PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 16, 2017

This Official Statement has been prepared on behalf of the State of Oregon, acting by and through the Oregon State Treasurer, at the request of the Oregon Department of Transportation, to provide information on the 2017C Senior Lien Bonds. Selected information is presented on this cover for the convenience of the users. To make an informed decision regarding the 2017C Senior Lien Bonds, a prospective investor should read this Official Statement, including all Appendices, in its entirety. Unless otherwise indicated, capitalized terms used on the cover page have the meanings given in this Official Statement.

NEW ISSUE – Book-Entry-Only **SEE "RATINGS" HEREIN**

$133,580,000*
STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE REFUNDING BONDS
SENIOR LIEN BONDS
SERIES 2017C

Dated: Date of Delivery **Base CUSIP: 68607D** **Due: As shown on inside cover**

Tax Exemption	In the opinion of Orrick, Herrington & Sutcliffe, LLP, Bond Counsel ("Bond Counsel") to the State of Oregon (the "State") acting by and through the State Treasurer, at the request of the Department of Transportation (collectively, the "Issuer"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on State of Oregon Department of Transportation Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C (the "2017C Senior Lien Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2017C Senior Lien Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the opinion of Bond Counsel, interest on the 2017C Senior Lien Bonds is exempt from Oregon personal income tax under existing law. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2017C Senior Lien Bonds. See "TAX MATTERS" herein.
Purpose and Authorization	The 2017C Senior Lien Bonds are issued by the State, acting by and through the State Treasurer, at the request of the Department of Transportation, pursuant to the Oregon Constitution and provisions of Oregon law described herein, and the Master Declaration, as amended and supplemented by the prior Supplemental Declarations and the Fifteenth Supplemental Declaration (all as defined herein). The 2017C Senior Lien Bonds are issued as Senior Lien Bonds for the purpose of (i) refunding certain Outstanding Senior Lien Highway User Tax Revenue Bonds, as described herein, and (ii) paying costs of issuance of the 2017C Senior Lien Bonds.
Security	The 2017C Senior Lien Bonds are secured by and payable solely from the Trust Estate, as described herein, which consists primarily of the Pledged Revenues on a senior lien basis. The 2017C Senior Lien Bonds are special revenue obligations of the State and do not constitute a debt or general obligation of the State or any political subdivision of the State. Oregon law and the Declaration require the State to provide for the continued assessment, levy, collection and deposit into the State Highway Fund of amounts that constitute Pledged Revenues and that are sufficient to pay, when due, annual debt service on the 2017C Senior Lien Bonds. Owners of the 2017C Senior Lien Bonds do not have the right to compel the exercise of the taxing power of the State (except to the extent provided by Oregon Revised Statutes 367.615 or Section 12 of the Master Declaration) or any political subdivision of the State to pay debt service on the 2017C Senior Lien Bonds. The full faith and credit of the State or any political subdivision thereof is not pledged to the payment of the 2017C Senior Lien Bonds. See "SECURITY AND SOURCES OF PAYMENT—Future Actions of the Oregon Legislative Assembly."
Interest Calculation	Interest on the 2017C Senior Lien Bonds will accrue from the Date of Delivery on a 30/360 basis and will be payable on May 15 and November 15 of each year, commencing on November 15, 2017. The 2017C Senior Lien Bonds will be issued and bear interest at the fixed interest rates shown on the inside cover.
Denominations	$5,000 or any integral multiple thereof.
Redemption	The 2017C Senior Lien Bonds are not subject to redemption prior to their stated maturities.
Closing/Settlement	It is expected that the 2017C Senior Lien Bonds will be available for delivery through the facilities of The Depository Trust Company in the United States on or about September __, 2017.
Legal Counsel	Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Bond Counsel and Disclosure Counsel to the Issuer; the Oregon Department of Justice, Salem, Oregon, Counsel to the Issuer; Hawkins Delafield & Wood LLP, Portland, Oregon, Counsel to the Underwriters.
Paying Agent	The Bank of New York Mellon Trust Company, N.A., as the State of Oregon's Fiscal Agent.

Morgan Stanley
BofA Merrill Lynch
Wells Fargo Securities

Citigroup
Fidelity Capital Markets
The Williams Capital Group, L.P.

* Preliminary, subject to change.

$133,580,000*
STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE REFUNDING BONDS
SENIOR LIEN BONDS
SERIES 2017C

Maturity Date* (November 15)	Principal Amount*	Interest Rate	Yield	CUSIP† No. (68607D)
2018	$ 25,450,000	%	%	
2019	19,320,000			
2020	13,735,000			
2021	23,685,000			
2022	9,305,000			
2023	9,770,000			
2024	10,250,000			
2025	10,765,000			
2026	11,300,000			

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. CUSIP® numbers are subject to change. None of the State, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the State of Oregon (the "State"), acting by and through the State Treasurer and the Oregon Department of Transportation (the "Department"), or the Underwriters to give any information or to make any representation other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No website mentioned in this Official Statement is intended to be part of this Official Statement, and investors should not rely upon any other information presented on any such website in determining whether to purchase the 2017C Senior Lien Bonds. Inactive textual references to any State website are not hyperlinks and do not incorporate such websites by reference.

The initial public offering prices or yields set forth on the inside cover page for the 2017C Senior Lien Bonds may be changed from time to time by the Underwriters without prior notice. The Underwriters may offer and sell the 2017C Senior Lien Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices or at yields higher than the yields stated on the inside cover page. In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the 2017C Senior Lien Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing if commenced may be discontinued at any time.

This Preliminary Official Statement has been "deemed final" as of its date by the State, except for the omission of offering prices, debt service, interest rates, selling commissions, aggregate principal amount, principal amount per maturity, delivery dates and other terms of the 2017 Senior Lien Bonds depending on such matters, in accordance with Rule 15c2-12(b)(i) under the Securities Exchange Act of 1934, as amended.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "forecast," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

The 2017C Senior Lien Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The 2017C Senior Lien Bonds have not been registered or qualified under the securities laws of any state, the 2017C Senior Lien Bonds have not been recommended by any federal or state securities commission or regulatory authority, and the foregoing authorities have neither reviewed nor confirmed the accuracy of this document.

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INTRODUCTION

General

The purpose of this Official Statement, including the cover page, inside cover page, table of contents and appendices, is to set forth information concerning the State of Oregon (the "State"), the Oregon Department of Transportation (the "Department" or "ODOT") and the State of Oregon Department of Transportation Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C (the "2017C Senior Lien Bonds").

The 2017C Senior Lien Bonds are issued by the State, acting by and through the State Treasurer (the "State Treasurer"), at the request of the Department (collectively, the "Issuer"), pursuant to Article IX, Section 3a of the Oregon Constitution and the Oregon Revised Statutes ("ORS"), specifically ORS Chapter 286A, as amended, inclusive, ORS 367.605 to 367.665, as amended, inclusive, Chapter 3, Oregon Laws 2002 (First Special Session), Chapter 618, Oregon Laws 2003, Chapter 865, Oregon Laws 2009, Chapter 30, Oregon Laws 2010, Chapter 11, Oregon Laws 2013, Chapter 344, Oregon Laws 2015 and Chapter 38, Oregon Laws 2016 (collectively, the "Act").

The Oregon Transportation Commission (the "Commission") adopted its Miscellaneous Resolution No. 314 on March 21, 2012, which among other things authorizes the issuance of Highway User Tax Revenue Bonds, from time to time, for the purpose of refunding Outstanding Highway User Tax Revenue Bonds to achieve debt service savings, pursuant to the Act and the Declaration.

The 2017C Senior Lien Bonds are issued pursuant to the Act and the Conformed Amended and Restated Master Highway User Tax Revenue Bond Declaration (the "Master Declaration"), dated as of June 1, 2006 and conformed as of November 1, 2010, and the Fifteenth Supplement to the Amended and Restated Master Highway User Tax Revenue Bond Declaration to be dated as of September __, 2017, amending and supplementing the Master Declaration, executed and delivered by the Department and approved by the State Treasurer (the "Fifteenth Supplemental Declaration"). Together, the Master Declaration, the prior Supplemental Declarations to the Master Declaration and the Fifteenth Supplemental Declaration are referred to collectively as the "Declaration." The Bank of New York Mellon Trust Company, N.A., the State's fiscal agent, has been appointed paying agent and bond registrar under the Declaration and is referred to in this Official Statement as the "Fiscal Agent," "Paying Agent" or the "Bond Registrar," as applicable. Capitalized terms used but otherwise not defined in this Official Statement have the meanings assigned in the Declaration.

The 2017C Senior Lien Bonds are secured by and payable solely from the Trust Estate, as described herein, which consists primarily of the Pledged Revenues. The 2017C Senior Lien Bonds are issued as Senior Lien Bonds pursuant to the Master Declaration, and together with the Outstanding Senior Lien Bonds and any Additional Senior Lien Bonds that may be issued in the future (collectively, the "Senior Lien Bonds"), will be equally and ratably secured by the Trust Estate. The 2017C Senior Lien Bonds will be issued as fixed rate bonds. See "AUTHORITY FOR ISSUANCE," "DESCRIPTION OF THE 2017C SENIOR LIEN BONDS," "SECURITY AND SOURCES OF PAYMENT," "APPENDIX

* Preliminary, subject to change.

A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017" and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION."

The 2017C Senior Lien Bonds are issued for the purpose of (i) refunding certain Outstanding Senior Lien Highway User Tax Revenue Bonds, as described herein (the "Refunded Bonds"), and (ii) paying costs of issuance of the 2017C Senior Lien Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF 2017 BOND PROCEEDS."

Additional Information

Brief descriptions of the Department and the 2017C Senior Lien Bonds are included in this Official Statement. More detailed information concerning the Department and the Highway User Tax Revenue Bond Program are included in APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017." Information concerning the State of Oregon pension and other post-retirement benefit programs is included in APPENDIX A2—"STATE OF OREGON – PENSION AND OTHER POST-RETIREMENT BENEFIT PROGRAMS." The Department's Annual Financial Report (Unaudited) For Fiscal Year Ended June 30, 2016 and The Oregon Department of Transportation June 2017 Revenue Forecast are included as Appendices B and C, respectively.

Certain provisions of the Declaration are summarized in Appendix D hereto. All references herein to the Master Declaration, the Fifteenth Supplemental Declaration and the 2017C Senior Lien Bonds are qualified in their entirety by reference to such documents.

The proposed form of opinion to be delivered by Bond Counsel and the proposed form of continuing disclosure certificate to be executed and delivered by the State and the Department are included as Appendices E and F, respectively.

The information in APPENDIX G—"DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the Issuer, the Underwriters, as defined herein under the heading "UNDERWRITING" or Public Resources Advisory Group (the "Municipal Advisor") for the accuracy or completeness of such information.

AUTHORITY FOR ISSUANCE

Constitutional Dedication of Revenues

Article IX, Section 3a of the Oregon Constitution provides that revenues received from taxes levied on the ownership, operation or use of motor vehicles and on motor vehicle fuel may be used only for the construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, streets and roadside rest areas in the State, the cost of administration, payment of refunds or credits and for the retirement of bonds for which such revenues have been pledged. See "SECURITY AND SOURCES OF PAYMENT."

Highway User Tax Revenue Bond Program

The Highway User Tax Revenue Bond program is set out under ORS 367.605 to 367.665. Pursuant to ORS 367.615, the Department may request the State Treasurer to issue and sell revenue bonds known as “Highway User Tax Revenue Bonds.” Proceeds from the sale of Highway User Tax Revenue Bonds are declared to be for the purpose of building and maintaining permanent public roads and may be used, among other things, to finance the cost of state highway, county road and city street projects in the State, to pay the costs of issuing the bonds, for loans to cities and counties as provided by Oregon law, to pay debt service on the bonds, and to pay the costs of the State Treasurer and the Department to administer and maintain the bonds and the Highway User Tax Bond program. Highway User Tax Revenue Bonds are secured by and payable solely from the Trust Estate, which consists primarily of the Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT” and APPENDIX A—“INFORMATION RELATING TO THE DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES.”

The Oregon Legislative Assembly (the “Legislative Assembly”) authorizes the issuance of Highway User Tax Revenue Bonds for financing preservation and modernization projects, for replacement and repair of bridges, for refunding or advance refunding any outstanding Highway User Tax Revenue Bonds issued under the Act and for any other lawful purpose. The Legislative Assembly authorized the issuance of Highway User Tax Revenue Bonds to finance transportation projects under two transportation program initiatives for which all bond authorization has been issued: the Oregon Transportation Investment Act (“OTIA”) and the Jobs and Transportation Act (“JTA”). These programs are briefly described herein and more fully in APPENDIX A—“INFORMATION RELATING TO THE DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES.” As described herein, the 2017 Transportation Bill (defined below), authorizes the issuance of Highway User Tax Revenue Bonds on or after January 1, 2020. See “RECENT DEVELOPMENTS— 2017 Transportation Legislation.”

2017 Transportation Bill. During the 2017 Legislative Session, the Legislative Assembly approved House Bill 2017, sponsored by the Joint Committee on Transportation and Modernization, to address transportation improvement, modernization and preservation throughout the State (the “2017 Transportation Bill”). The 2017 Transportation Bill is expected to become law in August 2017 by the Governor’s signature. The provisions of the 2017 Transportation Bill go into effect on October 6, 2017, the 91st day after the date on which the Legislative Assembly adjourned (the “Effective Date”), although some provisions of the 2017 Transportation Bill are not operative until January 1, 2018 and later.

All or any part of the 2017 Transportation Bill may be referred to the voters if enough signatures are gathered between the date the bill is signed by the Governor or August 18, 2017, whichever is earlier, and the Effective Date. See APPENDIX A—“INFORMATION RELATING TO THE DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—INITIATVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS” for further discussion of the referral process. A judicial challenge to all or any part of the 2017 Transportation Bill may be brought subsequent to the Effective Date. For further discussion of the 2017 Transportation Bill, see “RECENT DEVELOPMENTS— 2017 Transportation Legislation.”

Bond Declaration

Pursuant to the Act, Highway User Tax Revenue Bonds are issued pursuant to the Declaration, and the Department designates the extent to which a series of Highway User Tax Revenue Bonds is secured and payable on a parity of lien or on a subordinate basis to existing or future Highway User Tax Revenue Bonds.

Prior to the issuance of the 2017C Senior Lien Bonds, there are eight series of Highway User Tax Revenue Bonds outstanding as Senior Lien Bonds (the "Outstanding Senior Lien Bonds") and four series of Highway User Tax Revenue Bonds outstanding as Subordinate Lien Obligations (the "Outstanding Subordinate Lien Obligations"). See "SECURITY AND SOURCES OF PAYMENT—Highway User Tax Revenue Bonds" and Table 3 for a summary of the Department's outstanding Senior Lien Bonds and Subordinate Lien Obligations.

Senior Lien Bonds and the Trust Estate. The 2017C Senior Lien Bonds, together with all Outstanding Senior Lien Bonds and any Additional Senior Lien Bonds issued pursuant to the Master Declaration are equally and ratably secured by the Trust Estate and payable from the Pledged Revenues on a parity of lien. All references herein to the "Senior Lien Bonds" include the 2017C Senior Lien Bonds. See "SECURITY AND SOURCES OF PAYMENT—Pledged Revenues" and "—Highway User Tax Revenue Bonds" below, and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Senior Lien Bonds."

Under the Declaration, the Department has pledged as security for the Senior Lien Bonds all of the Department's right, title and interest in (i) the moneys and investments on deposit in the Debt Service Account (other than moneys credited to the Rebate Account therein), (ii) any Credit Facility given as security for payment of any amounts owing on any Senior Lien Bonds (provided that such Credit Facility shall secure only those Senior Lien Bonds for which it was given), (iii) any Financial Contract Receipts received in connection with any Financial Contract entered in connection with the Senior Lien Bonds, and (iv) such other properties and assets as the State may hereafter pledge to the payment of the Senior Lien Bonds pursuant to any Supplemental Declaration. These rights, together with the Pledged Revenues, are referred to collectively in the Declaration as the "Trust Estate." For a further description of the Pledged Revenues and the Trust Estate under the Declaration, see "SECURITY AND SOURCES OF PAYMENT" below and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Security" and "—Lien on Pledged Revenues and Pledge of Trust Estate and Subordinate Security."

2017C Senior Lien Bonds. The Department is designating the 2017C Senior Lien Bonds as "Senior Lien Bonds" under the Master Declaration. Pursuant to the Declaration, the State is issuing the 2017C Senior Lien Bonds as "Additional Senior Lien Bonds" pursuant to the requirements, including the additional bonds test, of the Master Declaration. See "PLAN OF REFUNDING" below, and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Senior Lien Bonds."

Subordinate Lien Obligations and the Subordinate Security. Under the Master Declaration, the Outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations are equally and ratably secured by the Subordinate Security and payable from the Pledged Revenues on a subordinate, junior and inferior basis to the pledge and lien of security for the Senior Lien Bonds. See "SECURITY AND SOURCES OF PAYMENT—Highway User Tax Revenue Bonds" below, and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Subordinate Lien Obligations."

In addition to the Pledged Revenues that are pledged to the Subordinate Lien Obligations on a subordinate, junior and inferior basis, the Department has pledged under the Declaration all of the Department's right, title and interest in (i) the moneys and investments on deposit in the Subordinate Lien Obligations Account within the Debt Service Account (other than (a) moneys credited to the Rebate Subaccount therein and (b) proceeds of any Credit Facility not pledged to such Series of Subordinate Lien Obligations), (ii) any Credit Facility given as security for payment of any amounts owing on any Subordinate Lien Obligations (provided that such Credit Facility shall secure only those Subordinate Lien

Obligations for which it was given), (iii) any Financial Contract Receipts received in connection with any Financial Contract entered in connection with the Subordinate Lien Obligations, and (iv) such other properties and assets as the State may hereafter pledge to the payment of the Subordinate Lien Obligations pursuant to any Supplemental Declaration; provided, however, that such other properties and assets shall not include any Pledged Revenues as defined in the Master Declaration. These rights, together with the Pledged Revenues, are referred to collectively in the Declaration as the "Subordinate Security." For a further description of the Pledged Revenues, the Trust Estate and the Subordinate Security under the Declaration, see "SECURITY AND SOURCES OF PAYMENT" below and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Security" and "—Lien on Pledged Revenues and Pledge of Trust Estate and Subordinate Security."

Two series of Subordinate Lien Obligations, the State of Oregon Department of Transportation Highway User Tax Revenue Subordinate Lien Refunding Bonds, Series 2017S-1, and the State of Oregon Department of Transportation Highway User Tax Revenue Subordinate Lien Refunding Bonds, Series 2017S-2 (collectively, the "2017 Subordinate Lien Bonds"), are subject to mandatory tender upon the occurrence of certain events of default including failure of the Issuer to observe or perform any of the covenants, conditions or provisions which include, without limitation, failure to pay the 2017 Subordinate Lien Obligations or other obligations under the Master Declaration, under the terms of the applicable continuing covenant agreements executed by the Issuer and the respective purchasers of the 2017 Subordinate Lien Bonds (the "2017 Bank Agreements"). The 2017 Bank Agreements provide that if the 2017 Subordinate Lien Bonds are subject to mandatory tender as a result of certain events, the 2017 Subordinate Lien Bonds will become due and payable prior to the initial mandatory tender date of May 1, 2020, on a subordinate basis to the Senior Lien Bonds. Upon the initial mandatory tender date or subsequent mandatory tender dates, so long as no event of default is occurring and certain other conditions have been met, the Issuer may cause the principal amount of the 2017 Subordinate Lien Bonds to be redeemed in bi-annual installments from the mandatory tender date until the third anniversary thereof. The Department has filed redacted copies of the 2017 Bank Agreements on EMMA. See "SECURITY AND SOURCES OF PAYMENT—Highway User Tax Revenue Bonds" and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Senior Lien Bonds."

Other Obligations Authorized. The Master Declaration allows the Department to authorize and issue other bonds, notes, certificates, warrants or other evidences of indebtedness for any lawful purpose relating to the Department and to provide for the payment of such other bonds, notes, certificates, warrants or other evidences of indebtedness with a lien and pledge on the Pledged Revenues, Additional Pledged Revenues, or New Pledged Revenues that would be junior and inferior to the lien and pledge on the Pledged Revenues, Additional Pledged Revenues, or New Pledged Revenues created under the Master Declaration for the payment and security of the Senior Lien Bonds and for the payment and security of the Subordinate Lien Obligations (the "Second Subordinate Lien Obligations").

Subject to the Legislative Assembly authorizing the Department to issue Highway User Tax Revenue Bonds for future projects, the Department may determine to issue any such authorized Highway User Tax Revenue Bonds as Senior Lien Bonds, as Subordinate Lien Obligations, as Second Subordinate Lien Obligations or as other subordinate lien obligations as it determines necessary and appropriate at that time and subject to satisfying the requirements of the Master Declaration. See "SECURITY AND SOURCES OF PAYMENT—Other Debt Obligations" and APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES."

Collectively, the Senior Lien Bonds, the Subordinate Lien Obligations and the Second Subordinate Lien Obligations authorized to be issued under the Master Declaration are referred to herein as the "Bonds." See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION."

Debt Service Account. Pursuant to the Master Declaration, the Department has created and established a Debt Service Account that is held in the custody of the State for payment of the principal of and interest on Highway User Tax Revenue Bonds. The Department must deposit Pledged Revenues on a monthly basis into the Debt Service Account and the subaccounts created therein. In the event of a deficiency in the required deposit to any of the funds and accounts as provided in the Master Declaration, unless the Department uses lawfully available Pledged Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the State Highway Fund shall be deposited: (i) first to the applicable subaccounts within the Debt Service Account to make up any deficiencies in the funds and accounts designated for the Senior Lien Bonds; and (ii) second to the Subordinate Lien Obligations Account and any subaccounts therein to make up any deficiencies in the funds and accounts designated for the Subordinate Lien Obligations. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Funds and Accounts."

DESCRIPTION OF THE 2017C SENIOR LIEN BONDS

General

The 2017C Senior Lien Bonds are issued in the aggregate principal amounts set forth on the inside cover page of this Official Statement. The 2017C Senior Lien Bonds are dated the date of delivery to the Underwriters. Interest on the 2017C Senior Lien Bonds is to accrue on the basis of a 360-day year based on twelve 30-day months from the date of delivery to the Underwriters at the respective rates per annum set forth on the inside cover page. Interest on the 2017C Senior Lien Bonds is payable semiannually on May 15 and November 15 of each year beginning on November 15, 2017, and principal of the 2017C Senior Lien Bonds is payable on November 15 in the years and in the principal amounts set forth on the inside cover page of this Official Statement.

The 2017C Senior Lien Bonds will be issued in fully registered form in denominations of $5,000 and integral multiples thereof. The 2017C Senior Lien Bonds will be registered in the name of Cede & Co. as registered owner and nominee of DTC. As long as the 2017C Senior Lien Bonds are registered in such name or in the name of a successor nominee, the ownership of the 2017C Senior Lien Bonds will be evidenced by book-entry. See APPENDIX G—"DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM." Purchasers will not receive certificated 2017C Senior Lien Bonds. So long as Cede & Co. is the registered owner of the 2017C Senior Lien Bonds, reference herein to the Bondholders or registered owners will mean Cede & Co.

So long as Cede & Co. is the registered owner of the 2017C Senior Lien Bonds, principal of, premium, if any, and interest on the 2017C Senior Lien Bonds are payable by wire transfer of funds by the Paying Agent to Cede & Co., as nominee of DTC. DTC is obligated, in turn, to remit such amounts to its participants as described herein for subsequent disbursement to the Beneficial Owners. See APPENDIX G—"DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

Purchase on the Open Market

The Department reserves the right to purchase any 2017C Senior Lien Bonds on the open market from any available funds and to deliver such 2017C Senior Lien Bonds to the Paying Agent for cancellation. At the direction of the Department, the principal amounts of 2017C Senior Lien Bonds that are Term Obligations purchased and delivered to the Paying Agent for cancellation pursuant to the Fifteenth Supplemental Declaration shall be credited against future mandatory redemption payments for Term Obligations of the same series and maturity and bearing interest at the same rate in the years specified by the Department. The principal amount of the 2017C Senior Lien Bonds to be redeemed by mandatory redemption pursuant to the Declaration shall be reduced by the principal amount of 2017C Senior Lien Bonds of the same series and maturity and bearing interest at the same rate purchased by the Department and delivered to the Paying Agent for cancellation at least 45 days prior to the date fixed for mandatory redemption.

