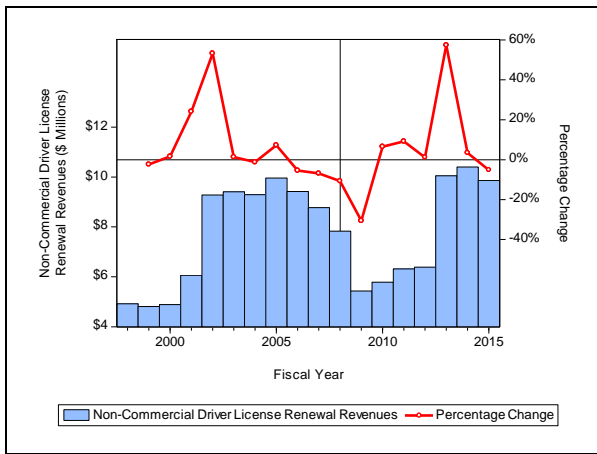


Driver licenses include commercial and non-commercial licenses, permits, and related tests. Revenues, as shown in row 2, totaled \$33.6 million in FY07, a decrease of 1.3 percent over FY06. The FY08 revenues are expected to be \$32.1 million, a 4.5 percent decrease over FY07. Revenue growth in the

forecast period is expected to be negative through FY09, and then positive through FY14. Overall, an average annual growth rate of 0.9 percent is expected for FY08 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 affecting the change in the driver license renewal cycle completing the transition.

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 know more and be able to refine our forecast estimates.

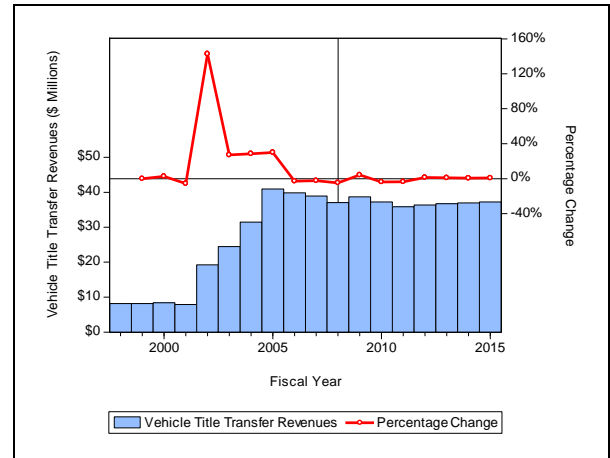
**Figure 10: Non-Commercial Driver License Renewal Revenues**



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 FY07 are \$74.4 million, a 2.6 percent decrease from FY06. FY08 revenues are

expected to be \$70.1 million, a 5.8 percent decrease over FY07. Revenue growth is expected to average 0.1 percent per year through the forecast period.

