



OREGON DEPARTMENT OF TRANSPORTATION

Annual Financial Report

For the Fiscal Year Ended June 30, 2016

"Providing a safe, efficient transportation system that supports economic opportunity and livable communities for all Oregonians."

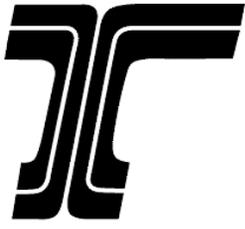




**State of Oregon
Department of Transportation
Annual Financial Report
For the Fiscal Year Ended June 30, 2016**

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Oregon

Kate Brown, Governor

Department of Transportation

Financial Services

355 Capitol St NE

MS#21

Salem, OR 97301

December 31, 2016

To the Honorable Governor Kate Brown, and Citizens of the State of Oregon:

The Oregon Department of Transportation (Department) is pleased to present its annual financial report for the fiscal year ended June 30, 2016. The Department produces a non-audited annual financial report based on generally accepted accounting principles prescribed by the Governmental Accounting Standards Board. The financial data summarized in the annual financial report comes from the Department's detailed financial data and the Oregon Statewide Financial Management Application. The financial data in the Department's annual financial report supports the audited State of Oregon Comprehensive Annual Financial Report.

Per Oregon Revised Statute (ORS) 184.637, the responsibility for the accuracy of the data and the overall completeness of this report, including all disclosures, rests with the Chief Financial Officer of the Department. To the best of the Department's knowledge, the financial activity presented in this report accurately and fairly presents the Department's financial position and results of operations. The report includes all disclosures necessary to enable the reader to gain an understanding of the Department's financial activities.

The primary responsibilities of the Department include management of the state's highway and bridge system, administration of laws related to fuels taxation, motor vehicles and motor carriers, and oversight of the safety, rail/public transit, and statewide radio programs.

The Governor appoints, and the Oregon Senate confirms, the Director of the Department. The Oregon Transportation Commission (OTC) provides policy direction for the Department's programs. ORS 184.612 established the OTC as a five-member, volunteer citizens' board. The Governor appoints the members, subject to Senate confirmation, to four-year terms. The OTC is empowered to:

- Develop and maintain a state transportation policy and a comprehensive, long-range plan for a multi-modal transportation system.
- Coordinate and administer programs relating to highways, motor vehicles, rail/public transit, bike/pedestrian, transportation safety, and other transportation-related programs.
- Give priority direction for programs and the Statewide Transportation Improvement Program.

Per ORS 184.637 and ORS 184.638, the Chief Financial Officer's responsibilities include compiling adequate accounting data for the preparation of financial statements. The Department's internal controls provide reasonable assurance that the Department meets this objective. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by Department management.

The Department's internal control system includes both automated controls and comprehensive policies and procedures. In addition, the Department has an Office of Audit Services (Office) that maintains an independent and objective position within the Department. The Office performs independent internal audits of programs and divisions within the Department in accordance with generally accepted government auditing standards.

MISSION STATEMENT

To provide a safe, efficient transportation system that supports economic opportunity and livable communities for Oregonians.

OUR VALUES

These are the values that guide our decision-making and which we follow in implementing the Department's mission and goals.

Safety: We protect the safety of the traveling public, our employees, and the workers who build, operate, and maintain our transportation system.

Customer Focus: We learn from and respond to our customers so we can better deliver quality, affordable services to Oregonians and visitors. Our customers include travelers, freight movers, and others who use our services and facilities.

Efficiency: We strive to gain maximum value from the resources entrusted to us for the benefit of our customers.

Accountability: We build the trust of customers, stakeholders, and the public by reporting regularly on what we are doing and how we are using the resources entrusted to us.

Problem Solving: We work with the appropriate customers, stakeholders, and partners to find efficient, effective, and innovative solutions to problems.

Diversity: We honor and respect our individual differences and we work to ensure that people from diverse backgrounds have equitable opportunities, both internally and externally, to work for and conduct business with ODOT.

Sustainability: We balance economic, environmental, and community well-being in a manner that protects the needs of current and future generations.

OREGON TRANSPORTATION INVESTMENT ACT

Beginning in 2001, the Legislative Assembly passed a series of bills known collectively as the Oregon Transportation Investment Act (OTIA). OTIA marked the beginning of a new era of change and innovation within the Department. To deliver OTIA highway construction projects, the Department made fundamental changes in the way it accomplishes its mission. Under this program, the Department and its private sector partners:

- Employ efficient and cost effective delivery practices.
- Stimulate Oregon's economy.
- Capitalize on funding opportunities.
- Build projects sensitive to Oregon's communities and landscape.
- Keep traffic moving to limit its effect on other industries and the public.

The OTIA program made a significant contribution to Oregon jobs and the Oregon economy. The program enhanced the state's economy and provided for a revitalized transportation infrastructure. The Department envisions Oregon's future as a combination of a healthy private sector with abundant employment opportunities, a strong and sustainable economy, unimpeded freight mobility, and the kind of livable communities that Oregonians greatly value.

The OTIA I and II Programs

The first OTIA bill, known as OTIA I, authorized the State of Oregon (State) to issue highway user tax revenue bonds in an aggregate principal amount sufficient to produce net proceeds of not more than \$400 million for modernization and preservation projects. In a 2002 special session, the Legislative Assembly authorized an additional aggregate principal amount of highway user tax revenue bonds sufficient to produce net proceeds of not more than \$100 million (OTIA II) for generally the same purposes as OTIA I. With the issuance of highway user tax revenue bonds, Series 2007A, the Department issued all \$500 million of highway user tax revenue bonds authorized under the combined OTIA I and OTIA II authority.

The OTIA III Program

In 2003, the Legislative Assembly enacted OTIA III, which authorized additional highway user tax revenue bonds in a net aggregate principal amount of not more than \$1.9 billion for the replacement and repair of bridges on state, county, and city highways, and for modernization projects. Collectively, the programs under OTIA I, II, and III are known as the OTIA program or OTIA.

The \$1.9 billion total OTIA III bond authorization included \$1.3 billion for replacement and repair of bridges on state highways, \$300 million for replacement and repair of bridges on county and city highways, and \$300 million for modernization projects.

More than 300 state bridges are included in the OTIA III State Bridge Delivery Program. Bridge repairs and replacements are intended to optimize traffic movement, expedite freight movement, and involve Oregon construction firms and workers.

Oregon Bridge Delivery Partners (OBDP), a private firm, managed the \$1.3 billion state bridge program under a contract with the Department. OBDP was a joint venture formed by HDR Engineering Inc. and Fluor Enterprises Inc. The firm provided program management services for the bridge program, ensured quality projects at least cost, and managed engineering, environmental, financial, safety, and other aspects of the program.

The modernization portion of the OTIA III program included \$300 million in bond proceeds and \$200 million reimbursed through the federal advance construction program.

The modernization portion focused on projects of statewide and regional significance and specific federally earmarked projects, as well as projects which improved freight mobility, industrial access, and job growth. The Department managed the modernization portion of the OTIA III program with the OTIA I and OTIA II programs.

With the issuance of highway user tax revenue bonds, Series 2010A and Series 2010B, the Department issued all \$1.9 billion of bonds authorized under the OTIA III authority.

THE JOBS AND TRANSPORTATION ACT

In 2009, the Legislative Assembly enacted the Oregon Jobs and Transportation Act of 2009 (JTA). JTA authorizes a number of programs including, among other things, (a) directing the Department to cooperate with counties and cities in the Portland metropolitan area to develop congestion pricing pilot programs to study the effect that congestion pricing may have on traffic congestion, (b) authorizing \$100 million in lottery revenue bonds for the Connect Oregon III program to provide financing for multimodal transportation facilities, including funding for rural airports, (c) requiring the Department of Administrative Services to prepare a second, alternative highway cost allocation study that considers the actual costs highway users impose, including the cost of infrastructure replacement, traffic congestion, and greenhouse gas emissions, and (d) requiring the Department and the Travel Information Council to manage, maintain, and improve certain rest areas.

The State is authorized under JTA to issue highway user tax revenue bonds in an amount sufficient to produce net proceeds of not more than \$840 million to finance a specific list of projects set out in JTA (the JTA projects). The JTA projects consist of 37 specific highway projects plus allocations for 14 additional projects selected by local governments in eastern Oregon, for a total of 51 JTA projects. The JTA projects and allocations total \$960.3 million financed by the \$840 million in highway user tax revenue bonds plus the cash flow allocated to the transportation project account as described below.

In October 2013, the State issued highway user tax revenue bonds for JTA projects in the amount of \$450 million net proceeds, and has remaining authorization to issue additional highway user tax revenue bonds for JTA projects in the amount of \$390 million net proceeds. The final JTA bonds are anticipated to be sold in the spring of 2017.

The Legislative Assembly approved certain fee and tax increases in JTA to, among other things, provide additional revenues for JTA projects and to pay debt service on highway user tax revenue bonds including bonds issued to finance the JTA projects.

For more information see <http://www.oregon.gov/ODOT/pages/jta.aspx>

ECONOMIC CONDITIONS AND OUTLOOK

The state's expansion continues to see rapid rates of growth. Oregon is currently outpacing the typical state by a considerable margin for both job and income gains. This growth differential largely comes from the state's underlying fundamentals like its industrial structure and strong in-migration flows. Both of these trends have long-lasting impacts on the Oregon economy and help drive the state's more volatile swings over the business cycle.

Oregon job gains have slowed somewhat in the most recent months. These gains, however, remain more than enough to keep pace with population growth. The result is a tightening labor market across the state.

Overall this marks a return to what can be considered normal labor market dynamics. First, strong job growth diminishes economic slack and the pool of potential workers from which firms hire. Second, as labor becomes scarce, businesses must compete more on price to attract and retain the best employees, resulting in increased wages for workers. Third, more individuals begin to look for these now more-plentiful and better-paying jobs. Currently, the Oregon economy is in this virtuous cycle in which all of these dynamics are taking place.

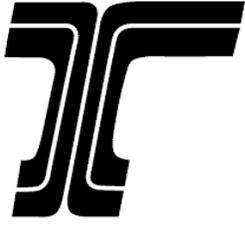
A tight labor market has various implications. For businesses, it becomes more difficult to find workers to fill positions. Firms must broaden their search and be willing to hire individuals who may not have perfect credentials or experience. In 2015, Oregon businesses reported that a lack of applicants was the primary issue on just 36% of their difficult-to-fill positions. On-the-job training becomes considerably more important in the current tight market than during the depths of the Great Recession when unemployed Oregonians outnumbered job openings by more than ten to one. Businesses could be picky when the candidate pool was deep. This is no longer the case in 2016 where there are just two unemployed Oregonians per job opening. Even if you add back the "missing" labor force participants – those who would likely look for work in a stronger economy – the ratio is three to one. There is no question that the labor market is getting tight. In order to hire workers, businesses will take either a bigger chance on less-than-perfect candidates or hire away workers from competitors with better compensation packages and/or work environments.

For workers, a tight labor market brings great news as demand for their services (labor) increases relative to the supply. Businesses must compete more to attract and retain the best employees. One major issue with stagnant wages in the 2000's was the fact that the U.S. and Oregon economies never fully recovered from the 2001 recession. The housing boom was too short and too lackluster for the economy to reach full employment in many places. Thus workers were not very scarce and had less bargaining power in general.

Today, as the economy approaches full employment, wages are rising. Oregon's wage gains are outpacing the typical state as well. Oregon's average wage today, while lower than the nation's, is at its highest relative point since the lumber mills closed in the 1980's. These gains are primarily due to broad-based increases seen across the state in different industries and in different geographic regions. In a tight labor market, expectations are for continued strong wage gains. One recent example is the effective minimum wage on the Oregon coast. Firms were initially worried about the increase in business costs from the state's new minimum wage law. However the tight labor market on the coast means firms are already starting wages at \$11 per hour, a threshold not mandated by the new law until the summer of 2019 and the market has responded. One concern regarding the minimum wage is how the market and businesses respond in a downturn, not just during an expansion and tight labor market.

Oregon has added an average of nearly 5,000 jobs per month since the beginning of 2014. Such gains are not sustainable over the long-run; they represent peak economic growth rates.

These gains also eat up economic slack and regain lost ground from the recession. As the economy approaches and reaches full employment, growth is expected to slow to a sustainable rate. Unfortunately, measuring full employment or economic slack is not a simple calculation but rather an estimate based on assumptions. Oregon's unemployment rate is low and the level of those working part-time for economic reasons is back to pre-Great Recession rates. Wages are rising and the state's labor force participation rate is increasing as well. The regional economy can expect to slow in the not-too-distant future. However, the economy does not typically transition slowly from expansion to sustainable rates. The economy usually transitions abruptly into recession and back again.