PLAN OF REFUNDING*

The 2017C Senior Lien Bonds are issued for the purpose of refunding the Refunded Bonds. To effect debt service savings, the Issuer plans to use a portion of the proceeds to be received from the sale of the 2017C Senior Lien Bonds to refund all or a portion of certain Refunded Bonds shown in the table below on November 15, 2017.

The refunding of the Refunded Bonds is subject to market conditions. If in the opinion of the Issuer the refunding of some or all of the Refunded Bonds will not result in sufficient debt service savings, the Issuer may determine not to refund some or all of the Refunded Bonds. The Issuer could also determine to refund additional Outstanding Highway User Tax Revenue Bonds if market conditions warrant.

A portion of the proceeds of the 2017C Senior Lien Bonds are to be held by the State Treasurer in escrow in the Oregon Short-Term Fund (the "OSTF") until applied, together with funds contributed by the Issuer, if necessary, to pay interest on the Refunded Bonds, to refund the Refunded Bonds on the date fixed for redemption shown in the table below. During the time the proceeds of the 2017C Senior Lien Bonds are held by the State Treasurer in escrow in the OSTF, the Refunded Bonds will remain outstanding and are not defeased under the Master Declaration until the redemption date of November 15, 2017.

* Preliminary, subject to change.

TABLE 1*
OUTSTANDING HIGHWAY USER TAX REVENUE BONDS TO BE REFUNDED WITH PROCEEDS OF THE 2017C SENIOR LIEN BONDS

Series	Maturity Date (November 15)	Principal Amount	Coupon	Redemption Date (November 15)	Redemption Price	CUSIP Number (68607D)
2007C	2018	$26,835,000	5.000%	2017	100%	KX2
2007C	2019	21,170,000	5.000	2017	100	KY0
2007C	2020	15,675,000	5.000	2017	100	KZ7
2007C	2021	775,000	4.125	2017	100	LA1
2007C	2021	24,885,000	4.500	2017	100	LB9
2007C	2022	11,285,000	4.500	2017	100	LC7
2007C	2023	1,280,000	4.250	2017	100	LD5
2007C	2023	10,510,000	4.500	2017	100	LE3
2007C	2024	2,355,000	4.250	2017	100	LF0
2007C	2024	9,955,000	4.500	2017	100	LG8
2007C	2025	755,000	4.300	2017	100	LH6
2007C	2025	12,105,000	4.500	2017	100	LJ2
2007C	2026	3,890,000	4.375	2017	100	LK9
2007C	2026	9,540,000	4.500	2017	100	LL7

* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF 2017 BOND PROCEEDS

The estimated sources and uses of proceeds of the 2017C Senior Lien Bonds are set forth below.

	Series 2017C Bonds
SOURCES:	
Par Amount	
Net Original Issue Premium/Discount	
Funds on Deposit for Refunded Bonds	
Total Sources	
USES:	
Escrow Deposit	
Costs of Issuance [1]	
Total Uses	

[1] Includes Underwriters' discount, amounts to be used to pay arbitrage rebate, additional proceeds and other costs associated with the issuance of the 2017C Senior Lien Bonds, including legal fees, municipal advisor fees and rating agency fees.

SECURITY AND SOURCES OF PAYMENT

Special Revenue Obligations

Under the Act and the Master Declaration, the State is obligated to assess, levy, collect and deposit into the State Highway Fund Pledged Revenues and that are sufficient to pay, when due, annual debt service on Highway User Tax Revenue Bonds, which includes the Senior Lien Bonds, the Subordinate Lien Obligations and any Second Subordinate Lien Obligations.

The 2017C Senior Lien Bonds are special revenue obligations of the State and do not constitute a debt or general obligation of the State or any political subdivision of the State. Oregon law and the Declaration require the State to provide for the continued assessment, levy, collection and deposit into the State Highway Fund of amounts that constitute Pledged Revenues and that are sufficient to pay, when due, annual debt service on the 2017C Senior Lien Bonds. Owners of the 2017C Senior Lien Bonds do not have the right to compel the exercise of the taxing power of the State (except to the extent provided by ORS 367.615 or Section 12 of the Master Declaration) or any political subdivision of the State to pay debt service on the 2017C Senior Lien Bonds. The full faith and credit of the State or any political subdivision thereof is not pledged to the payment of the 2017C Senior Lien Bonds.

The Outstanding Senior Lien Bonds, the 2017C Senior Lien Bonds and any Additional Senior Lien Bonds that may be issued pursuant to the Master Declaration and any Supplemental Declaration in the future are secured with a parity lien on, and are payable solely from, the Trust Estate. The Trust Estate consists primarily of Pledged Revenues, as described below.

The Outstanding Subordinate Lien Obligations and any Additional Subordinate Lien Obligations that may be issued pursuant to the Master Declaration and any Supplemental Declaration in the future are secured by the Subordinate Security and payable from Pledged Revenues on a subordinate, junior and inferior basis to the pledge and lien of security for the Senior Lien Bonds. The Subordinate Security consists primarily of Pledged Revenues that are pledged on a subordinate, junior and inferior basis to the security for the Senior Lien Bonds.

State Highway Fund

The State Highway Fund is established under ORS 366.505 as a trust fund, separate and distinct from the State's General Fund. The State Highway Fund may be used only for the purposes authorized by law and is continually appropriated for such purposes. Funds deposited to the State Highway Fund include moneys and revenues derived from: (a) the sale of bonds with proceeds dedicated to highway purposes; (b) the licensing of motor vehicles, operators and chauffeurs; (c) any tax levied upon gasoline, distillate, liberty fuel or other volatile and inflammable liquid fuels, except moneys derived from taxes collected on fuels for non-highway use; (d) moneys and revenues derived from or made available by the federal government for road construction, maintenance or betterment purposes; and (e) all other sources which by law are allocated or dedicated for highway purposes. All interest earnings on moneys in the State Highway Fund are credited to the State Highway Fund.

Pursuant to ORS 366.505, certain moneys deposited to the State Highway Fund are pledged to the payment of Highway User Tax Revenue Bonds. Pledged Revenues, as described below, are held in the State Highway Fund, but not all moneys and revenues held in the State Highway Fund constitute Pledged Revenues.

See APPENDIX A—"INFORMATION RELATING TO THE DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS

OF JULY 1, 2017—PLEDGED REVENUES and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION."

Pledged Revenues

Pursuant to the Master Declaration, Pledged Revenues consist of the sources of revenue set out under Oregon law, which fall into three main sources of revenue; (1) a portion of the weight-mile taxes and road use assessment fees (collectively, "Motor Carrier Revenues"), (2) a portion of the motor vehicle fuel taxes and use fuel taxes (collectively, the "Fuel Tax Revenues") and (3) a portion of the vehicle titling fees and vehicle registration fees, as well as a portion of registration plate fees, licensing fees and trip permit fees (collectively, the "DMV Revenues").

Additionally, the Department has pledged Build America Bonds Subsidy Payments, which are defined in the Master Declaration to mean any payments received by or on behalf of the State or the Department in connection with a debt service obligation of the State or the Department related to Senior Lien Bonds or Subordinate Lien Obligations issued pursuant to the Master Declaration, including but not limited to subsidy payments by the federal government on account of the issuance of Build America Bonds pursuant to the federal American Recovery and Reinvestment Act of 2009 or any successor legislation, to the payment of the Bonds. See "SECURITY AND SOURCES OF PAYMENT—Debt Service Coverage—Sequestration of Build America Bonds Subsidy Payments." APPENDIX A—"INFORMATION RELATING TO THE DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES" and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION."

As shown in the Pledged Revenues Flow Chart (the "Flow Chart") and as presented in Table 2 below, Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, less Statutory Reductions and Program Set Asides (each as defined below) are deposited to the State Highway Fund. These deposits are referred to collectively in this Official Statement as "Net Revenues." As described below, the amount of Pledged Revenues available is reduced by a combination of Statutory Reductions and certain revenue sharing requirements imposed by the Legislative Assembly, which are briefly summarized under the heading "—Revenue Sharing Transfers and Program Set Asides."

The 2017 Transportation Bill authorizes increases in Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, and also increases certain revenue sharing requirements to counties and cities. These changes in revenues, which have an effect on Pledged Revenues, take effect January 1, 2018 through January 1, 2024. See "RECENT DEVELOPMENTS – 2017 Transportation Legislation."

Statutory Reductions

As shown in the Flow Chart and as presented in Table 2 below, "Statutory Reductions" include Administrative Expenses and Operating Transfers, and are briefly summarized below. Statutory Reductions are deducted before the Program Revenue Sharing Transfers and Program Set Asides (each as defined below) are made. For a more detailed discussion of Statutory Reductions, see APPENDIX A—"INFORMATION RELATING TO THE DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES—Statutory Reductions."

Administrative Expenses. Under the Declaration and consistent with Oregon law and the Department's accounting and budgetary practices, the Department may deduct various administrative expenses and costs of collection (hereinafter the "Administrative Expenses") from highway user tax revenues, which are collectively referred to herein as Administrative Expenses. Administrative Expenses include all costs related to the administration and collection of the three revenue categories (Motor Carrier Revenues, the Fuel Tax Revenues and the DMV Revenues) that comprise Pledged Revenues including allocable payroll and other personal services expenses such as salaries and contributions to the Public Employees' Retirement System and benefits paid through the Public Employees' Benefits Board. Such amounts are subject to expenditure limitations established in the Department's budget approved by the Legislative Assembly. Administrative Expenses also include certain payments related to certificates of participation, bonds or other obligations issued by the State to finance certain projects of the Department that constitute Administrative Expenses. See "—Other Debt Obligations" below for a discussion of outstanding debt obligations of the Department. For a more detailed discussion of Administrative Expenses, see APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES—Statutory Reductions—*Administrative Expenses*."

Administrative Expenses do not include all of the Department's operating costs or expenditures such as capital outlays and special payments. For a discussion of the Department's finances generally, see APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—OREGON DEPARTMENT OF TRANSPORTATION—Divisions of the Department" and "—DEPARTMENT FINANCES."

Operating Transfers. The Department collects certain taxes and fees for purposes and activities not related to the State Highway Fund and transfers such revenues (referred to hereinafter as "Operating Transfers") to other State agencies and governmental entities. Any applicable Administrative Expenses are deducted before Operating Transfers are made. Operating Transfers include, but are not limited to, certain fuel taxes for equipment not generally operated on State highways such as snowmobiles, marine vehicles and aircraft, and vehicle registration fees for manufactured structures and campers. For a more detailed discussion of Operating Transfers, see APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES—Statutory Reductions—*Operating Transfers.*"

Revenue Sharing Transfers and Program Set Asides

Oregon law specifies that certain revenues collected by the Department, after Statutory Reductions are made, be shared with counties and cities. Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, less Statutory Reductions, are allocated to counties and cities and the Department in accordance with certain formulas established under Oregon law, including the general allocation established under ORS 366.739, referred to as the "General Allocation" in the Flow Chart. During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which provides for future increases in the General Allocation. For a more detailed discussion of these increases, see "RECENT DEVELOPMENTS—2017 Legislative Session."

In addition to the General Allocation, Oregon law provides for certain fixed amount transfers to counties, cities, and other agencies, referred to as the "Fixed Allocation" in the Flow Chart. Pledged Revenues are reduced by amounts transferred pursuant to the General Allocation and Fixed Allocation, which are shown in the Flow Chart and Table 2 as "Standing Revenue Sharing Transfers to Counties and Cities."

Additionally, the Legislative Assembly has designated that certain tax and fee increases in connection with specific transportation program initiatives be directed to certain transportation projects or otherwise shared by the Department with counties and cities and has excluded those increased amounts from the General Allocation. Collectively, amounts excluded from the General Allocation are shown as "Program Set Asides" in the Flow Chart and in Table 2. The Program Set Asides are transferred to counties and cities or otherwise dedicated to specified transportation project funds (the "Program Revenue Sharing Transfers") and those revenues are not included in Pledged Revenues. The portion of the Program Set Asides that is included in Pledged Revenues is shown in the Flow Chart and in Table 2 as "Add Back ODOT Share of Program Set Asides."

In addition to revenue sharing with counties and cities, following the enactment of JTA in 2009 by the Legislative Assembly, the Department is required to transfer fixed amounts (i) internally to fund long-term plans of the Department and (ii) to the Travel Information Council ("TIC"). These transfers are shown as part of the "JTA Allocation" in the Flow Chart and in Table 2, and such amounts are not included in Pledged Revenues.

For a detailed summary of the requirements under Oregon law related to Program Revenue Sharing Transfers and Program Set Asides, which reduce the amount of Pledged Revenues, see APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—OREGON DEPARTMENT OF TRANSPORTATION—PLEDGED REVENUES—Revenue Sharing Transfers and Program Set Asides."

Future Actions of the Oregon Legislative Assembly

The Legislative Assembly has in the past, and may in the future, change or rescind the method of assessing or imposing any or all of the Pledged Revenues (Fuel Tax Revenues, Motor Carrier Revenues and DMV Revenues) or the apportionment of State Highway Fund revenues among counties, cities and the Department. The authority of the Legislative Assembly to make such changes is subject to the existing requirements of the Oregon Constitution that revenues received from taxes and fees levied on the ownership, operation or use of motor vehicles, including commercial vehicles, and taxes levied on fuels must be used exclusively for public highways, roads, streets and roadside rest areas in the State, including the retirement of bonds issued for such purposes. The Legislative Assembly may also, through its budgetary approval process for the Department, change the amount of revenues that become Pledged Revenues by changing the amount of revenues that are deposited in the State Highway Fund and by changing what may be deducted from revenues before they become Pledged Revenues under the Declaration. The Master Declaration provides that the Pledged Revenues consist of the sources of revenue that the laws as in effect from time to time permit to be used to pay and secure the Senior Lien Bonds, Subordinate Lien Obligations or any Second Subordinate Lien Obligations. See "RECENT DEVELOPMENTS – 2017 Transportation Bill" for a description of actions during the 2017 Legislative Session.

Pledged Revenues Flow Chart

The Flow Chart on the following page illustrates generally the deposits, transfers, allocations and disbursements within the State Highway Fund, prior to January 1, 2018. The Flow Chart represents only those taxes and fees, reductions, set asides and transfers within the State Highway Fund that are relevant to Pledged Revenues and does not include all revenues that are deposited to the State Highway Fund or general Department expenditures such as payroll expenses, capital outlays and special payments. A broader summary of the State Highway Fund and other funds managed by the Department is provided in APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—DEPARTMENT FINANCES."

The Flow Chart does not reflect provisions of the 2017 Transportation Bill, which includes new Statutory Reductions, Program Set Asides and Standing Revenue Sharing Transfers, each of which are expected to take effect beginning January 1, 2018 and at future dates as specified under the bill. See "RECENT DEVELOPMENTS – 2017 Transportation Bill" and APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017 – PLEDGED REVENUES—Revenue Sharing Transfers and Program Set Asides."

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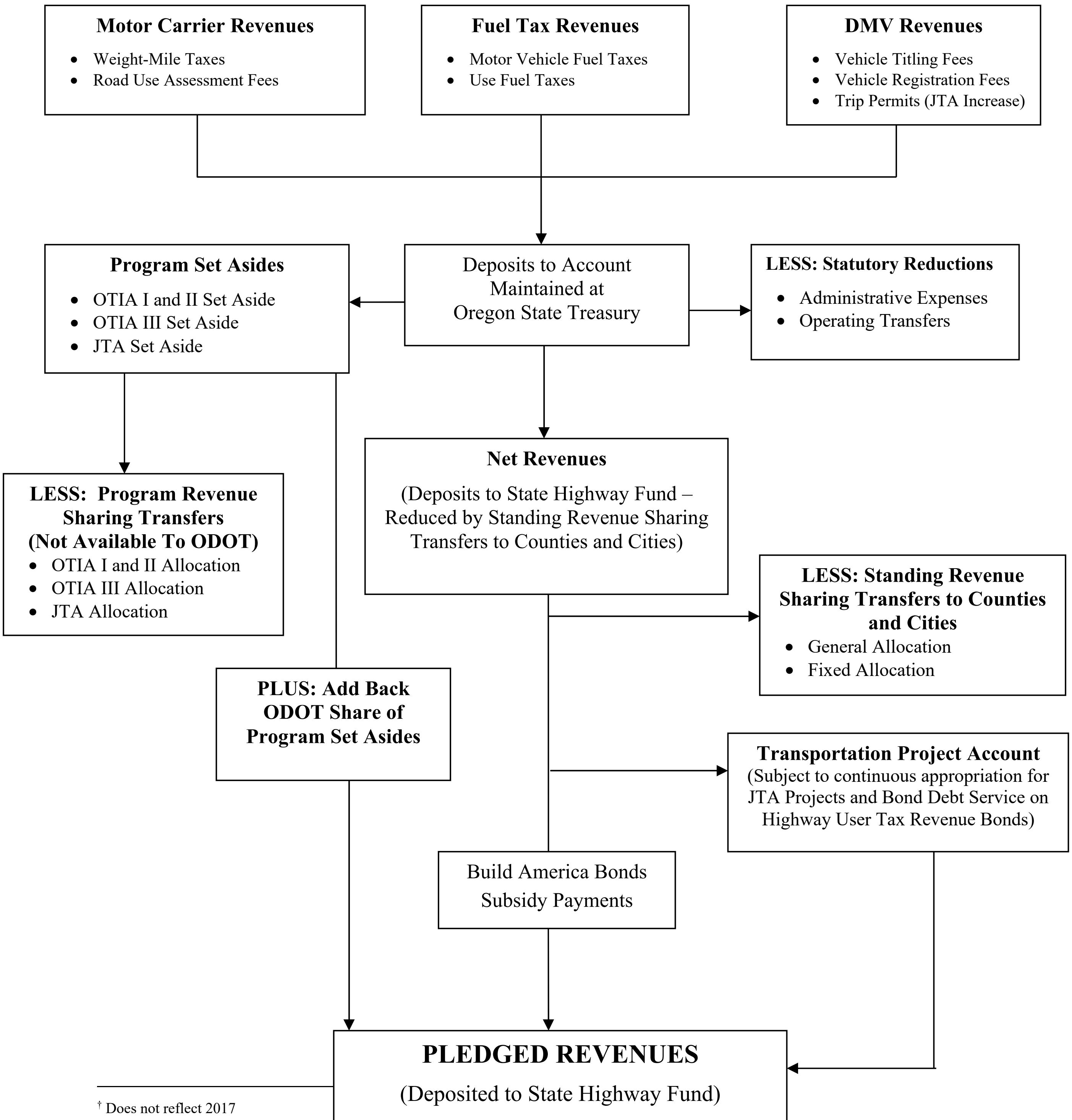
OREGON DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE BONDS
PLEDGED REVENUES FLOW CHART
(PRIOR TO OCTOBER 6, 2017†)



† Does not reflect 2017 Transportation Bill

Historic and Estimated Pledged Revenues

The Department publishes a semiannual revenue forecast, dated June and December, to assist budget and financial planners and policy-makers in formulating budgets and other decision-making activities. The Department's revenue forecast is prepared using data from the most recent economic and revenue forecast that is required by Oregon law to be prepared on a quarterly basis (the "State Economic Forecast") by the State's Department of Administrative Services Office of Economic Analysis ("OEA"), and using the same macroeconomic forecast from IHS Global Insight, Inc., which is used by OEA for the State Economic Forecast. See APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—DEPARTMENT FINANCES—ODOT Revenue Forecast."

The revenue estimates presented in this Official Statement with respect to each of the three revenue categories that make up the Pledged Revenues (Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues) and shown in Tables 2 and 4, are based upon collections, costs, transfers and set asides forecast by the Department in its June 2017 Revenue Forecast (the "ODOT June 2017 Forecast"), which is included as Appendix C. **The ODOT June 2017 Forecast and the information presented in Tables 2 and 4 does not include any projections or forecasts of revenues assuming the effectiveness of the 2017 Transportation Bill. Subject to the 2017 Transportation Bill taking effect in October, the Department anticipates that its next revenue forecast, which is anticipated to be released in December 2017 (the "ODOT December 2017 Forecast"), would include projections of revenue increases authorized by the bill.**

Because the ODOT June 2017 Forecast includes certain revenues that are not part of Pledged Revenues and includes costs associated with such revenues, amounts shown in the ODOT June 2017 Forecast have been adjusted for presentation in Table 2 and Table 4. The presentation and categorization of actual and forecast revenues and costs in the ODOT June 2017 Forecast and in Tables 2 and 4 differ from the historical financial information presented in the Department's Annual Financial Report (Unaudited) for Fiscal Year Ended June 30, 2016.

In Table 2, actual Pledged Revenues for the Fiscal Years ending June 30, 2015 and June 30, 2016 are derived from the historical information presented in the ODOT June 2017 Forecast. The estimated Pledged Revenues shown in Table 2 for the Fiscal Years ending June 30, 2017 through June 30, 2020 are based upon collections, costs, transfers and set asides forecast by the Department in the ODOT June 2017 Forecast. As described in the ODOT June 2017 Forecast, gross revenue growth is forecast to be approximately 0.71 percent annually for Fiscal Years ending June 30, 2017 through June 30, 2023, reflecting estimates of slowing economic expansion in future years. See APPENDIX C—"OREGON DEPARTMENT OF TRANSPORTATION JUNE 2017 REVENUE FORECAST."

ANY FORECAST IS SUBJECT TO UNCERTAINTIES. INEVITABLY, SOME ASSUMPTIONS MAY NOT BE REALIZED AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY OCCUR. THEREFORE, THERE ARE LIKELY TO BE DIFFERENCES BETWEEN THE FORECAST AND ACTUAL RESULTS AND THESE DIFFERENCES COULD BE MATERIAL.

TABLE 2*
OREGON DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE BONDS
HISTORICAL AND ESTIMATED PLEDGED REVENUES
FOR FISCAL YEARS ENDING JUNE 30, 2015 THROUGH JUNE 30, 2020

	Actual (1) 6/30/15	Actual (1) 6/30/16	Estimated (1) 6/30/17	Estimated (1) 6/30/18	Estimated (1) 6/30/19	Estimated (1) 6/30/20
Revenue Categories						
Motor Carrier Revenues (2)	335,685,000	342,504,000	348,270,000	353,252,000	358,839,000	361,512,000
Fuel Tax Revenues (2)	513,901,000	528,968,000	540,408,000	551,093,000	556,249,000	557,625,000
DMV Revenues (2)	326,809,000	329,145,000	333,135,000	336,984,000	337,873,000	338,578,000
Total Deposits to Suspense Account	1,176,395,000	1,200,617,000	1,221,813,000	1,241,329,000	1,252,961,000	1,257,715,000
Less: Statutory Reductions and Program Set Asides						
Statutory Reductions (3)	(161,786,000)	(177,681,000)	(180,605,000)	(201,003,000)	(204,652,000)	(194,876,000)
OTIA I and II Set Aside (4)	(35,600,000)	(35,600,000)	(35,600,000)	(35,600,000)	(35,600,000)	(35,600,000)
OTIA III Set Aside (5)	(101,133,000)	(104,607,000)	(106,402,000)	(107,539,000)	(108,209,000)	(108,639,000)
JTA Set Aside (6)	(30,550,000)	(30,550,000)	(30,550,000)	(30,550,000)	(30,550,000)	(30,550,000)
Total Statutory Reductions and Program Set Asides	(329,069,000)	(348,438,000)	(353,157,000)	(374,692,000)	(379,011,000)	(369,665,000)
Net Revenues						
Deposits to State Highway Fund	**847,326,000**	**852,178,000**	**868,656,000**	**866,637,000**	**873,950,000**	**888,049,000**
Less: Revenue Sharing Transfers						
Standing Revenue Sharing Transfers (7)	(232,050,000)	(229,715,000)	(233,940,000)	(231,673,000)	(233,412,000)	(239,772,000)
JTA Transfers to Counties and Cities (6)	(130,846,000)	(135,764,000)	(138,582,000)	(140,275,000)	(141,641,000)	(142,194,000)
Total Revenue Sharing Transfers	**(362,896,000)**	**(365,479,000)**	**(372,522,000)**	**(371,948,000)**	**(375,053,000)**	**(381,966,000)**
Plus: Add Back ODOT Share of Program Set Asides						
OTIA I and II Debt Service (8)	31,043,000	35,600,000	35,600,000	32,500,000	33,389,000	29,961,000
ODOT Share of OTIA I and II (8)(9)	2,279,000	0	0	1,550,000	1,105,000	2,820,000
OTIA III Local Debt Service (10)	19,787,000	14,207,000	13,850,000	19,730,000	19,545,000	16,682,000
ODOT Share of OTIA III (10)	58,182,000	60,181,000	61,213,000	61,867,000	62,253,000	62,500,000
Total Add Back of Portions of Program Set Asides	**111,291,000**	**109,988,000**	**110,663,000**	**115,647,000**	**116,292,000**	**111,963,000**
Plus: Revenue Category: BABs Subsidy Payments (11)	10,022,000	10,076,000	10,070,000	10,097,000	10,765,000	10,671,000
Pledged Revenues	**605,743,000**	**606,763,000**	**616,867,000**	**620,433,000**	**625,954,000**	**628,717,000**

[Footnotes on following page]

* Preliminary, subject to change.