**Figure 11: Vehicle Title Transfer Revenues**



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

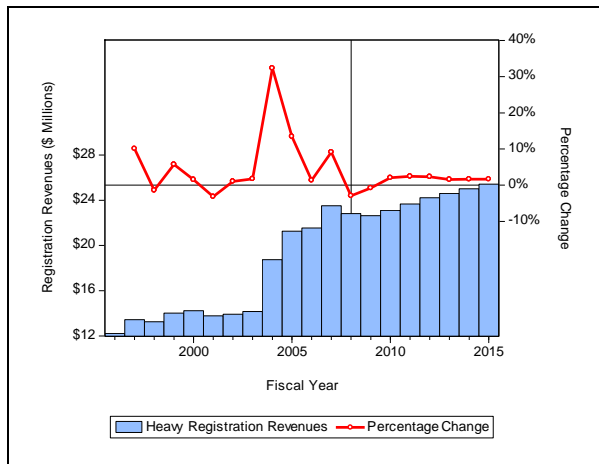
	Actual		Forecast								Actual BI 05-07	Forecast			
	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15		BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 VEHICLE REGISTRATIONS	\$113.1	\$111.5	\$112.6	\$112.6	\$115.6	\$117.6	\$121.0	\$122.9	\$125.0	\$126.2	\$224.6	\$225.2	\$233.2	\$244.0	\$251.1
2 DRIVER LICENSES & OTHER	\$34.1	\$33.6	\$32.1	\$29.6	\$30.3	\$31.1	\$31.6	\$35.8	\$36.4	\$36.3	\$67.7	\$61.7	\$61.4	\$67.4	\$72.7
3 TITLE, PLATE & OTHER	\$76.4	\$74.4	\$70.1	\$71.8	\$71.2	\$70.9	\$72.6	\$73.7	\$74.3	\$74.8	\$150.9	\$141.9	\$142.1	\$146.3	\$149.1
4 <b>TOTAL DMV COLLECTIONS</b>	<b>\$223.6</b>	<b>\$219.5</b>	<b>\$214.8</b>	<b>\$214.0</b>	<b>\$217.1</b>	<b>\$219.6</b>	<b>\$225.3</b>	<b>\$232.4</b>	<b>\$235.7</b>	<b>\$237.3</b>	<b>\$443.2</b>	<b>\$428.8</b>	<b>\$436.7</b>	<b>\$457.7</b>	<b>\$473.0</b>
5 Change from Previous Forecast	\$0.8	\$0.9	(\$3.0)	(\$3.9)	(\$4.5)	(\$5.2)	(\$3.6)	(\$2.8)	NA	NA	\$1.7	(\$6.9)	(\$9.8)	(\$6.5)	NA
			-2.2%	-0.4%	1.5%	1.1%	2.6%	3.1%	1.4%	0.7%					
6 COLLECTION/ADMINISTRATION & PROGRAM COST	(\$60.4)	(\$62.8)	(\$71.7)	(\$74.7)	(\$76.3)	(\$77.8)	(\$82.5)	(\$84.2)	(\$89.3)	(\$91.1)	(\$123.2)	(\$146.4)	(\$154.1)	(\$166.7)	(\$180.4)
7 TRAFFIC SAFETY TRANSFER	(\$0.7)	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$1.5)	(\$1.5)	(\$0.8)	(\$0.8)	(\$0.9)
10 DEPARTMENT OF EDUCATION TRANSFER	(\$0.1)	\$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)	(\$0.1)
11 ODOT CENTRAL SERVICES ASSESSMENT	(\$17.1)	(\$17.8)	(\$20.6)	(\$21.4)	(\$24.5)	(\$25.0)	(\$26.5)	(\$27.0)	(\$28.7)	(\$29.2)	(\$35.0)	(\$42.0)	(\$49.4)	(\$53.5)	(\$57.9)
12 REVENUE SET-ASIDE TO OTIA I & II	(\$6.8)	(\$6.7)	(\$7.2)	(\$6.1)	(\$6.5)	(\$6.3)	(\$6.3)	(\$6.4)	(\$6.3)	(\$6.3)	(\$13.5)	(\$13.2)	(\$12.8)	(\$12.7)	(\$12.6)
13 REVENUE PLEDGED TO OTIA III	(\$79.3)	(\$79.4)	(\$79.1)	(\$79.0)	(\$80.0)	(\$80.6)	(\$82.8)	(\$84.1)	(\$85.2)	(\$86.0)	(\$158.8)	(\$158.1)	(\$160.6)	(\$166.9)	(\$171.2)
14 <b>NET DMV REVENUE</b>	<b>\$59.2</b>	<b>\$52.0</b>	<b>\$35.4</b>	<b>\$32.0</b>	<b>\$29.4</b>	<b>\$29.5</b>	<b>\$26.6</b>	<b>\$30.3</b>	<b>\$25.6</b>	<b>\$24.3</b>	<b>\$111.2</b>	<b>\$67.4</b>	<b>\$58.9</b>	<b>\$56.9</b>	<b>\$49.9</b>
15 Change from Previous Forecast	\$0.8	\$0.9	(\$2.8)	(\$2.0)	(\$7.6)	(\$7.9)	(\$7.2)	(\$6.9)	NA	NA	\$1.7	(\$4.8)	(\$15.5)	(\$14.1)	NA

## 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 FY07, weight-mile and flat-fee revenues reached \$236.6 million. This represented a decline of 0.5 percent from FY06. Further declines are expected for FY08 and FY09. At this time, the forecast shows a rebound beginning in FY10, with growth averaging 3.9 percent 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 \$23.5 million in FY07. Registration fees are expected to reach only \$22.8 million in FY08, a 2.9 percent decline. The forecast suggests that an additional decline in FY09 will be followed by a rebound in FY10, with positive growth

of 2.0 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 fee increments. Overall, the total of these heavy vehicle revenues reached \$9.7 million in FY07 and again in FY08. The forecast predicts a decline of approximately 3.2 percent for FY09. Positive growth in revenues is expected to return in FY10, with annual growth averaging 3.2 percent between FY10 and FY15.