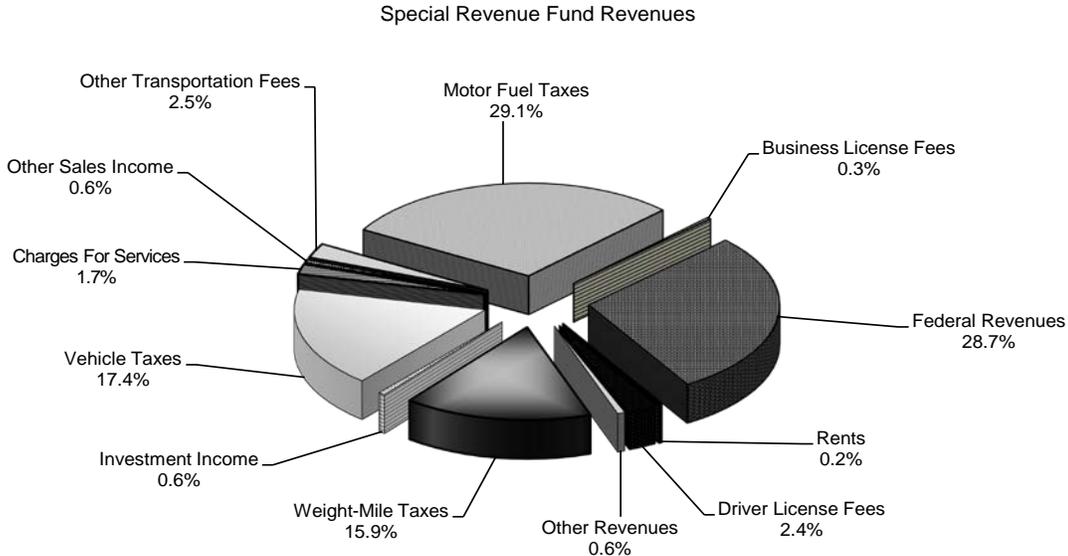


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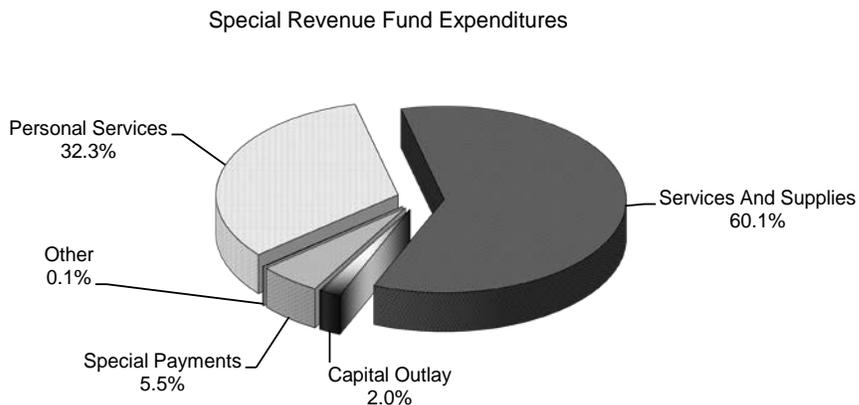
FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds account for the proceeds of specific revenue sources such as taxes, licenses, and other revenue allocated by law to specific purposes. The Department accounts for 83% of its expenditures in special revenue funds. The other 17% of the expenditures are in debt service funds (16.4%), capital project funds (less than 1%), and general fund (less than 1%). Special revenue fund revenues include taxes (62%) and federal revenues (29%). Special revenue fund revenues increased from \$1.72 billion in 2015 to \$1.83 billion in 2016.



Special revenue fund expenditures are composed primarily of services and supplies (60%), which include payments for highway construction contracts. Personal services payments include salaries, benefits, and related expenditures. Special payments include distributions to governmental entities and others. Capital outlay payments include machinery, equipment, and related expenditures.



FINANCIAL INTRODUCTION

The financial introduction section presents an overview of the financial performance of the Department for the fiscal year ended June 30, 2016. It serves as an introduction to the Department's basic financial statements and focuses on significant financial matters.

FINANCIAL HIGHLIGHTS

Fund Level

As of June 30, 2016, the Department's governmental funds reported combined ending fund balances of \$649 million, compared to \$774 million for the previous year.

Long-Term Debt

The Department's total long-term debt decreased by \$108.0 million, or 3.49 percent, during the current fiscal year. The decrease was attributable to paying down debt and refunding the Series 2011K Article XI-Q general obligation and the 2008A and 2009A certificates of participation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Department's basic financial statements include two components: (1) fund financial statements and (2) notes to the financial statements. In addition to the basic financial statements, the financial section of this report also contains combining financial statements for the Department's special revenue funds. A statistical section is presented following the combining financial statements.

Fund Financial Statements

The fund financial statements provide detailed information about the Department's governmental and fiduciary funds. State law and bond covenants require the Department to establish certain funds. The Department also establishes funds to account for certain taxes and grants or for specific legal purposes.

Governmental Funds – The Department reports its basic services in the governmental fund financial statements. These statements provide a detailed short-term view of the Department's operations. The Department prepares these statements in the governmental fund financial statement format using the current financial resources measurement focus and modified accrual basis of accounting.

The Department presents its governmental funds by the following fund types: general, special revenue, debt service, and capital projects. The combining financial statements provide detail for the special revenue funds.

Fiduciary Funds – Fiduciary funds account for resources held to benefit parties outside the Department or to meet regulatory requirements. Fiduciary funds are not available to support the Department's own programs. The Department reports its fiduciary fund activities within the agency funds.

Notes to the Financial Statements

The notes (located immediately following the financial statements) provide additional information intended to assist the reader in understanding the Department's financial condition.

Other Information

The combining financial statements provide additional detail about the Department's special revenue funds. A statistical section at the end of the report contains selected trend information for the Department's revenues and expenditures.

If you have questions about this report or need additional financial information, please contact the Oregon Department of Transportation, Chief Financial Officer, 355 Capitol St NE MS # 21, Salem, Oregon 97301, Phone: (503) 986-3900.

ACKNOWLEDGEMENTS

The Department's annual financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of the Department's finances and demonstrates the Department's accountability for the money it receives. The Department appreciates the efforts of the Financial Services Branch staff who contributed to the preparation of this report. Of particular note was the work of Karen Krill and Scott Smyth under the direct supervision of Clay Flowers.

Sincerely,



Matthew L. Garrett, Director
Oregon Department of Transportation



Tracy Wroblewski
Chief Financial Officer

**Principal Officers of the Oregon Department of Transportation
June 30, 2016**

Oregon Transportation Commission

<u>Commissioner</u>	<u>Commission Expires</u>
Tammy Baney, Chair	June 30, 2019
David Lohman	June 30, 2017
Susan Morgan	June 30, 2020
Alando Simpson	June 30, 2018
Sean O'Hollaren	June 30, 2020

Oregon Department of Transportation

Director – Matthew Garrett

Assistant Director – Travis Brouwer

Chief Administrative Officer, Central Services Division – Robert Gebhardt

Administrator, Driver and Motor Vehicle Services Division – Tom McClellan

Administrator, Highway Division – Paul Mather

Interim Administrator, Motor Carrier Transportation Division – Troy Costales

Administrator, Rail/Public Transit Division – Hal Gard

Administrator, Transportation Development Division – Jerri Bohard

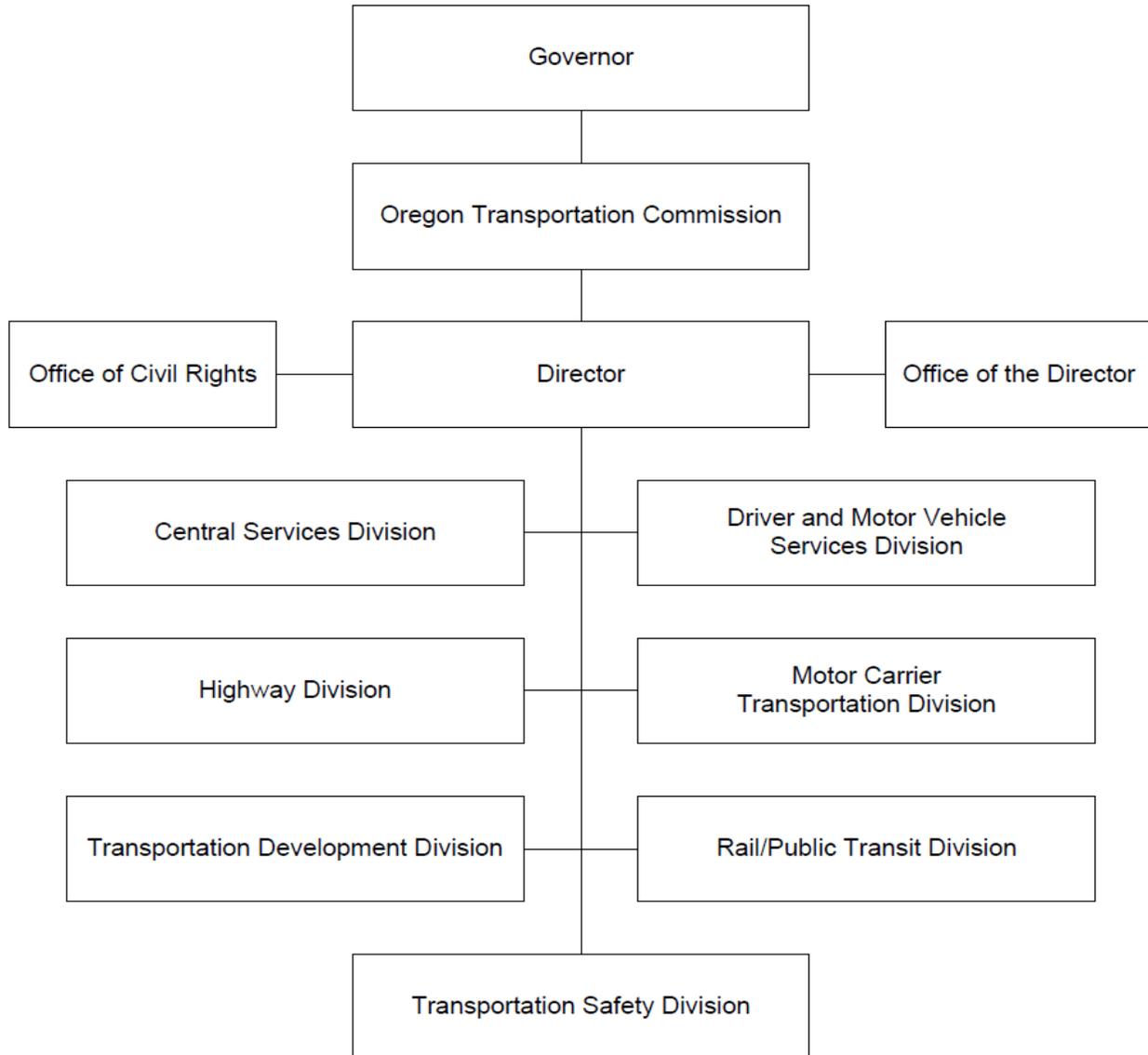
Administrator, Transportation Safety Division – Troy Costales

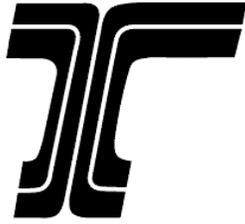
Chief Financial Officer, Financial Services – Tracy Wroblewski

Chief Internal Auditor – Marlene Hartinger



State of Oregon
Department of Transportation
Organization Chart
June 30, 2016





FINANCIAL SECTION

State of Oregon
Department of Transportation
Combined Balance Sheet - All Fund Types
June 30, 2016

	Governmental Funds				Total Governmental Funds	Fiduciary Funds
	General	Special Revenue	Debt Service	Capital Projects		Agency
Assets						
Cash and Cash Equivalents	\$ -	\$ 484,274,744	\$ 73,311,264	\$ 10,576,407	\$ 568,162,415	\$ 23,404,968
Custodial Assets	-	-	-	-	-	501,957
Investments	-	67,752,525	-	-	67,752,525	-
Loans Receivable (net)	-	26,893,899	-	-	26,893,899	-
Taxes Receivable (net)	-	67,279,756	-	-	67,279,756	-
Due from Federal Government	-	68,256,084	-	61,133	68,317,217	-
Due from State Agencies	-	4,631,409	26,508,006	-	31,139,415	-
Due from State General Fund	236,987	-	-	-	236,987	-
Due from Other Funds	-	121,612,615	11,632,907	506,513	133,752,035	-
Advances to Other Funds	-	4,465,436	-	-	4,465,436	-
Other Accounts Receivable (net)	-	34,479,270	81,275,538	-	115,754,808	-
Inventories	-	34,323,258	-	-	34,323,258	-
Prepaid Assets	-	1,162,813	-	-	1,162,813	-
Contracts Receivable (net)	-	127,984	-	-	127,984	-
Total Assets	\$ 236,987	\$ 915,259,793	\$ 192,727,715	\$ 11,144,053	\$ 1,119,368,548	\$ 23,906,925
Liabilities and Fund Balances						
<i>Liabilities:</i>						
Accounts Payable	\$ 236,987	\$ 97,134,308	\$ 92,035,793	\$ 383,797	\$ 189,790,885	\$ -
Custodial Liabilities	-	442,586	-	-	442,586	16,921,397
Advances from Other Funds	-	4,465,436	-	-	4,465,436	-
Due to Other Governments	-	79,352,366	-	-	79,352,366	6,985,528
Due to State Agencies	-	16,345,353	-	-	16,345,353	-
Due to Other Funds	-	118,973,912	2,168,475	10,760,256	131,902,643	-
Unearned Revenue	-	48,396,000	-	-	48,396,000	-
Total Liabilities	236,987	365,109,961	94,204,268	11,144,053	470,695,269	23,906,925
<i>Fund Balances:</i>						
Nonspendable:						
Inventories	-	34,323,258	-	-	34,323,258	-
Revolving Accounts	-	40,000	-	-	40,000	-
Prepaid Assets	-	1,162,813	-	-	1,162,813	-
Restricted by:						
Oregon Constitution	-	333,734,059	94,099,851	-	427,833,910	-
Federal Laws and Regulations	-	36,679,158	-	-	36,679,158	-
Debt Covenants	-	89,361,327	4,423,596	-	93,784,923	-
Enabling Legislation	-	51,453,071	-	-	51,453,071	-
Committed	-	3,396,146	-	-	3,396,146	-
Total Fund Balances	-	550,149,832	98,523,447	-	648,673,279	-
Total Liabilities and Fund Balances	\$ 236,987	\$ 915,259,793	\$ 192,727,715	\$ 11,144,053	\$ 1,119,368,548	\$ 23,906,925

The accompanying notes are an integral part of the financial statements. These statements are not audited.