(1) Rounded to nearest thousand; totals may not add due to rounding. Table does not include any projections or forecasts of revenues assuming the effectiveness of the 2017 Transportation Bill.

(2) For estimated years, Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues are based on ODOT June 2017 Forecast; Motor Carrier Revenues and DMV Revenues have been adjusted to exclude certain revenues attributable to OTIA III increases that the Legislative Assembly allocated only to counties and cities.

(3) Includes Administrative Expenses and Operating Transfers. Administrative Expenses as shown in the ODOT June 2017 Forecast have been adjusted to exclude costs associated with certain excluded revenues.

(4) Following the effective date of OTIA I on October 6, 2001, the Department began setting aside $71.2 million per biennium pursuant to ORS 366.739.

(5) Following the effective date of OTIA III on January 1, 2004, the Department began setting aside the increased revenues specified under ORS 366.744(1).

(6) The JTA Set Aside is allocated pursuant to ORS 366.752. The JTA Allocation (representing the 30 percent allocation transferred to Counties and 20 percent to Cities) is not included in Pledged Revenues. The Department's 50 percent allocation of the JTA Set aside is included in Pledged Revenues.

(7) ORS 366.739 establishes transfers of 24.38 percent of Net Revenues to counties and 15.57 percent of Net Revenues to cities. In addition, ORS 366.772 allocates $250,000 per year to counties, and ORS 366.805 allocates $500,000 per year to cities.

(8) ORS 366.742 specifies that any portion of $71.2 million per biennium that remains after deducting an amount equal to total debt service on OTIA I and II Bonds be allocated 50 percent to the Department, 30 percent to counties and 20 percent to cities. Only the portion of the $71.2 million per biennium equal to debt service on OTIA I and II Bonds and the Department's 50 percent share of the remainder are Pledged Revenues.

(9) OTIA I and II Debt Service in FY 2016 was at least equal to the $35.6 million OTIA I and II Set Aside resulting in no ODOT Share of OTIA I and II Set Aside revenues.

(10) The OTIA III tax and fee increases specified in ORS 366.744(1) are allocated 57.53 percent to the Department, 25.48 percent to the Department to pay the principal and interest due on Highway User Tax Revenue Bonds issued by the Department pursuant to OTIA III for replacement and repair of bridges on county highways (the "OTIA III County Bridge Allocation") and 16.99 percent to the Department to pay the principal and interest due on Highway User Tax Revenue Bonds issued by the Department pursuant to OTIA III for replacement and repair of bridges on city highways (the "OTIA III City Bridge Allocation" and together with the OTIA III County Bridge Allocation, collectively, the "OTIA III Local Bridge Allocation"). Only the portion of the OTIA IIII Local Bridge Allocation needed for debt service on Highway User Tax Revenue Bonds issued by the Department pursuant to OTIA III for the benefit of county and city bridge repair projects and the Department's 57.53 percent share are Pledged Revenues.

(11) Reflects Build America Bonds Subsidy Payments received by the Department that are included as Pledged Revenues. However, due to the Congressional budget sequester the payment of Build America Bonds Subsidy Payments due to the Department in FFY 2014 were reduced by $778,375, in FFY 2015 by $789,186, in FFY 2016 by $735,132, and in FFY 2017 by $740,537. Additionally, the IRS has announced that, absent Congressional budget action changing the sequester, the payment of Build America Bonds Subsidy Payments will be reduced in FFY 2018 by 6.6 percent, which the Department expects to result in a reduction of $713,510 in subsidy payments it would otherwise be due to receive during FFY 2018.

Source: Oregon Department of Transportation

Highway User Tax Revenue Bonds

Table 3 below identifies the Senior Lien Bonds and Subordinate Lien Obligations issued and outstanding pursuant to the Act and the Declaration for various purposes, as of September __, 2017, the expected date of delivery of the 2017C Senior Lien Bonds.

TABLE 3*
OREGON DEPARTMENT OF TRANSPORTATION
OUTSTANDING HIGHWAY USER TAX REVENUE BONDS — AS OF SEPTEMBER __, 2017[(1)]

	Dated Date	Final Maturity Outstanding	Principal Amount Outstanding
Senior Lien Bonds:			
Series 2007A	06/07/2007	11/15/2018[(2)]	$ 3,455,000
Series 2007C (Refunding)	06/07/2007	11/15/2026[(3)]	176,975,000
Series 2009A	03/24/2009	11/15/2018[(4)]	22,280,000
Series 2012A (Refunding)	06/26/2012	11/15/2029	129,280,000
Series 2012B (Refunding)	06/26/2012	11/15/2020	51,925,000
Series 2013A	10/16/2013	11/15/2038[(5)]	310,270,000
Series 2014A (Refunding)	07/09/2014	11/15/2031	194,530,000
Series 2015A (Refunding)	01/27/2015	11/15/2033	381,305,000
Series 2017A	06/08/2017	11/15/2027	244,030,000
Series 2017B (Refunding)	06/08/2017	11/15/2029	91,675,000
Series 2017C (Refunding)	09/__/2017	11/15/20__	
		Total Senior Lien Bonds:	
Subordinate Lien Obligations:			
Series 2010A	04/08/2010	11/15/2034	$544,675,000
Series 2010B	04/08/2010	11/15/2017	5,720,000
Series 2017S-1 (Refunding)	05/01/2017	11/15/2038[(6)]	265,675,000
Series 2017S-2	05/01/2017	11/15/2042[(7)]	100,075,000
		Total Subordinate Lien Obligations:	
		Total Senior Lien Bonds and Subordinate Lien Obligations:	

* Preliminary, subject to change.

(1) The Department is authorized pursuant to ORS 367.620 to issue Highway User Tax Revenue Bonds in amounts sufficient to produce an amount of net proceeds as specified by the Legislative Assembly for each authorized bond program. Any refunding bonds issued by the Department are not subject to this requirement.

(2) Portions of the Series 2007A Bonds were refunded by the Series 2014A Bonds and by the Series 2015A Bonds. The final maturity of the Outstanding Series 2007A Bonds is 11/15/2018.

(3) Subject to market conditions, the Series 2007C Bonds are expected to be refunded by the Series 2017C Bonds. The Refunded Bonds are expected to remain outstanding until the redemption date of November 15, 2017. See "PLAN OF REFUNDING" above

(4) Portions of the Series 2009A Bonds were refunded by the Series 2014A Bonds, by the Series 2015A Bonds and by the Series 2017B Bonds. The final maturity of the Outstanding Series 2009A Bonds is 11/15/2018.

(5) Portions of the Series 2013A Bonds were refunded by the Series 2017B Bonds. The final maturity of the Outstanding Series 2013A Bonds is 11/15/2038.

(6) The 2017 S-1 Bonds are subject to special mandatory tender on May 1, 2020. Prior to that date, the 2017 S-1 Bonds are subject to mandatory redemption or mandatory tender in connection with certain events as provided in the Continuing Covenant Agreement executed by the Issuer and Wells Fargo Bank, National Association. See "AUTHORITY FOR ISSUANCE—Bond Declaration—*Subordinate Lien Obligations and the Subordinate Security*."

(7) The 2017 S-2 Bonds are subject to special mandatory tender on May 1, 2020. Prior to that date, the 2017 S-2 Bonds are subject to mandatory redemption or mandatory tender in connection with certain events as provided in the Continuing Covenant Agreement executed by the Issuer and U.S. Bank, N. A. See "AUTHORITY FOR ISSUANCE—Bond Declaration—*Subordinate Lien Obligations and the Subordinate Security*."

Source: Oregon Department of Transportation

Debt Service Coverage*

Table 4 presents a summary of actual Pledged Revenues and actual debt service coverage for the Fiscal Years ended June 30, 2015 through June 30, 2016. Table 4 also presents a summary of estimated Pledged Revenues and estimated debt service coverage for the Fiscal Years ending June 30, 2017 through June 30, 2020. The actual and estimated Pledged Revenues are based upon the ODOT June 2017 Forecast. See "PLAN OF REFUNDING" above.

Table 4 does not include any projections or assumptions concerning the issuance of additional Highway User Tax Revenue Bonds because no other Highway User Tax Revenue Bonds are currently authorized for future projects. Table 4 assumes no new taxes, increases or set asides, and does not reflect the authorizations under the 2017 Transportation Bill. See " –Historical and Estimated Pledged Revenues" and "RECENT DEVELOPMENTS—2017 Legislative Session."

Sequestration of Build America Bonds Subsidy Payments*.* The Department previously issued and designated $544,675,000 aggregate principal amount of Subordinate Lien Bonds as Taxable Build America Bonds (the "ODOT Build America Bonds") under the federal American Recovery and Reinvestment Act of 2009. Subject to sequestration described in the following paragraph, the Department expects to receive cash subsidy payments (defined in the Declaration as "Subsidy Payments" and "Subordinate Lien Subsidy Payments") from the United States Treasury equal to 35 percent of interest payable on all such outstanding ODOT Build America Bonds. Pursuant to the Declaration, the Subsidy Payments are included in Pledged Revenues, except that Subordinate Lien Subsidy Payments are excluded from Pledged Revenues for the purposes of complying with the requirements of the Declaration for issuing Additional Subordinate Lien Obligations. Pursuant to the Declaration, the Department computes Annual Subordinate Debt Service on any Series of Subordinate Lien Obligations by subtracting from Annual Subordinate Debt Service the related Subordinate Lien Subsidy Payments in the years in which such Subordinate Lien Subsidy Payments are scheduled or expected to be received. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Subordinate Lien Obligations."

The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure by Congress to otherwise reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. Since sequestration took effect on March 1, 2013, the Department has received reduced Subsidy Payments for the ODOT Build America Bonds. The Bipartisan Budget Act of 2013 extended and made certain modifications to sequestration, but generally did not affect the reduction of subsidy payments for ODOT Build America Bonds. For the period of October 1, 2015 through September 30, 2016 ("Federal Fiscal Year 2016"), the Internal Revenue Service (the "IRS") confirmed a reduction of 6.8% in Build America Bonds subsidy payments due to sequestration, and the ODOT Build America Bonds subsidy payments were reduced by $735,132 for Federal Fiscal Year 2016. For the period of October 1, 2016 through September 30, 2017 ("Federal Fiscal Year 2017"), the IRS confirmed a reduction of 6.9% in Build America Bonds subsidy payments. As of July 1, 2017, the Department has received $5,037,816 in Federal Fiscal Year 2017 ODOT Build America Bonds subsidy payments for the November 15, 2016 interest payment and $5,032,411 for the May 15, 2017 interest payment. For the period of October 1, 2017 through September 30, 2018 ("Federal Fiscal Year 2018"), the IRS confirmed a reduction of 6.6% in Build America Bonds subsidy payments, which the Department expects to reduce its subsidy payments by $713,510 for Federal Fiscal Year 2018.

* Preliminary, subject to change

The State and the Department cannot predict when or whether new federal legislation may be enacted providing funding or authorization for the ODOT Build America Bonds subsidy payments or other federal transportation programs, or that if enacted, whether any such legislation would be signed into law by the president. See APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—OREGON DEPARTMENT OF TRANSPORTATION—Federal Highway Funding—*Other Federal Funding Matters*."

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TABLE 4*
OREGON DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE BONDS
OUTSTANDING DEBT SERVICE COVERAGE
FOR FISCAL YEARS ENDING JUNE 30, 2015 THROUGH JUNE 30, 2020

	Actual (1) 6/30/15	Actual (1) 6/30/16	Estimated (1) 6/30/17	Estimated (1) 6/30/18	Estimated (1) 6/30/19	Estimated (1) 6/30/20
Total Pledged Revenues	$605,743,000	$606,763,000	$616,867,000	$620,433,000	$625,954,000	$628,717,000
Outstanding Senior Lien Debt Service(2)	132,121,000	136,541,000	135,708,000	134,661,000	145,818,000	144,981,000
Estimated Senior Lien Debt Service						
2017 Series C Bonds (Refunding)	n/a	n/a	n/a	0	0	0
Total Outstanding and Estimated Senior Lien Debt Service	132,121,000	136,541,000	135,708,000	134,661,000	145,818,000	144,981,000
Outstanding and Estimated Senior Lien Coverage	**4.6**	**4.4**	**4.5**	**4.6**	**4.3**	**4.3**
Outstanding Subordinate Lien Debt Service	37,394,000	37,655,000	39,260,000	51,381,000	51,352,000	51,243,000
(Less Subordinate Lien BABs Subsidy Payments(3))	(10,022,000)	(10,076,000)	(10,070,000)	(10,097,000)	(10,765,000)	(10,671,000)
Total Outstanding Subordinate Lien Debt Service	27,372,000	27,579,000	29,190,000	41,284,000	40,587,000	40,572,000
Total Outstanding and Estimated Aggregate Debt Service	159,493,000	164,120,000	164,898,000	175,945,000	186,405,000	185,553,000
Total Pledged Revenues	605,743,000	606,763,000	616,867,000	620,433,000	625,954,000	628,717,000
Less Subordinate Lien BABs Subsidy Payments(3)	(10,022,000)	(10,076,000)	(10,070,000)	(10,097,000)	(10,765,000)	(10,671,000)
Net Pledged Revenue	$595,721,000	$596,687,000	$606,797,000	$610,336,000	$615,189,000	$618,046,000
Actual and Estimated Aggregate Coverage	**3.7**	**3.6**	**3.7**	**3.5**	**3.3**	**3.3**

(1) Rounded to nearest thousand; totals may not add due to rounding.

(2) Outstanding Senior Lien Debt Service includes debt service on the Refunded Bonds to be refunded with proceeds of the 2017C Senior Lien Bonds. The Refunded Bonds will remain outstanding to the Redemption Date of November 15, 2017 when they are expected to be refunded with the proceeds of the 2017C Senior Lien Bonds.

(3) Due to the Congressional budget sequester the payment of Build America Bonds Subsidy Payments due to the Department in FFY 2014 were reduced by $778,375, in FFY 2015 by $789,186, in FFY 2016 by $735,132, and in FFY 2017 by $740,537. Additionally, the IRS has announced that, absent Congressional budget action changing the sequester, the payment of Build America Bonds Subsidy Payments will be reduced in FFY 2018 by 6.6 percent, which the Department expects to result in a reduction of $713,510 in subsidy payments it would otherwise be due to receive during FFY 2018. Build America Bonds Subsidy Payments for FFY 2018 reflect the 6.6 percent reduction. For FFY 2019-2020 the Build America Bonds Subsidy Payments do not reflect reduction in Subsidy Payments resulting from the Congressional budget sequestration.

Source: Oregon Department of Transportation

* Preliminary, subject to change.

Debt Service Requirements on Highway User Tax Revenue Bonds

Table 5 presents the debt service requirements for all Outstanding Senior Lien Highway User Tax Revenue Bonds, the 2017C Senior Lien Bonds and the total aggregate debt service requirements for all Outstanding Highway User Tax Revenue Bonds, including the Outstanding Senior Lien Bonds, the Refunded Bonds and the Outstanding Subordinate Lien Obligations but excluding the 2017C Senior Lien Bonds.

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TABLE 5*
STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE BONDS
DEBT SERVICE REQUIREMENTS(1)

Year Ended June 30	Outstanding Senior Lien Debt Service(2)	2017C Senior Lien Bonds Principal	2017C Senior Lien Bonds Interest	2017C Senior Lien Bonds Debt Service	Annual Outstanding Senior Lien Debt Service(2)	Annual Outstanding Subordinate Lien Net Debt Service (3)(4)	Annual Outstanding Aggregate Debt Service
2018	$ 134,661,181	$	$	$	$ 134,661,181	$ 40,449,465	$ 175,110,646
2019	145,818,393				145,818,393	40,587,164	186,405,557
2020	144,981,381				144,981,381	40,571,959	185,553,340
2021	145,229,439				145,229,439	40,325,477	185,554,916
2022	141,284,912				141,284,912	45,024,717	186,309,629
2023	141,601,253				141,601,253	44,709,844	186,311,097
2024	141,563,390				141,563,390	44,744,135	186,307,525
2025	141,535,134				141,535,134	44,775,934	186,311,068
2026	141,023,383				141,023,383	44,811,809	185,835,192
2027	140,952,669				140,952,669	44,881,427	185,834,096
2028	140,959,425				140,959,425	44,875,941	185,835,366
2029	138,435,925				138,435,925	44,879,981	183,315,906
2030	117,958,925				117,958,925	65,354,838	183,313,763
2031	119,973,800				119,973,800	65,353,431	185,327,231
2032	119,975,150				119,975,150	65,349,268	185,324,418
2033	101,663,575				101,663,575	84,818,582	186,482,157
2034	48,443,313				48,443,313	138,036,917	186,480,229
2035	28,285,863				28,285,863	161,951,309	190,237,172
2036	28,284,500				28,284,500	75,943,700	104,228,200
2037	28,286,500				28,286,500	75,891,100	104,177,600
2038	28,286,000				28,286,000	75,841,400	104,127,400
2039	28,284,875				28,284,875	75,785,500	104,070,375
2040	-				-	27,096,700	27,096,700
2041	-				-	27,080,200	27,080,200
2042	-				-	27,060,200	27,060,200
2043	-				-	27,040,200	27,040,200
Totals	$2,347,488,983				$2,347,488,983	$1,513,241,198	$3,860,730,181

* Preliminary, subject to change.

(1) Totals may not agree with sum of components due to rounding.

(2) Outstanding Senior Lien Debt Service includes debt service on the Refunded Bonds to be refunded with proceeds of the 2017C Senior Lien Bonds.

(3) Assumes actual variable interest costs through July 1, 2017 for the Outstanding Subordinate Lien Obligations and an average variable interest cost of 4.00 percent thereafter.

(4) Debt service is net of 35 percent Federal Subsidy for the Series 2010A Subordinate Lien Bonds (Federally Taxable Build America Bonds). The IRS has announced that, absent Congressional budget action changing the sequester, the payment of Build America Bonds Subsidy Payments will be reduced in FFY 2018 by 6.6 percent, which the Department expects to result in a reduction of $713,510 in subsidy payments it would otherwise be due to receive during FFY 2018. Build America Bonds Subsidy Payments for FFY 2018 reflect the 6.6 percent reduction. For FFY 2019 and thereafter the Build America Bonds Subsidy Payments do not reflect reduction in Subsidy Payments resulting from the Congressional budget sequestration. See “SECURITY AND SOURCES OF PAYMENT –Debt Service Coverage – Sequestration of Build America Bonds Subsidy Payments.”

Source: Oregon Department of Transportation

Additional Debt

Additional Senior Lien Bonds. Under the Declaration, the State may issue additional Highway User Tax Revenue Bonds that are secured by a claim on the Trust Estate on an equal and ratable basis with the Outstanding Senior Lien Bonds ("Additional Senior Lien Bonds"), subject to satisfying certain conditions prior to the issuance of the Additional Senior Lien Bonds, as described in the Master Declaration (the "Senior Lien Additional Bonds Test"). In connection with the issuance of Additional Senior Lien Bonds, the Department is required to provide a certification, pursuant to the requirements of the Declaration, to the effect that Pledged Revenues for any 12 consecutive months of the preceding 18-month period equal at least three times Maximum Annual Debt Service on all Outstanding Senior Lien Bonds and on the Additional Senior Lien Bonds to be issued with the Additional Senior Lien Bonds to be treated as Outstanding. The 2017C Senior Lien Bonds are being issued in compliance with the Senior Lien Additional Bonds Test.

The Declaration also provides that the State may issue Additional Senior Lien Bonds for refunding purposes without providing such certification if the refunded Senior Lien Bonds are paid or defeased on the date of delivery of the refunding Additional Senior Lien Bonds and if the Annual Debt Service on the refunding Additional Senior Lien Bonds does not exceed the Annual Debt Service on the refunded Senior Lien Bonds in any Fiscal Year by more than $5,000. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Senior Lien Bonds" and "—Refunding Obligations."

Additional Subordinate Lien Obligations. Under the Declaration, the State may issue additional Highway User Tax Revenue Bonds as Subordinate Lien Obligations that are secured by a claim on the Subordinate Security on an equal and ratable basis with the Outstanding Subordinate Lien Obligations, subject to satisfying certain conditions prior to the issuance of the Additional Subordinate Lien Obligations, as described in the Master Declaration. In connection with the issuance of Additional Senior Lien Bonds, the Department provides a certification, pursuant to the requirements of the Declaration, that Pledged Revenues equal at least two times the Maximum Annual Aggregate Debt Service, which shall include without limitation debt service on all Outstanding Senior Lien Bonds, the Additional Senior Lien Bonds, if any, to be issued simultaneously with the Additional Subordinate Lien Obligations, with such Additional Senior Lien Bonds to be treated as Outstanding, all Outstanding Subordinate Lien Obligations and the Additional Subordinate Lien Obligations to be issued with such Additional Subordinate Lien Obligations to be treated as Outstanding. The Department is also permitted under the Master Declaration to issue Additional Subordinate Lien Obligations for refunding purposes subject to certain other conditions. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Issuance of Additional Subordinate Lien Obligations" and "—Refunding Obligations."

Other Obligations Under Bond Declaration. As described above under "AUTHORITY FOR ISSUANCE—Bond Declaration," the Department is authorized pursuant to the Act and under the Master Declaration to issue Second Subordinate Lien Obligations, but to date has not issued any such obligations. The Department is also authorized pursuant to the Act and under the Master Declaration to issue other bonds, notes, certificates, warrants or other evidences of indebtedness for any lawful purpose relating to the Department, and to provide for the payment of such other bonds, notes, certificates, warrants or other evidences of indebtedness with a lien and pledge on the Pledged Revenues, Additional Pledged Revenues, or New Pledged Revenues that would be junior and inferior to the lien and pledge created under the Master Declaration for the payment and security of the Senior Lien Bonds, Subordinate Lien Obligations and Second Subordinate Lien Obligations.

Other Debt Obligations

As discussed above under "—Statutory Reductions," the Department makes certain payments on outstanding State certificates of participation ("State COPs") as an Administrative Expense. State COPs may be issued in the future for projects that benefit the Department, and the Department would be obligated to make payments on future State COPs from amounts appropriated by the Legislative Assembly for the payment of debt service. See APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES—PLEDGED REVENUES—Administrative Expenses" and Table A-4—STATUTORY REDUCTIONS.

Pursuant to Article XI-Q of the Oregon Constitution, the State may issue general obligation bonds to finance the costs of acquiring, constructing, remodeling, repairing, equipping or furnishing real or personal property that is or will be owned or operated by the State of Oregon, including, without limitation, facilities and systems, and infrastructure related to the real or personal property ("XI-Q Bonds"). The Department has not granted a pledge or lien of Pledged Revenues to secure the payment of XI-Q Bonds.

As set forth in the table below, the Department is obligated to make payments to the State on the other debt obligations issued by the State for projects benefitting the Department:

TABLE 6
OTHER STATE BOND OBLIGATIONS OF THE DEPARTMENT
(AS OF JULY 1, 2017)

Outstanding Aggregate Principal Amount	Debt Obligations	Project Description
$ 2,125,446[(1)]	State COPs	Driver and Motor Vehicle Services Division Headquarters Building
$102,052,263[(2)]	State COPs and XI-Q Bonds	State Radio Project ("SRP")
$ 40,740,000	XI-Q Bonds	Department Capitol Mall Transportation Building

(1) Debt Service constitutes Administrative Expenses that are payable prior to payments of debt service on Highway User Tax Revenue Bonds.