Row 4 reports the total gross revenues for the Motor Carrier Division. On average, the forecast of total gross revenues for FY08 through FY13 is approximately \$12.9 million lower per year than previously forecast. Overall, the forecast predicts that gross revenues will grow at an average annual rate of just 2.5 percent between FY08 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 slightly 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								Actual BI 05-07	Forecast				
	FY 06	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	\$237.8	\$236.6	\$236.3	\$231.4	\$232.3	\$252.4	\$263.4	\$272.0	\$281.8	\$291.8	\$474.4	\$467.7	\$484.7	\$535.4	\$573.6
2	IRP & COMMERCIAL VEHICLE REGISTRATIONS*	\$21.5	\$23.5	\$22.8	\$22.6	\$23.1	\$23.7	\$24.2	\$24.6	\$25.0	\$25.4	\$45.0	\$45.5	\$46.8	\$48.8	\$50.4
3	RUAF, PERMITS, PASSES & CREDENTIALS**	\$9.0	\$9.7	\$9.7	\$9.4	\$9.6	\$10.0	\$10.5	\$10.8	\$11.1	\$11.4	\$18.7	\$19.2	\$19.7	\$21.3	\$22.5
4	<b>TOTAL MCTD COLLECTIONS</b>	<b>\$268.4</b>	<b>\$269.7</b>	<b>\$268.8</b>	<b>\$263.5</b>	<b>\$265.1</b>	<b>\$286.1</b>	<b>\$298.1</b>	<b>\$307.4</b>	<b>\$317.9</b>	<b>\$328.6</b>	<b>\$538.2</b>	<b>\$532.3</b>	<b>\$551.2</b>	<b>\$605.5</b>	<b>\$646.5</b>
5	Change from Previous Forecast	(\$0.0)	\$0.0	(\$3.9)	(\$17.0)	(\$25.1)	(\$13.0)	(\$9.6)	(\$8.8)	NA	NA	\$0.0	(\$20.9)	(\$38.0)	(\$18.4)	NA
6	COLLECTION/ADMINISTRATION & PROGRAM COST	(\$23.0)	(\$23.9)	(\$26.0)	(\$27.0)	(\$28.3)	(\$28.9)	(\$30.6)	(\$31.3)	(\$33.2)	(\$33.8)	(\$46.8)	(\$53.0)	(\$57.2)	(\$61.9)	(\$67.0)
7	IFTA BUDGETED EXPENDITURES***	\$1.1	\$1.1	\$1.1	\$1.1	\$1.3	\$1.4	\$1.5	\$1.5	\$1.6	\$1.6	\$2.1	\$2.2	\$2.7	\$2.9	\$3.2
8	ODOT CENTRAL SERVICES ASSESSMENT	(\$5.8)	(\$6.1)	(\$6.8)	(\$7.1)	(\$8.2)	(\$8.3)	(\$8.8)	(\$9.0)	(\$9.6)	(\$9.8)	(\$11.9)	(\$13.9)	(\$16.5)	(\$17.9)	(\$19.3)
9	REVENUE SET-ASIDE TO OTIA I & II	(\$9.9)	(\$10.1)	(\$10.9)	(\$9.0)	(\$9.4)	(\$9.9)	(\$10.0)	(\$10.1)	(\$10.2)	(\$10.3)	(\$19.9)	(\$19.9)	(\$19.4)	(\$20.1)	(\$20.5)
10	REVENUE PLEDGED TO OTIA III	(\$29.6)	(\$30.4)	(\$30.0)	(\$29.5)	(\$29.8)	(\$31.7)	(\$32.9)	(\$33.9)	(\$34.9)	(\$35.9)	(\$59.9)	(\$59.5)	(\$61.5)	(\$66.8)	(\$70.8)
11	<b>NET MCTD REVENUE</b>	<b>\$201.2</b>	<b>\$200.4</b>	<b>\$196.2</b>	<b>\$192.0</b>	<b>\$190.7</b>	<b>\$208.6</b>	<b>\$217.2</b>	<b>\$224.7</b>	<b>\$231.7</b>	<b>\$240.4</b>	<b>\$401.7</b>	<b>\$388.2</b>	<b>\$399.3</b>	<b>\$441.8</b>	<b>\$472.1</b>
12	Change from Previous Forecast	\$0.0	\$0.0	(\$4.2)	(\$14.3)	(\$22.4)	(\$11.8)	(\$8.8)	(\$8.1)	NA	NA	\$0.0	(\$18.5)	(\$34.2)	(\$16.9)	NA

\*IRP: International Registration Plan.

\*\*RUAF: Road Use Assessment Fees.

\*\*\*IFTA: International Fuel Tax Agreement.

## Motor Fuels Tax Revenues

The Central Services Division–Financial Services Branch collects fuel tax revenues. Fuel tax collections are shown in Table 6. The fuel tax revenue forecasts continue to be acceptably accurate, 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. In year FY09 it is \$25 million lower, and beyond, it is roughly \$3 to \$15 million per year lower. On average, this is a reduction of about 2.5 percent, despite the impacts stemming from the implementation of HB 2210<sup>5</sup> that helped to buoy our last forecast. Fuel tax revenues then increase at a slightly stronger rate of about 2.3 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 0.7 percent lower, or a little more than -\$5.6 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 6 percent or about \$50 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 \$448 million over the forecast interval out through FY15, fuels tax collections generate the single largest amount of revenue for the Highway Fund, some 46 percent before collection and program costs. Each penny of gas tax generates about \$18.7 million gross and \$18 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 \$29.5 million gross and \$28.5 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 these instances.