State of Oregon
Department of Transportation
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:					
Motor Fuel Taxes	\$ -	\$ 532,171,382	\$ -	\$ -	\$ 532,171,382
Federal Revenues	-	524,341,436	-	362,900	524,704,336
Weight-Mile Taxes	-	291,302,037	-	-	291,302,037
Vehicle Registration Taxes	-	318,586,259	-	-	318,586,259
Driver License Fees	-	44,102,338	-	-	44,102,338
Other Transportation Fees	-	46,522,588	-	-	46,522,588
Charges for Services	-	30,885,656	-	-	30,885,656
Other Sales Income	-	10,215,406	-	-	10,215,406
Investment Income	-	10,563,719	131,415	81,027	10,776,161
Business License Fees	-	5,413,005	-	-	5,413,005
Rents	-	3,981,554	-	-	3,981,554
Other Revenues	-	11,421,826	10,075,632	3,455	21,500,913
Total Revenues	<u>-</u>	<u>1,829,507,206</u>	<u>10,207,047</u>	<u>447,382</u>	<u>1,840,161,635</u>
Expenditures:					
Personal Services	-	427,076,923	-	394,472	427,471,395
Services and Supplies	353,743	795,348,165	-	1,911,567	797,613,475
Capital Outlay	-	25,853,766	-	2,233,033	28,086,799
Loan Interest	-	234,374	-	-	234,374
Special Payments	11,209,327	73,168,654	-	-	84,377,981
Principal and Interest	-	-	251,656,243	-	251,656,243
Other Debt Service	-	324,712	11,040,838	-	11,365,550
Total Expenditures	<u>11,563,070</u>	<u>1,322,006,594</u>	<u>262,697,081</u>	<u>4,539,072</u>	<u>1,600,805,817</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,563,070)</u>	<u>507,500,612</u>	<u>(252,490,034)</u>	<u>(4,091,690)</u>	<u>239,355,818</u>
Other Financing Sources (Uses):					
General Fund Appropriation	11,563,070	-	-	-	11,563,070
Long-Term Debt Issued	-	19,755,000	-	-	19,755,000
Refunding Debt Issued	-	-	64,100,600	-	64,100,600
Debt Issuance Premium	-	314,279	17,174,938	-	17,489,217
Refunded Debt Payment to Escrow Agent	-	-	(80,994,956)	-	(80,994,956)
Transfers In - Net of Intrafund Activity	-	20,139,399	274,818,961	4,193,628	299,151,988
Transfers Out - Net of Intrafund Activity	-	(671,575,050)	(9,525,259)	(15,144,582)	(696,244,891)
Gain (Loss) on Sale of Capital Assets	-	2,581,551	-	-	2,581,551
Insurance Recoveries	-	1,405,742	-	-	1,405,742
Total Other Financing Sources (Uses)	<u>11,563,070</u>	<u>(627,379,079)</u>	<u>265,574,284</u>	<u>(10,950,954)</u>	<u>(361,192,679)</u>
Net Change in Fund Balances	-	(119,878,467)	13,084,250	(15,042,644)	(121,836,861)
Fund Balances - Beginning	-	673,530,287	85,439,197	15,042,644	774,012,128
Prior Period Adjustment	-	(1,534,080)	-	-	(1,534,080)
Change in Nonspendable Fund Balances	-	(1,967,908)	-	-	(1,967,908)
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 550,149,832</u>	<u>\$ 98,523,447</u>	<u>\$ -</u>	<u>\$ 648,673,279</u>

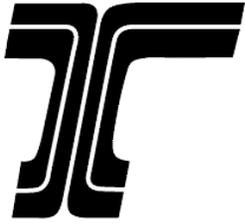
The accompanying notes are an integral part of the financial statements. These statements are not audited.

State of Oregon
Department of Transportation
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Budgetary (Non-GAAP) Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund			Special Revenue Funds		
	2015-2017 Biennial Budget	2015-2017 Biennial Actuals	Variance Uncollected/ Unspent	2015-2017 Biennial Budget	2015-2017 Biennial Actuals	Variance Uncollected/ Unspent
Revenues:						
Motor Fuel Taxes	\$ -	\$ -	\$ -	\$ 1,121,776,938	\$ 532,171,382	\$ 589,605,556
Federal Revenues	-	-	-	918,005,747	524,341,436	393,664,311
Weight-Mile Taxes	-	-	-	609,659,781	291,302,037	318,357,744
Vehicle Registration Taxes	-	-	-	630,474,216	318,586,259	311,887,957
Driver License Fees	-	-	-	86,429,956	44,102,338	42,327,618
Other Transportation Fees	-	-	-	95,538,805	46,522,588	49,016,217
Charges for Services	-	-	-	8,125,052	30,885,656	(22,760,604)
Other Sales Income	-	-	-	12,701,954	10,215,406	2,486,548
Investment Income	-	-	-	10,298,191	10,563,719	(265,528)
Business License Fees	-	-	-	5,338,423	5,413,005	(74,582)
Rents	-	-	-	1,789,803	3,981,554	(2,191,751)
Other Revenues	-	-	-	606,500,969	11,421,826	595,079,143
Total Revenues	-	-	-	4,106,639,835	1,829,507,206	2,277,132,629
Expenditures:						
Personal Services	9,403,878	-	9,403,878	847,058,237	427,076,923	419,981,314
Services and Supplies	-	353,743	(353,743)	1,818,186,765	795,348,165	1,022,838,600
Capital Outlay	-	-	-	67,561,528	25,853,766	41,707,762
Loan Interest	-	-	-	-	234,374	(234,374)
Special Payments	10,408,710	11,209,327	(800,617)	326,536,576	73,168,654	253,367,922
Debt Service (combined)	-	-	-	654,984,118	324,712	654,659,406
Total Expenditures	19,812,588	11,563,070	8,249,518	3,714,327,224	1,322,006,594	2,392,320,630
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(19,812,588)</u>	<u>(11,563,070)</u>	<u>(8,249,518)</u>	<u>392,312,611</u>	<u>507,500,612</u>	<u>(115,188,001)</u>
Other Financing Sources (Uses):						
General Fund Appropriation	19,812,588	11,563,070	8,249,518	-	-	-
Long-Term Debt Issued	-	-	-	484,039,734	19,755,000	464,284,734
Refunding Debt Issued	-	-	-	-	-	-
Debt Issuance Premium	-	-	-	-	314,279	(314,279)
Refunded Debt Payment to Escrow Agent	-	-	-	-	-	-
Loan Repayments	-	-	-	7,128,335	-	7,128,335
Transfers In (gross)	-	-	-	2,712,922,510	1,188,663,123	1,524,259,387
Transfers Out (gross)	-	-	-	(3,501,807,674)	(1,840,098,774)	(1,661,708,900)
Gain (Loss) on Sale of Capital Assets	-	-	-	-	2,581,551	(2,581,551)
Insurance Recoveries	-	-	-	-	1,405,742	(1,405,742)
Total Other Financing Sources (Uses)	19,812,588	11,563,070	8,249,518	(297,717,095)	(627,379,079)	329,661,984
Net Change in Budgetary Fund Balances	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 94,595,516</u>	<u>(119,878,467)</u>	<u>\$ 214,473,983</u>
Budgetary Fund Balances - Beginning	-	-	-	-	673,530,287	-
Prior Period Adjustment	-	-	-	-	(1,534,080)	-
Change in Nonspendable Fund Balances	-	-	-	-	(1,967,908)	-
Budgetary Fund Balances - Ending	\$ -	-	-	-	\$ 550,149,832	-

Debt Service Funds			Capital Projects Funds ⁽¹⁾		
2015-2017 Biennial Budget	2015-2017 Biennial Actuals	Variance Uncollected/ Unspent	2015-2017 Biennial Budget	2015-2017 Biennial Actuals	Variance Uncollected/ Unspent
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	362,900	(362,900)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	131,415	(131,415)	-	81,027	(81,027)
-	-	-	-	-	-
-	-	-	-	-	-
-	10,075,632	(10,075,632)	-	3,455	(3,455)
-	10,207,047	(10,207,047)	-	447,382	(447,382)
-	-	-	-	394,472	(394,472)
-	-	-	-	1,911,567	(1,911,567)
-	-	-	128,136,388	2,233,033	125,903,355
-	-	-	-	-	-
-	-	-	-	-	-
344,137,015	262,697,081	81,439,934	-	-	-
344,137,015	262,697,081	81,439,934	128,136,388	4,539,072	123,597,316
(344,137,015)	(252,490,034)	(91,646,981)	(128,136,388)	(4,091,690)	(124,044,698)
-	-	-	-	-	-
-	-	-	-	-	-
-	64,100,600	(64,100,600)	-	-	-
-	17,174,938	(17,174,938)	-	-	-
-	(80,994,956)	80,994,956	-	-	-
-	-	-	-	-	-
-	274,818,961	(274,818,961)	-	4,193,628	(4,193,628)
-	(9,525,259)	9,525,259	-	(15,144,582)	15,144,582
-	-	-	-	-	-
-	-	-	-	-	-
-	265,574,284	(265,574,284)	-	(10,950,954)	10,950,954
\$ (344,137,015)	13,084,250	\$ (357,221,265)	\$ (128,136,388)	(15,042,644)	\$ (113,093,744)
	85,439,197			15,042,644	
	-			-	
	-			-	
	\$ 98,523,447			\$ -	

⁽¹⁾ Capital Projects Funds are budgeted on a 6-year cycle.



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**NOTES TO THE
FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Oregon Department of Transportation (Department) financial statements conform to the Oregon Department of Administrative Services statewide accounting and reporting policies. These accounting and reporting policies adhere to generally accepted accounting principles prescribed by the Governmental Accounting Standards Board. These statements have not been audited for compliance or conformity by the Oregon Secretary of State, Audits Division.

A. Reporting Entity

The Department of Transportation became an Executive Branch agency in the State of Oregon in 1969. Its mission is to provide a safe, efficient transportation system that supports economic opportunity and livable communities for Oregonians.

The Governor appoints the Director of the Department who works with the Oregon Transportation Commission, a five-member, volunteer citizens' board, to provide direction for all of the Department's programs.

The Department's organization consists of 7 divisions: Central Services, Driver and Motor Vehicle Services, Highway, Motor Carrier Transportation, Transportation Development, Rail/Public Transit, and Transportation Safety.

B. Governmental Fund Statements

Fund Financial Statements

The Department presents financial information for all governmental funds by fund type. Individual fund detail for the special revenue funds is provided in the *combining financial statements*.

C. Measurement Focus and Basis of Accounting

Measurement focus describes the types of transactions recorded within a fund's operating statement. Basis of accounting describes the criteria governing the timing of the recognition of transactions and events.

Governmental Fund Financial Statements

The Department uses the current financial resources measurement focus and the modified accrual basis of accounting to prepare the governmental fund statements. The current financial resources measurement focus only takes into consideration those resources available for spending in the near future. Accordingly, only transactions and events affecting a fund's current financial resources during the period are reported.

Under the modified accrual basis of accounting, revenues are recognized as soon as they become both measurable and available. Revenues become "available" if collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues available if the Department expects to collect the revenue within 90 days of the end of the current fiscal period. The Department recognizes derived tax revenues (such as motor fuel and weight-mile taxes) in the year that the taxes become measurable and available. Federal reimbursement grants are recognized as revenue when the Department incurs the qualifying expenditures and meets all other grant requirements. Licenses and fees or cash sales of goods and services are recognized as revenue when received as cash.

Oregon Department of Transportation
Notes to the Financial Statements

The Department generally records expenditures when incurring a liability as under the accrual basis of accounting. Expenditures related to debt service, compensated absences, and claims and judgments are recognized when payment is due.

Fiduciary Fund Financial Statements

The Department uses the accrual basis of accounting for recording assets and liabilities in fiduciary funds. Because fiduciary funds are custodial in nature, they do not measure the results of operations.

D. Basis of Presentation

The Department records its financial activities in individual funds. A fund is defined as a separate accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund accounting demonstrates legal compliance and aids in financial management by segregating transactions related to certain governmental functions or activities.

Governmental Funds

The *General Fund* accounts for the activities of the Department financed with general tax revenues of the State of Oregon.

Special Revenue Funds account for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes.

Debt Service Funds account for the accumulation of resources for the payment of principal and interest on general obligation bonds, revenue bonds, and certificates of participation.

Capital Projects Funds account for financial resources segregated for the construction, improvement, and acquisition of capital assets.

Fiduciary Funds

Agency Funds account for assets held in a custodial capacity or as an agent for individuals, private organizations, or other governmental units.

E. Assets, Liabilities, and Fund Balance

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less at date of purchase. In addition to deposits in the statewide cash management pool, the Department may also have cash deposits with fiscal agents outside of the State Treasury.

The State Treasurer designates and holds certain investments for the Department. Other investments may be held by the Department's fiscal agent. The Department reports all investments (including equity in pooled investments) at fair value.

Receivables and Payables

Advances to/from Other Funds represent lending/borrowing arrangements outstanding at the end of the fiscal year. All other outstanding balances between funds are reported as *Due to/from Other Funds*.

Oregon Department of Transportation
Notes to the Financial Statements

The Department states receivables net of allowances for uncollectible amounts. The uncollectible amounts are based on Department policy, collection experience, and a review of the status of existing receivables.

Inventories

The Department uses the first-in/first-out method for cost valuation of inventories of materials and supplies in its governmental funds. Reported inventories in governmental funds are equally offset by nonspendable fund balance to reflect the nature of the restrictions on these funds.

Capital Assets

The Department values capital assets, which include land, buildings, equipment, and infrastructure assets, at historical cost or, if donated, at the estimated fair value at the date of acquisition. The Department added infrastructure as a capital asset beginning July 1, 2001, when the state highway and bridge system was added in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. All additions to infrastructure assets, beginning July 1, 2001, were added based on cost. In the governmental fund statements, capital assets are charged to expenditures when acquired. Capital assets are not reported in the financial statements, but are included in the notes to the financial statements.

The State defines a capital asset as an asset costing \$5,000 or more that has an estimated useful life of at least one year. Additions or improvements that significantly extend the useful life of an asset or that significantly increase the capacity of an asset are capitalized. The costs of normal maintenance and repairs are expensed as incurred.

F. Pollution Remediation Obligation

GASB Statement No. 49 established accounting and financial reporting for pollution remediation obligations. These obligations address the current or potential effects of existing pollution. The Department incurs pollution remediation liabilities by participation in *pollution remediation activities* including: pre-cleanup activities, cleanup activities, government oversight and enforcement-related activities, and post-remediation monitoring. Excluded from the scope of Statement No. 49 are obligations for pollution prevention and control activities, fines and penalties, landfill closure and post-closure care, and other future remediation activities required upon retirement of an asset.

Pollution remediation obligations are recognized when the range of expected cash outlays can be reasonably estimated. The Department recognized an estimated pollution remediation liability of \$4.9 million as of June 30, 2016 for statewide reporting purposes. However, this liability is not reported in the Department's fund financial statements. For many projects, the Department can reasonably estimate the range of expected outlays early in the process because the site situation is common or similar to other sites with which the Department has experience. In other cases, the estimates are limited to an amount specified in a contract for remediation services or provided by environmental consulting firms.

When new information indicates changes in expected outlays, the liability for pollution remediation is adjusted. Adjustments may be the result of price fluctuations resulting from delays in contracting specific remediation jobs, changes in technology, changes in legal or regulatory requirements, and changes in the remediation plan or operating conditions.