(2) Debt service payments on the SRP Debt Obligations is paid partly from General Funds of the State, for the portions of the project that may not be paid with constitutionally dedicated Highway Funds, and the balance is paid from State Highway Funds.

Source: Oregon Department of Transportation

Transportation General Obligation Bonds. Pursuant to Article XI, Section 7 of the Oregon Constitution and provisions of Oregon law, the Department may request the State Treasurer to issue general obligation bonds ("Transportation GO Bonds") of the State to provide funds to defray the costs of building and maintaining permanent roads, including the costs of location, relocation, improvement, construction and reconstruction of state highways and bridges. The Oregon Constitution limits Transportation GO Bonds that may be outstanding at any one time to one percent of the "true cash value" of taxable property within the State.

On May 4, 2017, the State issued its State of Oregon General Obligation Bonds, 2017 Series M (ODOT Projects) (Tax-Exempt), in the aggregate principal amount of $30,005,000 (the "2017 ODOT GO

Bonds"), to finance projects authorized by the Legislative Assembly. The 2017 ODOT GO Bonds are not secured by Pledged Revenues. The 2017 ODOT GO Bonds are expected to be paid from biennial appropriations from the State's General Fund budgeted by the Legislative Assembly or, as appropriate, from any other amounts lawfully available for expenditure for that purpose.

The Legislative Assembly budgets for State expenditures every biennium. If amounts budgeted to pay general obligation bonds of the State, including the 2017 ODOT GO Bonds, are not available for any reason, the State Treasurer is authorized to borrow from other funds in the State Treasury to permit debt service payments on general obligation bonds, including the 2017 ODOT GO Bonds, to be timely paid. Notwithstanding the amounts budgeted, pursuant to ORS 367.595, the Department will compute and determine in January of each year after the sale of the 2017 ODOT GO Bonds, the amount of principal and interest that will fall due during such year on the 2017 ODOT GO Bonds and any other Transportation GO Bonds then outstanding and unpaid and shall maintain or hold in the State Highway Fund sufficient moneys to pay such maturing obligations.

The State may in the future issue additional Transportation GO Bonds, and may pay such bonds from lawfully available revenues of the State Highway Fund on a subordinate and junior basis to all Bonds issued under the Declaration as part of the Highway User Tax Revenue Bond program.

RECENT DEVELOPMENTS

2017 Transportation Legislation

The Legislative Assembly approved the 2017 Transportation Bill during its 2017 Legislative Session to address transportation improvement, modernization and preservation throughout the State. Among other things, the 2017 Transportation Bill provides revenues from new or increased fees and taxes that are to be deposited to the State Highway Fund, to the Connect Oregon Fund or other funds established for specified purposes, including for safe routes to schools, congestion relief and transit. If the 2017 Transportation Bill is implemented without change, the amount to be deposited to the State Highway Fund from new and increased revenues is estimated to range from $110 million in the fiscal year ending June 30, 2018 to $500 million by the fiscal year ending June 30, 2025 when the 2017 Transportation Bill is fully implemented, although not all of these revenues constitute Pledged Revenues that secure Highway User Tax Bonds. These revenue estimates include revenues that the Department is required to allocate to counties, cities and designated projects and funds as prescribed by Oregon law, including provisions of the 2017 Transportation Bill.

As described below, all or any portion of the 2017 Transportation Bill is subject to legal challenge before a court or referral to an election of the voters. If any part the 2017 Transportation Bill is held unconstitutional by a judicial decision that is not subject to further review, or if any part of the 2017 Transportation Bill is referred to an election as authorized by the Oregon Constitution and not approved by a majority of the voters voting on the matter, the remaining parts of the 2017 Transportation Bill will remain in full force and effect.

While the referral and challenge period are pending, the Department is analyzing and preparing to implement the 2017 Transportation Bill. The ODOT December 2017 Forecast is expected to include projections reflecting the anticipated effects on revenues to the Department under the 2017 Transportation Bill.

Referrals and Challenge. All or any part of the 2017 Transportation Bill is subject to referral to an election as authorized by the Oregon Constitution, provided that the petitioners seeking referral gather the requisite number of signatures, approximately 59,000 as measured by a percentage of total voters in the most recent election for Governor. The State and the Department cannot predict whether all or any portion of the 2017 Transportation Bill will be referred to the voters for an election. The 2017 Transportation Bill provides that if any portion of the legislation is referred to the voters and voted down, all other portions of the bill remain in effect.

Except as described below with respect to original jurisdiction of the Oregon Supreme Court to hear any judicial challenge of the Privilege Tax (defined below), any judicial challenge to all or any part of the 2017 Transportation Bill would likely be heard by a Circuit Court or, in the case of taxes collected by the Oregon Department of Revenue, by the Oregon Tax Court. The State and the Department cannot predict whether all or any portion of the 2017 Transportation Bill will be subject to legal challenge before the courts. The 2017 Transportation Bill provides that if any portion of the legislation is successfully challenged, all other portions of the 2017 Transportation Bill remain in effect. See "Privilege Tax – Supreme Court Jurisdiction" below for further discussion.

Increases in Pledged Revenues and Revenue Sharing Allocations. The 2017 Transportation Bill increases a variety of fees, including certain Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues that are pledged to pay the payment of Highway User Tax Revenue Bonds under ORS 367.605 and the Master Declaration. These increases go into effect starting on January 1, 2018, with further increases at designated times through January 1, 2024. Certain revenue increases, such as increases to the fuel tax, are contingent upon the satisfaction of conditions and legislative review, as specified in the 2017 Transportation Bill. Increases in these revenues constitute Additional Pledged Revenues under the Master Declaration, and when available, may be used to pay and secure Highway User Tax Bonds without further action by the Department or the Commission. See APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES—Impact of 2017 Transportation Bill."

The allocation of certain moneys, which constitute Pledged Revenues, to cities under ORS 366.805 and counties under ORS 366.772 are increased under the 2017 Transportation Bill beginning on January 1, 2018. Additionally, the 2017 Transportation Bill dedicates certain revenues to be used for specific projects, such as the Safe Routes to Schools project and the future Interstate 5 Rose Quarter project (the "Rose Quarter Project"). The State and the Department cannot predict how the increased allocations and revenues dedicated to certain projects will affect the total amount of Pledged Revenues available to secure and pay the Highway User Tax Bonds. For a more detailed discussion of those allocations, see APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—PLEDGED REVENUES—Revenue Sharing Transfers and Program Set Asides."

Legally Available Moneys. The Department is authorized under ORS 367.605 to pledge legally available moneys to the payment of Highway User Tax Bonds. The 2017 Transportation Bill authorizes increases to existing revenues and creates certain new revenues that constitute legally available moneys that the Department may affirmatively pledge to the payment of Highway User Tax Bonds. These revenues include the establishment of a new registration charge schedule (the "Registration Surcharge") and a new title fee schedule (the "Title Fee Surcharge"). –See APPENDIX A – "INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017 – PLEDGED REVENUES – Impact of 2017 Transportation Bill" and "— Revenue Categories — *Fuel Tax Revenues*."

Future Highway User Tax Revenue Bonds. The 2017 Transportation Bill authorizes the issuance of additional Highway User Tax Revenue Bonds, in an aggregate principal amount sufficient to produce net proceeds of not more than $480 million. The provisions authorizing new bonds become operative on

January 1, 2020; current law does not authorize the State and the Department to issue additional Highway User Tax Revenue Bonds before January 1, 2020. The Legislative Assembly must approve biennial authorization for Highway User Tax Revenue Bonds issued pursuant to the 2017 Transportation Bill on or after January 1, 2020. The proceeds of Highway User Tax Revenue Bonds authorized by the 2017 Transportation Bill are designated to finance projects across the State. The Department is authorized to use amounts produced by various increases in taxes and fees under the bill, as described herein, to pay debt service on Highway User Tax Revenue Bonds. For further discussion, see APPENDIX A—"INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES—2017 Transportation Bill."

Other Funds. The 2017 Transportation Bill creates a number of new funds, and provides for additional revenues to existing funds including the Connect Oregon Fund. These funds are not available to pay and secure Highway User Tax Revenue Bonds. The Congestion Relief Fund is established for the implementation and administration of a congestion relief program. The 2017 Transportation Bill provides for the Congestion Relief Fund to include, among other sources, moneys appropriated by the Legislative Assembly, the net proceeds of tolling authorized by the 2017 Transportation Bill and moneys from federal sources and other State and local sources. The Congestion Relief Fund excludes proceeds of Highway User Tax Revenue Bonds. The Statewide Transportation Improvement Fund is established to finance investments and improvement in public transportation services, except that moneys in the fund may not be used for light rail projects. The Statewide Transportation Improvement Fund includes the proceeds of a payroll tax imposed by the 2017 Transportation Bill of one-tenth of one percent and moneys otherwise appropriated or transferred by the Legislative Assembly. Additional revenues are also transferred to the Connect Oregon Fund, including moneys from the Privilege Tax (described below) and moneys from an excise tax of $15 on the retail sale of each adult size bicycle costing $200 or more imposed by the 2017 Transportation Bill.

Privilege Tax – Supreme Court Jurisdiction. The 2017 Transportation Bill creates a new privilege tax on vehicle dealers equal to 0.5% of the retail sale price of a new automobile (the "Privilege Tax"). The Legislative Assembly has granted original jurisdiction to the Oregon Supreme Court to hear any judicial challenge under the Highway Fund provision of the Oregon Constitution to the use of funds generated by the Privilege Tax; a challenge must be filed within 30 days after the Effective Date. If the challenge is successful, the Privilege Tax, and a corresponding use tax of 0.5% of the retail sale price on automobiles stored, used or consumed in State for which the Privilege Tax has not been paid (the "Use Tax") are repealed and moneys from the Privilege Tax that have not been expended or irrevocably pledged for repayment of bonded indebtedness must be transferred to the State Highway Fund. See APPENDIX A – "INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM DATED AS OF JULY 1, 2017—STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES—2017 Transportation Bill."

Governance. The planning, policy and oversight mandate for the Commission is expanded by the 2017 Transportation Bill, including conferring power on the Commission to appoint the Director of the Department, the development and maintenance of a 20-year plan for multi-modal transportation, and additional oversight of the Department through the creation of the Continuous Improvement Committee and the designation of an Internal Auditor. The Joint Committee on Transportation, consisting of members of the Legislative Assembly, is established by the 2017 Transportation Bill to examine transportation policy and expenditures, make recommendations to the Joint Committee on Ways and Means and provide general legislative oversight of the Department.

2017-2019 Biennial Bond Legislation

Senate Bill 5505, approved by the Legislative Assembly during the 2017 Legislative Session and signed by the Governor on July 19, 2017, establishes biennial issuance authority for general obligation bonds and revenue bonds. Senate Bill 5505 proposes authority for maximum issuance in the 2017-2019 biennium of approximately $1.26 billion in general obligation bonds and approximately $529.8 million in direct revenue bonds. Senate Bill 5505 does not provide additional authority for the issuance of Highway User Tax Revenue Bonds in the 2017-2019 biennium.

ABSENCE OF MATERIAL LITIGATION

No litigation is pending against the Department or, to the knowledge of its officers, threatened in any court or other tribunal of competent jurisdiction, State or federal, that has a reasonable probability of success in any way (i) restraining or enjoining the issuance, sale or delivery of the 2017C Senior Lien Bonds, (ii) questioning or affecting the validity of the 2017C Senior Lien Bonds or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2017C Senior Lien Bonds and the pledge or application of moneys provided for payment of the 2017C Senior Lien Bonds, which, if successful, would likely have a material adverse effect on the Pledged Revenues.

Members of the public and advocacy groups from time to time assert that they intend to file a legal action against the Department challenging certain programs, laws or actions that the Department has taken. Because the Department cannot be certain whether such actions will actually be filed, the legal assertions that may be made in the potential action or the remedy sought in terms of the amount of damages or performance requested of the Department, the Department includes as threatened litigation only situations in which the Department is engaged in active settlement negotiations with a person or advocacy group in order to pre-empt filing of a lawsuit. Further, the Department discloses only pending or threatened litigation which the Department has determined may have a materially adverse effect on the Department's financial position in relation the bonds offered for sale. For the 2017C Senior Lien Bonds, that involves litigation in which the damages or performance sought has a reasonable probability of imposing a liability of $50 million or more.

Potential Superfund Liability

Two State agencies are participating in a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a 10-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency (the "EPA") has listed as a Superfund site under the federal Superfund law ("CERCLA"). Over 200 parties, private companies and public entities, may eventually be found liable for a share of the costs related to investigation and clean-up of the Portland Harbor Superfund Site.

ODOT and the Oregon Department of State Lands ("DSL") have received General Notice Letters from the EPA informing them that the State, by and through those agencies, is a potentially responsible party ("PRP") under CERCLA for cleanup costs at the site. The EPA's letter to ODOT asserts that ODOT may incur CERCLA liability for hazardous substances in storm water draining into the Portland Harbor from ODOT-owned highways and bridges. As to DSL, the EPA's letter charges that the State, through DSL and the State Land Board, is a PRP because of releases of hazardous substances by third-parties on submerged and submersible leased lands owned by the State and administered by DSL.

On January 6, 2017, EPA issued its final cleanup plan for the Portland Harbor Superfund site in a document called the Record of Decision ("ROD"). The ROD requires a mix of cleanup actions –

dredging, capping, enhanced natural recovery and monitored natural recovery – and is estimated to cost $1.05 billion and take approximately 13 years to complete. Liable parties under CERCLA are responsible for funding the cleanup plan. The Portland Harbor Superfund mediation will allocate the ROD's cleanup costs among all liable parties. If the mediation is successful, it will culminate in a settlement proposal, which if accepted by EPA will be memorialized in a Consent Order filed in an Oregon federal district court.

It is too early to estimate the proportionate share of liability for cleanup costs, if any, that may ultimately be allocated to the State agencies in the course of the mediation process. When the mediation will end is not known, but it may be as late as 2019.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources caused by contamination at the site, which is an additional type of recovery under the Superfund law known as natural resource damages ("NRD"). This NRD claim is asserted against all PRPs, including ODOT and DSL, by the Portland Harbor natural resource trustees, a group composed of five tribes, two federal agencies and the State, acting through its trustee, the Oregon Department of Fish and Wildlife. The trustees have initiated a cooperative injury assessment process funded by thirty parties including the State. The NRD process will result in an allocation of liability for NRD damages at the same time as the allocation of liability for remedial costs, although parties may alternatively elect to seek an earlier settlement with the trustees. The State will seek a settlement of its NRD liabilities in 2017. It is too early to evaluate what, if any, share of liability either ODOT or DSL may ultimately bear for this NRD claim.

The State is pursuing claims for insurance coverage of its Portland Harbor defense costs and for any future liabilities for cleanup costs and NRD. These claims are based on commercial general liability insurance policies the State held from 1968 to 1972, and on insurance policies that listed DSL as an additional insured. These insurance carriers have agreed to participate in funding the State's defense in Portland Harbor proceedings, but have reserved their rights to deny indemnity coverage. In October 2015, the State filed suit in state court against its primary insurance carrier, Pacific Indemnity Co., asserting that Pacific Indemnity is obligated to fund a greater proportion of the State's defense costs in Portland Harbor than it has so far.

In the 2017 Legislative Session, the legislature authorized the sale of approximately $5 million in general obligation bonds and approximately $3 million in lottery revenue bonds to pay for some of the initial planning and testing costs related to the Portland Harbor clean up.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2017C Senior Lien Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the further opinion that interest on the 2017C Senior Lien Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2017C Senior Lien Bonds is exempt from State personal income taxation. Bond Counsel expects to deliver an opinion at the time of issuance of the 2017C Senior Lien Bonds substantially in the form set forth in Appendix E hereto.

To the extent the issue price of any maturity of the 2017C Senior Lien Bonds is less than the amount to be paid at maturity of such 2017C Senior Lien Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2017C Senior Lien Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2017C Senior Lien Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2017C Senior Lien Bonds is the first price at which a substantial amount of such maturity of the 2017C Senior Lien Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2017C Senior Lien Bonds accrues daily over the term to maturity of such 2017C Senior Lien Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2017C Senior Lien Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2017C Senior Lien Bonds. Beneficial Owners of the 2017C Senior Lien Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2017C Senior Lien Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2017C Senior Lien Bonds in the original offering to the public at the first price at which a substantial amount of such 2017C Senior Lien Bonds is sold to the public.

The 2017C Senior Lien Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2017C Senior Lien Bonds. The Issuer has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2017C Senior Lien Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2017C Senior Lien Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2017C Senior Lien Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2017C Senior Lien Bonds may adversely affect the value of, or the tax status of interest on, the 2017C Senior Lien Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2017C Senior Lien Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2017C Senior Lien Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2017C Senior Lien Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, presidential budget proposals in previous years have proposed legislation that would limit the exclusion from gross income of interest on the 2017C Senior Lien Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2017C Senior Lien Bonds. Prospective purchasers of the 2017C Senior Lien Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment about the proper treatment of the 2017C Senior Lien Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2017C Senior Lien Bonds ends with the issuance of the 2017C Senior Lien Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer or the Beneficial Owners regarding the tax-exempt status of the 2017C Senior Lien Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2017C Senior Lien Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2017C Senior Lien Bonds, and may cause the Issuer or the Beneficial Owners to incur significant expense.

RATINGS

S&P Global Inc. (S&P), Fitch Ratings, Inc. ("Fitch") and Moody's Corporation ("Moody's") have assigned long-term ratings of "AAA," "AA+" and "Aa1," respectively, to the 2017C Senior Lien Bonds. Certain information was supplied by the Department to the rating agencies to be considered in evaluating the 2017C Senior Lien Bonds. Credit ratings reflect the views of the representative rating agencies and are not a recommendation to buy, sell or hold the 2017C Senior Lien Bonds. Any explanation of the significance of ratings should be obtained directly from the agencies. There is no assurance that any rating will not be subsequently revised or withdrawn entirely if, in the judgment of the assigning agency, circumstances so warrant. The Department has undertaken to provide timely notice of any change in such ratings. See "CONTINUING DISCLOSURE" below.

MUNICIPAL ADVISOR

The Department has retained Public Resources Advisory Group, Oakland, California, as municipal advisor in connection with the preparation of this Official Statement and with respect to the issuance of the 2017C Senior Lien Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

UNDERWRITING

The 2017C Senior Lien Bonds are being purchased by Morgan Stanley & Co. LLC, as representative (the "Representative") of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Fidelity Capital Markets, a division of National Financial Services LLC, Wells Fargo Bank, National Association and The Williams Capital Group, L.P. (collectively, the "Underwriters") for reoffering pursuant to a bond purchase agreement executed and delivered by the Representative on behalf of the Underwriters and the State.

The bond purchase agreement relating to the 2017C Senior Lien Bonds (the "2017C Senior Lien Bonds BPA") provides that the Underwriters will purchase all of the 2017C Senior Lien Bonds, if any are purchased. The purchase price of the 2017C Senior Lien Bonds is $___________ (the principal amount of the 2017C Senior Lien Bonds of $__________, plus an original issue premium of $_________ and less an Underwriter's discount of $_________). The obligation to make such purchase is subject to certain terms and conditions set forth in the 2017C Senior Lien Bonds BPA, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters reserve the right to join with dealers and other underwriters in offering the 2017C Senior Lien Bonds to the public. The Underwriters may offer and sell the 2017C Senior Lien Bonds to certain dealers (including dealers depositing the 2017C Senior Lien Bonds to investment trusts) and others at prices lower than the public offering prices stated on the inside cover page hereof. The Underwriters may change the public offering prices from time to time.

Morgan Stanley & Co. LLC, an Underwriter of the 2017C Senior Lien Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2017C Senior Lien Bonds.

Citigroup Global Markets Inc., an Underwriter of the 2017C Senior Lien Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the 2017C Senior Lien Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group ("WFBNA"), a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

WFBNA has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the 2017C Senior Lien Bonds.

Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2017C Senior Lien Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the 2017C Senior Lien Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

CERTAIN LEGAL MATTERS

The validity of the 2017C Senior Lien Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Bond Counsel and Disclosure Counsel to the Issuer. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP, who represents the State in connection with the 2017C Senior Lien Bonds, also represents the State on certain other matters and represents the Underwriters in connection with other bonds issued by the State.

Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, Portland, Oregon. Underwriters' Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Hawkins Delafield & Wood LLP, who represents the Underwriters in connection with the 2017C Senior Lien Bonds, also represents the State on other matters. The Oregon Department of Justice, Salem, Oregon, will address certain matters for the State and the Department.

CONTINUING DISCLOSURE

The State, acting by and through the State Treasurer and the Department, will undertake to provide to the Municipal Securities Rulemaking Board, on an annual basis on or before nine months after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2017, a Continuing Disclosure Certificate for the benefit of registered owners and Beneficial Owners of the 2017C Senior Lien Bonds and the unaudited Annual Financial Report of the Department substantially in the form attached as Appendix B to this Official Statement. In addition, the State and the Department will undertake for the benefit of registered and Beneficial Owners of the 2017C Senior Lien Bonds to provide to the Municipal Securities Rulemaking Board in a timely manner notices of certain listed events. This undertaking is to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission. The proposed form of Continuing Disclosure Certificate for the 2017C Senior Lien Bonds is contained in Appendix F hereto.

The State has determined that in connection with its State of Oregon Department of Administrative Services Refunding Certificates of Participation, 2012 Series A (Tax-Exempt) (the "2012 COPS") a table setting out the Payment Schedule for Appropriation Credits was omitted from the annual financial information that the State timely filed on EMMA for the 2012 COPS. An amendment has been made to the original EMMA filing to include such a Payment Schedule for Appropriation Credits.

MISCELLANEOUS

References are made herein to certain documents and reports that are brief summaries thereof, which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State or the Department and the purchasers or holders of any of the 2017C Senior Lien Bonds.

The State and the Department have duly authorized the distribution of this Official Statement.

STATE OF OREGON
Tobias Read
State Treasurer

By: ____________________________________
Director, Debt Management Division

DEPARTMENT OF TRANSPORTATION

By: ____________________________________
Chief Financial Officer

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APPENDIX A

INFORMATION RELATING TO THE
OREGON DEPARTMENT OF TRANSPORTATION AND THE
HIGHWAY USER TAX REVENUE BOND PROGRAM

DATED AS OF JULY 1, 2017

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INFORMATION RELATING TO THE OREGON DEPARTMENT OF TRANSPORTATION AND THE HIGHWAY USER TAX REVENUE BOND PROGRAM

INTRODUCTION AND PURPOSE

This Appendix A sets forth Information Relating to the Oregon Department of Transportation ("ODOT" or the "Department") and the Highway User Tax Revenue Bond program as of July 1, 2017 (the "Information Statement"), and includes descriptions of the Department, certain aspects of the highway system of the State of Oregon (the "State") and the Highway User Tax Revenue Bond program authorized by the Oregon Legislative Assembly (the "Legislative Assembly") to finance highway system capital projects and the security and sources of payment therefor, and certain other investment considerations. Investors are advised to read the entire Official Statement, including this Information Statement, to obtain information essential to the making of an informed investment decision. Capitalized terms used but not otherwise defined in this Information Statement shall have the meaning given in the forepart of the Official Statement dated August __, 2017.

OREGON DEPARTMENT OF TRANSPORTATION

General

In 1969, the Legislative Assembly established the Department. The Department administers the State's highway system, implements motor vehicle and motor carrier laws and oversees public transit, rail and traffic safety programs throughout the State. The Office of the Director provides direction for all Department programs.

Oregon Transportation Commission

The Oregon Transportation Commission (the "Commission" or the "OTC") is a five-member, voluntary citizens' board. The Governor, with the consent of the Oregon State Senate, appoints its members. Members serve a four-year term and may be re-appointed. The Commission is empowered to:

- Develop and maintain a State transportation policy and a comprehensive, long-range plan for a multimodal transportation system;
- Coordinate and administer programs relating to highways, motor vehicles, public transit, rail, transportation safety, motor carrier and other transportation-related programs; and
- Exercise other powers vested in it by State law.