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<sup>5</sup> 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								Actual BI 05-07	Forecast				
	FY 06	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	\$415.7	\$415.5	\$413.6	\$412.0	\$429.7	\$444.7	\$457.3	\$466.7		\$475.3	\$483.3	\$831.2	\$825.6	\$874.5
2	<b>TOTAL FSB COLLECTIONS</b>	<b>\$415.7</b>	<b>\$415.5</b>	<b>\$413.6</b>	<b>\$412.0</b>	<b>\$429.7</b>	<b>\$444.7</b>	<b>\$457.3</b>	<b>\$466.7</b>	<b>\$475.3</b>	<b>\$483.3</b>	<b>\$831.2</b>	<b>\$825.6</b>	<b>\$874.5</b>	<b>\$924.0</b>	<b>\$958.5</b>
3	Change from Previous Forecast	\$0.0	\$0.0	(\$8.9)	(\$24.8)	(\$15.6)	(\$8.9)	(\$4.4)	(\$3.1)	NA	NA	\$0.0	(\$33.7)	(\$24.6)	(\$7.5)	NA
4	COLLECTION/ADMINISTRATION COST	(\$1.2)	(\$1.3)	(\$1.3)	(\$1.4)	(\$1.3)	(\$1.4)	(\$1.4)	(\$1.5)	(\$1.6)	(\$1.6)	(\$2.5)	(\$2.7)	(\$2.7)	(\$2.9)	(\$3.1)
5	ODOT CENTRAL SERVICES ASSESSMENT	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.4)	(\$0.4)	(\$0.3)	(\$0.3)	(\$0.3)
6	SNOWMOBILE TRANSFER	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.8)	(\$1.4)	(\$1.4)	(\$1.5)	(\$1.5)	(\$1.5)
7	CLASS I ATV TRANSFER	(\$2.1)	(\$2.3)	(\$2.6)	(\$2.7)	(\$2.9)	(\$3.1)	(\$3.4)	(\$3.7)	(\$4.0)	(\$4.3)	(\$4.4)	(\$5.3)	(\$6.0)	(\$7.1)	(\$8.3)
8	MARINE BOARD TRANSFER	(\$5.3)	(\$5.6)	(\$5.6)	(\$5.5)	(\$5.5)	(\$5.5)	(\$5.5)	(\$5.6)	(\$5.6)	(\$5.6)	(\$10.9)	(\$11.1)	(\$11.1)	(\$11.1)	(\$11.2)
9	CLASS II ATV TRANSFER	(\$1.1)	(\$1.2)	(\$1.3)	(\$1.4)	(\$1.5)	(\$1.7)	(\$1.8)	(\$2.0)	(\$2.2)	(\$2.4)	(\$2.3)	(\$2.7)	(\$3.2)	(\$3.9)	(\$4.6)
10	CLASS III ATV TRANSFER	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.8)	(\$0.8)	(\$0.9)	(\$0.9)	(\$1.0)	(\$1.0)	(\$1.1)	(\$1.5)	(\$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)	(\$4.1)	(\$8.2)	(\$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)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.3)
13	REVENUE ALLOCATION TO OTIA I & II SET-ASIDE	(\$18.7)	(\$19.0)	(\$20.9)	(\$17.6)	(\$19.4)	(\$19.3)	(\$19.3)	(\$19.1)	(\$19.1)	(\$19.0)	(\$37.8)	(\$38.5)	(\$38.8)	(\$38.4)	(\$38.1)
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	\$0.0	\$0.0
15	<b>NET FSB REVENUE</b>	<b>\$381.4</b>	<b>\$380.2</b>	<b>\$375.9</b>	<b>\$377.5</b>	<b>\$393.1</b>	<b>\$407.7</b>	<b>\$419.7</b>	<b>\$428.7</b>	<b>\$436.6</b>	<b>\$444.1</b>	<b>\$761.6</b>	<b>\$753.4</b>	<b>\$800.8</b>	<b>\$848.4</b>	<b>\$880.7</b>
16	Change from Previous Forecast	\$0.0	\$0.0	(\$10.6)	(\$22.7)	(\$15.2)	(\$8.4)	(\$3.8)	(\$2.3)	NA	NA	\$0.0	(\$33.4)	(\$23.5)	(\$6.1)	NA