**Oregon Department of Transportation
Notes to the Financial Statements**

The Department also performs ongoing pollution remediation. In many instances, the Department voluntarily conducts the cleanup of contaminated soil and groundwater found within the footprint of a construction project or removes lead-based paint during bridge repairs. In other cases, the Department of Environmental Quality (DEQ) has named the Department as a responsible party, or potentially responsible party, or the Department has entered a site as part of the DEQ's Voluntary Cleanup Program, as the responsible party.

G. Retainage Payable

Oregon Revised Statute 279C.570 allows the Department to retain up to five percent of each progress payment made to contractors engaged in public improvement projects. The amounts withheld are invested in interest-bearing accounts. The retainage, plus the interest earned, is released to the contractor as the project is completed.

H. Unearned Revenue

Unearned revenue arises when resources are received before the Department has earned them or has legal claim to them. In subsequent periods, when the earnings process is complete or when all revenue recognition criteria have been met, the unearned revenue is reduced and revenue is recognized.

I. Long-Term Liabilities

Proceeds received from the issuance of debt are reported under other financing sources in the Statement of Revenues, Expenditures, and Changes in Fund Balances.

The accounting for proceeds received upon issuance of refunding debt closely parallels the accounting for original issue debt. However, when the refunding debt proceeds are paid to an escrow agent for purposes of repaying the old debt, that payment is reported separately under other financing uses in the fund financial statements.

J. Fund Balance

Fund balances for governmental funds are classified based on the nature of the resource restrictions within each fund. Fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Restricted balances are further classified as constitutional, federal, debt covenant, or enabling legislation.

K. Use of Estimates

In preparing the Department's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. BUDGETARY INFORMATION

The Department submits its budget request to the Governor every other year (biennial basis). State agencies, including the Department, prepare their budgets based on the source of funding. The four primary revenue sources available to state agencies to budget for expenditures are General Funds, Federal Funds, Lottery Funds, and Other Funds.

The Legislature formally adopts the budget and authorizes the Department to spend against one of three types of spending authority. General Fund appropriations represent the legal authority provided by the Legislature to use resources from the General Fund (primarily personal and corporate income taxes). The Legislature provides the spending authority and the funding for both the General Funds and the Lottery funds. The other spending authorities are *limited* and *nonlimited*. Limited spending authorities approved by the Legislature authorize the Department to spend up to a specific level of expenditures. The Department uses limitations of this type for all programs financed with federal funds, lottery funds, and other funds (e.g., fuels tax and vehicle registration). Nonlimited spending authorities are authorized by the Legislature for expenditures that fluctuate based on variables outside the Department's control and for which the Legislature does not legally specify an amount.

A major component of the Department's budget request to the Governor is the Statewide Transportation Improvement Program (STIP). The STIP is the Department's four-year capital improvement program. In the STIP, the Department assigns resources to those projects that have been given the highest priority through the STIP update process. The STIP is updated every two years. For more information, see <http://www.oregon.gov/odot/td/stip/pages/default.aspx>.

During interim periods when the Legislature is not in session, the Legislative Emergency Board is authorized to amend the legally-adopted budget. Any changes in the Department's original spending authority must be approved by the Emergency Board.

A budgetary comparison report is provided and presents the Department's budget by governmental fund type.

**Oregon Department of Transportation
Notes to the Financial Statements**

3. CASH AND INVESTMENTS

Deposits

The State of Oregon maintains the Oregon Short-Term Fund, a cash and investment management pool in which the Department participates. Participant account balances are determined by the amount of each participant's deposits adjusted for withdrawals and distributed interest. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically.

Deposits with fiscal agents include money market accounts held by the pledging financial institution or its trust department for the purpose of debt service. Performance deposits held in trust include cash and securities held as deposits on commercial enterprises.

Investments

At June 30, 2016, the Department's investments consisted primarily of U.S agency securities and corporate bonds.

Cash and cash equivalents, performance deposits, and investments as of June 30, 2016:

	<u>Total</u>
Cash and Deposits in Transit	54,760,103
Deposits with State Treasury	519,188,788
Performance Deposits Held in Trust	501,957
Deposits with Fiscal Agents	17,618,492
Investments with State Treasury	<u>67,752,525</u>
Total	<u>\$ 659,821,865</u>

4. TRANSFERS

Fund Transfers

Internal transfer activity is included at the combining financial statement (detail) level and eliminated at the combined (summary) level.

Special Payments

Special Payments are payments the Department makes to other governmental jurisdictions including counties and cities. The distinguishing characteristic of this type of payment is that the Department does not receive any associated goods or services in exchange for the payment. Special Payments include the distribution of federal and state funds directly to governmental entities and others.

**Oregon Department of Transportation
Notes to the Financial Statements**

Transfer activity for the year ended June 30, 2016:

<u>Departmental transfers:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Special Revenue Funds		
Capital Projects	111,126	4,173,628
Debt Service	\$ 12,871,392	\$ 209,523,692
Debt Service Funds		
Capital Projects	15,033,456	-
Special Revenue	209,523,692	12,871,392
Capital Projects Funds		
Debt Service	-	15,033,456
Special Revenue	4,173,628	111,126
Total departmental transfers	<u>241,713,294</u>	<u>241,713,294</u>
 <u>State agency transfers:</u>		
Special Revenue Funds		
Business Oregon	-	883,790
Department of Administrative Services	-	629,716
Department of Aviation	-	3,879,938
Department of Environmental Quality	148,571	615,405
Department of Parks and Recreation	-	25,574,612
Department of Revenue	3,662,178	-
Department of Veterans' Affairs	-	104,388
Governor's Office	-	70,000
State Marine Board	-	4,150,064
Travel Information Council	-	6,550,000
Watershed Enhancement Board	-	235,447
Capital Projects Funds		
Department of Parks and Recreation	20,000	-
Debt Service Funds		
Department of Administrative Services	53,607,945	-
Total state agency transfers	<u>57,438,694</u>	<u>42,693,360</u>
 <u>Local government transfers:</u>		
Special Revenue Funds		
Cities	-	164,775,679
Counties	-	245,771,166
Total local government transfers	<u>-</u>	<u>410,546,845</u>
 <u>Transfers to nongovernmental entities:</u>		
Special Revenue	-	1,291,392
Total transfers	<u>\$ 299,151,988</u>	<u>\$ 696,244,891</u>

**Oregon Department of Transportation
Notes to the Financial Statements**

5. CAPITAL ASSETS

Major capital asset events during fiscal year 2016 included the following:

- The I-5 Willamette River Bridge was completed in July 2015. The new bridge will improve safety and increase connectivity and mobility in the Eugene-Springfield metropolitan area.
- The Sunrise Expressway (Sunrise Jobs and Transportation Act [JTA] Project) is the first new state highway in the Portland area in nearly 30 years. It is a 2.15 mile, four-lane highway which connects the Milwaukee Expressway with SE 122nd Avenue at OR 212. The new expressway will improve safety and reduce congestion in the Milwaukee area.
- The Department's Geometronics Section purchased a Leica Pegasus 2 Mobile Mapping System. The equipment allows the Department to collect survey-grade data and photo images of highways while driving at posted speeds. The equipment creates significant work efficiency for collecting survey data and improves safety by minimizing the time ODOT surveyors are working along highways.

Capital asset activity for the fiscal year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 224,715,488	\$ 13,769,877	\$ (1,642,139)	\$ 236,843,226
Construction in progress - infrastructure	1,113,133,803	329,776,383	(496,662,540)	946,247,646
Construction in progress - other	111,802,940	39,222,560	(22,983,189)	128,042,311
Data processing software	62,380,169	4,152,774	(2,979,128)	63,553,815
Land	1,662,651,125	21,832,944	(1,150,456)	1,683,333,613
Land improvements	65,214,586	2,996,408	(37,880)	68,173,114
Land use rights (amortized)	781,932	-	-	781,932
Leasehold improvements	1,672,910	149,201	(525,492)	1,296,619
Machinery and equipment	355,323,316	16,460,819	(13,729,590)	358,054,545
State highway and bridge system	12,195,653,129	638,728,200	(49,338,367)	12,785,042,962
Works of art and historical treasures	101,151	-	-	101,151
Total capital assets	<u>\$ 15,793,430,549</u>	<u>\$1,067,089,166</u>	<u>\$ (589,048,781)</u>	<u>\$ 16,271,470,934</u>

Construction in progress - infrastructure includes all state highway and bridge system construction projects currently underway. *Construction in progress - other* includes equipment fabrication and other projects located throughout the state.

6. COMMITMENTS

Construction Commitments

Construction commitments represent the estimated dollar amount of planned highway construction approved by the Oregon Transportation Commission and presented in the State Transportation Improvement Plan. There were \$771.0 million in outstanding commitments for highway and bridge construction contracts as of June 30, 2016.

**Oregon Department of Transportation
Notes to the Financial Statements**

Operating Lease Commitments

The Department has commitments with entities outside of state government to lease certain buildings and equipment. Future minimum rental commitments under these operating leases as of June 30, 2016:

<u>Year Ending June 30</u>	<u>Total</u>
2017	\$ 6,726,938
2018	5,262,079
2019	5,172,736
2020	4,664,711
2021	2,733,296
2022-2046	12,686,028
Total	<u>\$ 37,245,788</u>

7. LONG-TERM DEBT

Oregon Revised Statutes provide the Department with the authority to issue bonds and to assume other forms of long-term debt to finance construction projects. The individual debt issuances are summarized below for all long-term debt outstanding at June 30, 2016. The Department's long term debt consists of lottery revenue bonds, highway user tax revenue bonds, certificates of participation, and general obligation bonds.

Revenue Bonds Repaid by Lottery Proceeds

Lottery Revenue Bonds are issued on behalf of the Department by the State, acting by and through the State Treasurer, at the request of the Department of Administrative Services (DAS), pursuant to the authority of Article XV, Section 4 of the Oregon Constitution and ORS chapter 286A. Lottery Revenue Bonds are special obligations of the State payable solely from unobligated net lottery proceeds and other legally available funds.

For more information regarding individual securities, please visit the Municipal Securities Rulemaking Board at <http://www.emma.msrb.org>.

- Lottery Revenue Bonds, Series 2006A (CUSIP No. 68607V): In September 2006, DAS issued Oregon Lottery Revenue Bonds on behalf of the Department in the amount of \$27,355,000. The net proceeds from these bonds were used for multimodal transportation projects. The final maturity date for this bond series is April 2017. The bonds had an outstanding principal balance at June 30, 2016, of \$1,310,000.
- Lottery Revenue Bonds, Series 2007A (CUSIP No. 68607V): In February 2007, DAS issued Oregon Lottery Revenue Bonds on behalf of the Department in the amount of \$102,520,000. The net proceeds from these bonds were used for multimodal transportation projects and a commuter rail line in Washington County. The final maturity date for this bond series is April 2017. The bonds had an outstanding principal balance at June 30, 2016, of \$6,180,000.
- Lottery Revenue Bonds, Series 2009A (CUSIP No. 68607V): In March 2009, DAS issued Oregon Lottery Revenue Bonds on behalf of the Department in the amount of \$381,195,000. The net proceeds from these bonds were used to fund multimodal transportation projects, the Portland-Milwaukee Light Rail Project, and the Oregon Street Car Project. The final maturity

**Oregon Department of Transportation
Notes to the Financial Statements**

date for this bond series is April 2019. The bonds had an outstanding principal balance at June 30, 2016, of \$53,700,000.

- Lottery Revenue Bonds, Series 2011A (CUSIP No. 68607V): In March 2011, DAS issued Oregon Lottery Revenue Bonds on behalf of the Department in the amount of \$96,369,674. The net proceeds from these bonds were used to fund multimodal transportation projects. The final maturity date for this bond series is April 2031. The bonds had an outstanding principal balance at June 30, 2016, of \$47,409,406.
- Lottery Revenue Refunding Bonds, Series 2011B (CUSIP No. 68607V): In March 2011, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$10,135,818. The net proceeds from these bonds were used to refund a portion of the Lottery Revenue Bonds Series 2002A, Series 2005A, and Series 2009A. The final maturity date for this bond series is April 2021. The bonds had an outstanding principal balance at June 30, 2016, of \$10,135,818.
- Lottery Revenue Refunding Bonds, Series 2012B (CUSIP No. 68607V): In April 2012, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$4,863,853. The net proceeds from these bonds were used to refund a portion of the Lottery Revenue Bonds Series 2004B and Series 2005A. The final maturity date for this bond series is April 2025. The bonds had an outstanding principal balance at June 30, 2016, of \$3,659,896.
- Lottery Revenue Bonds, Series 2013A (CUSIP No. 68607V): In May 2013, DAS issued Oregon Lottery Revenue Bonds on behalf of the Department in the amount of \$28,621,997. The net proceeds from these bonds were used to fund multimodal transportation projects. The final maturity date for this bond series is April 2033. The bonds had an outstanding principal balance at June 30, 2016, of \$28,621,997.
- Lottery Revenue Refunding Bonds, Series 2013C (CUSIP No. 68607V): In May 2013, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$788,978. The net proceeds from these bonds were used to partially refund the Lottery Revenue Bonds, Series 2004A. The final maturity date for this bond series is April 2018. The bonds had an outstanding principal balance at June 30, 2016, of \$373,143.
- Lottery Revenue Refunding Bonds, Series 2014A (CUSIP No. 68607V): In July 2014, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$15,018,198. The net proceeds from these bonds were used to partially refund the Lottery Revenue Bonds, Series 2006A. The final maturity date for this bond series is April 2027. The bonds had an outstanding principal balance at June 30, 2016, of \$14,788,668.
- Lottery Revenue Refunding Bonds, Series 2014B (CUSIP No. 68607V): In July 2014, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$76,153,631. The net proceeds from these bonds were used to partially refund the Lottery Revenue Bonds, Series 2007A. The final maturity date for this bond series is April 2027. The bonds had an outstanding principal balance at June 30, 2016 of \$75,175,055.
- Lottery Revenue Refunding Bonds, Series 2014C (CUSIP No. 68607V): In July 2014, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$91,440,704. The net proceeds from these bonds were used to partially refund the Lottery

**Oregon Department of Transportation
Notes to the Financial Statements**

Revenue Bonds, Series 2009A. The final maturity date for this bond series is April 2025. The bonds had an outstanding principal balance at June 30, 2016, of \$90,442,415.