When making Commission appointments, the Governor considers the geographic regions of the State so that at least one member resides east of the Cascades Mountain Range. In addition, not more than three members may belong to any one political party. Current members of the Commission are:

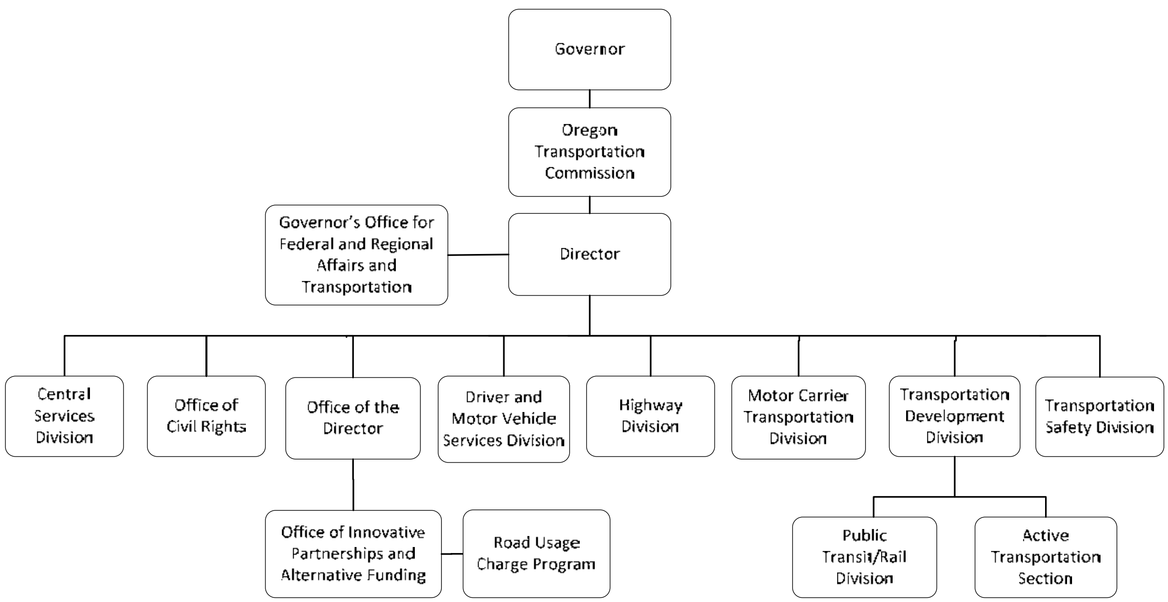
Commissioner	Term Expires
Tammy Baney, Chair	June 30, 2019
Paula Brown	June 30, 2020
David Lohman[1]	June 30, 2017
Sean O'Hollaren	June 30, 2020
Alando Simpson	June 30, 2018

[1] Commissioner Lohman's service continues until reappointment or replacement.

Divisions of the Department

The Department's functions include planning, engineering, construction, maintenance, operations, regulation, enforcement and administration. The Department also collects taxes, fees and grant funds and distributes portions of these funds to counties, cities and other State agencies. Below is an organizational chart for the Department showing the various officers and divisions, as of July 1, 2017. Descriptions of certain divisions and offices of the Department follow below.

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
ORGANIZATION CHART
July 1, 2017



Central Services Division includes the core administrative functions of the Department including Internal Audit Services, Budget Office, Business Services, Facilities, Financial Services, Human Resources, Information Systems, and Procurement Office. Central Services provides services that support all operations and divisions within the Department.

Office of the Director – Office of Innovative Partnerships and Alternative Funding ("OIPAF") manages the Department's Innovative Partnerships Program and is responsible for the development of transportation projects as public-private ventures. Current public-private partnership programs managed by OIPAF include the Oregon Solar Highway Program and Oregon's Electric Vehicle Project. OIPAF also leads the State's efforts to develop a design for an alternative road usage revenue collection system for Oregon's roads and highways.

Driver and Motor Vehicle Services Division ("DMV") promotes driver safety, records financial and ownership interests in vehicles, and collects revenue for the State's transportation system. DMV issues vehicle titles and registration, issues Oregon driver licenses and identification cards, fulfills record requests, investigates fraud and regulates vehicle-related businesses. DMV's operating revenues are derived primarily from driver license, vehicle title and vehicle registration fees. DMV also collects fees dedicated to other funds or agencies, such as Passenger Rail, Elderly and Disabled Special Transportation Fund, Student Driver Training Fund, and the Parks and Recreation Department. Revenues are initially deposited to a suspense account maintained at Oregon State Treasury and after paying for collection and other administrative costs, are transferred to local governments, other agencies, the State Highway Fund and other funds as appropriate.

Highway Division is the Department's largest division and is responsible for operating and maintaining approximately 7,500 miles of highway and 2,700 bridges comprising the State highway system. The Highway division operates a centralized Technical Services Branch in the Department's headquarters that establishes and maintains standards and is responsible for quality control and assurance. The Highway division also includes five regional offices accountable for project delivery including engineering and construction activities and all State highway maintenance activities. Other functions include highway planning, local government assistance, development of the Statewide Transportation Improvement Program ("STIP"), which is discussed below, emergency operations and the administration of all federal funds supporting highway construction in Oregon.

Motor Carrier Transportation Division regulates the trucking industry and enforces related laws and regulations regarding commercial vehicles. The division issues truck licenses and various permits; collects registration fees, weight-mile taxes and road use assessment fees; and processes required reports and security bonds. The Motor Carrier Transportation division audits weight-mile tax reports and payments. Division enforcement officers and safety specialists inspect trucks for compliance with safety, size and weight regulations at Motor Carrier Transportation field offices, ports of entry and weigh stations. The Motor Carrier Transportation division also conducts safety audits of new motor carriers and comprehensive safety audits at motor carriers' terminals to check compliance with regulations.

Transportation Development Division ("TDD") integrates the sections and units of Active Transportation, Public Transit and Rail, Transportation Planning, Transportation Research, and Transportation Data in support of developing a more multimodal transportation system. Transportation Development Division plans and develops Oregon's transportation future with a focus on providing Oregonians with a balanced, well-connected system. The division's programs develop future transportation systems, support the comprehensive statewide transportation planning processes, perform related research projects and collect and analyze transportation data. TDD provides policy analysis, strategic planning, research and program development services for the Department, including implementation of the Oregon Transportation Plan and the Oregon Highway Plan, the Oregon Freight Plan and planning support for other modal plans. The Transportation Development Division also represents the Department in interagency partnerships such as the Transportation Growth Management program and similar interagency efforts. Each of these sections are described below.

> *Active Transportation* strategically integrates program funding sources to promote multimodal and sustainable transportation solutions. The section manages the Department's multimodal, community-focused, statewide transportation system. Active Transportation is comprised of the State-wide Programs unit, Program and Funding Services unit and the Economic and Financial Analysis unit.
>
> *Public Transit Division* provides grants, policy leadership, training, and technical assistance to communities and local transportation providers. The Public Transit division also assists in the development of safe and connected intercity passenger bus, streetcar and rail transit, ridesharing, and other alternatives to driving alone as ways to reduce congestion, diminish environmental impacts, and make more efficient use of Oregon's transportation system.
>
> *Rail Division* represents and advocates for railroad customers – both passenger and freight – to ensure a safe, efficient and reliable rail system. The Rail division regulates highway-rail crossings and manages construction projects to improve crossings. The Rail division manages freight and passenger rail planning activities, while regulating the track, equipment, operations and transportation of hazardous materials on Oregon's railroads. The division oversees

rail transit agencies, including other governmental agencies that operate light rail vehicles, street cars and trolleys. The Rail division also manages right of way, leases and insurance liability issues that may arise between private property owners and rail lines.

Transportation Safety Division operates the statewide transportation safety program through partnerships with other State agencies, local governments, non-profit organizations, the private sector and advisory committees. Major safety efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists and employers.

Department Staff

The Governor appoints the Director of the Department. The Director or the Director's designee appoints all subordinate officers and employees of the Department. Key executive managers are listed below.

Matthew Garrett started with ODOT in 1997 and was appointed Director in December 2005. As the Director of the Department, he manages an agency of about 4,400 people and a biennial budget of approximately $3.6 billion.

Robert Gebhart was appointed Chief Administrative Officer for Central Services Division in June 2016. The Division has approximately 520 employees and a biennial budget of approximately $207 million.

Jerri Bohard started with the Department in 1999 and was appointed Transportation Development Division Administrator in January 2006. Her responsibilities include integration of the Divisions of Active Transportation, Public Transit, Rail, Transportation Planning, Transportation Research, and Transportation Data in support of developing a more multimodal transportation system.

Paul Mather started with the Department in 1983 and was appointed Highway Division Administrator in June 2010. His responsibilities include management of the Department's largest division comprised of five major regional headquarters and the centralized functions of the Budget, Major Projects, Maintenance and Technical Services branches.

Tom McClellan started with the Department in 1996 and was appointed DMV Administrator in November 2007. His responsibilities include leadership of the Driver and Motor Vehicle Services Division comprised of a centralized headquarters, business regulations, three call centers, 60 field offices, 871 employees, and a biennial budget of approximately $189 million.

Tracy Wroblewski started with the Department in 1990 and has served as Chief Financial Officer of the Department since July 2013. As part of ODOT's Executive Management, she oversees the broad financial activities of the Department, including accounting, debt and investment, cost and quantitative analysis, financial reporting, fuel tax and collection, payroll, and system development and maintenance.

Statewide Transportation Planning

Oregon has a comprehensive transportation and land use planning process designed to define statewide transportation goals and policies and to translate these goals and policies into specific, prioritized projects to be funded. The Oregon Transportation Plan (the "OTP"), adopted in 2006 and amended in 2012 for tolling and pricing policies, is a 25-year transportation plan that comprehensively assesses public and private transportation facilities and services on State, regional and local levels through 2030. It is the overarching policy document among a series of plans that together form the State transportation plan. The OTP considers all modes of Oregon's transportation system as a single system and addresses the core challenges and opportunities facing Oregon. The OTP is the Department's overall policy document directing transportation investments for the State and provides the framework for prioritizing transportation improvements based on various future projected revenue conditions. The OTP is consistent with federal requirements and State law.

The Oregon Highway Plan (the "OHP") is an element of the OTP and applies OTP goals to the State highway system. The OHP was adopted by the Commission in 1999 and republished in 2006 to include amendments from November 1999 through January 2006. Since its initial publication and republication, the OHP has been revised, amended and updated, including significant revisions in 2011 to the mobility standards policy, in 2012 to the access management, freight and toll pricing policies and revisions in 2013 to the State-wide system of expressways. The OHP has three elements:

Vision:	Presenting a vision of the State highway system in the future and summarizing the impacts of economic and demographic forecasts on highway transportation.
Policy:	Presenting policies and actions to define and manage the State highway system.
System:	An analysis of State highway needs, including revenue projections and investment scenarios, and an implementation plan to determine funding priorities based on available revenues.

The needs analysis of the OHP is based upon the assumption of continued increases in traffic volumes, using estimates of State population growth over a 20-year period beginning in 2006. On the basis of projected traffic volumes, ODOT has identified capacity needs and developed a "feasible needs" analysis for a 20-year period beginning in 2006. Revenue projections are based on projected revenues from highway user taxes and federal funds. Currently, assuming no increase in current funding levels and including funding from the Oregon Transportation Investment Act (as more specifically defined below, "OTIA") and the Jobs and Transportation Act (as more specifically defined below, "JTA"), all identified State highway needs will not be met.

The Department has developed policies and scenarios to use in planning and prioritizing programs at current and future potential funding levels. At current funding levels, the Department expects to place the highest priority investments in the State highway system on safety and on managing and preserving the existing physical infrastructure. With limited abilities to expand the physical infrastructure, the OHP's infrastructure investment policies emphasize capacity-adding programs that are less costly than traditional modernization projects. These include interconnected traffic signal systems and other operational changes, intelligent transportation system technologies and off-system improvements. As part of the OHP implementation, ODOT provides reports to the OTC and Legislative Assembly. For the OTC, ODOT staff provides updates regarding overall system performance such as bridge and pavement conditions. For the Legislative Assembly, ODOT prepares a State of the System report which provides condition information for the overall transportation system including highways, bikeways, walkways, and freight systems.

Another long-range policy plan is the Oregon Freight Plan. The Oregon Freight Plan ("OFP") is a topic policy plan and is also an element of the OTP. The current version of the OFP was adopted in 2011, however, ODOT is currently in the process of amending the plan to bring it into compliance with new federal regulations. The OFP establishes a vision for the multi-modal and intermodal freight system in Oregon. Some of the priority investments supported by the OFP include removing system pinch points and bottlenecks as well as improving access to critical freight terminals and hubs such as ports, rail transfer terminals, and distribution centers. The OFP also includes investment priorities for rail and marine facilities that can improve freight mobility and safety to help bolster the economy of Oregon. The amended OFP will be complete and approved by the OTC by the end of 2017 and will build upon these existing priorities with additional detail about freight needs and potential actions.

Statewide Transportation Improvement Program

The STIP is the project and program funding and scheduling document produced by ODOT to implement the OTP and the OHP. The STIP covers a four-year period and is updated every three years. The currently approved program is the 2015-2018 STIP. The Department conducted a public review period in January and February 2017 to solicit comments to the draft STIP for the 2018-2021 period. The 2018-2021 STIP was presented to the OTC at its meeting on July 20, 2017. After presentation to the OTC, the STIP is submitted to the Federal Highway Administration for final approval and is expected to be effective November 2017.

The STIP prioritizes, schedules and assigns funding to transportation projects and programs following the policy direction of the Commission and reflecting the work done in a variety of efforts, including:

- The Oregon Transportation Plan;
- The Oregon Highway Plan;
- Modal plans and management systems supported through the current federal funding act such as public transit, rail, bicycle and pedestrian, etc.;
- Consultation and partnership with Area Commissions on Transportation, local government officials and the public;
- Projects and strategies developed in conjunction with facility plans developed for the State and local transportation system, which include efforts such as Interchange Area Management Plans and Corridor plans;
- Projects divided into two broad categories, "Fix-It" and "Enhance," selected and prioritized based on criteria approved by the Commission;
    - Fix-It Program: funds projects and activities that fix or preserve the state transportation system.
    - Enhance Program: funds projects and activities that enhance, expand, or improve the state transportation system.
- Priorities identified in regional, county and city transportation systems plans.

Federal regulations require the identification of all federally funded transportation projects and all regionally significant transportation projects in the STIP. This includes projects on the federal, State, county and city transportation systems, passenger rail, public transit, bicycle and pedestrian projects and projects in the National Parks, National Forests and on tribal lands. Projects listed by all nine metropolitan planning organizations ("MPOs") within the State must be included in the STIP in their entirety.

Programs and projects funded through the STIP must also comply with State and local land use laws and must meet the goals of the federal Clean Air Act Amendments and the State's implementation plan for air quality. Projects are developed in accordance with the goals, policies and guidelines set forth in the OTP.

Projects included in the STIP are identified and prioritized utilizing the processes specified in the current federal funding act. Project identification and prioritization are based primarily on system conditions and needs. The Department uses the project lists developed through this process and applies localized knowledge supplemented with input from local governments, transportation stakeholders and the public. This process results in the projects and relative prioritizations listed in the STIP. Local government projects in the STIP are identified and prioritized utilizing system management data and public involvement at the local government level. The Department is included in this process as directed by federal law. All projects are scheduled for construction or implementation according to their priority and funding availability.

Funding Levels. Under federal law, the STIP can only include projects for which the State can reasonably expect adequate funding. Funding levels for the four-year program are based on projections made by the Department's economic and revenue forecasting staff of State and federal revenues and are approved by the Commission. For a discussion of federal transportation funding, see "—Federal Highway Funding" below.

The State highway portion of the 2015-2018 STIP was developed based on an estimated four-year total non-OTIA/JTA funding level of approximately $2 billion for preliminary engineering, right of way acquisition, utility relocation and construction costs. Sources of funding include over $1.8 billion in federal highway funds and over $150 million in State transportation fees and tax receipts. In addition, the STIP has $336 million (four-year total) in public transportation projects funded by the Federal Transit Administration. The State's use of federal funds, and the use of federal funds by local governments that obtain federal funding through the State, are subject to approval, audit and review by the U.S. Department of Transportation and outside audits of the State's financial statements are also subject to periodic review by the U.S. Department of Transportation.

For the major highway programs in the 2015-2018 STIP, the Commission approved average annual non-OTIA/JTA funding targets of approximately $47 million for bridge-related work, $100 million for pavement preservation work, $38 million for the safety investment program, $15.8 million for the operations/intelligent transportation system program and $58 million for other special programs.

Although OTIA/JTA projects are not included in the above amounts, the STIP does provide detailed information about projects to be funded with the proceeds of OTIA/JTA bonds. During the 2015-2018 timeframe covered by the current STIP, over $640 million is anticipated to be spent on OTIA/JTA projects (these include local projects as well). Many of those projects are currently listed in the STIP.

Statutory Modernization Requirement

By statute, the Department is required to spend a certain amount for modernizing State highways and roads. Under Oregon Revised Statutes ("ORS") 366.507, the intent of the modernization program, which includes both OTIA/JTA and non-OTIA/JTA projects and funding sources, is to increase highway safety, to accelerate improvements from the backlog of State highways needs and to fund modernization of highways and local roads to support economic development in Oregon. For the Department's fiscal year ended June 30, 2016, approximately $446 million was dedicated to the modernization program, and the Department was in compliance with the statute.

Federal Highway Funding

Federal funding for surface transportation projects comprises a number of different sources, including the Federal Highway Trust Fund ("HTF") and appropriations from the general fund of the U.S. Treasury that are described in this section. The purposes and administrative authority of the various federal surface transportation programs (hereinafter "Federal Transportation Programs"), including the federal aid highway program ("FAHP"), have been codified and reauthorized by Congress. Historically, there have been numerous short-term and long-term reauthorizations of the Federal Transportation Programs.

Generally, Federal Transportation Programs must be periodically reauthorized by Congress. Following a number of prior multi-year authorizations, the Transportation Equity Act for the 21st Century ("TEA-21") was enacted in 1998 and authorized programs over the six-year period from federal fiscal year ("FFY") 1998 through 2003. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU") became law on August 10, 2005, and authorized programs over the four-year period from FFYs 2005 through 2009. After the expiration of SAFETEA-LU in September 2009, Congress enacted ten interim authorization measures before approving the Moving Ahead for Progress in the 21st Century Act ("MAP-21") in 2012. Unlike its lengthier predecessors, MAP-21 enacted federal funding a policy for a period of only two years. Once the shorter-term MAP-21 expired in 2014, Congress again approved a number of shorter term actions to ensure the solvency of the HTF before ultimately enacting the first long-term authorization in a decade.

The Fixing America's Surface Transportation Act ("FAST Act") was signed into law on December 4, 2015. The FAST Act authorizes funding and policy for Federal Transportation Programs for a five-year period. The FAST Act provides for the imposition of the highway-user taxes, generally at the rates that were in place when the legislation was enacted, through September 30, 2022. Further, it extends provision for deposit of almost all of the highway-user taxes into the HTF through September 30, 2022. In addition, the FAST Act authorized U.S. General Fund transfers totaling $70 billion to supplement the highway user taxes in the HTF to fund FAST Act spending levels.

Multi-Year Authorization and Federal Highway Trust Fund

The HTF provides the primary funding for Federal Transportation Programs. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a fund established by federal law to hold dedicated highway-user revenues that are used for reimbursement of eligible transportation projects.

The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

Amounts in the HTF can be affected by the rate of expenditure of money in the fund as well as a number of revenue-impacting factors. Two significant factors are the decline in vehicle miles traveled ("VMT") since 2007 and the trend toward more fuel-efficient vehicles, both of which impact revenue from gasoline and diesel sales. Any further decline in VMT and increases in vehicle fuel economy could have an adverse impact on the HTF.

The FAHP operates in a distinct budgetary model under which funding levels (contract authority or apportionments) are authorized pursuant to the surface transportation authorization act (currently the FAST Act) and actual dollars for a particular FFY (known as obligation authority or limitation) are made available in the annual appropriations bill. Due to this budgetary authority, most Federal Transportation Programs that are funded from the HTF (including both highway and transit programs) are generally exempt from the provisions of the Budget Control Act of 2011, including the cap on non-security discretionary spending and sequestration.

The FAST Act, among other authorizations, authorized federal transportation programs through FFY 2020. There can be no assurances as to the outcome of the funding of federal transportation programs beyond September 30, 2020.

Federal Funding

For FFY 2015, the Department received approximately $482 million in federal aid highway funding, and in FFY 2016 the Department received approximately $507 million in federal aid highway funding. Each year, ODOT makes a concerted effort to maximize federal aid reimbursements up to its entire allotment of obligation limitation from the federal Highway Trust Fund. ODOT has used its entire amount of federal funding for every federal fiscal year on record, dating back to 1992. Additionally, ODOT has been continually rewarded by FHWA with additional funding through the annual August redistribution - a process whereby unused obligation limitation from elsewhere in the nationwide federal program is given to states that have demonstrated the ability to successfully program and spend federal aid highway funding. In FFY 2017, the Department anticipates receiving approximately $514 million in federal aid highway funding. This federal aid highway funding, which is used primarily for the Highway Division, is supplemented with lesser amounts from other federal programs for Transportation Safety Division, Motor Carrier Transportation Division, Rail and Public Transit Divisions and other programs. Federal funds received by the Department are not included in Pledged Revenues.

During 2013 and 2014 the Department and the Washington State Department of Transportation ("WSDOT") worked together on preliminary matters related to replacing the Interstate 5 bridge across the Columbia River between Oregon and Washington, referred to as the Columbia River Crossing project (the "CRC Project"). In connection with the CRC Project, ODOT expended approximately $105 million, of which approximately $12 million was from State funds and approximately $93 million was from Federal funds. The Department ceased work on the CRC Project in May 2014. Under FHWA policy, failure to advance the project from environmental work and design into right of way acquisition within 10 years of the initial obligation of funds could trigger a requirement to repay Federal funds used on the project. However, FHWA regulations also allow for a time extension with no repayment of Federal funds if an extension is requested and FHWA considers the request to be reasonable. FHWA has granted Oregon an extension of the requirement to repay Federal funds until 2019. ODOT remains in discussion with FHWA regarding the CRC Project and the Federal funds repayment timing and amounts, if any.

Uncertainties in Federal Funding

A significant amount of funding for State highway purposes has historically been provided by the federal government. Federal highway funds are derived from fuel tax and highway-user fees and are allocated by Congress to the states under federal transportation statutes enacted from time to time and annual appropriation bills. Federal funds are available only for reimbursement of expenditures on approved projects. Federal aid is not available for routine maintenance, administration or other non-project related costs.

Numerous factors, such as changes in the state or national economy, federal budget and policy changes, and other considerations, have had, and may continue to have, significant effects on the finances and operations of the State and the Department and no assurance can be given that further impacts will not occur. Federal statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and funding restrictions, whether taken as part of federal budgetary actions, including the series of automatic federal deficit resolution spending cuts commonly known as sequestration, or otherwise, may reduce funds available for, or increase costs of State programs including those operated by the Department. At the same time, the federal government may maintain or increase the responsibilities of the State and the Department in certain areas, notwithstanding lower federal funding for such activities. The State and the Department cannot predict the occurrence of such economic or federal government changes or the potential effect on the finances and operations of the State and its revenues until the extent and duration of such changes are known.

The State and the Department cannot predict when or whether federal legislation may be enacted, and no assurance can be given that Congress will enact new legislation providing funding and/or authorization for federal transportation programs, or that if enacted, any such legislation would be signed into law by the President. Although Congress and the President have taken action in the past to maintain the authorization of and funding for federal transportation programs, no assurance can be given that such actions would or could be taken in the future to maintain the authorization of and funding for federal transportation programs in the future.

STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES

Highway User Tax Revenue Bonds

The Legislative Assembly authorized the Department to request the State Treasurer to issue and sell revenue bonds known as "Highway User Tax Revenue Bonds" pursuant to the program authority of ORS 367.605 to 367.665. Proceeds from the sale of Highway User Tax Revenue Bonds are declared to be for the purpose of building and maintaining permanent public roads and may be used, among other things, to finance the cost of state highway, county road and city street projects in the State, to pay the costs of issuing the bonds, for loans to cities and counties as provided by Oregon law, to pay debt service on the bonds, and to pay the costs of the State Treasurer and the Department to administer and maintain the bonds and the Highway User Tax Bond program.