## **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								Actual BI 05-07	Forecast			
	FY 06	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	\$268.4	\$269.7	\$268.8	\$263.5	\$265.1	\$286.1	\$298.1	\$307.4	\$317.9	\$328.6	\$538.2	\$532.3	\$551.2	\$605.5	\$646.5
2 TOTAL FSB COLLECTIONS	\$415.7	\$415.5	\$413.6	\$412.0	\$429.7	\$444.7	\$457.3	\$466.7	\$475.3	\$483.3	\$831.2	\$825.6	\$874.5	\$924.0	\$958.5
3 TOTAL DMV COLLECTIONS	\$223.6	\$219.5	\$214.8	\$214.0	\$217.1	\$219.6	\$225.3	\$232.4	\$235.7	\$237.3	\$443.2	\$428.8	\$436.7	\$457.7	\$473.0
4 <b>TOTAL GROSS HIGHWAY FUND</b>	<b>\$907.8</b>	<b>\$904.8</b>	<b>\$897.3</b>	<b>\$889.5</b>	<b>\$911.9</b>	<b>\$950.4</b>	<b>\$980.7</b>	<b>\$1,006.5</b>	<b>\$1,028.9</b>	<b>\$1,049.2</b>	<b>\$1,812.6</b>	<b>\$1,786.7</b>	<b>\$1,862.3</b>	<b>\$1,987.2</b>	<b>\$2,078.0</b>
5 COLLECTION, PROGRAMS, & TRANSFERS (including OTIA)	(\$262.1)	(\$267.9)	(\$285.4)	(\$283.2)	(\$294.0)	(\$300.0)	(\$312.5)	(\$319.2)	(\$331.3)	(\$336.7)	(\$530.1)	(\$568.7)	(\$594.0)	(\$631.8)	(\$668.0)
6 <b>NET REVENUE TO HIGHWAY FUND</b>	<b>\$645.6</b>	<b>\$636.9</b>	<b>\$611.8</b>	<b>\$606.3</b>	<b>\$617.9</b>	<b>\$650.4</b>	<b>\$668.1</b>	<b>\$687.3</b>	<b>\$697.5</b>	<b>\$712.5</b>	<b>\$1,282.5</b>	<b>\$1,218.1</b>	<b>\$1,268.3</b>	<b>\$1,355.4</b>	<b>\$1,410.0</b>
7 OTIA I & II SET ASIDE - memo	\$35.4	\$35.8	\$38.9	\$32.3	\$35.3	\$35.6	\$35.6	\$35.6	\$35.6	\$35.6	\$71.2	\$71.2	\$70.9	\$71.2	\$71.2
8 DEBT SERVICE (OTIA I & II)	(\$15.2)	(\$22.1)	(\$37.4)	(\$32.2)	(\$33.6)	(\$33.6)	(\$33.6)	(\$33.6)	(\$33.9)	(\$35.6)	(\$37.3)	(\$69.6)	(\$67.2)	(\$67.3)	(\$69.5)
9 OTIA III Dedicated Revenues - memo	\$101.0	\$101.6	\$101.2	\$100.8	\$102.1	\$104.5	\$107.9	\$110.0	\$112.1	\$113.9	\$202.7	\$202.1	\$206.6	\$217.9	\$226.0
10 DEBT SERVICE (OTIA III)	(\$21.7)	(\$44.2)	(\$56.5)	(\$61.1)	(\$75.0)	(\$76.5)	(\$78.4)	(\$79.6)	(\$80.9)	(\$75.9)	(\$66.0)	(\$117.6)	(\$151.5)	(\$158.1)	(\$156.7)
11 NET OTIA I & II REVENUE FOR DISTRIBUTION	\$20.0	\$14.0	\$1.5	\$0.05	\$2.0	\$2.0	\$2.0	\$2.0	\$1.7	(\$0.0)	\$34.0	\$1.6	\$4.0	\$3.9	\$1.7
12 NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	\$22.2	\$23.9	\$25.9	\$26.5	\$27.0	\$28.1	\$29.5	\$30.4	\$31.2	\$38.0	\$46.1	\$52.4	\$55.1	\$59.8	\$69.2
13 NET OTIA III REVENUE FOR DISTRIBUTION -STATE	\$57.1	\$33.5	\$18.9	\$13.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$90.6	\$32.1	\$0.0	\$0.0	\$0.0
14 <b>TOTAL NET REVENUE FOR DISTRIBUTION</b>	<b>\$745.0</b>	<b>\$708.3</b>	<b>\$658.1</b>	<b>\$646.0</b>	<b>\$647.0</b>	<b>\$680.4</b>	<b>\$699.6</b>	<b>\$719.6</b>	<b>\$730.5</b>	<b>\$750.5</b>	<b>\$1,453.3</b>	<b>\$1,304.1</b>	<b>\$1,327.4</b>	<b>\$1,419.2</b>	<b>\$1,480.9</b>