- Lottery Revenue Bonds, Series 2015A (CUSIP No. 68607V): In January 2015, DAS issued Oregon Lottery Revenue Bonds on behalf of the Department in the amount of \$48,624,463. The net proceeds from these bonds were used to fund multimodal transportation projects, the Port of Coos Bay Rail Link, and the Salem-Keizer Transit Center. The final maturity date for this bond series is April 2035. The bonds had an outstanding principal balance at June 30, 2016, of \$48,624,463.
- Lottery Revenue Refunding Bonds, Series 2015C (CUSIP No. 68607V): In January 2015, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$47,864,226. The net proceeds from these bonds were used to partially refund the Lottery Revenue Bonds, Series 2011C. The final maturity date for this bond series is April 2027. The bonds had an outstanding principal balance at June 30, 2016, of \$47,864,226.
- Lottery Revenue Refunding Bonds, Series 2015D (CUSIP No. 68607V): In January 2015, DAS issued Oregon Lottery Revenue Refunding Bonds on behalf of the Department in the amount of \$142,172,601. The net proceeds from these bonds were used to partially refund the Lottery Revenue Bonds, Series 2009A. The final maturity date for this bond series is April 2029. The bonds had an outstanding principal balance at June 30, 2016, of \$142,172,601.

Debt service requirements to maturity on the Department's lottery revenue bonds as of June 30, 2016:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,354,339	\$ 28,160,075	\$ 53,514,414
2018	25,800,782	26,974,752	52,775,534
2019	31,468,191	25,763,394	57,231,585
2020	31,635,437	24,353,100	55,988,537
2021	29,056,580	22,825,918	51,882,498
2022-2026	229,290,166	86,805,883	316,096,049
2027-2031	171,629,939	28,772,047	200,401,986
2032-2036	26,222,254	3,021,096	29,243,350
Total	<u>\$ 570,457,688</u>	<u>\$ 246,676,265</u>	<u>\$ 817,133,953</u>

Revenue Bonds Repaid by State Highway Fund Revenues

Highway User Tax Revenue Bonds are issued by the State, acting by and through the State Treasurer, at the request of the Department, pursuant to Article IX, Section 3a of the Oregon Constitution, ORS 286A, as amended, and ORS 367.605 to 367.665 as amended. Highway User Tax Revenue Bonds are special revenue obligations secured by and payable solely from monies deposited in the State Highway Fund established under ORS 366.605.

For more information regarding individual securities, please visit the Municipal Securities Rulemaking Board at <http://www.emma.msrb.org>.

- State Highway User Tax Revenue Refunding Bonds, Series 2004B (CUSIP No. 68607D): In July 2004, the Department issued highway user tax revenue refunding bonds in the amount of \$75,575,000. The proceeds from these bonds were used to refund certain maturities of the Series 2000 Bonds and the Series 2002A Bonds. Certain maturities of the bonds were

**Oregon Department of Transportation
Notes to the Financial Statements**

refunded with the issuance of the taxable Series 2012B Bonds. The final maturity for this bond series was November 2015. The bonds were paid in full as of June 30, 2016, and had a balance of zero.

- State Highway User Tax Revenue Bonds, Series 2006A (CUSIP No. 68607D): In May 2006, the Department issued highway user tax revenue bonds in the amount of \$291,505,000. The proceeds from these bonds were used to finance state highway and bridge projects under the OTIA I, II, and III programs. Certain maturities of the bonds were refunded with the issuance of the Series 2007C Bonds, the Series 2012A Bonds, and the Series 2014A Bonds. The final maturity for this series is November 2016. The bonds had an outstanding principal balance at June 30, 2016, of \$13,120,000.
- State Highway User Tax Revenue Bonds, Series 2007A (CUSIP No. 68607D): In June 2007, the Department issued highway user tax revenue bonds in the amount of \$358,225,000. The proceeds from these bonds were used to finance state highway and bridge projects under the OTIA I, II, and III programs. Certain maturities of the bonds were refunded with the issuance of the Series 2014A Bonds and Series 2015A Bonds. The final maturity for this bond series is November 2018. The bonds had an outstanding principal balance at June 30, 2016, of \$16,620,000.
- State Highway User Tax Revenue Refunding Bonds, Series 2007C (CUSIP No. 68607D): In June 2007, the Department issued highway user tax revenue refunding bonds in the amount of \$200,745,000. The proceeds from these bonds were used to refund certain maturities of the Series 2002A Bonds, Series 2004A Bonds, Series 2005A Bonds, and Series 2006A Bonds. The final maturity for this bond series is November 2026. The bonds had an outstanding principal balance at June 30, 2016, of \$187,920,000.
- State Highway User Tax Revenue Bonds, Series 2009A (CUSIP No. 68607D): In March 2009, the Department issued highway user tax revenue bonds in the amount of \$347,290,000. The proceeds from these bonds were used to finance projects under the OTIA III program. Certain maturities of the bonds were refunded with the issuance of the Series 2014A Bonds and Series 2015A Bonds. The final maturity for this bond series is November 2020. The bonds had an outstanding principal balance at June 30, 2016, of \$57,025,000.
- ⁽¹⁾State Highway User Tax Revenue Bonds, Series 2010A (Federally Taxable Build America Bonds) (CUSIP No. 68607D): In April 2010, the Department issued highway user tax revenue bonds in the amount of \$544,675,000. The proceeds from these bonds were used to finance projects under the OTIA III program. This series was issued as federally taxable Build America Bonds (BABs) qualifying for a federal subsidy of 35% of the interest through the American Recovery and Reinvestment Act of 2009. The final maturity for this bond series is November 2034. The bonds had an outstanding principal balance at June 30, 2016, of \$544,675,000.

⁽¹⁾ Pursuant to the requirements of the Bipartisan Budget Act of 2013, subsidy payments that the Department received in connection with its Build America Bonds ("BABs") for the Federal Fiscal Year ("FFY") 2016, were reduced by 6.8%. The 6.8% reduction of the Department's anticipated \$10,810,764 BABs subsidy payments due in FFY 2016 equaled \$735,132. On August 3, 2016, the IRS announced an increase in the sequestration rate from 6.8% to 6.9% for BABs subsidy payments processed in FFY 2017. The Department cannot predict when or whether new federal legislation may be enacted providing funding or authorization for the BABs subsidy payments or other federal transportation programs or, if enacted, whether any such legislation would be signed into law by the president.

**Oregon Department of Transportation
Notes to the Financial Statements**

- State Highway User Tax Revenue Bonds, Series 2010B (CUSIP No. 68607D): In April 2010, the Department issued highway user tax revenue bonds in the amount of \$35,610,000. The proceeds from these bonds were used to finance projects under the OTIA III program. The final maturity for this bond series is November 2017. The bonds had an outstanding principal balance at June 30, 2016, of \$10,985,000.
- State Highway User Tax Revenue Refunding Bonds, Series 2012A (CUSIP No. 68607D): In June 2012, the Department issued highway user tax revenue refunding bonds in the amount of \$129,980,000. The proceeds from these bonds were used to refund certain maturities of the Series 2004A Bonds, Series 2005A Bonds, and Series 2006A Bonds. The final maturity for this bond series is November 2029. The bonds had an outstanding principal balance at June 30, 2016, of \$129,280,000.
- State Highway User Tax Revenue Refunding Bonds, Series 2012B (Federally Taxable) (CUSIP No. 68607D): In June 2012, the Department issued highway user tax revenue refunding bonds in the amount of \$70,850,000. The proceeds from these bonds were used to refund certain maturities of the Series 2004B Bonds and Series 2005B Bonds. The final maturity for this bond series is November 2020. The bonds had an outstanding principal balance at June 30, 2016, of \$64,915,000.
- State Highway User Tax Revenue Bonds, Series 2013A (CUSIP No. 68607D): In October 2013 the Department issued highway user tax revenue bonds in the amount of \$409,775,000. The proceeds from these bonds were used to finance projects under the JTA program. The final maturity for this bond series is November 2038. The bonds had an outstanding principal balance at June 30, 2016, of \$391,475,000.
- State Highway User Tax Revenue Bonds, Subordinate Lien Refunding Bonds, Series 2013B (SIFMA Index Rate) (CUSIP No. 68607D): In November 2013, the Department issued highway user tax revenue subordinate lien refunding bonds in the amount of \$265,515,000. The proceeds from these bonds were used to refund the Series 2011A Note in its entirety. The Series 2013B Bonds bear interest at a variable interest rate determined on the basis of a seven-day SIFMA index plus a margin. The Series 2013B Bonds are subject to optional and mandatory redemption provisions and a three-year term-out period. The lender's initial commitment expires on the special mandatory tender date of November 5, 2016. The final maturity for this bond series is November 2038. The bonds had an outstanding principal balance at June 30, 2016, of \$265,515,000.
- State Highway User Tax Revenue Bonds, Series 2014A (CUSIP No. 68607D): In July 2014 the Department issued highway user tax revenue bonds in the amount of \$194,530,000. The proceeds from these bonds were used to refund certain maturities of the Series 2006A Bonds, the Series 2007A Bonds, and Series 2009A Bonds. The final maturity for this bond series is November 2031. The bonds had an outstanding principal balance at June 30, 2016, of \$194,530,000.
- State Highway User Tax Revenue Refunding Bonds, Series 2015A (CUSIP No. 68607D): In January 2015 the Department issued highway user tax revenue refunding bonds in the amount of \$381,305,000. The proceeds from these bonds were used to refund certain maturities of the Series 2007A Bonds and the Series 2009A Bonds. The final maturity for this bond series is November 2033. The bonds had an outstanding principal balance at June 30, 2016, of \$381,305,000.

**Oregon Department of Transportation
Notes to the Financial Statements**

(1) Debt service requirements to maturity on the Department's revenue bonds as of June 30, 2016:

Year Ending June 30	Principal	Interest	Total
2017	\$ 75,465,000	\$ 98,724,991	\$ 174,189,991
2018	66,400,000	95,816,803	162,216,803
2019	69,925,000	92,948,901	162,873,901
2020	66,030,000	90,098,243	156,128,243
2021	63,210,000	87,374,523	150,584,523
2022-2026	358,770,000	388,458,162	747,228,162
2027-2031	570,390,000	278,565,569	848,955,569
2032-2036	705,370,000	103,189,978	808,559,978
2037-2041	281,805,000	8,154,775	289,959,775
Total	<u>\$ 2,257,365,000</u>	<u>\$ 1,243,331,945</u>	<u>\$ 3,500,696,945</u>

(1) Debt service requirements for the variable interest rate Series 2013B Bonds (SIFMA Index Rate) for fiscal years 2017 through 2038 are based on the effective interest rate at June 30, 2016, of 0.72%.

Certificates of Participation

ORS chapter 283 authorizes the Department of Administrative Services (DAS) to enter into financing agreements through the issuance of certificates of participation for state agencies, including the Department.

For more information regarding individual securities, please visit the Municipal Securities Rulemaking Board at <http://www.emma.msrb.org>.

- Certificates of Participation Series 2008A (CUSIP No. 68607H): In July 2008, DAS issued certificates of participation in the amount of \$6,871,609 to refund DMV Building Series 1997B certificates of participation, the net proceeds from these bonds were used for the construction of the Driver and Motor Vehicle Services headquarters building. Certain maturities of the bonds were refunded with the issuance of the General Obligation Series 2016F Bonds. The final maturity date for this series is May 2020. The debt had an outstanding principal balance at June 30, 2016, of \$1,996,543.
- Certificates of Participation Series 2009A (CUSIP No. 68607H): In February 2009, DAS issued certificates of participation for the State Radio Project in the amount of \$57,575,000. Certain maturities of the bonds were refunded with the issuance of the General Obligation Series 2016F Bonds. The final maturity date for this series is May 2019. The debt had an outstanding principal balance at June 30, 2016, of \$3,040,000.
- Certificates of Participation Series 2009B (CUSIP No. 68607H): In February 2009, DAS issued certificates of participation for the State Radio Project in the amount of \$15,215,000. The final maturity date for this series is May 2023. The debt had an outstanding principal balance at June 30, 2016, of \$8,525,000.

Overall Debt Service requirements for the State Radio Project are projected to be paid from General Fund and State Highway Fund revenues on a 50-50 proportional basis.

**Oregon Department of Transportation
Notes to the Financial Statements**

Debt Service requirements to maturity on the Department's certificates of participation as of June 30, 2016:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,834,697	\$ 634,019	\$ 3,468,716
2018	3,413,750	512,715	3,926,465
2019	2,452,096	364,180	2,816,276
2020	1,456,000	253,535	1,709,535
2021	1,445,000	179,467	1,624,467
2022-2026	1,960,000	128,186	2,088,186
Total	<u>\$ 13,561,543</u>	<u>\$ 2,072,102</u>	<u>\$ 15,633,645</u>

General Obligation Bonds Repaid by General Funds and State Highway Revenue Funds

Article XI-Q general obligation bonds are issued on behalf of the Department by the State, acting by and through the State Treasurer, at the request of the Department of Administrative Services (DAS), pursuant to the authority granted by Article XI-Q of the Oregon Constitution and ORS chapter 286A. Article XI-Q general obligation bonds are direct, general obligations of the State, and the full faith and credit and taxing power of the State are irrevocably pledged to their repayment when due.

- General Obligation Bonds Series 2011J (CUSIP No. 68608U): In May 2011, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$17,400,000. The net proceeds from the bonds were used to fund a portion of the State Radio Project. The final maturity date for this bond series was May 2016. The bonds were paid in full as of June 30, 2016, and had a balance of zero.
- General Obligation Bonds Series 2011K (CUSIP No. 68608U): In May 2011, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$59,845,000. The net proceeds from the bonds were used to fund the Transportation Building renovation project. Certain maturities of the bonds were refunded with the issuance of the General Obligation Series 2016F Bonds. The final maturity date for this bond series is May 2036. The bonds had an outstanding principal balance at June 30, 2016, of \$9,240,000.
- General Obligation Bonds Series 2012I (CUSIP No. 68608U): In April 2012, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$54,445,000. The net proceeds from the bonds were used to fund a portion of the State Radio Project. The final maturity date for this bond series is May 2037. The bonds had an outstanding principal balance at June 30, 2016, of \$39,560,000.
- General Obligation Bonds Series 2015H (CUSIP No. 68608U): In March 2015, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$12,620,263. The net proceeds from the bonds were used to refund certain maturities of the Certificates of Participation, Series 2009A. The final maturity date for this bond series is May 2027. The bonds had an outstanding principal balance at June 30, 2016, of \$12,620,263.
- General Obligation Bonds Series 2016D (CUSIP No. 68608U): In May 2016, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$4,700,000. The net proceeds from the bonds were used to fund a portion of the State Radio

**Oregon Department of Transportation
Notes to the Financial Statements**

Project. The final maturity date for this bond series is May 2021. The bonds had an outstanding principal balance at June 30, 2016 of \$4,700,000.