The Legislative Assembly has authorized Highway User Tax Revenue Bonds to be issued under the bond acts described in the following table:

Bond Act	Year Enacted	Net Proceeds Authorized	Net Proceeds Issued	Projects/Purposes
Oregon Transportation Investment Act ("OTIA") I	2001	$400 million	$400 million	Modernization and Preservation
OTIA II	2002	$100 million	$100 million	Modernization and Preservation
OTIA III	2003	$1.9 billion	$1.9 billion	Replacement and Repair of bridges on State, county and city highways and modernization projects
Jobs and Transportation Act	2009	$840 million	$840 million	Specified highway improvement projects
2017 Transportation Bill	2017*	$480 million	--	Modernization and Preservation

* Provisions of 2017 Transportation Bill authorizing Highway User Tax Bonds become operative January 1, 2020. Current law does not authorize the State and the Department to issue additional Highway User Tax Revenue Bonds before January 1, 2020. See "RECENT DEVELOPMENTS—2017 Transportation Legislation" in the forepart of this Official Statement for further discussion of bond authorization.

Jobs and Transportation Act

In 2009, the Legislative Assembly enacted The Oregon Jobs and Transportation Act of 2009 (Oregon Laws 2009, Chapter 865), as amended by Oregon Laws 2010, Chapter 30 enacted by the 2010 Special Session of the Legislative Assembly (collectively, "JTA"). JTA, as amended, authorized a number of programs including, among other things, $100 million in lottery revenue bonds for the Connect Oregon III program to provide financing for multimodal transportation facilities.

The State issued Highway User Tax Revenue Bonds in an amount sufficient to produce net proceeds of not more than $840 million to finance projects specified by the Legislative Assembly under JTA (the "JTA Projects"). All Highway User Tax Revenue Bonds authorized under JTA have been issued. The JTA Projects consisted 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 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. The Department amended the Master Declaration to include as Pledged Revenues the additional or new revenues that are permitted under JTA to be pledged to secure and pay debt service on Highway User Tax Revenue Bonds.

The State issued three series of Highway User Tax Revenue Bonds, including its State of Oregon Department of Transportation Highway User Tax Revenue Bonds, Senior Lien Bonds, Series 2013A; its State of Oregon Department of Transportation Highway User Tax Revenue Subordinate Lien Bonds, Series 2017S-2; and its State of Oregon Department of Transportation Highway User Revenue Bonds Senior Lien Bonds, Series 2017A, for JTA Projects and has no remaining bond authorization under JTA. As of July 1, 2017, $739 million has been expended on JTA Projects. Of the total 51 JTA Projects, 37 projects have been completed.

Transportation Project Account

Pursuant to JTA, effective January 1, 2011, the Transportation Project Account is created in the State Highway Fund, and moneys in the account are continually appropriated to the Department for the purpose of making certain allocations required under JTA, as described below, and for the purpose of paying debt service on Highway User Tax Revenue Bonds. If at any time, the Department determines that there are not sufficient funds in the State Highway Fund to pay debt service on Highway User Tax Revenue Bonds, moneys in the Transportation Project Account are required to be transferred to the State Highway Fund and used by the Department to pay debt service on Highway User Tax Revenue Bonds. The amounts on deposit in the Transportation Project Account are included in Pledged Revenues. Interest on moneys deposited to the Transportation Project Account is credited to the State Highway Fund.

Under JTA, the Department is required to (i) make quarterly estimates of the amount of moneys allocated to the Department under ORS 366.752 that is not required to pay debt service on outstanding Highway User Tax Revenue Bonds issued to finance the JTA Projects and (ii) deposit such amount in the Transportation Project Account. Oregon law sets out a series of assumptions that the Department is to use when computing the amount required to be deposited to the Transportation Project Account. Only those amounts determined by the Department as not required to pay debt service on Highway User Tax Revenue Bonds issued for JTA Projects may be allocated by the Commission pursuant to a request of the Department to fund projects in the following order of priority: (a) the amount established for JTA Projects; (b) $15 million for maintenance, preservation and safety; and (c) for any other purpose determined by the OTC.

2017 Transportation Bill

During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill to address transportation improvement, modernization and preservation throughout the State. The 2017 Transportation Bill becomes law on the Approval Date (as defined in the next sentence) and takes effect on October 6, 2017, the 91st day after the date on which the Legislative Assembly adjourned (the "Effective Date"). The "Approval Date" is the earlier of the date on which the Governor signs the 2017 Transportation Bill or, in the absence of a veto by the Governor, August 18, 2017. For further discussion of the 2017 Transportation Bill, see "RECENT DEVELOPMENTS— 2017 Transportation Legislation" in the forepart of this Official Statement.

The 2017 Transportation Bill authorizes the issuance of additional Highway User Tax Revenue Bonds, in an aggregate principal amount sufficient to produce net proceeds of not more than $480 million. The provisions authorizing new bonds become operative on January 1, 2020. The proceeds of Highway User Tax Revenue Bonds authorized by the 2017 Transportation Bill are designated to finance projects in regions across the State. The Department is authorized to use amounts produced by certain of the increases in taxes and fees under the 2017 Transportation Bill to pay debt service on Highway User Tax Revenue Bonds. See "—Impact of 2017 Transportation Bill" below, for further discussion of provisions of the 2017 Transportation Bill that affect Pledged Revenues and the Highway User Tax Revenue Bond program.

DEPARTMENT FINANCES

General

Under State law, the Department is responsible for maintaining its own books and accounts, and is subject to audit by the Oregon Secretary of State. The State and the Department do not prepare audited financial statements for the Department as a separate entity. Accordingly, audited financial statements are not included in this Official Statement nor are they expected to be available in the future. Although the audited financial statements are not prepared for the Department as a separate entity, the Oregon Division of Audits of the Office of the Secretary of State (the "Audits Division") annually performs audit work related to selected financial accounts of the Department as part of the State's annual financial audit in accordance with applicable accounting standards.

The Department prepares an unaudited Annual Financial Report (the "Report") for each fiscal year ending June 30. The Report for the fiscal year ending June 30, 2016 is attached as Appendix B to this Official Statement.

The Department's resources are allocated to and accounted for in individual funds, based upon the purposes for which they are authorized to be spent. Special revenue funds are established to account for taxes, licenses, and other revenues allocated by law to specific purposes. Revenues allocated to the special revenue funds are collected by the Department and deposited in the State Treasury in the Department's account.

A summary of the Department's net revenues, total expenditures and changes in fund balances for the past five fiscal years is included as Table A-1. The Report and the data presented in Table A-1 reflect the operations of the entire Department and are not limited to either the State Highway Fund or the Pledged Revenues. The terminology and data presented in Table A-1, including but not limited to terms such as "Net Revenues," are derived from the Report and differ in certain respects from the terminology used elsewhere in this Official Statement.

TABLE A-1
OREGON DEPARTMENT OF TRANSPORTATION
NET REVENUES, TOTAL EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
(UNAUDITED)[1]

	Fiscal Year Ending 6/30/12	Fiscal Year Ending 6/30/13	Fiscal Year Ending 6/30/14	Fiscal Year Ending 6/30/15	Fiscal Year Ending 6/30/16
Revenues:					
Motor Fuels Taxes[2]	$490,991,236	$487,930,939	$493,677,217	$508,902,698	532,171,382
Weight-Mile Taxes[2]	259,983,935	251,527,795	269,388,277	285,234,715	291,302,037
Vehicle Taxes[2]	281,357,939	282,600,564	289,511,411	304,470,291	318,586,259
Other Transportation Taxes	42,936,575	43,584,748	45,039,901	45,941,271	46,522,588
General Fund Appropriations[3]	981,250	988,750	2,601,771	10,108,302	11,563,070
Investment Income	10,297,874	9,492,178	9,563,816	5,326,284	10,776,161
Transfers In–State Agencies	49,758,037	45,244,368	57,230,812	31,287,156	57,438,694
Federal Revenue	576,236,890	479,339,292	519,714,179	453,466,794	524,704,336
Driver’s License Fees[2]	32,882,652	37,984,387	40,155,389	41,017,697	44,102,338
Charges for Services[4]	35,406,532	25,919,958	30,061,733	35,118,997	30,885,656
Other Sales Income[5]	4,678,690	12,406,304	17,452,891	10,927,951	10,215,406
Other Revenue	24,543,899	27,129,850	32,671,538	25,037,780	21,500,913
Business License Fees	6,383,231	6,401,201	6,304,692	7,393,045	5,413,005
Facility Lease Revenue	3,511,205	3,361,572	3,449,864	3,854,080	3,981,554
Long-Term Debt Proceeds[6]	76,419,998	35,393,650	452,095,712	61,422,729	20,349,861
Insurance Recovery	796,671	1,720,022	1,262,879	1,885,099	1,405,742
Total Gross Revenues	**1,897,166,614**	**1,751,025,578**	**2,270,672,082**	**1,831,394,889**	**1,930,919,002**
Transfers To Cities[7]	(146,031,720)	(146,184,265)	(152,030,171)	(158,041,400)	(164,775,679)
Transfers to Counties[7]	(213,176,356)	(213,748,734)	(222,806,116)	(234,384,864)	(245,771,166)
Transfers to State Agencies	(73,605,057)	(38,481,075)	(39,017,147)	(44,725,728)	(42,693,360)
Other Transfers[8]	(600,574)	(778,515)	(1,145,411)	(1,225,283)	(1,291,392)
Sub-Total Transfers Out	**(433,413,707)**	**(399,192,589)**	**(414,998,845)**	**(438,377,275)**	**(454,531,597)**
Total Net Revenues	**1,463,752,907**	**1,351,832,989**	**1,855,673,237**	**1,393,017,614**	**1,476,387,405**
Expenditures:					
Personal Services[9]	378,804,153	381,442,031	398,825,742	408,397,413	427,471,395
Services and Supplies	773,322,011	848,492,381	837,546,909	871,488,517	797,613,475
Capital Outlay	59,136,148	53,513,884	24,548,202	44,699,187	28,086,799
Special Payments & Other Expenses and Adjustments[10]	98,782,907	118,298,492	98,895,104	93,814,885	81,796,430
Loan Interest	638,725	418,855	502,851	263,426	234,374
Debt Service[11]	197,563,429	213,342,377	226,193,937	249,656,909	263,021,793
Total Expenditures	**1,508,247,373**	**1,615,508,020**	**1,586,512,745**	**1,668,320,337**	**1,598,224,266**
Total Net Revenues Less Total Expenditures	**(44,494,466)**	**(263,675,031)**	**269,160,492**	**(275,302,723)**	**(121,836,861)**
Beginning Fund Balance	1,083,734,509	1,037,315,181	777,206,340	1,043,992,294	774,012,128
Prior Period Adjustments	(783,303)	-	(4,299,409)	-	(1,534,080)
Changes in Reserve Accounts	(1,141,559)	3,566,191	1,924,871	5,322,557	(1,967,908)
Ending Fund Balance[12]	**$1,037,315,181**	**$777,206,340**	**$1,043,992,294**	**$774,012,128**	**$648,673,279**

[Footnotes on following page]

Source: Oregon Department of Transportation

(1) The terminology used in Table A-1, including but not limited to Net Revenues is derived from the Report and therefore differs in certain respects from the terminology used elsewhere in this Official Statement.

(2) Table A-1 presents the gross amount of certain revenue categories that contribute to the Pledged Revenues that secure the Highway User Tax Revenue Bonds of the Department. These revenue categories include certain portions of Motor Fuels Taxes, Weight-Mile Taxes, Vehicle Taxes and Driver's License Fees. The net of amount of these revenues that constitute Pledged Revenues are set out in the Official Statement under the Table titled "OREGON DEPARTMENT OF TRANSPORTATION HISTORICAL AND ESTIMATED PLEDGED REVENUES FOR FISCAL YEARS ENDING JUNE 30, 2015 THROUGH JUNE 30, 2020."

(3) Other General Fund appropriations include funds for the Public Transit Division's Elderly and Individuals with Disabilities Program.

(4) Charges for Services may include revenues from sources internal to the Department.

(5) Includes proceeds from the sale of capital assets.

(6) Includes proceeds of new money and refunding long-term debt obligations issued for the benefit of the Department as: Highway User Tax Revenue Bonds, Certificates of Participation, Article XI-Q General Obligation Bonds or Lottery Revenue Bonds.

(7) City and County transfers includes pass-through revenues.

(8) Includes Intra-fund transfers regarding internal loan activity.

(9) Includes required contributions from the Department to the Oregon Public Employees' Retirement System (as further defined herein, "PERS"), Public Employees' Benefits Board and related employee benefits costs. For the fiscal year ended June 30, 2016, the Department's PERS contribution, which includes both its employer contribution and payment by the Department of the employee contribution, totaled $43.3 million. The Department also includes its required debt service contributions in connection with the State of Oregon pension obligation bonds issued in October 2003 in personal services expenditures. For the fiscal year ended June 30, 2016, the Department contributed $16.2 million for the pension obligation bond debt service assessment. See APPENDIX A2—"STATE OF OREGON PENSION AND OTHER POST RETIREMENT BENEFIT PROGRAMS."

(10) Special payments are payments the Department makes to other governmental jurisdictions (including counties, cities and other State agencies), quasi-public agencies and, in some cases, individuals. 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 loans, deposits, and grants, as well as the distribution of federal funds and State funds directly to governmental subdivisions, quasi-public agencies and others. Special payments include loans, deposits and grants, as well as the distribution of federal funds and State funds directly to governmental subdivisions, quasi-public agencies and others. Other expenses and adjustments include (1) a one-time Oregon Transportation Infrastructure Bank ("OTIB") bad debt expense due to Cascade Sierra Solutions, Inc. OTIB loan default and subsequent bankruptcy, and (2) an adjustment on the sale of certain capital assets by the Department.

(11) Includes all general fund, State Highway Fund and Lottery fund long-term debt payments. For a more detailed description of ODOT's long-term debt programs see the Department's 2016 Annual Financial Report included as Appendix B to this Official Statement.

(12) Totals may not add due to rounding.

Biennial Budget

Prior to the start of each biennial legislative session, the Department prepares a balanced budget request that is incorporated in the Governor's recommended State budget. After review and possible adjustments, the Legislative Assembly approves all State agency budgets, including the Department's budget. The Department is operating under a biennial budget approved by the Legislative Assembly for the period beginning July 1, 2017 and ending June 30, 2019 (the "2017-2019 biennium"). For the 2017-2019 biennium, the total budget approved by the Legislative Assembly for the Department is $3.9 billion.

The Department has no statutory requirement to maintain a specific fund balance. Balances remaining at the end of a biennium are available, subject to legislative approval, for expenditures in the following biennium. Actual fund balances remaining at the end of a biennium may differ from the approved budget for several reasons, including variations in actual versus projected revenue receipts and project costs and timing of actual project expenditures. The Department may not exceed budgeted expenditure amounts without specific legislative approval.

Differences may exist between financial information for the Department as reported by the State and the Department. These differences are due to factors that include timing, materiality and basis of presentation.

Investment of State Highway Funds

The State Highway Fund is established under ORS 366.505 as a trust fund in the State Treasury, separate and distinct from the State's General Fund. The State Highway Fund may be used for the purposes authorized by law, and all moneys in the State Highway Fund are continuously appropriated for such purposes. The Department may establish accounts and subaccounts within the State Highway Fund when it determines that accounts or subaccounts are needed or desirable. The Department maintains an account within the State Highway Fund to provide for the payment of debt service upon Highway User Tax Revenue Bonds (the "Debt Service Account").

The State Treasurer is responsible for investing moneys of the State Highway Fund, which includes the Debt Service Account described above. Pursuant to the Declaration, the proceeds of any Senior Lien Bonds, Subordinate Lien Obligations or Second Subordinate Lien Obligations and moneys in the Debt Service Account are invested in accordance with ORS 293.721 and ORS 293.726, which requires that investments be prudent and productive in light of the purposes, terms, distribution requirements and laws governing the moneys being invested.

As of July 1, 2017, the State Highway Fund totaled approximately $648.5 million. Moneys from the State Highway Fund are generally divided into two primary investment portfolios: the Oregon Short Term Fund (approximately $503.1 million, plus $54.9 million in funds earmarked for debt service on Highway User Tax Revenue Bonds) and Fixed Income Portfolio investments (approximately $90.5 million).

The investment policy of the Department has been approved by the Oregon Investment Council (the "Council"). The policy is periodically reviewed by the Council and was last approved on June 10, 2014. The current investment policy guidelines used by the State Treasurer relating to the Department's other investments are as follows: (i) all investments must be fixed-income and U.S. dollar-denominated; (ii) securities must be rated at investment grade or higher at the time of purchase (Baa3/BBB- as rated by any Rating Agencies (see "RATINGS" in the forepart of the Official Statement); and (iii) no more than five percent of the monies may generally be invested in any single issuer (excluding U.S. Government and Agency obligations including Agency backed mortgages) unless approved by the Department. There can be no assurance that these investment policy guidelines will not be changed in the future.

ODOT Revenue Forecast

The Department publishes semiannual revenue forecasts, dated June and December, to assist budget and financial planners and policy-makers in formulating budgets and other decision-making activities. The Department's revenue forecast is prepared using data from the most recent economic and revenue forecast that is required by Oregon law to be prepared on a quarterly basis (the "State Economic Forecast") by the State's Department of Administrative Services Office of Economic Analysis ("OEA"), and using the same macroeconomic forecast from IHS Markit, Inc. that is used by OEA for the State Economic Forecast. See "—ODOT Revenue Forecast Methodology" and "—State Economic Forecast Methodology" below. ODOT's June 2017 Revenue Forecasts, released June 2017 (the "ODOT June 2017 Forecast") was prepared consistent with the State's Economic and Revenue Forecast, released by OEA in May 2017. The ODOT June 2017 Forecast does not include any projections or forecasts of revenues assuming the effectiveness of the 2017 Transportation Bill.

The Department's next revenue forecast is expected to be released in December 2017 (the "ODOT December 2017 Forecast"), and will be prepared consistent with the State's Economic Forecast which is expected to be released November 29, 2017 (the "State November 2017 Forecast"). The Department anticipates that the ODOT December 2017 Forecast will include projections of non-contingent revenue increases authorized by the 2017 Transportation Bill. The State and the Department cannot predict the findings of the ODOT December 2017 Forecast or the State November 2017 Forecast. However, if a material decrease in projected revenues available to the Department is shown in the ODOT December 2017 Forecast, the Department would expect to reformulate budgets and other financial activities of the Department to conform with the most recent forecast. See "SECURITY AND SOURCES OF PAYMENT – Historic and Estimated Pledged Revenues."

ODOT Revenue Forecast Methodology

ODOT's highway revenues are forecast primarily using econometric models, a forecasting approach that is similar to that employed by OEA in producing the State Economic Forecast, which is described below. The ODOT revenue forecast model is comprised of three independent modules: motor fuels, motor carrier (heavy truck activities), and drivers/vehicles. These three modules roughly correspond to each of the three revenue categories that make up Pledged Revenues: Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues. ODOT's revenue forecast includes projections of quantities of motor fuels in gallons, weight-mile receipts normalized on mileage tax rates for heavy vehicles, and transactions related to numerous licensing, registration, titling and regulatory functions, which projections are based on certain assumptions set out in the forecast. See APPENDIX C—OREGON DEPARTMENT OF TRANSPORTATION JUNE 2017 REVENUE FORECAST.

There are five primary phases involved in developing ODOT's revenue forecast. First, the empirical equations are selectively evaluated for forecast accuracy and updated with new historical data. The estimates in the ODOT model are conditioned on State economic and demographic data and economic data at the national level. Second, the model is solved using the State Economic Forecast under its baseline assumptions, coupled with the national baseline forecasts of IHS Markit, Inc. Third, the forecast quantities and transactions are then combined with tax rates and fee schedules under current law to generate forecast revenues. These are gross revenues before allowance is made for expenses such as collection costs and before program transfers. The fourth phase uses ODOT budget data for collection cost, program transfers, and general and administrative costs to develop forecasts of net revenues. The final phase in developing the forecast applies apportionment formulas under State law to allocate net revenues to cities and counties and to the State Highway Fund.

State Economic Forecast Methodology

Oregon law requires the State's Department of Administrative Services ("DAS") to prepare the State Economic Forecast for each calendar quarter and also requires DAS to set forth the methodology and assumptions used to develop each quarterly revenue forecast. Currently, the State uses an export based economic model to forecast the Oregon economy and personal and corporate income taxes. The system receives new data each quarter, with revisions to the model as necessary. The economic model has two major parts: (1) a State economic model that estimates employment, wages and personal income; and (2) a revenue forecasting system based on the economic model, for use in estimating personal and corporate income taxes. Since more than 80 percent of the State's revenue is derived from these two taxes, most of the State's revenues are included in the modeling process. In developing the State Economic Forecast, the State uses forecasts prepared by IHS Markit, Inc., including national baseline forecasts to develop projections for the Oregon economy and forecasts of national corporate profits to forecast corporate tax liability in Oregon.

ODOT June 2017 Forecast

The ODOT June 2017 Forecast projects gross revenues for the State Highway Fund through fiscal year 2023. Overall, the ODOT June 2017 Forecast projects total gross revenues to grow at an average annual compound rate of 0.54 percent between fiscal years 2017 and 2023. For the historical period spanning fiscal years 2004 through 2016, gross revenues grew at a compound annual rate of 3.3 percent. This reflected revenue enhancements emanating from the OTIA and JTA funding initiatives.

The revenue estimates with respect to Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, including the revenue increases approved under JTA, in Tables 2 and 4 in the forepart of this Official Statement, are based upon collections, costs, transfers and set asides forecast by the Department in its ODOT June 2017 Forecast. The information presented in Tables 2 and 4 in the forepart of this Official Statement covers a portion of the forecast period presented in the ODOT June 2017 Forecast.

The ODOT June 2017 Forecast presentation of actual and estimated data differs from the presentation of historical information provided in Table A-1 in this Appendix A and in the Annual Financial Report for Fiscal Year Ended June 30, 2016 included as Appendix B.

The Department will continue to monitor developments in the State economic outlook and in transportation revenue streams. If events warrant, and the Department determines that there has been a material change in its revenue outlook going forward, ODOT may prepare an interim revenue forecast, using data from subsequent State Economic Forecasts. The Department will prepare its December 2017 revenue forecast using data from the State November 2017 Forecast.

Any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results and these differences could be material.

PLEDGED REVENUES

Revenue Categories

Pursuant to the Act and the Master Declaration, the Pledged Revenues consist of three revenue categories: Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues. The revenues that contribute to Pledged Revenues are reduced by (a) Statutory Reductions, which consist of Administrative Expenses and Operating Transfers, and (b) Revenue Sharing Transfers and Program Set Asides. See "SECURITY AND SOURCES OF PAYMENT" in the forepart of this Official Statement and "—Statutory Reductions" and "—Revenue Sharing Transfers and Program Set Asides" below for descriptions of these reductions to revenues.

The Legislative Assembly has in the past, and may in the future, change or rescind the method of assessing or imposing any or all of the Pledged Revenues (Fuel Tax Revenues, Motor Carrier Revenues and DMV Revenues) or the apportionment of State Highway Fund revenues among counties, cities and the Department. The authority of the Legislative Assembly to make such changes is subject to the requirements of the Oregon Constitution that revenues received from taxes and fees levied on the ownership, operation or use of motor vehicles, including commercial vehicles, and taxes levied on fuels must be used exclusively for public highways, roads, streets and roadside rest areas in the State, including the retirement of bonds issued for such purposes. The Legislative Assembly may also, through its budgetary approval process for the Department, change the amount of revenues that become Pledged Revenues by changing the amount of revenues that are deposited in the State Highway Fund and by changing what may be deducted from revenues before they become Pledged Revenues under the Declaration. The Master Declaration provides that the Pledged Revenues consist of the sources of revenue that the laws as in effect from time to time permit to be used to pay and secure the Senior Lien Bonds, Subordinate Lien Obligations or any Second Subordinate Lien Obligations. See "SECURITY AND SOURCES OF PAYMENT—Future Actions of the Oregon Legislative Assembly." The Act and the Declaration, however, require the State to provide for the continued assessment, levy, collection and deposit to the State Highway Fund of amounts that constitute Pledged Revenues and are sufficient to pay when due the annual debt service on Highway User Tax Revenue Bonds, including the Senior Lien Bonds and the Subordinate Lien Obligations.

Impact of 2017 Transportation Bill

The 2017 Transportation Bill authorizes increases in Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, and also increases certain Standing Revenue Sharing Transfers (as defined below) to counties and cities and adds new Program Set Asides (as defined below). These changes in revenues, which have an effect on Pledged Revenues, take effect beginning on or after January 1, 2018 and are adjusted periodically through to January 1, 2024. The increases in revenues are allocated by formula to

ODOT, cities and counties and for specified projects, including annual allocations prior to the state-local split of $10 million annually to a new Safe Routes for Schools program (increasing to $15 million after 2022) and $30 million annually to support the financing of the Interstate 5 Rose Quarter Project beginning in 2022.