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								Actual	Forecast			
		FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	BI 05-07	BI 07-09	BI 09-11	BI 11-13	BI 13-15
1 COUNTY APPORTIONMENT (ORS 366.739)	24.38%	\$155.6	\$153.4	\$147.4	\$146.1	\$148.9	\$156.8	\$161.1	\$165.8	\$168.3	\$171.9	\$309.1	\$293.5	\$305.8	\$326.9	\$340.2
2 SPECIAL COUNTY		(\$0.5)	(\$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)	(\$1.0)
3 2007 SESSION SB 994 (Section 15)		\$0.0	\$0.0	\$0.0	\$56.2	\$0.0	\$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%	\$6.0	\$4.2	\$0.5	\$0.02	\$0.6	\$0.6	\$0.6	\$0.6	\$0.5	(\$0.0)	\$10.2	\$0.5	\$1.2	\$1.2	\$0.5
5 COUNTY APPORTIONMENT (OTIA III)	25.48%	\$25.7	\$25.9	\$25.8	\$25.7	\$26.0	\$26.6	\$27.5	\$28.0	\$28.6	\$29.0	\$51.6	\$51.5	\$52.6	\$55.5	\$57.6
6 DEDICATED TO DEBT SERVICE (OTIA III)	84.07%	(\$17.4)	(\$16.2)	(\$14.4)	(\$13.7)	(\$13.7)	(\$13.7)	(\$13.7)	(\$13.7)	(\$13.8)	(\$8.7)	(\$33.6)	(\$28.1)	(\$27.4)	(\$27.5)	(\$22.5)
7 NET COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	\$4.3	\$4.5	\$4.3	\$4.2	\$4.3	\$4.3	\$4.3	\$4.4	\$4.4	\$4.4	\$8.8	\$8.5	\$8.5	\$8.7	\$8.8
8 <b>NET COUNTY APPORTIONMENT</b>		<b>\$173.8</b>	<b>\$171.3</b>	<b>\$163.1</b>	<b>\$218.1</b>	<b>\$165.6</b>	<b>\$174.1</b>	<b>\$179.3</b>	<b>\$184.5</b>	<b>\$187.5</b>	<b>\$196.1</b>	<b>\$345.1</b>	<b>\$381.1</b>	<b>\$339.7</b>	<b>\$363.8</b>	<b>\$383.6</b>
9 CITY APPORTIONMENT (ORS 366.739)	15.57%	\$99.4	\$98.0	\$94.1	\$93.3	\$95.1	\$100.2	\$102.9	\$105.9	\$107.5	\$109.8	\$197.4	\$187.4	\$195.3	\$208.8	\$217.2
10 SPECIAL CITY		(\$0.5)	(\$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)	(\$1.0)
11 CITY APPORTIONMENT (OTIA I & II)	20.00%	\$4.0	\$2.8	\$0.3	\$0.01	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	(\$0.0)	\$6.8	\$0.3	\$0.8	\$0.8	\$0.3
12 CITY APPORTIONMENT (OTIA III)	16.99%	\$17.2	\$17.3	\$17.2	\$17.1	\$17.3	\$17.8	\$18.3	\$18.7	\$19.0	\$19.3	\$34.4	\$34.3	\$35.1	\$37.0	\$38.4
13 DEDICATED TO DEBT SERVICE (OTIA III)	15.93%	(\$3.3)	(\$3.1)	(\$2.7)	(\$2.6)	(\$2.6)	(\$2.6)	(\$2.6)	(\$2.6)	(\$2.6)	(\$1.6)	(\$6.4)	(\$5.3)	(\$5.2)	(\$5.2)	(\$4.3)
14 NET CITY APPORTIONMENT (OTIA III-Local)	40.00%	\$2.9	\$3.0	\$2.9	\$2.8	\$2.8	\$2.8	\$2.9	\$2.9	\$2.9	\$2.9	\$5.9	\$5.7	\$5.7	\$5.8	\$5.9
15 <b>NET CITY APPORTIONMENT</b>		<b>\$119.7</b>	<b>\$117.5</b>	<b>\$111.3</b>	<b>\$110.2</b>	<b>\$112.6</b>	<b>\$118.1</b>	<b>\$121.4</b>	<b>\$124.8</b>	<b>\$126.7</b>	<b>\$129.9</b>	<b>\$237.1</b>	<b>\$221.4</b>	<b>\$230.6</b>	<b>\$246.2</b>	<b>\$256.6</b>
16 HIGHWAY DIVISION (including small City/County)	60.05%	\$383.4	\$377.9	\$363.1	\$359.8	\$366.8	\$386.3	\$396.9	\$408.3	\$414.5	\$423.4	\$761.3	\$722.9	\$753.1	\$805.2	\$837.9
17 SPECIAL COUNTY		(\$0.3)	(\$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)	(\$0.5)
18 2007 SESSION SB 994 (Section 15)		\$0.0	\$0.0	\$0.0	(\$56.2)	\$0.0	\$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)	(\$0.5)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
20 HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	\$10.0	\$7.0	\$0.8	\$0.03	\$1.0	\$1.0	\$1.0	\$1.0	\$0.8	(\$0.0)	\$17.0	\$0.8	\$2.0	\$2.0	\$0.8
21 HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	\$58.1	\$58.5	\$58.2	\$58.0	\$58.7	\$60.1	\$62.1	\$63.3	\$64.5	\$65.5	\$116.6	\$116.2	\$118.9	\$125.4	\$130.0
22 DEDICATED TO DEBT SERVICE (OTIA III)	100.00%	(\$1.0)	(\$24.9)	(\$39.3)	(\$44.8)	(\$58.7)	(\$60.1)	(\$62.1)	(\$63.3)	(\$64.5)	(\$65.5)	(\$26.0)	(\$84.1)	(\$118.9)	(\$125.4)	(\$130.0)
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	\$0.0	\$0.0
24 <b>NET HIGHWAY DIVISION</b>		<b>\$449.7</b>	<b>\$417.7</b>	<b>\$382.0</b>	<b>\$316.1</b>	<b>\$367.1</b>	<b>\$386.5</b>	<b>\$397.1</b>	<b>\$408.6</b>	<b>\$414.6</b>	<b>\$422.7</b>	<b>\$867.5</b>	<b>\$698.1</b>	<b>\$753.6</b>	<b>\$805.7</b>	<b>\$837.2</b>
25 HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		\$60.2	\$59.8	\$58.9	\$58.6	\$60.0	\$63.5	\$65.7	\$67.4	\$69.0	\$70.7	\$120.0	\$117.5	\$123.5	\$133.1	\$139.7
26 <b>NET COUNTY APPORTIONMENT</b>		<b>\$173.8</b>	<b>\$171.3</b>	<b>\$163.1</b>	<b>\$218.1</b>	<b>\$165.6</b>	<b>\$174.1</b>	<b>\$179.3</b>	<b>\$184.5</b>	<b>\$187.5</b>	<b>\$196.1</b>	<b>\$345.1</b>	<b>\$381.1</b>	<b>\$339.7</b>	<b>\$363.8</b>	<b>\$383.6</b>
27 <b>NET CITY APPORTIONMENT</b>		<b>\$119.7</b>	<b>\$117.5</b>	<b>\$111.3</b>	<b>\$110.2</b>	<b>\$112.6</b>	<b>\$118.1</b>	<b>\$121.4</b>	<b>\$124.8</b>	<b>\$126.7</b>	<b>\$129.9</b>	<b>\$237.1</b>	<b>\$221.4</b>	<b>\$230.6</b>	<b>\$246.2</b>	<b>\$256.6</b>
28 <b>NET HIGHWAY DIVISION</b>		<b>\$449.7</b>	<b>\$417.7</b>	<b>\$382.0</b>	<b>\$316.1</b>	<b>\$367.1</b>	<b>\$386.5</b>	<b>\$397.1</b>	<b>\$408.6</b>	<b>\$414.6</b>	<b>\$422.7</b>	<b>\$867.5</b>	<b>\$698.1</b>	<b>\$753.6</b>	<b>\$805.7</b>	<b>\$837.2</b>
29 <b>NET HIGHWAY FUNDS REVENUE</b>		<b>\$743.2</b>	<b>\$706.5</b>	<b>\$656.3</b>	<b>\$644.3</b>	<b>\$645.2</b>	<b>\$678.7</b>	<b>\$697.8</b>	<b>\$717.9</b>	<b>\$728.7</b>	<b>\$748.7</b>	<b>\$1,449.8</b>	<b>\$1,300.6</b>	<b>\$1,323.9</b>	<b>\$1,415.7</b>	<b>\$1,477.4</b>
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	\$1.8	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5
31 <b>TOTAL NET REVENUES FOR DISTRIBUTION</b>		<b>\$745.0</b>	<b>\$708.3</b>	<b>\$658.1</b>	<b>\$646.0</b>	<b>\$647.0</b>	<b>\$680.4</b>	<b>\$699.6</b>	<b>\$719.6</b>	<b>\$730.5</b>	<b>\$750.5</b>	<b>\$1,453.3</b>	<b>\$1,304.1</b>	<b>\$1,327.4</b>	<b>\$1,419.2</b>	<b>\$1,480.9</b>