- General Obligation Bonds Series 2016E (CUSIP No. 68608U): In May 2016, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$15,055,000. The net proceeds from the bonds were used to fund a portion of the State Radio Project. The final maturity date for this bond series is May 2031. The bonds had an outstanding principal balance at June 30, 2016 of \$15,055,000.
- General Obligation Bonds Series 2016F (CUSIP No. 68608U): In May 2016, DAS issued Article XI-Q general obligation bonds on behalf of the Department in the amount of \$64,100,600. The net proceeds from the bonds were used to refund certain maturities of the Certificates of Participation Series 2008A, the Certificates of Participation Series 2009A and the General Obligation Bonds Series 2011K. The final maturity date for this bond series is May 2039. The bonds had an outstanding principal balance at June 30, 2016 of \$64,100,600.

Overall Debt service requirements for bonds issued for the State Radio Project are projected to be paid from General Fund and State Highway Fund revenues on a 50-50 proportional basis.

Debt service requirements to maturity on the Department's general obligation bonds as of June 30, 2016:

Year Ending June 30	Principal	Interest	Total
2017	\$ 11,085,000	\$ 6,230,207	\$ 17,315,207
2018	11,530,000	6,000,522	17,530,522
2019	8,883,600	5,505,917	14,389,517
2020	10,242,000	5,146,638	15,388,638
2021	5,690,589	4,740,960	10,431,549
2022-2026	27,108,344	20,281,942	47,390,286
2027-2031	30,556,330	14,139,768	44,696,098
2032-2036	30,675,000	7,077,900	37,752,900
2037-2041	9,505,000	911,500	10,416,500
Total	<u>\$ 145,275,863</u>	<u>\$ 70,035,354</u>	<u>\$ 215,311,217</u>

Changes in the Department's long-term debt for the year ended June 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation bonds	\$ 118,415,263	\$83,855,600	\$ (56,995,000)	\$ 145,275,863	\$ 11,085,000
Highway User Tax Revenue bonds	2,330,495,000	-	(73,130,000)	2,257,365,000	75,465,000
Lottery Revenue bonds	594,694,214	-	(24,236,526)	570,457,688	25,354,338
Certificates of Participation	51,055,305	-	(37,493,762)	13,561,543	2,834,697
Total long-term debt	<u>\$ 3,094,659,782</u>	<u>\$83,855,600</u>	<u>\$ (191,855,288)</u>	<u>\$ 2,986,660,094</u>	<u>\$ 114,739,035</u>

**Oregon Department of Transportation
Notes to the Financial Statements**

Arbitrage Rebate Liability

The Tax Reform Act of 1986 placed restrictions on the non-purpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the non-purpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Non-purpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government. At June 30, 2016, the Department's arbitrage rebate liability is estimated to be zero.

Pledged Revenues

The state has pledged future highway user taxes and vehicle registration fees, net of administrative expenses, operating transfers, and statutory transfers to cities and counties, to repay \$2,257,365,000 of highway user tax revenue bonds. Proceeds from highway user tax revenue bonds provide financing for the construction, reconstruction, improvement, repair, maintenance, operation, and use of public highways, roads, streets and roadside rest areas. The highway user tax revenue bonds are payable solely from the pledged revenues and are payable through November 2038. Fiscal year 2017 principal and interest payments on the bonds are expected to require approximately 28.5 percent of pledged revenues. Highway user tax revenue bond principal and interest paid for the current fiscal year totaled \$174,300,000 and pledged revenues totaled \$610,576,000. The estimated total principal and interest remaining to be paid on the highway user tax revenue bonds is \$3,500,696,945.

⁽¹⁾Debt Service Coverage for fiscal years through June 30, 2016:

	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Estimated 2016
Total Pledged Revenues	\$562,803,000	\$565,961,000	\$581,652,000	\$605,743,000	\$610,576,000
Total Senior Lien Debt Service	111,050,000	109,850,000	121,115,000	132,121,000	136,541,000
Senior Lien Debt Service Coverage	5.1	5.2	4.8	4.6	4.5
Subordinate Lien Debt Service	39,187,000	38,061,000	37,585,000	37,394,000	42,341,000
(Less Subordinate Lien BAB Payments)	(10,811,000)	(10,811,000)	(10,032,000)	(10,022,000)	(10,076,000)
Total Subordinate Lien Debt Service	28,376,000	27,250,000	27,553,000	27,372,000	32,265,000
Aggregate Senior and Subordinate Lien Debt Service	139,426,000	137,100,000	148,668,000	159,493,000	168,806,000
Total Pledged Revenues	562,803,000	565,961,000	581,652,000	605,743,000	610,576,000
(Less Subordinate Lien BAB Payments)	(10,811,000)	(10,811,000)	(10,032,000)	(10,022,000)	(10,076,000)
Net Pledged Revenue	551,992,000	555,150,000	571,620,000	595,721,000	600,500,000
Aggregate Senior and Subordinate Lien Debt Service Coverage	4.0	4.0	3.8	3.7	3.6

⁽¹⁾Source: ODOT's December 2015 Forecast

For more information regarding individual securities, please visit the Municipal Securities Rulemaking Board at <http://www.emma.msrb.org>.

**Oregon Department of Transportation
Notes to the Financial Statements**

8. CUSTODIAL DEPOSITS

The following items represent all cash and securities within the Department's agency funds. These assets are held by the Department, as a custodian, on behalf of individuals, vendors, or other governmental organizations as of June 30, 2016:

	<u>Total</u>
Motor carrier custodial deposits	\$ 16,392,440
Fuel dealer and retailer custodial deposits	528,957
Fuel taxes collected on behalf of local governments	<u>6,985,528</u>
Total custodial deposits	<u>\$ 23,906,925</u>

9. PENSION BENEFITS

The Public Employees Retirement System (PERS) is a defined benefit retirement plan for units of state government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the Public Employees Retirement Board under the guidelines of Chapter 238 of the Oregon Revised Statutes, and provides retirement benefits and cost-of-living adjustments as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information, which may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223. For the fiscal year ended June 30, 2016, the Department contributed a total of \$43,324,900 to PERS.

10. UNEMPLOYMENT BENEFITS

State employees who qualify are entitled to benefit payments during periods of unemployment. State agencies are required to pay the Employment Department for benefit payments made to their former employees. Total payments made by the Department for the fiscal year ended June 30, 2016, were \$407,200.

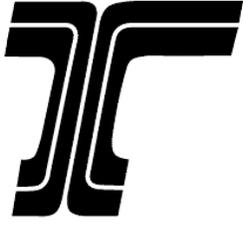
11. INSURANCE

The Risk Management Division of the Department of Administrative Services (Division) administers the state's property and liability insurance programs. It is the policy of the Division not to purchase commercial insurance for most of the risks of loss to which the state is exposed. Instead, the Division manages the state's risks by setting aside assets for actuarially forecasted losses in the State Insurance Fund. ORS Chapter 278 established the State Insurance Fund to service claims for the risk of (1) direct physical loss or damage to state property; (2) tort liability claims brought against the state, its officers, employees or agents; (3) workers compensation losses; (4) employee dishonesty and; (5) faithful performance bonds for key positions.

All state agencies, commissions, and boards participate in the State Insurance Fund. The Division allocates the cost of servicing insurance claims and payments by charging an assessment to each state entity, based on its share of losses. Statewide risk charges are based on independent, biennial actuarial forecasts and Division expenses, less any available fund balance from the prior biennium. Risk insurance payments for the fiscal year ended June 30, 2016, were \$11,300,238.

12. CONTINGENCIES

The Department is involved in various legal proceedings arising through the normal course of business. Although it is not possible to predict with certainty the outcome of these legal matters, management believes the disposition of these matters will not have a material impact on the Department's financial position.



COMBINING STATEMENTS

State of Oregon
Department of Transportation
Combining Balance Sheet
Special Revenue Funds
June 30, 2016

	Highway	Central Services	Motor Carrier Transportation	Driver and Motor Vehicle Services	Other	Total Special Revenue Funds
Assets						
Cash and Cash Equivalents	\$ 334,363,102	\$ 15,008,793	\$ 17,434,615	\$ 31,067,566	\$ 86,400,668	\$ 484,274,744
Investments	67,752,525	-	-	-	-	67,752,525
Loans Receivable (net)	6,393,900	-	-	-	20,499,999	26,893,899
Taxes Receivable (net)	-	46,327,439	19,141,439	1,806,603	4,275	67,279,756
Due from Federal Government	62,593,299	88,074	227,370	-	5,347,341	68,256,084
Due from State Agencies	2,340	-	-	3,770,901	858,168	4,631,409
Due from Other Funds	111,562,477	47,749	-	-	10,002,389	121,612,615
Advances to Other Funds	4,465,436	-	-	-	-	4,465,436
Other Accounts Receivable (net)	28,424,778	-	1,103,047	4,458,449	492,996	34,479,270
Inventories	29,517,164	31,760	34,330	2,155,352	2,584,652	34,323,258
Prepaid Assets	857,059	19,296	48,833	237,625	-	1,162,813
Contracts Receivable (net)	127,984	-	-	-	-	127,984
Total Assets	\$ 646,060,064	\$ 61,523,111	\$ 37,989,634	\$ 43,496,496	\$ 126,190,488	\$ 915,259,793
Liabilities and Fund Balances						
<i>Liabilities:</i>						
Accounts Payable	\$ 86,645,427	\$ 2,638,947	\$ 437,598	\$ 1,415,201	\$ 5,997,135	\$ 97,134,308
Custodial Liabilities	432,586	-	-	10,000	-	442,586
Advances from Other Funds	-	-	-	-	4,465,436	4,465,436
Due to Other Governments	77,301,847	-	-	-	2,050,519	79,352,366
Due to State Agencies	1,100,757	10,271,913	-	2,382,217	2,590,466	16,345,353
Due to Other Funds	2,560,395	46,112,135	35,851,085	34,450,297	-	118,973,912
Unearned Revenue	41,523,348	2,449,060	1,617,788	2,805,804	-	48,396,000
Total Liabilities	209,564,360	61,472,055	37,906,471	41,063,519	15,103,556	365,109,961
<i>Fund Balances:</i>						
Nonspendable:						
Inventories	29,517,164	31,760	34,330	2,155,352	2,584,652	34,323,258
Revolving Accounts	-	-	-	40,000	-	40,000
Prepaid Assets	857,059	19,296	48,833	237,625	-	1,162,813
Restricted by:						
Oregon Constitution	283,422,844	-	-	-	50,311,215	333,734,059
Federal Laws and Regulations	36,310,072	-	-	-	369,086	36,679,158
Debt Covenants	64,600,183	-	-	-	24,761,144	89,361,327
Enabling Legislation	21,788,382	-	-	-	29,664,689	51,453,071
Committed	-	-	-	-	3,396,146	3,396,146
Total Fund Balances	436,495,704	51,056	83,163	2,432,977	111,086,932	550,149,832
Total Liabilities and Fund Balances	\$ 646,060,064	\$ 61,523,111	\$ 37,989,634	\$ 43,496,496	\$ 126,190,488	\$ 915,259,793

State of Oregon
Department of Transportation
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

	Highway	Central Services	Motor Carrier Transportation	Driver and Motor Vehicle Services	Other	Total Special Revenue Funds
Revenues:						
Motor Fuel Taxes	\$ -	\$ 532,171,382	\$ -	\$ -	\$ -	\$ 532,171,382
Federal Revenues	477,254,413	88,074	529,177	-	46,469,772	524,341,436
Weight-Mile Taxes	-	-	291,302,037	-	-	291,302,037
Vehicle Registration Taxes	-	-	-	318,385,285	200,974	318,586,259
Driver License Fees	-	-	-	39,973,758	4,128,580	44,102,338
Other Transportation Fees	-	-	44,357,726	183,859	1,981,003	46,522,588
Charges for Services	29,793,286	666,451	29,874	11,600	384,445	30,885,656
Other Sales Income	6,623,176	4,528	14,196	3,565,850	7,656	10,215,406
Investment Income	8,180,372	32,161	1,280,441	-	1,070,745	10,563,719
Business License Fees	497,437	-	485,150	317,286	4,113,132	5,413,005
Rents	3,776,774	-	-	-	204,780	3,981,554
Other Revenues	5,898,620	-	3,773,385	1,420,672	329,149	11,421,826
Total Revenues	<u>532,024,078</u>	<u>532,962,596</u>	<u>341,771,986</u>	<u>363,858,310</u>	<u>58,890,236</u>	<u>1,829,507,206</u>
Expenditures:						
Personal Services	280,928,297	54,126,646	23,235,886	57,678,131	11,107,963	427,076,923
Services and Supplies	705,165,094	36,361,703	6,570,815	22,390,481	24,860,072	795,348,165
Capital Outlay	14,866,409	282,381	228,575	195,141	10,281,260	25,853,766
Loan Interest	-	-	-	-	234,374	234,374
Special Payments	21,049,839	-	-	-	52,118,815	73,168,654
Other Debt Service	255,192	-	-	241	69,279	324,712
Total Expenditures	<u>1,022,264,831</u>	<u>90,770,730</u>	<u>30,035,276</u>	<u>80,263,994</u>	<u>98,671,763</u>	<u>1,322,006,594</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(490,240,753)</u>	<u>442,191,866</u>	<u>311,736,710</u>	<u>283,594,316</u>	<u>(39,781,527)</u>	<u>507,500,612</u>
Other Financing Sources (Uses):						
Long-Term Debt Issued	-	-	-	-	20,069,279	20,069,279
Transfers In	1,048,255,209	86,622,095	437,954	274,225	53,073,640	1,188,663,123
Transfers Out	(698,547,260)	(528,807,253)	(312,167,980)	(283,928,296)	(16,647,985)	(1,840,098,774)
Gain (Loss) on Sale of Capital Assets	2,581,551	-	-	-	-	2,581,551
Insurance Recoveries	1,349,096	-	6,574	2,522	47,550	1,405,742
Total Other Financing Sources (Uses)	<u>353,638,596</u>	<u>(442,185,158)</u>	<u>(311,723,452)</u>	<u>(283,651,549)</u>	<u>56,542,484</u>	<u>(627,379,079)</u>
Net Change in Fund Balances	(136,602,157)	6,708	13,258	(57,233)	16,760,957	(119,878,467)
Fund Balances - Beginning	576,737,434	83,799	85,972	2,901,603	93,721,479	673,530,287
Prior Period Adjustment	(1,545,704)	-	-	-	11,624	(1,534,080)
Change in Nonspendable Fund Balances	(2,093,869)	(39,451)	(16,067)	(411,393)	592,872	(1,967,908)
Fund Balances - Ending	<u>\$ 436,495,704</u>	<u>\$ 51,056</u>	<u>\$ 83,163</u>	<u>\$ 2,432,977</u>	<u>\$ 111,086,932</u>	<u>\$ 550,149,832</u>