The table below provides a summary of the increases in highway fund taxes and fees under the 2017 Transportation Bill, if implemented without change. The gross amount to be deposited to the State Highway Fund from the new and increased revenues authorized under the 2017 Transportation Bill is estimated to range from $110 million in the fiscal year ending June 30, 2018 to $500 million by the fiscal year ending June 30, 2025 when the 2017 Transportation Bill is fully implemented, although not all of these revenues constitute Pledged Revenues that secure Highway User Tax Bonds. These revenue estimates include revenues that the Department is required to allocate to counties, cities and designated projects and funds as prescribed by Oregon law, including provisions of the 2017 Transportation Bill.

TABLE A-2
PRELIMINARY ESTIMATED FISCAL YEAR REVENUE INCREASES ATTRIBUTABLE TO THE 2017 TRANSPORTATION BILL*

Revenue Category	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Fuel Tax Revenues (1)	6%	13%	16%	20%	23%	26%	29%	32%
Motor Carrier Revenues (2)	10%	22%	24%	27%	33%	39%	42%	46%
DMV Revenues (3)	11%	22%	29%	35%	38%	40%	41%	42%

Source: Oregon Department of Transportation, derived from Revenue Impact of Proposed Legislation, 79th Oregon Legislative Assembly, 2017 Regular Session, Legislative Revenue Office.

* Includes Revenues that are not pledged to secure Highway User Tax Revenue Bonds. Each increase is specified as a percentage change from estimated revenues in such year without increased revenues authorized by the 2017 Transportation Bill.
(1) Presented as percentage increases in Fuel Tax Revenues. The additional increases in FY 2020-2025 assume that certain contingent per gallon increases become effective in 2020, 2022 and 2024. The State and the Department cannot predict whether such contingencies will occur. See "—2017 Transportation Bill – Fuel Tax Revenue Increases" below for further discussion of these contingencies.
(2) Presented as percentage increases in Motor Carrier Revenues.
(3) Presented as percentage increases in DMV Revenues.

Motor Carrier Revenues

Motor Carrier Revenues include amounts collected under the weight-mile tax under ORS 825.474 and ORS 825.476, the flat fee form of weight-mile tax collected under ORS 825.480, road use assessment fees collected under ORS 818.225[2], heavy truck registration and various other permit fees. The weight-mile tax is a specific State tax based upon the distance traveled and the declared combined weight of motor vehicles subject to the tax. This tax is imposed upon most commercial vehicles operated by motor carriers using the public highways of the State with declared combined weights in excess of 26,000 pounds. The flat fee form of payment of the weight-mile tax is available only to motor carriers of certain commodities. Road use assessment fees constitute an alternative form of highway use taxation charged to heavy haul vehicle combinations in excess of 98,000 pounds or greater for certain load permits.

There are approximately 24,033 motor carrier firms with approximately 334,998 trucks registered to operate in Oregon that are subject to the weight-mile tax. Vehicles in the range between 26,001 and 80,000 pounds are assessed the weight-mile tax based on weight and miles only, whereas vehicles

2 Pursuant to ORS 367.605 and the Master Declaration, the Department has pledged the road use assessment fees collected under ORS 818.225, including the increase attributable to OTIA III. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Security."

weighing in excess of 80,000 pounds are required to obtain single-trip or continuous annual variance permits and are assessed at weight-mile tax rates that are adjusted to reflect the number of vehicle axles.

Motor carriers are required to report and to pay Oregon weight-mile taxes on a monthly, quarterly or annual basis. Most motor carriers are required to file reports on either a monthly or quarterly basis and make payments to the Department on or before the last day of each month for any weight-mile taxes due for the prior calendar month or on or before the last day of the second calendar month following the end of each calendar quarter in which the taxes were incurred, respectively.

For certain motor carriers with small tax liabilities and vehicles weighing less than 30,000 pounds, the Department may authorize the filing of annual reports and payments, which are due by each February 28 for the preceding calendar year. Reports and other supporting records filed and maintained by motor carriers are subject to audit by the Department at least every three years.

Commercially operated heavy vehicles pay registration fees in 2,000-pound increments for weights between 8,000 and 105,500 pounds. Fees must be paid in advance of receiving registration privileges but may be paid quarterly or annually.

Instead of paying the weight mile tax on a mileage basis, motor carriers of certain commodities such as logs, gravel or wood chips and some farm vehicles may, under ORS 825.480, pay the tax on a flat rate basis. These motor carriers are eligible to pay an annual fee, which may be paid in monthly installments.

Road use assessment fees collected under ORS 818.225 constitute the form of highway use taxation charged to motor carriers operating heavy haul vehicle combinations in excess of 98,000 pounds or greater. Empty back haul miles are generally subject to the weight-mile tax and are taxed at the rate established for vehicles weighing 80,000 pounds. However, some unloaded vehicle combinations are heavy enough to require their own road use assessment fee permit. Annually, there are approximately 3.6 million miles of travel subject to the road use assessment fees.

The Department participates in the International Registration Plan and the International Fuel Tax Agreement, which are multi-jurisdictional agreements pursuant to which the Department collects and remits payments to other jurisdictions and receives payments from other jurisdictions.

Article IX, Section 3a of the Oregon Constitution requires that the share of revenues paid for the use of light vehicles, including cars, and the share of revenues paid for the use of heavy vehicles, including trucks, be fair and proportionate to the costs incurred for the highway system because of each class of vehicle and that the Legislative Assembly provide for a biennial review and, if necessary, adjustment of revenue sources to ensure fairness and proportionality. The process of review and adjustment begins with the Highway Cost Allocation Study (the "HCAS"), which DAS conducts every biennium. The HCAS allocates highway cost responsibility between light vehicles (those weighing 10,000 pounds or less) and heavy vehicles for the purpose of adjusting weight mile tax rates to reflect this cost responsibility between vehicle classes. The data and findings set out in the HCAS for the 2017-2019 biennium are expected to inform future transportation policy considerations and actions by the Legislative Assembly during its sessions in the 2017-2019 biennium. Additionally, under the JTA an alternative highway cost allocation study is conducted. See "STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES—Jobs and Transportation Act" for additional details.

For the 2017-2019 biennium, light vehicle revenues are expected to contribute approximately 64.5 percent of State highway user revenues, and full-fee paying heavy vehicles, as a group, will contribute 35.5 percent of State highway user revenues.

Forecast of Motor Carrier Revenues. In the ODOT June 2017 Forecast, Motor Carrier Revenues are estimated by the Department to range from approximately $352 million per year to $370 million per year in the fiscal years ending June 30, 2017 through June 30, 2023. The Department estimates that approximately 86 percent of such revenues will be derived from the weight-mile tax. See APPENDIX C—"OREGON DEPARTMENT OF TRANSPORTATION JUNE 2017 REVENUE FORECAST," for a more detailed discussion of the revenue forecast for Motor Carrier Revenues. These estimates do not include any increases assuming the effectiveness of the 2017 Transportation Bill. See "—Impact of 2017 Transportation Bill" above for more discussion.

2017 Transportation Bill – Motor Carrier Revenue Increases. During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which provides for future incremental increases in Motor Carrier Revenues including an increase in road use assessment fees collected under ORS 818.225, an increase in the weight-mile tax under ORS 825.476 and an increase in the flat fee form of weight-mile tax collected under ORS 825.480. All three increases take effect beginning on January 1, 2018 and continue increasing periodically through January 1, 2024. See "—Impact of 2017 Transportation Bill" above and "RECENT DEVELOPMENTS—2017 Transportation Legislation" in the forepart of this Official Statement for further discussion.

Fuel Tax Revenues

Fuel Tax Revenues include motor vehicle fuel taxes collected on the sale and use of gasoline and other fuels used to propel motor vehicles on the public roads and highways of the State under ORS 319.020 and ORS 319.530.

The motor vehicle fuel tax is a State tax imposed on the first sale, use or distribution of gasoline used to propel motor vehicles on the highways of the State. Under ORS 319.030, dealers (which include importers of motor vehicle fuels into the State and producers of motor vehicle fuels in the State) are required to be licensed. On or before the 25th of each calendar month, dealers are required under Oregon law to file monthly statements with the Department and to pay tax on the amount of motor vehicle fuel sold, used or distributed in the preceding calendar month. There are approximately 160 licensed dealers in the State. The forms and other supporting records filed and maintained by such dealers are subject to audit by the Department.

In 1919, the State imposed the first motor vehicle fuel tax on gasoline in the United States. The initial rate was established at 1 cent per gallon and since that time the rate has been increased as shown in Table A-2 below. The most recent rate of 30 cents per gallon took effect on January 1, 2011, authorized by the Legislative Assembly's approval of JTA.

TABLE A-3
OREGON DEPARTMENT OF TRANSPORTATION
HISTORY OF MOTOR VEHICLE FUEL TAX RATES*

Effective Calendar Year	Rate per Gallon
1919	$0.01
1921	$0.02
1923	$0.03
1929	$0.04
1933	$0.05
1949	$0.06
1967	$0.07
1982	$0.08
1984	$0.09
1985	$0.10
1986	$0.11
1987	$0.12
1988	$0.14
1989	$0.16
1990	$0.18
1991	$0.20
1992	$0.22
1993	$0.24
2011	$0.30

Source: Oregon Department of Transportation
* *Does not reflect 2017 Transportation Bill. See "Fuel Tax Revenues—2017 Transportation Bill – Fuel Tax Revenue Increases" below for discussion of future increases in motor vehicle fuel tax rates.*

The use fuel tax is a State tax imposed on the use of fuel other than gasoline in a motor vehicle to propel the vehicle on the highways of the State. Use fuel means any combustible gas, liquid or material used for the generation of power to propel a motor vehicle on the highways except motor vehicle fuel. Examples include diesel, propane, and compressed natural gas. Sellers of use fuels are required to be licensed and to collect the use fuel tax from most purchasers and to report to the Department on or before the 20th day of each calendar month the amount of use fuel sold during the preceding calendar month. Use fuel sellers are allowed to retain four percent of the tax collected to offset their costs incurred in the collection and remittance of the tax to the State.

Users of use fuel who do not pay the tax to the seller at the point of sale are required to be licensed and to file tax reports and to pay the applicable tax either monthly, quarterly or annually, depending upon the amount of tax owed. Use fuel taxes have been historically and are currently imposed at a rate equivalent to the motor vehicle fuel tax. The use fuel tax does not apply to most vehicles weighing over 26,000 pounds, which pay the weight-mile tax.

Forecast of Fuel Tax Revenues. In the ODOT June 2017 Forecast, the Department estimates that gross Fuel Tax Revenues will range from approximately $540 million per year to $554 million per year in the fiscal years ending June 30, 2017 through June 30, 2023. The Department estimates that approximately 90 percent of such revenues will be derived from the motor vehicle fuel tax. APPENDIX C—"OREGON DEPARTMENT OF TRANSPORTATION JUNE 2017 REVENUE FORECAST," for a more detailed discussion of the revenue forecast for Fuel Tax Revenues. These estimates do not include any increases attributable to the 2017 Transportation Bill. See "—Impact of 2017 Transportation Bill" above for more discussion.

2017 Transportation Bill – Fuel Tax Revenue Increases. During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which provides for future increases in

Fuel Tax Revenues under ORS 319.020 and ORS 319.530, and increases in per-mile road usage charge for metered use of the highways in the State by participating vehicles, each as described below. See "—Impact of 2017 Transportation Bill" above and "RECENT DEVELOPMENTS—2017 Transportation Legislation" in the forepart of this Official Statement for further discussion.

Motor Vehicle Fuel Tax Rates. The 2017 Transportation Bill increases the motor vehicle fuel tax to 34 cents per gallon beginning on or after January 1, 2018, and provides for additional, contingent increases on or after January 1, 2020, 2022 and 2024, respectively, up to a final amount of 40 cents per gallon. The additional increases in years 2020, 2022 and 2024 become effective only if certain contingencies with respect to the Department, the Commission and various transportation projects have occurred by certain deadlines. The State and the Department cannot predict whether such contingencies will occur by the relevant deadlines. See "—Impact of 2017 Transportation Bill" for further discussion.

Road Usage Charge Program ("OReGo"). During the 2013 Legislative Session, the Legislative Assembly adopted Senate Bill 810, and the Governor signed the bill into law on August 14, 2013 (Oregon Laws 2013, Chapter 781) ("SB 810"). SB 810 provides for a per-mile road usage charge for metered use of the highways in the State by participating vehicles (the "OReGO Program"). Currently, the OReGO Program is limited to voluntary participation of 5,000 light duty vehicles (those with a gross vehicle weight rating of less than 10,001 pounds). The Department contracts with certified services providers, called account managers, to provide services. Once approved to participate in the OReGO Program, participants select the account manager, the choice of which is generally based on whether the participant wants a basic, non-GPS device or an advanced, GPS-enabled device and the method of payment (prepayment or post payment). Once approved and enrolled in the OReGO Program, the participant installs the mileage reporting device provided by the account manager and sets up the vehicle for reporting miles pursuant to a program agreement (the "Program Agreement"). Subject to the provisions of SB 810, the account manager reports all metered use and pays the road usage charge. The amount that the road user pays is based on the taxable miles driven, less a credit of the state fuel tax paid on the fuel used to drive taxable miles. Participants may choose to end their participation in the Program by following the procedures set out in SB 810 and the Program Agreement.

SB 810 provides that moneys collected from the Road Usage Charge Program are to be deposited to the State Highway Fund, and allocated for distribution 50 percent to the Department, 30 percent to counties under ORS 366.762 and 20 percent to cities under ORS 366.800. The provisions of SB 810 that implement the Road Usage Charge Program and allocate moneys collected under the Program to the Department took effect on July 1, 2015. The Department intends to amend the Master Declaration to affirmatively pledge the moneys it receives under the Road Usage Charge Program. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION—MASTER DECLARATION—Declaration Amendments."

In 2015, the Department implemented the Oregon Fuels Tax System ("OFTS"), which allows businesses to become licensed to sell fuel, complete and submit their tax reports, and pay their taxes through a secure online portal. Advantages for businesses to use the online portal include:

- E-filing reduces the amount of paperwork and associated costs
- E-filing eliminates postal delays and the associated late filing penalties
- E-filing gives business a complete electronic audit trail of tax forms and schedules
- E-filing allows payment of taxes and fees using a secure ACH transaction

During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which provides for future increases in road use charges related to the OReGO Program. These increases go into effect on or after January 1, 2024. See "—Impact of 2017 Transportation Bill" for further discussion.

DMV Revenues

DMV Revenues include vehicle registration fees collected under ORS 803.420, vehicle titling fees collected under ORS 803.090, vehicle registration fees collected under ORS 803.570, trip permit fees collected under ORS 803.645, driver licensing fees collected under ORS 807.370, and miscellaneous other fees for products and services such as driver and vehicle records, identification cards, hardship/probationary permits, drive tests and driver license reinstatements. DMV collects these fees through 60 field offices, online web-based services, DEQ emissions stations, regular mail delivery and two dealer processing centers. There are approximately 4.6 million registered vehicles and approximately 3.1 million licensed drivers in the State. Annually DMV issues about 600,000 driver licenses and ID cards; about 1.9 million vehicle registrations; about 2.5 million record request; and about one million vehicles titles.

The State instituted the first statewide motor vehicle registration fee in 1905. In the intervening years, the Legislative Assembly changed registration fees for the various classes of motor vehicles a number of times. These changes included adjustments to the amount of the registration fee, basis for the registration fee and types of vehicles subject to, or exempted from, the fees. The Legislative Assembly approved increases to vehicle registration fees to fund projects authorized under OTIA III and JTA.

Passenger vehicles are generally subject to two-year registration, except for initial registration of new vehicles that lasts four years and then converts to the two-year registration period. Registration periods for other types of vehicles may be quarterly, annually, biannually or permanently, depending upon vehicle type. Vehicle registration fees for commercial vehicles are based upon the weight of the vehicle and may be registered quarterly or annually. Registration fees are collected in advance for the entire registration period. Title fees are charged for issuance, transfer and replacement of vehicle titles. Additional fees are assessed for late presentation of a title application. Trip permit fees are charged when a vehicle is operated temporarily with no registration plates or for a use other than what current registration allows.

The Legislative Assembly also approved certain other fee increases under the OTIA I & II, OTIA III and JTA legislation. These included fee increases for commercial vehicle registration based upon the weight of the vehicle in 2,000 pound increments and increases in the commercial vehicle registration fees charged for vehicles exceeding 8,000 pounds, as well as increases for travel trailers, campers, motor homes, special use trailers, and farm vehicles. Vehicle plate fees, including standard and custom plates, and vehicle trip permit fees were also increased by the Legislative Assembly under JTA.

The fees authorized under ORS 807.375 are available to the Department to be pledged to secure the Highway User Tax Revenue Bonds; the Department has not affirmatively pledged these revenues, but reserves the right in the future to make such an affirmative pledge.

Forecast of DMV Revenues. In the ODOT June 2017 Forecast, gross DMV Revenues are estimated by the Department to range from approximately $339 million per year to $347 million per year in the fiscal years ending June 30, 2017 through June 30, 2023. The Department estimates that approximately 57 percent of such revenues will be derived from vehicle registrations. See APPENDIX C—"OREGON DEPARTMENT OF TRANSPORTATION JUNE 2017 REVENUE FORECAST," for a more detailed discussion of the revenue forecast for DMV Revenues. These estimates do not include any increases assuming the effectiveness of the 2017 Transportation Bill. See "—Impact of 2017 Transportation Bill" above for more discussion.

2017 Transportation Bill – DMV Revenue Increases. During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which provides for future incremental increases in DMV Revenues including increases in vehicle registration fees collected under ORS 803.420, which go into effect beginning on January 1, 2018 and increase periodically through January 1, 2022, and increases in trip permit fees collected under ORS 803.645, which go into effect beginning on January 1, 2018 and increase periodically through January 1, 2024. See "—Impact of 2017 Transportation Bill" above and "RECENT DEVELOPMENTS—2017 Transportation Legislation" in the forepart of this Official Statement or further discussion.

Other DMV Matters

JTA also allowed counties with a population of 350,000 or more to enact an ordinance establishing county registration fees. Multnomah County enacted a county registration fee, effective September 1, 2010. DMV collects a $19 per year fee on behalf of Multnomah County for all vehicles registered within Multnomah County at initial registration and at renewal. The fees are then transferred to the county after deducting Department administrative costs. These revenues are not included in Pledged Revenues.

Statutory Reductions

Statutory Reductions consist of Administrative Expenses and Operating Transfers. Statutory Reductions are deducted before the Revenue Sharing Transfers and Program Set Asides are made.

Administrative Expenses

Under Oregon law and the Department's accounting and budgetary practices, the Department may deduct various costs of the Department from highway user tax revenues, which are collectively referred to herein as "Administrative Expenses." These costs do **not** include all of the Department's operating costs or expenditures such as capital outlays and special payments.

Administrative Expenses include all costs related to the administration and collection of Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, including Administrative Expenses attributable to the Motor Carrier Transportation Division and the Driver and Motor Vehicle Services Division and a portion of costs of the Department attributable to the Fuels Tax Group of Financial Services and to the Collections Unit of Financial Services. Payroll and other personal services expenses are also included in Administrative Expenses, including salaries and contributions the Department is required to make in connection with PERS (including pension obligation bond assessments), benefits paid through the State's Public Employees' Benefit Board ("PEBB") and other payroll expenses and related personal services costs. Administrative Expenses may also include the costs associated with real and personal property (including certain debt service obligations) used in the administration and collection of the various taxes and fees that comprise Pledged Revenues. Administrative Expenses are subject to expenditure limitations established in the Department's budget approved by the Legislative Assembly.

Further, Administrative Expenses include payments on State certificates of participation ("State COPs") issued to finance the construction of the Driver and Motor Vehicle Services Division Headquarters Building. These payments are treated as costs of the Driver and Motor Vehicles Services Division and as such constitute Administrative Expenses that are payable prior to payments of debt service on Highway User Tax Revenue Bonds. Oregon law requires the payment of agency obligations related to State COPs from the first available moneys appropriated to the agency for debt service.

The State may issue additional obligations that are not Highway User Tax Revenue Bonds in the future, the debt service on which may or may not be paid from State Highway Fund revenues and which may or may not constitute Administrative Expenses. See "SECURITY AND SOURCES OF

PAYMENT—Other Debt Obligations" in the forepart of this Official Statement for a description of the Department's outstanding obligations that are not Highway User Tax Revenue Bonds.

DMV Service Transformation Program. DMV continues to pursue its multi-year $90 million Service Transformation Program (STP) to improve DMV business processes, enhance service capabilities, replace legacy computer systems, and enable DMV to become more flexible and timely in meeting customer expectations and legislative mandates. In June 2017 DMV entered into a contract to purchase and implement a commercial off-the-shelf computer software solution to support the STP modernization project. DMV will be replacing its systems in two phases starting with the vehicle registration and titling systems followed by the driver registration system. The roll-out and completion for each phase is expected to take approximately 18-20 months. The system purchased has been successfully installed in many other states.

Operating Transfers

The Department collects certain taxes and fees for purposes and activities not related to the State Highway Fund and transfers such revenues (referred to herein as "Operating Transfers") to other State agencies and governmental entities. Any applicable Administrative Expenses are deducted before Operating Transfers are made. For instance, the Department collects fuel taxes related to vehicles and equipment that are not generally operated on State highways, such as snowmobiles, all-terrain vehicles, marine vehicles, aircraft and lawn mowers. These collections constitute approximately 3.0 percent of all motor vehicle fuel and use fuel taxes collected by the State each year and are expected to total approximately $31.2 million in the 2017-2019 biennium. The Department collects vehicle registration fees from the registration of campers, motor homes and travel trailers. The Department also collects fees for various other statutory purposes. Revenues from these sources are transferred to certain dedicated funds or to other State agencies and as Operating Transfers are not included in Pledged Revenues.

Table A-3, below, sets out Statutory Reductions, including Administrative Expenses and Operating Transfers, as of the fiscal years ended June 30, 2015 and 2016 and estimated amounts for the fiscal years ending June 30, 2017 and 2018.

TABLE A-4
STATUTORY REDUCTIONS[1]

	Fiscal Year Ended		Fiscal Year Ending	
	06/30/2015[2]	**06/30/2016**[2]	**06/30/2017**[3]	**06/30/2018**[3]
Administrative Expenses[4]				
Motor Carrier Transportation Division	$29,187,000	$30,097,000	$30,705,000	$31,690,000
DMV[5]	79,972,000	92,561,000	94,431,000	110,734,000
Financial Services Fuels Tax Unit[6]	1,547,000	1,763,000	1,798,000	1,869,000
Central Services Assessment[7]	36,729,000	36,729,000	37,471,000	40,419,000
Total Administrative Expenses[8]	**145,435,000**	**161,150,000**	**164,405,000**	**184,712,000**
Operating Transfers				
Operating Transfers[9]	16,352,000	16,531,000	16,199,000	16,292,000
Total Operating Transfers	**16,352,000**	**16,531,000**	**16,199,000**	**16,292,000**
Total Statutory Reductions[10]	**$161,787,000**	**$177,681,000**	**$180,604,000**	**$201,004,000**

Source: Oregon Department of Transportation

(1) Rounded to nearest thousand; totals may not add due to rounding.

(2) Actual amounts derived from Department Annual Financial Reports (Unaudited) for Fiscal Years 2015 and 2016.

(3) Estimated amounts for Fiscal Year 2017 and Fiscal Year 2018 derived from the ODOT June 2017 Forecast.

(4) Administrative Expenses shown in the ODOT June 2017 Forecast have been adjusted to exclude costs associated with certain excluded revenues. See discussion above under "—Statutory Reductions" and in the forepart of this Official Statement under "SECURITY AND SOURCES OF PAYMENT—Statutory Reductions."

(5) Includes payment obligations of the Department for the State of Oregon Certificates of Participation, Series 2008A Refunding Certificates (construction of Driver and Motor Vehicle Services Division Headquarters Building). See "SECURITY AND SOURCES OF PAYMENT—Other Debt Obligations" in the forepart of this Official Statement.