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

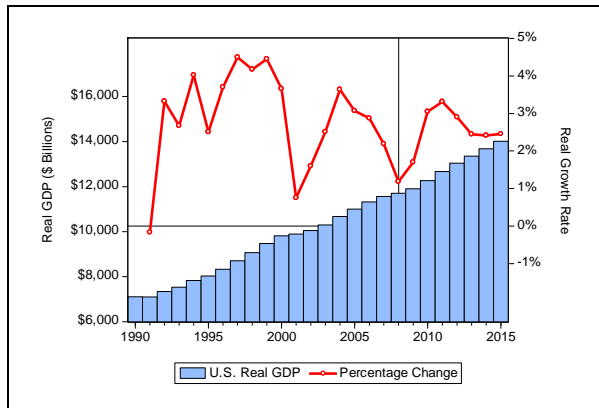
## APPENDIX

### **National Economic Outlook**

*Note to readers:* Much of this report's narrative was written in the late summer time frame. Obviously the calamities that have since hit financial markets both here and increasingly abroad make the economic backdrop to our forecast somewhat impertinent. It is, nevertheless, fairly consistent with the outlook from the most recent State Economic Forecast.

The national economic outlook is more subdued than the prior forecast from the end of 2007. Figure 13 displays recent trends in real GDP, along with the base case forecast over the 2008-2015 time frame. In 2007, the economy grew approximately 2.2 percent. Growth for 2008 appears to be even slower, averaging about 1.2 percent. Slow growth under 2.0 percent is expected for 2009 as well. However, real GDP growth will likely pick up a bit in 2010 and will range between 2.4 and 3.3 percent over the remaining years of the forecast period.

**Figure 13: Real GDP and Real GDP Growth**

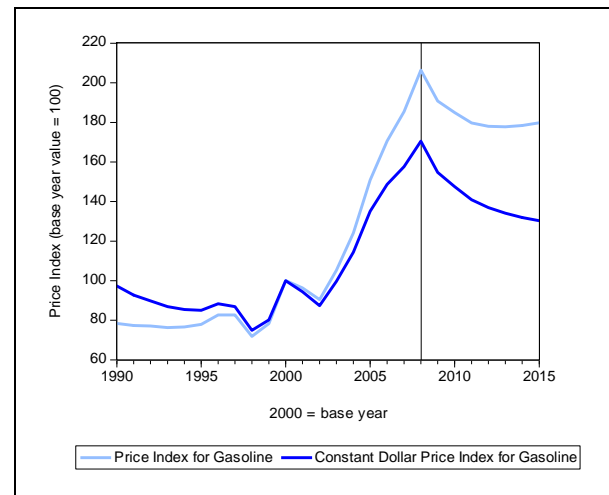


Several factors contribute to the current economic slowdown. The housing market downturn is the primary impediment to the economy at this time. Increasing inventories of homes for sale, falling housing prices, and tightening credit standards all tend to dampen

consumer spending. Higher gasoline and food prices create additional inflationary pressures and negatively impact consumer spending. Nevertheless, expectations for positive growth continue throughout the forecast period as export growth picks up some of the slack.