State of Oregon
Department of Transportation
Combining Balance Sheet
Special Revenue Funds - Other
June 30, 2016

	<u>Public Transit</u>	<u>Transportation Safety</u>	<u>Rail</u>	<u>Snowmobile</u>	<u>Transportation Operating</u>
Assets					
Cash and Cash Equivalents	\$ 1,723,314	\$ 12,176,224	\$ 11,796,735	\$ 5,626,104	\$ 4,507,007
Loans Receivable (net)	-	-	-	-	-
Taxes Receivable (net)	-	-	-	4,075	-
Due from Federal Government	2,781,924	1,965,695	293,314	-	-
Due from State Agencies	591,510	-	-	266,658	-
Due from Other Funds	1,849,393	449,130	522,846	686,722	5,505,002
Other Accounts Receivable (net)	-	495	-	4,032	488,469
Inventories	214	113,199	1,047,909	-	-
Total Assets	<u>\$ 6,946,355</u>	<u>\$ 14,704,743</u>	<u>\$ 13,660,804</u>	<u>\$ 6,587,591</u>	<u>\$ 10,500,478</u>
Liabilities and Fund Balances					
<i>Liabilities:</i>					
Accounts Payable	\$ 1,624,694	\$ 330,372	\$ 602,935	\$ 262	\$ 332,560
Advances from Other Funds	-	-	-	-	-
Due to Other Governments	1,920,504	130,015	-	-	-
Due to State Agencies	-	741,073	-	-	1,849,393
Total Liabilities	<u>3,545,198</u>	<u>1,201,460</u>	<u>602,935</u>	<u>262</u>	<u>2,181,953</u>
<i>Fund Balances:</i>					
Nonspendable:					
Inventories	214	113,199	1,047,909	-	-
Restricted by:					
Oregon Constitution	-	11,600,397	2,028,886	-	-
Federal Laws and Regulations	1,791	9,480	466	-	-
Debt Covenants	3,006	-	70,163	-	-
Enabling Legislation	-	1,780,207	9,910,445	6,587,329	8,318,525
Committed	3,396,146	-	-	-	-
Total Fund Balances	<u>3,401,157</u>	<u>13,503,283</u>	<u>13,057,869</u>	<u>6,587,329</u>	<u>8,318,525</u>
Total Liabilities and Fund Balances	<u>\$ 6,946,355</u>	<u>\$ 14,704,743</u>	<u>\$ 13,660,804</u>	<u>\$ 6,587,591</u>	<u>\$ 10,500,478</u>

Winter Recreational Parking	Consumer Protection	Transportation Infrastructure Bank	State Radio Project	Total Other Special Revenue Funds
\$ 3,169,356	\$ 100,634	\$ 20,647,369	\$ 26,653,925	\$ 86,400,668
-	-	20,499,999	-	20,499,999
-	200	-	-	4,275
-	-	-	306,408	5,347,341
-	-	-	-	858,168
-	-	-	989,296	10,002,389
-	-	-	-	492,996
-	-	-	1,423,330	2,584,652
<u>\$ 3,169,356</u>	<u>\$ 100,834</u>	<u>\$ 41,147,368</u>	<u>\$ 29,372,959</u>	<u>\$ 126,190,488</u>
\$ 199,662	\$ 2,345	\$ -	\$ 2,904,305	\$ 5,997,135
-	-	4,465,436	-	4,465,436
-	-	-	-	2,050,519
-	-	-	-	2,590,466
<u>199,662</u>	<u>2,345</u>	<u>4,465,436</u>	<u>2,904,305</u>	<u>15,103,556</u>
-	-	-	1,423,330	2,584,652
-	-	36,681,932	-	50,311,215
-	-	-	357,349	369,086
-	-	-	24,687,975	24,761,144
2,969,694	98,489	-	-	29,664,689
-	-	-	-	3,396,146
<u>2,969,694</u>	<u>98,489</u>	<u>36,681,932</u>	<u>26,468,654</u>	<u>111,086,932</u>
<u>\$ 3,169,356</u>	<u>\$ 100,834</u>	<u>\$ 41,147,368</u>	<u>\$ 29,372,959</u>	<u>\$ 126,190,488</u>

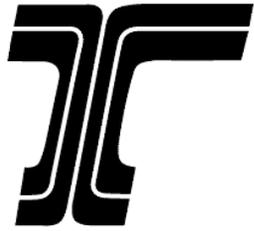
State of Oregon
Department of Transportation
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Special Revenue Funds - Other
For the Fiscal Year Ended June 30, 2016

	<u>Public Transit</u>	<u>Transportation Safety</u>	<u>Rail</u>	<u>Snowmobile</u>	<u>Transportation Operating</u>
Revenues:					
Federal Revenues	\$ 31,177,901	\$ 7,377,200	\$ 7,909,827	\$ -	\$ -
Vehicle Registration Taxes	-	-	-	200,974	-
Driver License Fees	-	-	-	-	4,128,580
Other Transportation Fees	-	-	-	-	-
Charges for Services	354,092	11,295	-	-	5,328
Other Sales Income	-	-	7,656	-	-
Investment Income	22,113	72,470	42,415	38,488	27,682
Business License Fees	-	-	2,967,783	-	1,145,349
Rents	-	-	204,780	-	-
Other Revenues	5,401	250	3,512	-	318,835
Total Revenues	<u>31,559,507</u>	<u>7,461,215</u>	<u>11,135,973</u>	<u>239,462</u>	<u>5,625,774</u>
Expenditures:					
Personal Services	2,712,937	2,227,790	3,806,026	908	730,211
Services and Supplies	967,590	1,609,747	5,984,814	1,350,646	2,727,683
Capital Outlay	-	47,053	114,497	-	-
Loan Interest	-	-	-	-	-
Special Payments	39,005,487	8,448,562	4,594,840	-	69,926
Other Debt Service	-	-	-	-	-
Total Expenditures	<u>42,686,014</u>	<u>12,333,152</u>	<u>14,500,177</u>	<u>1,351,554</u>	<u>3,527,820</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,126,507)</u>	<u>(4,871,937)</u>	<u>(3,364,204)</u>	<u>(1,112,092)</u>	<u>2,097,954</u>
Other Financing Sources (Uses):					
Long-Term Debt Issued	-	-	-	-	-
Transfers In	9,384,385	5,875,782	4,673,402	640,571	5,505,002
Transfers Out	(2,047,015)	(481,330)	(20)	-	(3,692,614)
Insurance Recoveries	-	-	47,550	-	-
Total Other Financing Sources (Uses)	<u>7,337,370</u>	<u>5,394,452</u>	<u>4,720,932</u>	<u>640,571</u>	<u>1,812,388</u>
Net Change in Fund Balances	(3,789,137)	522,515	1,356,728	(471,521)	3,910,342
Fund Balances - Beginning	7,189,027	12,910,957	11,567,093	7,058,850	4,408,183
Prior Period Adjustment	1,791	9,600	233	-	-
Change in Nonspendable Fund Balances	(524)	60,211	133,815	-	-
Fund Balances - Ending	<u>\$ 3,401,157</u>	<u>\$ 13,503,283</u>	<u>\$ 13,057,869</u>	<u>\$ 6,587,329</u>	<u>\$ 8,318,525</u>

Winter Recreational Parking	Consumer Protection	Transportation Infrastructure Bank	State Radio Project	Total Other Special Revenue Funds
\$ -	\$ -	\$ -	\$ 4,844	\$ 46,469,772
-	-	-	-	200,974
-	-	-	-	4,128,580
1,938,747	42,256	-	-	1,981,003
-	-	13,730	-	384,445
-	-	-	-	7,656
18,669	524	772,072	76,312	1,070,745
-	-	-	-	4,113,132
-	-	-	-	204,780
-	-	-	1,151	329,149
<u>1,957,416</u>	<u>42,780</u>	<u>785,802</u>	<u>82,307</u>	<u>58,890,236</u>
314,757	28,076	-	1,287,258	11,107,963
1,066,623	5,493	5,147	11,142,329	24,860,072
-	-	-	10,119,710	10,281,260
-	-	234,374	-	234,374
-	-	-	-	52,118,815
-	-	-	69,279	69,279
<u>1,381,380</u>	<u>33,569</u>	<u>239,521</u>	<u>22,618,576</u>	<u>98,671,763</u>
<u>576,036</u>	<u>9,211</u>	<u>546,281</u>	<u>(22,536,269)</u>	<u>(39,781,527)</u>
-	-	-	20,069,279	20,069,279
-	-	-	26,994,498	53,073,640
-	-	-	(10,427,006)	(16,647,985)
-	-	-	-	47,550
-	-	-	36,636,771	56,542,484
576,036	9,211	546,281	14,100,502	16,760,957
2,393,658	89,278	36,135,651	11,968,782	93,721,479
-	-	-	-	11,624
-	-	-	399,370	592,872
<u>\$ 2,969,694</u>	<u>\$ 98,489</u>	<u>\$ 36,681,932</u>	<u>\$ 26,468,654</u>	<u>\$ 111,086,932</u>



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STATISTICAL SECTION

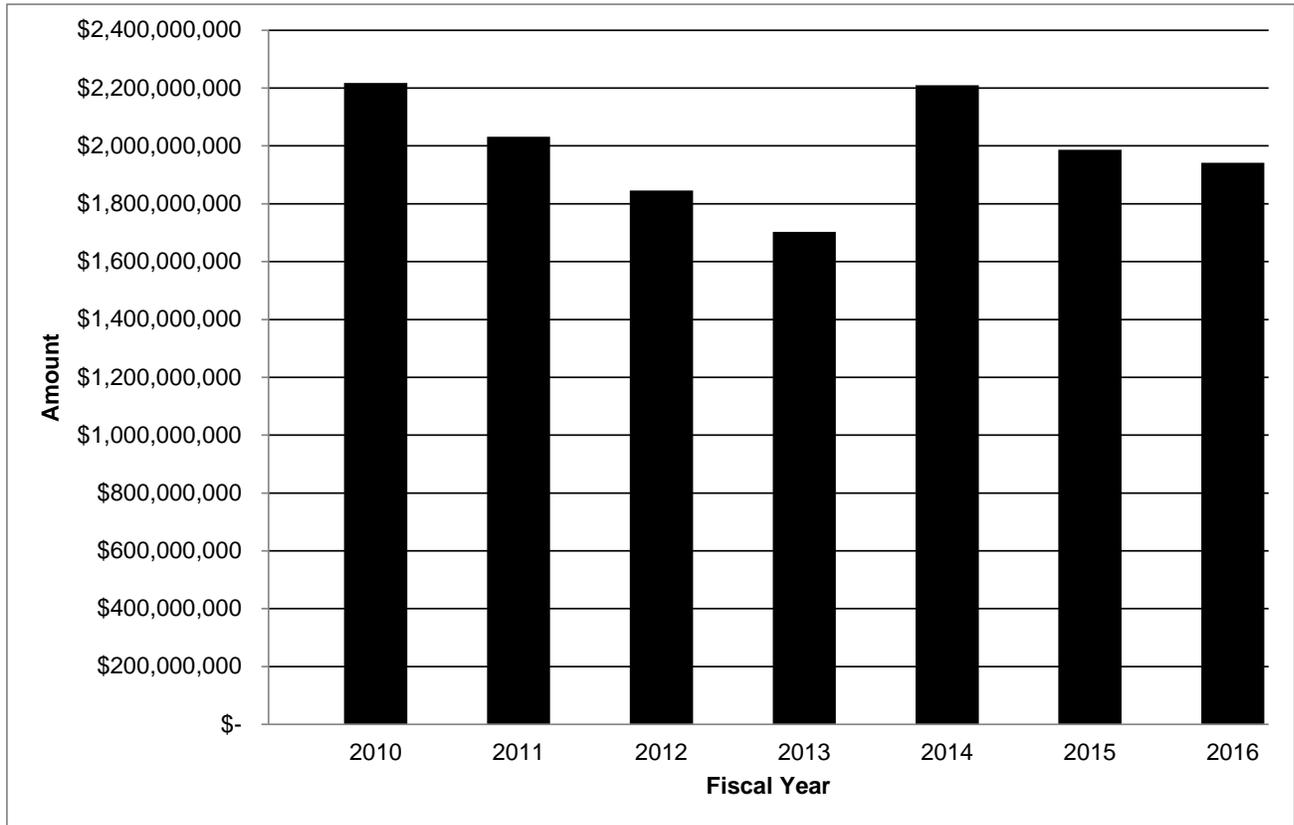
Table 1

**Schedule of Federal Financial Assistance
For the Fiscal Year Ended June 30, 2016**

CFDA #	Federal Program Description	Amount
11.549	State and Local Implementation Grant Program	\$ 629,717
20.200	Highway Research and Development Program	283,505
20.205	Highway Planning and Construction	479,068,826
20.232	Commercial Driver License State Programs	428,104
20.240	Fuel Tax Evasion-Intergovernmental Enforcement	25,000
20.319	High Speed And Intercity Passenger Rail	1,383,271
20.500	Federal Transit Capital Investment Grants	464,757
20.505	Federal Transit Metropolitan Planning Grants	607,362
20.507	Federal Transit Formula Grants	2,803,206
20.509	Formula Grants for Other Than Urbanized Areas	13,988,452
20.513	Capital Assistance for Elderly And Disabled	13,937,990
20.526	Bus and Bus Facilities Formula Program	1,768,680
20.528	Rail Fixed Guideway Oversight Program	624,650
20.600	State and Community Highway Safety	2,278,427
20.608	Minimum Penalties Repeat Offenders DWI	645,545
20.614	NHTSA Discretionary Safety Grants	76,073
20.616	National Priority Safety Programs	2,503,998
20.933	National Infrastructure Investments	3,098,699
81.087	Renewable Energy Research and Development	88,074
	Total	<u>\$ 524,704,336</u>