Currently, national gasoline prices appear to be peaking. As shown in Figure 14, the baseline outlook suggests that prices will slowly recede out through 2015 to levels only marginally lower than at present (light blue line in the chart). Based on recent experience, this indicated stability disregards the volatility inherent in the global marketplace for oil. Thus, actual experience is likely to stray from the projected path shown. Nevertheless, it is worth noting that, when adjusted for inflation, real gas prices decline in the forecast period to levels comparable to those seen in 2005.

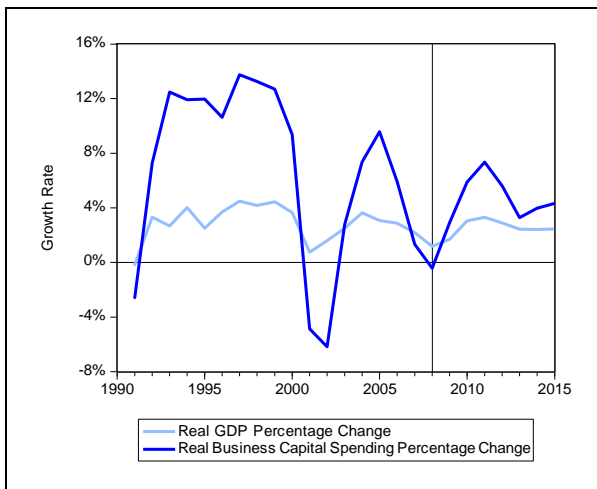
**Figure 14: Gasoline Prices (Regular Unleaded)**



As consumers get squeezed between declining home prices, mortgage loan resets, and rising prices for energy and food, falling demand for

final goods and services appears to be impacting the business mood. In 2007, business capital spending on structures, plants, equipment and software weakened appreciably, growing just over 1.0 percent. Furthermore, a slight decline of less than 1.0 percent is expected for 2008. Figure 15 illustrates the relationship between changes in real business capital spending and real GDP growth. Although the recent dip in capital investment spending appears considerable, it is much more muted than the 1998 to 2001 “dot-com” decline and the corresponding downturn in 2001. The current baseline outlook is for investment spending to begin rebounding during the second half of 2009. An average annual real growth of 4.8 percent is forecast for 2009 through 2015. However, it is not expected that growth will approach the rates observed during much of the 1990s.

**Figure 15: GDP Growth and Business Capital Spending**



Slowing employment growth is another potential threat to consumers and the economy. Employment generates wages and salaries, the dominant component of personal income that propels consumption spending. Based on recent reports, it appears that businesses are becoming more cautious about hiring. As Figure 16 shows, the data reflects national employment growth of just 1.1 percent for 2007, considerably lower than

2006’s 1.8 percent. Oregon’s employment growth rate, which has surpassed the nation’s for the last four years, reached 1.7 percent in 2007 following growth of 3.0 percent in 2006. Even slower employment growth, less than 1.0 percent, is forecast for both Oregon and the nation during 2008 and 2009. The labor market will likely begin slowly rebounding midway through 2010, with growth rates for the rest of the forecast horizon averaging 1.1 percent nationally and 1.6 percent for Oregon.

**Figure 16: Oregon and U.S. Employment Trends**

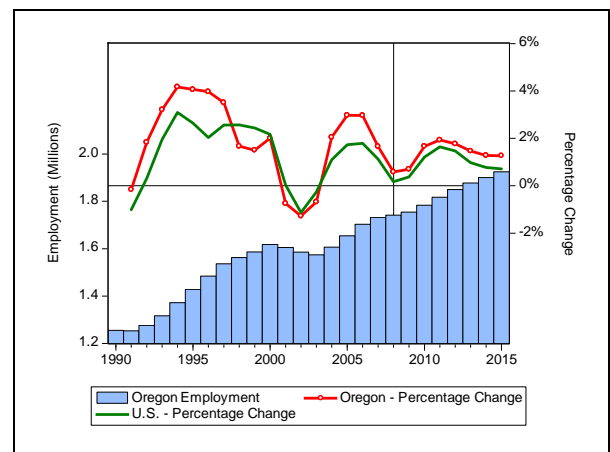


Figure 17 shows real personal income per capita in the U.S., currently at roughly \$33,000 (in 2000 dollars). Real personal income per capita increased about 2.6 percent in 2007. A slower rate of growth is expected for the remaining years of the forecast period, averaging approximately 2.0 percent. Whereas this growth rate exceeds the average annual rate of 1.8 percent experienced since 1990, it still falls short of the rapid growth encountered during much of the late 1990s.

**Figure 17: U.S. Real Personal Income per Capita**