Table 2

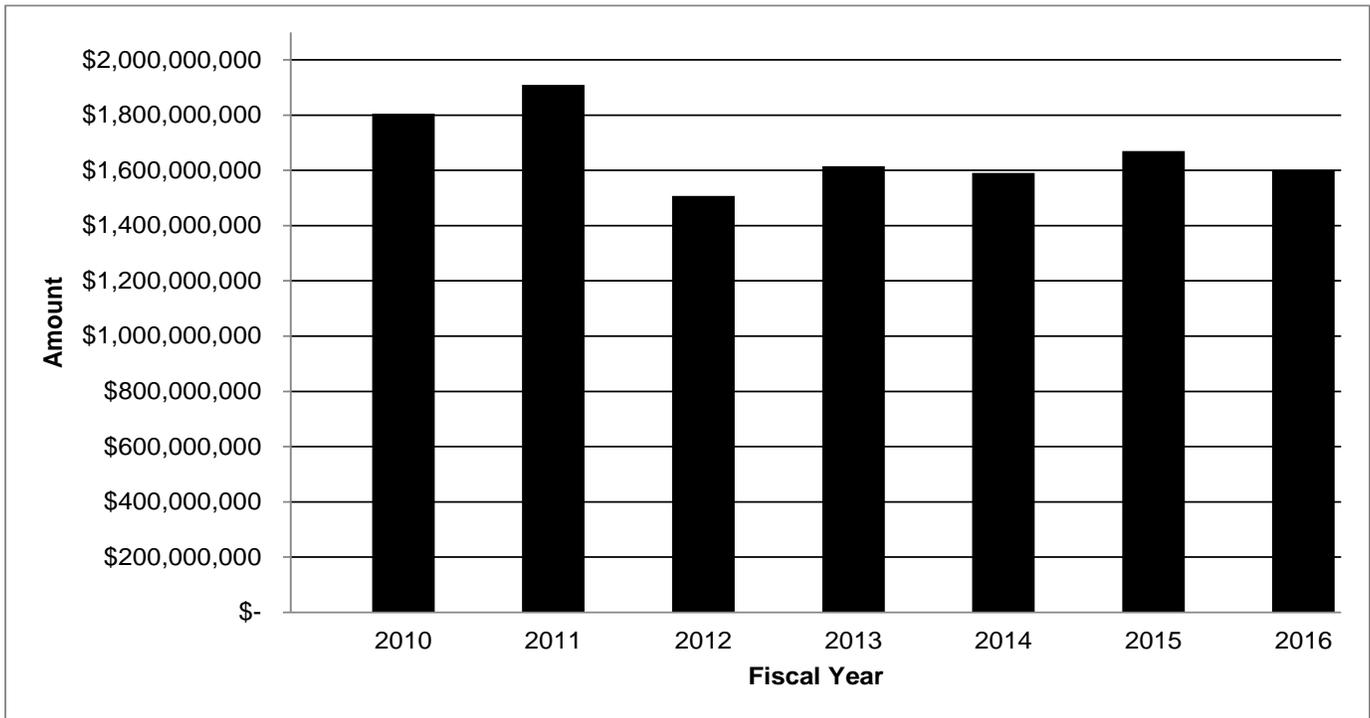
Net Revenues and Other Sources - Seven-Year Trend



	2010	2011	2012	2013	2014	2015	2016
Motor Fuel Taxes	\$ 406,052,514	\$ 449,290,147	\$ 490,991,236	\$ 487,930,939	\$ 493,677,217	\$ 508,902,698	\$ 532,171,382
Weight-Mile Taxes	207,025,044	239,967,358	259,983,935	251,527,795	269,388,277	285,234,715	291,302,037
Vehicle Registration Taxes	245,921,691	273,488,878	281,357,939	282,600,564	289,511,411	304,470,291	318,586,259
Other Transportation Fees	37,220,363	42,450,861	42,936,575	43,584,748	45,039,901	45,941,271	46,522,588
Investment Income	15,445,481	14,123,078	10,297,874	9,492,178	9,563,816	5,326,284	10,776,161
Federal Revenues	646,701,149	713,718,305	576,236,890	479,339,292	519,714,179	453,466,794	524,704,336
Driver License Fees	31,449,608	32,463,715	32,882,652	37,984,387	40,155,389	41,017,697	44,102,338
Charges for Services	14,303,887	34,599,212	35,406,532	25,919,958	30,061,733	35,118,997	30,885,656
Other Sales Income	6,732,934	3,690,463	4,678,690	12,406,304	17,452,891	10,927,951	10,215,406
Other Revenues	14,787,138	15,449,700	24,543,899	27,129,850	32,671,538	25,037,780	21,500,913
Business License Fees	5,379,150	8,942,415	6,383,231	6,401,201	6,304,692	7,393,045	5,413,005
Rents	2,805,334	3,027,843	3,511,205	3,361,572	3,449,864	3,854,080	3,981,554
Long-Term Debt	584,006,384	200,729,779	76,419,998	35,393,650	452,340,712	260,010,352	101,344,817
Total Net Revenue/Other Sources	\$ 2,217,830,677	\$ 2,031,941,754	\$ 1,845,630,656	\$ 1,703,072,438	\$ 2,209,331,620	\$ 1,986,701,955	\$ 1,941,506,452

Table 3

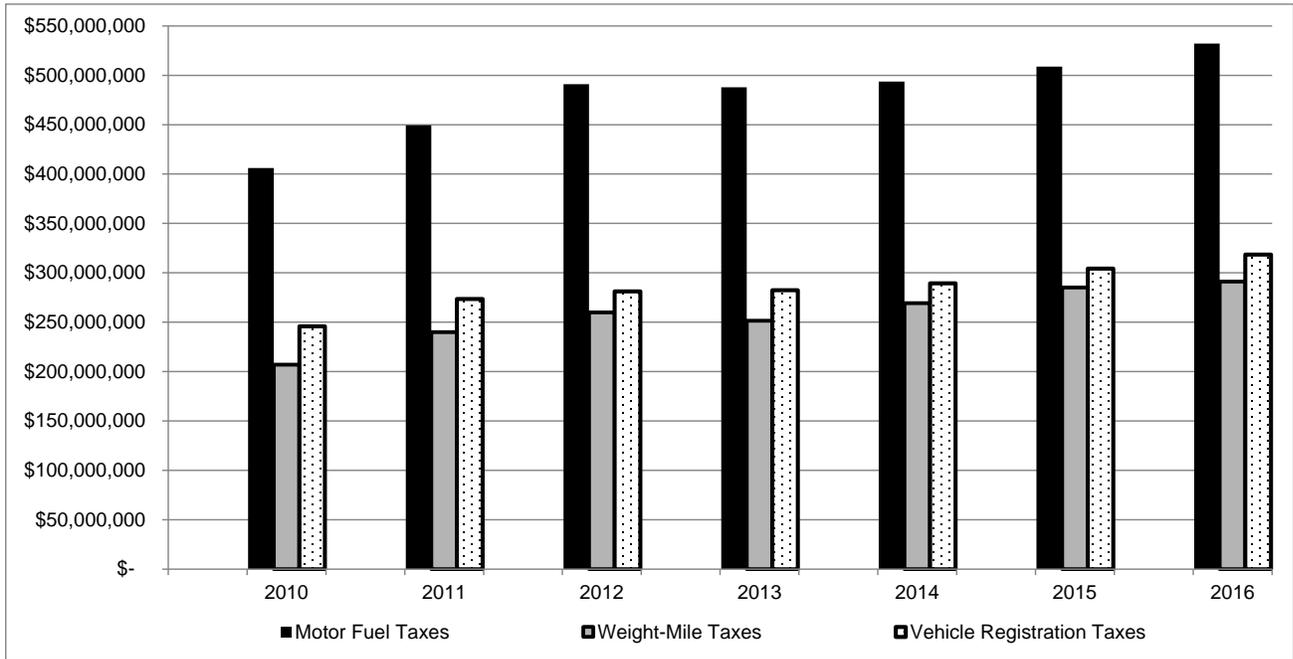
Total Expenditures - Seven-Year Trend



	2010	2011	2012	2013	2014	2015	2016
Personal Services	\$ 354,767,890	\$ 373,016,279	\$ 378,804,153	\$ 381,442,031	\$ 398,825,742	\$ 408,397,413	\$ 427,471,395
Services and Supplies	1,077,697,504	949,846,436	773,322,011	848,490,816	837,546,909	871,488,517	797,613,475
Capital Outlay	27,855,001	53,326,685	59,136,148	53,513,884	24,548,202	44,699,187	28,086,799
Loan Interest	640,344	750,473	638,725	418,855	502,851	263,426	234,374
Bad Debt Expense	-	-	-	-	437,817	-	-
Special Payments	188,230,998	320,256,046	98,782,907	118,298,492	102,746,347	95,816,455	84,377,981
Debt Service (combined)	157,154,794	213,163,329	197,563,429	213,343,942	226,193,937	249,656,909	263,021,793
Total Expenditures	\$ 1,806,346,531	\$ 1,910,359,248	\$ 1,508,247,373	\$ 1,615,508,020	\$ 1,590,801,805	\$ 1,670,321,907	\$ 1,600,805,817

Table 4

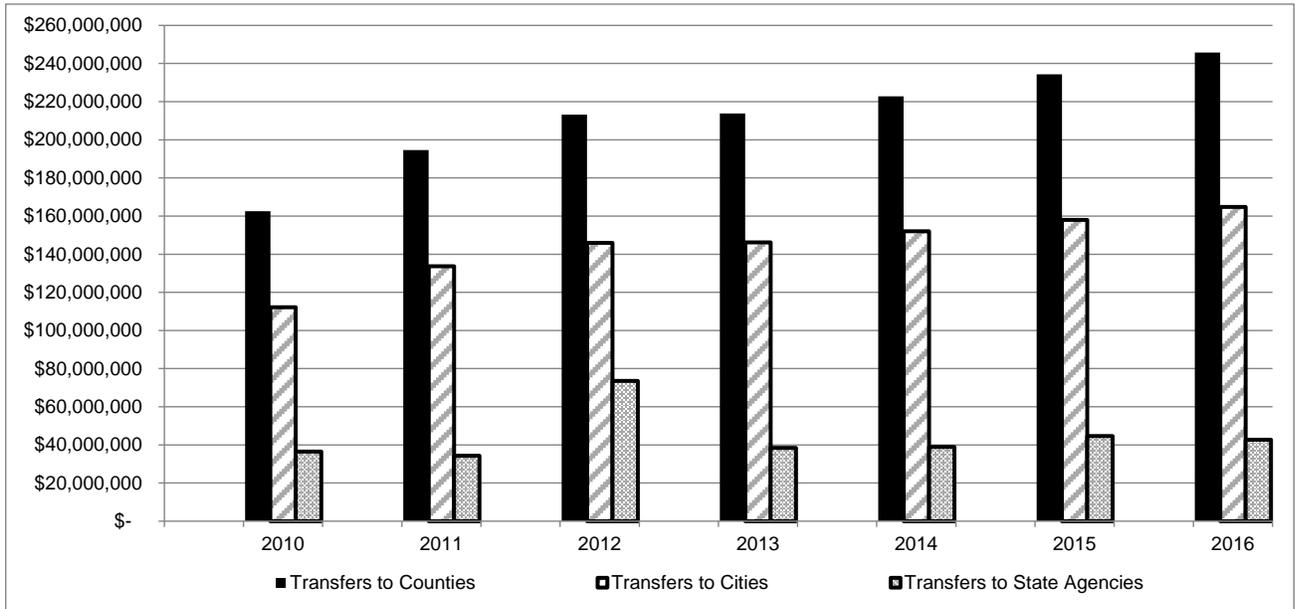
Net Vehicle-Related Tax Collections - Seven-Year Trend



	2010	2011	2012	2013	2014	2015	2016
Motor Fuel Taxes	\$ 406,052,514	\$ 449,290,147	\$ 490,991,236	\$ 487,930,939	\$ 493,677,217	\$ 508,902,698	\$ 532,171,382
Weight-Mile Taxes	207,025,044	239,967,358	259,983,935	251,527,795	269,388,277	285,234,715	291,302,037
Vehicle Registration Taxes	245,921,691	273,488,878	281,357,939	282,600,564	289,511,411	304,470,291	318,586,259
Total Vehicle Related Taxes	\$ 858,999,249	\$ 962,746,383	\$ 1,032,333,110	\$ 1,022,059,298	\$ 1,052,576,905	\$ 1,098,607,704	\$ 1,142,059,678

Table 5

Transfers to Others - Seven-Year Trend



	2010	2011	2012	2013	2014	2015	2016
Transfers to Counties	\$ 162,542,078	\$ 194,663,136	\$ 213,176,356	\$ 213,748,734	\$ 222,806,116	\$ 234,384,864	\$ 245,771,166
Transfers to Cities	112,254,054	133,729,003	146,031,720	146,184,265	152,030,171	158,041,400	164,775,679
Transfers to State Agencies ⁽¹⁾	36,527,327	34,360,229	73,605,057	38,481,075	39,017,147	44,725,728	42,693,360
Total Distributions	\$ 311,323,459	\$ 362,752,368	\$ 432,813,133	\$ 398,414,074	\$ 413,853,434	\$ 437,151,992	\$ 453,240,205

⁽¹⁾ In Fiscal Year 2012, the Oregon Department of Administrative Services (DAS) centralized the accounting and reporting for Lottery Bond Reserve Funds. This resulted in a one-time transfer of funds from the Department to DAS.

The Department is required by law to apportion Highway Funds to counties and cities based on specific criteria. As certain revenues increase, the apportionments to counties and cities also increase (e.g. increases in motor fuels tax revenues will cause an increase in apportionments).

Funds are apportioned to counties based on the proportion of the number of vehicles, trailers, and semi-trailers, etc. registered in each county to the total number of those same vehicles registered statewide. The percentage allocation is determined on a calendar year basis. Funds are apportioned to cities based on the proportion of the population of each city to the total population of the state as determined by the Portland State University Population Research Center.