(6) Includes Administrative Expenses. See discussion above under "—Statutory Reductions" and in the forepart of this Official Statement under "SECURITY AND SOURCES OF PAYMENT—Statutory Reductions."

(7) The Central Services Assessment shown in the ODOT June 2017 Forecast has been adjusted to exclude costs associated with certain excluded revenues. See discussion above under "—Statutory Reductions" and in the forepart of this Official Statement under "SECURITY AND SOURCES OF PAYMENT—Statutory Reductions."

(8) For fiscal years ended 2015 and 2016, Administrative Expenses included approximately $14.3 million and $16.0 million, respectively, in payments for a portion of the Department's PERS System Contributions and approximately $6.3 million and $6.0 million, respectively, in payments for State POB Contributions (defined below). See "DEPARTMENT CONTRIBUTIONS TO PERS AND OTHER POST-EMPLOYMENT BENEFITS."

(9) Includes DMV Traffic Safety transfer and DMV Department of Education transfer. Also includes Non-Highway related Fuels Tax transfers for Snowmobile, ATV, Marine Board, Aviation, and the Transportation Operating Fund.

(10) Total Statutory Reductions amount as presented in the table entitled "OREGON DEPARTMENT OF TRANSPORTATION HISTORICAL AND ESTIMATED PLEDGED REVENUES FOR FISCAL YEARS ENDING JUNE 30, 2015 THROUGH JUNE 30, 2020" presented in the forepart of this Official Statement.

Revenue Sharing Transfers and Program Set Asides

Oregon law specifies that certain revenues collected by the Department, after Statutory Reductions, be shared with counties and cities. Motor Carrier Revenues, Fuel Tax Revenues and DMV Revenues, less Statutory Reductions, are allocated to counties and cities and the Department in accordance with certain formulas established under Oregon law. In addition, Oregon law provides for certain fixed amount transfers to counties and cities and other agencies.

The authority and allocation formulas for the sharing of revenues with counties and cities are established in ORS 366.739 to 366.820. Each county receives a share of the amount apportioned to all counties, based upon the ratio of vehicles registered in the county to the total number of vehicles registered in the State as of December 31 of the preceding year. Each incorporated city receives a share of the amount apportioned to all cities, based upon the ratio of the city's population to the population of all cities, based upon certified population estimates provided by Portland State University's Center for

Population Research. The Department transfers moneys to counties and cities on the fifteenth day of each month. These amounts are not included in Pledged Revenues.

In addition, as required by JTA, the Department transfers fixed amounts internally to fund long-term plans of the Department and to the Travel Information Council ("TIC") as described below. These amounts are not included in Pledged Revenues.

As described below, certain revenues are transferred to counties and cities to fund local transportation projects (the "County and City Apportionments"). As shown in Table 2 in the forepart of this Official Statement, these transfers are applied to Net Revenues or Program Set Asides and, consequently, reduce the amount of Pledged Revenues.

General Allocation. Prior to 2001, a single statutory formula determined the County and City Apportionments (the "General Allocation"). The General Allocation is established by ORS 366.739. This formula, which is subject to certain exclusions as described below, allocates Net Revenues 24.38 percent to counties and 15.57 percent to cities. The Department receives the remaining 60.05 percent, subject to certain reductions to make grants to counties under ORS 366.772 and to cities under ORS 366.805. During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which among other things increases the grants from the Department to cities under ORS 366.805. See "RECENT DEVELOPMENTS—2017 Transportation Legislation" the forepart of this Official Statement for further discussion.

The General Allocation is presented in the Flow Chart that appears in the forepart of this Official Statement as part of the "Standing Revenue Sharing Transfers."

OTIA I and II Allocation. In 2001, a new allocation formula was added by the Legislative Assembly that relates to the first and second phases of OTIA. Pursuant to ORS 366.739 and ORS 366.742, $71.2 million per biennium is excluded from the General Allocation. This amount is referred to herein as the "OTIA I and II Set Aside." Under ORS 366.742, any portion of the OTIA I and II Set Aside that remains after deducting an amount equal to the total debt service due on bonds ("OTIA I and II Bonds") issued under OTIA I and OTIA II, including bonds issued to refund OTIA I and II Bonds, is allocated (a) 50 percent to the Department, and (b) 30 percent to counties and 20 percent to cities (the "OTIA I and II Allocation"). The portion of the OTIA I and II Set Aside that is equal to total debt service on OTIA I and II Bonds and the 50 percent of the remainder that is allocated to the Department are included in Pledged Revenues and are not included in the OTIA I and II Allocations.

OTIA III Allocation. In connection with OTIA III, the Legislative Assembly established an additional statutory formula, described in ORS 366.744. Collections attributable to the revenue increases under OTIA III are referred to herein as the "OTIA III Set Aside."

The OTIA III Set Aside is not subject to the General Allocation or to the OTIA I and II Allocation. The OTIA III Set Aside is allocated (a) 57.53 percent to the Department, (b) 25.48 percent to the Department to pay principal and interest on Highway User Tax Revenue Bonds issued by the Department to finance or refinance the replacement and repair of bridges on county highways ("OTIA III County Bridge Bonds"), except that any portion not needed for that purpose is allocated to counties, and (c) 16.99 percent to the Department to pay principal and interest on Highway User Tax Revenue Bonds issued by the Department to finance or refinance the replacement and repair of bridges on city highways ("OTIA III City Bridge Bonds" and together with OTIA III County Bridge Bonds, collectively, "OTIA III Local Bridge Bonds"), except that any portion not needed for that purpose is allocated to cities (the "OTIA III Allocation," and together with the OTIA I and II Allocation, the "OTIA Allocations"). The Department's 57.53 percent allocation of the OTIA III Set Aside and the portion of the OTIA III Set Aside that is allocated to the Department to pay principal and interest on the OTIA III Local Bridge Bonds are included in Pledged Revenues and are not included in the OTIA III Allocation.

JTA Allocation. In connection with the enactment of JTA, a further statutory formula was established in ORS 366.752 by the Legislative Assembly. Collections attributable to the tax and fee increases under JTA are referred to herein as the "JTA Set Aside." The JTA Set Aside is not subject to the General Allocation or to the OTIA Allocations.

The JTA Set Aside is allocated (a) *first*, in an amount of $24 million per year in monthly installments to the Department for the purposes described in the long-range plan developed pursuant to Oregon law and on January 1 of each year $3 million per year to the TIC for management, maintenance and improvement of the roadside rest areas that the TIC is responsible for under JTA (the "Planning and TIC JTA Allocation"); and (b) *second*, (i) 50 percent to the Department, which may be used to secure and pay bond debt service on Highway User Tax Revenue Bonds; (ii) 30 percent to counties for distribution pursuant to Oregon law (the "County JTA Allocation"); and (iii) 20 percent to cities for distribution pursuant to Oregon law (the "City JTA Allocation"). The Planning and TIC JTA Allocation, the County JTA Allocation and the City JTA Allocation are referred to collectively as the "JTA Allocation" and are not included in Pledged Revenues. Under JTA, the $3 million per year allocation to the TIC ends in 2020. The Department's 50 percent allocation of the JTA Set Aside is included in Pledged Revenues.

The county and city portions of the OTIA Allocations and the JTA Allocation are included in the Pledged Revenues Flow Chart in the front part of this Official Statement as "Program Revenue Sharing Transfers."

Fixed Allocation. In addition to the General Allocation and the OTIA Allocations described above, certain fixed amounts (the "Fixed Allocation") are allocated to counties and cities. The Fixed Allocation is presented in the Flow Chart in the forepart of this Official Statement as part of the "Standing Revenue Sharing Transfers." During the 2017 Legislative Session, the Legislative Assembly approved the 2017 Transportation Bill, which among other things increases the amount of the Fixed Allocation to counties and cities. See "RECENT DEVELOPMENTS—2017 Transportation Legislation" in the forepart of this Official Statement for further discussion.

Transportation Project Account

Pursuant to JTA, the Transportation Project Account is created in the State Highway Fund, and moneys in the account are continuously appropriated to the Department for the purpose of making certain allocations required under JTA, as described above. If at any time, the Department determines that there are not sufficient funds in the State Highway Fund to pay debt service on Highway User Tax Revenue Bonds, moneys in the Transportation Project Account are required to be transferred to the State Highway Fund and used by the Department to pay debt service on Highway User Tax Revenue Bonds. See "STATE TRANSPORTATION FINANCING PROGRAMS AND INITIATIVES—Jobs and Transportation Act."

DEPARTMENT CONTRIBUTIONS TO PERS AND OTHER POST-EMPLOYMENT BENEFITS

Public Employees' Retirement System

The State is one of many participants in the statewide Oregon Public Employees' Retirement System ("PERS" or "System"). The State participates in three retirement pension benefit programs provided through PERS and three retirement healthcare benefit programs (two provided through PERS and one provided by the State's Public Employees' Benefit Board ("PEBB")). Most public employers in Oregon, including State government employers, participate in PERS. Benefits provided through PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). The Public Employees' Retirement Board (the "PERS Board") administers PERS and is responsible for setting policies and for providing administrative direction to PERS. For a detailed description of the three PERS pension programs and the State's obligations under these programs, see APPENDIX A2—"STATE OF OREGON PENSION AND OTHER POST-RETIREMENT BENEFIT PROGRAMS."

The Department's contribution to PERS is calculated using the State's employer contribution rate and applying it to the Department's covered payroll. The following table sets out the Department's contributions to PERS and the Department's proportionate share of the debt service payments for the pension bonds issued by the State (the "State Pension Bonds") in October 2003 in the aggregate principal amount of approximately $2.1 billion.

TABLE A-5
OREGON DEPARTMENT OF TRANSPORTATION
CONTRIBUTIONS TO PERS AND STATE PENSION BOND DEBT SERVICE
($ MILLIONS)

Fiscal Year Ending 6/30	Contribution to PERS[1]	Percent Change	POB Debt Service[2]	Total	Percent Change
2012	$35.3	68.9%	$14.5	$49.8	41.9%
2013	35.4	0.3	14.8	50.2	0.8
2014	37.1	5.1	16.1	53.2	6.2
2015	38.6	4.0	16.9	55.5	4.3
2016	43.3	12.2	16.2	59.5	7.2

Sources: Contribution to PERS: Oregon Department of Transportation Annual Financial Reports for years 2012, 2013, 2014 and 2016 respectively. Debt service on State Pension Bonds derived from internal Department sources.

(1) Includes T1/T2 Pension Programs, OPSRP, and PERS-sponsored retirement healthcare benefit programs. Includes employer paid employee portion.
(2) Fiscal year debt service on State Pension Bonds, which were issued on October 31, 2003.

A portion of the Department's total PERS contributions, which include the Department's PERS employer contributions and payment by the Department of the employee contributions (collectively, "System Contributions"), and debt service contributions on the State Pension Bonds ("POB Contributions"), constitutes Administrative Expenses that are paid from revenues before they become Pledged Revenues. See Table A-1 "Oregon Department of Transportation Net Revenues, Total Expenditures and Changes in Fund Balances All Governmental Fund Types (Unaudited)" and "PLEDGED REVENUES—Administrative Expenses" above in this Appendix A, and see "SECURITY AND SOURCES OF PAYMENT—Statutory Reductions" in the forepart of the Official Statement.

Other Post-Employment Benefits

In addition to the pension benefits provided through PERS, the State provides healthcare benefits (medical, vision and dental) through two PERS health insurance programs and through PEBB. At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB. These programs have an unfunded actuarial liability, in which the Department shares proportionately based on its share of the State's covered payroll. For further discussion of these post-employment healthcare benefits, see APPENDIX A2—"STATE OF OREGON PENSION AND OTHER POST-RETIREMENT BENEFIT PROGRAMS—Other Post-Employment Benefits—*PERS-Sponsored Retirement Health Insurance Account Plan*" and "—*PERS-Sponsored Retiree Health Insurance Premium Account Plan*."

INITIATIVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS

Initiative Petitions

General

The State Constitution, Article IV, Section 1, reserves to the people of the State (1) the initiative power to amend the Oregon Constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters and (2) the referendum power to approve or reject at an election any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session. The Legislative Assembly may also refer an act to the voters for approval or rejection.

State law permits any person to file a proposed initiative with the Secretary of State's office without payment of fees or other burdensome requirements. Although a large number of initiative measures are submitted to the Secretary of State's office, a much smaller number of petitions contain sufficient signatures to be placed on the ballot. Because many proposed initiative measures are submitted that do not qualify for the ballot, the State does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. Consequently, the State does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

Requirements for Proposed Initiative Measures to Be Placed on the Ballot

To place a proposed initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the requisite number of qualified voters not less than four months prior to the general election at which the proposed measure is to be voted upon.

Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact. Historically, a larger number of initiative measures have qualified for the ballot than have been approved by the electors. According to the Elections Division of the Secretary of State, the total number of initiative petitions that qualified for the ballot and the numbers that passed in recent general elections are as follows:

Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
2006	10	3
2008	8	0
2010	4	2
2012	7	2
2014	7	3
2016	4	3

Source: Elections Division, Oregon Secretary of State.

Legislative Referrals and Referendum Petitions

The Legislative Assembly may refer constitutional amendments or statutory changes to the Oregon voters for their approval. In addition, within 90 days after the end of a legislative session, any person may file a petition seeking to have any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session referred to the voters for their approval or rejection at the next general election, or at a special election provided for by the Legislative

Assembly. To place a proposed referendum on the ballot, the proponents must submit to the Secretary of State within 90 days after the end of the legislative session referendum petitions signed by the requisite number of qualified voters. An act approved by the voters through the referendum process becomes effective 30 days after the date of the election at which it was approved. A referendum on part of an act does not prevent the remainder of the act from becoming effective as provided in the act.

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APPENDIX A2

STATE OF OREGON PENSION AND OTHER POST-RETIREMENT BENEFIT PROGRAMS

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STATE OF OREGON PENSION AND
OTHER POST-RETIREMENT BENEFIT PROGRAMS

The State is one of many participants in the statewide Oregon Public Employees' Retirement System ("PERS" or "System"). The State participates in three retirement pension benefit programs provided through PERS and three retirement healthcare benefit programs (two provided through PERS and one provided by the State's Public Employees' Benefit Board ("PEBB")).[1] Most public employers in Oregon, including State government employers, participate in PERS. Benefits provided through PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). The Public Employees' Retirement Board (the "PERS Board") administers PERS and is responsible for setting policies and for providing administrative direction to PERS.

System Pension Programs

The three PERS pension programs are composed of two defined benefit programs and one program that has features similar to a defined contribution plan. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (determined by statute, currently 6 percent of salaries and 7 percent for judges) fund these pension programs.

Employees hired before January 1, 1996 are known as "Tier 1" participants. The retirement benefits applicable to Tier 1 participants are based primarily on a defined benefit model. Employees hired on or after January 1, 1996 and before August 29, 2003 are known as "Tier 2" participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. Employees hired on or after August 29, 2003 are participants in a successor retirement program to the Tier 1 and Tier 2 retirement programs (the "T1/T2 Pension Programs") known as the Oregon Public Service Retirement Plan ("OPSRP").

PERS also offers a program that has features similar to a defined contribution benefit known as the Individual Account Program ("IAP"). Effective January 1, 2004, active Tier 1, Tier 2 (T1/T2) and OPSRP employees became members of the IAP. Tier 1 and Tier 2 employees retain their existing T1/T2 Pension Program account, but the IAP account receives any future member contributions.

System Pension Plan Asset and Liabilities Valuations

Oregon statutes require an actuarial valuation of the System by a competent actuary at least once every two years. The current PERS actuary is Milliman, Inc. ("Milliman"). Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates. Valuations are released approximately one year after the valuation date. On September 27, 2016, Milliman released the valuation report for the System as of December 31, 2015 (the "2015 System Valuation Report"). The following discusses PERS actuarial methods and assumptions.

The System Valuations include actuarial valuations for the T1/T2 Pension Programs and OPSRP. In connection with the T1/T2 Pension Programs, the State is pooled with certain local governments and community college districts (the "State and Local Government Rate Pool" or "SLGRP"). Because

[1] Members of the Oregon state judiciary participate in the Judge Retirement Program, a separate pension benefit program under PERS. Employer contributions for the Judge Retirement Program are paid from the State General Fund. Information relating to the Judge Retirement Program will be footnoted herein.

OPSRP’s assets and liabilities are pooled on a program-wide basis, the State is pooled with all Oregon local governments in connection with OPSRP.

The PERS actuary releases the State’s individual valuations report near the end of each calendar year. These annual valuation reports provide the State’s portion of the unfunded actuarial liabilities of the SLGRP and OPSRP based on the State’s proportionate share of SLGRP and System covered payroll, respectively, as of the valuation date. Milliman released the State’s individual valuation report as of December 31, 2015 (the “2015 State Valuation Report’) on September 27, 2016.

An employer’s unfunded actuarial liability (“UAL”) is the excess of the actuarially determined present value of the employer’s benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. The following table shows the significant actuarial assumptions and methods adopted by the PERS Board and used by Milliman in performing its actuarial valuations.

TABLE A2-1
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS AND METHODS

Assumption/Method	2012 and 2013 Valuations	2014 and 2015 Valuations	2016 and 2017 Valuations (Not Yet Released) (1)
Actuarial Cost Method	Entry-Age Normal	Unchanged	Unchanged
T1/T2 Programs UAL Amortization Method	Level Percentage of Payroll over 20 years (fixed)	Unchanged	Unchanged
OPSRP UAL Amortization Method	Level Percentage of Payroll over 16 years (fixed)	Unchanged	Unchanged
Asset Valuation Method	Market Value(2)	Unchanged	Unchanged
Investment Rate of Return	7.75%	7.50%	7.20%(3)
Payroll Growth Rate	3.75%	3.50%	Unchanged
Inflation Level	2.75%	2.50%	Unchanged
Contribution Rate Stabilization Method (Rate Collar)	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer's funded status is between 70% and 130%. At a funded status of 60% or less, or 140% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 60% and 70% or 130% and 140%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.	Unchanged	Unchanged

(1) Assumptions and methods adopted by the PERS Board on July 28, 2017 that will apply to the actuarial valuations as of December 31, 2016 and December 31, 2017.
(2) Market value of assets reduced by value of assets in statutory reserves (contingency, capital preservation and rate guarantee reserves).
(3) The lowering of the investment rate of return, also referred to as the assumed earnings rate, is expected to cause the unfunded actuarial liability of the System to increase by approximately $2.4 billion and System average employer contribution rates to increase by approximately 2.10% of payroll.

In addition to the actuarial methods and assumptions listed above, the actuary uses other methods, procedures and economic and demographic assumptions when performing its actuarial valuations.

The table below shows the Systemwide market value of assets and actuarial value of liabilities, the UALs and surpluses and funded ratios for PERS pension plans for the past ten years for which actuarial valuations were performed. For similar information regarding the PERS-sponsored retirement healthcare benefit programs see Tables A2-9 and A2-10.

TABLE A2-2
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
SYSTEMWIDE PENSION HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS)[(1)]

Calendar Year Ending	Market Value of Assets ($)[(2)]	Actuarial Value of Liability ($)	Unfunded Actuarial Liability ($)	Funded Ratio (%)[(3)]
2007	59,327.8	52,871.2	(6,456.6)	112.2
2008	43,520.6	54,259.5	10,738.9	80.2
2009	48,729.2	56,810.6	8,081.4	85.8
2010	51,583.6	59,329.5	7,745.9	86.9
2011	50,168.2	61,198.4	11,030.2	82.0
2012[(3)]	54,784.1	60,405.2	5,621.1	90.7
2013[(3)]	60,014.1	62,593.6	2,579.5	95.9
2014[(4)]	61,395.1	73,458.9	12,063.8	83.6
2015[(5)]	60,000.1	76,196.6	16,196.5	78.7

Sources: Actuarial valuations of the System.

(1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA and RHIPA.

(2) Includes proceeds of pension bonds issued by Oregon local governments and the State.

(3) Reflects the legislative changes of the 2013 PERS Bills, showing savings that were anticipated from the PERS Bills but will not be realized because most of the bills were invalidated. See "Changes to PERS – Invalidated 2013 Changes to PERS." Also, reflects changes to the actuarial assumptions and methods made by the PERS Board in 2013. See TABLE A2-1 "ACTUARIAL ASSUMPTIONS AND METHODS" herein.

(4) Reflects the Oregon Supreme Court decision discussed in "Changes to PERS – Invalidated 2013 Changes to PERS" and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. See TABLE A2-1 "ACTUARIAL ASSUMPTIONS AND METHODS" herein.

(5) Reflects the Oregon Supreme Court decision discussed in "Changes to PERS – Invalidated 2013 Changes to PERS" and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. Also reflects the actual investment returns during 2015. See TABLE A2-3 "OREGON PUBLIC EMPLOYEES RETIREMENT FUND INVESTMENT RETURNS" herein.

Recent action by the PERS Board to reduce the assumed earnings rate is expected to cause the unfunded actuarial liability of the System to increase by approximately $2.4 billion. See "Changes to PERS—2017 PERS Board Changes."

The Oregon State Treasury is the investment officer for the state of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council ("OIC") establishes policies for the investment and reinvestment of moneys in PERS investment funds. Policies are established based on the primary investment asset class of each investment manager. The OIC has approved the following asset classes for the OPERF: Oregon Short-Term Fund (for cash balance), Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, OPERF invests in the Opportunity Portfolio, which may be populated with investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies. The target investment portfolio mix at fair market value was revised at the OIC meeting of June 3, 2015, to 37.5 percent public equity, 17.5 percent private equity, 20 percent debt securities, 12.5 percent real estate, and 12.5 percent alternative equity.

The following table shows the prior ten years of investment returns for the OPERF.

TABLE A2-3
OREGON PUBLIC EMPLOYEES
RETIREMENT FUND INVESTMENT RETURNS

Calendar Year Ending	Net Returns[1] (%)
2007	9.7
2008	(27.0)
2009	19.4
2010	12.6
2011	2.2
2012	14.3
2013	15.6
2014	7.3
2015	2.1
2016	6.9

Source: Office of the State Treasurer.

(1) Regular account, before administrative expenses.

The funded status of the pension programs may change depending on the market performance of the securities that OPERF is invested in, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. Additionally, the market value of the investments held in OPERF is determined using various sources. For descriptions of the methodologies applied by the Office of the Oregon State Treasurer to determine the market value of OPERF investments see the State of Oregon Comprehensive Financial Report for the Fiscal Year ended June 30, 2016 Note 1.D., captioned “Summary of Significant Accounting Policies – Deposits and Investments” and the Oregon Public Employees’ Retirement System Comprehensive Financial Report for the Fiscal Year Ended June 30, 2016, Note 1.E. captioned “Investments.”

State of Oregon Share of PERS

The following table shows the number of active State members in the T1/T2 Pension Programs and OPSRP.

TABLE A2-4
ACTIVE STATE PERS MEMBERS

Calendar Year Ending	Active T1/T2 Members	Active OPSRP Members[1]	Total	Percent Change (%)
2006	34,151	8,411	42,562	3.4
2007	32,140	10,684	42,824	0.6
2008	30,615	13,643	44,258	3.3
2009	29,154	16,689	45,843	3.6
2010	27,569	20,288	47,857	4.2
2011	25,623	19,751	45,374	(5.2)
2012	23,935	20,983	44,918	(1.0)
2013	22,034	22,437	44,471	(1.0)
2014	20,626	25,776	46,402	4.3
2015[1]	19,010	28,321	47,331	2.0

Source: Oregon PERS.

(1) As of December 31, 2015, there were 188 active members of the Judge Retirement Program.

State Pension Plan Asset and Liabilities

The following table shows the State's portion of the market value of assets and the actuarial value of liabilities, UALs and surpluses and funded ratios for PERS pension programs for the past eleven years for which actuarial valuations were performed. For the T1/T2 Pension Programs, the State's portion of PERS' assets and liabilities is based upon the State's proportionate share of the SLGRP's covered payroll (as of December 31, 2015, approximately 50 percent) and reflects proceeds from the State pension bonds issued in October 2003 in the aggregate principal amount of $2.1 billion (the "State Pension Bonds"). For OPSRP, the State's proportionate share is based upon the State's share of total System covered payroll (as of December 31, 2015, approximately 30 percent). The State's proportionate liability may increase if other participants fail to pay their full employer contributions.

TABLE A2-5
STATE OF OREGON - PENSION
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS)[1]

Calendar Year Ending	Market Value of Assets ($)[2]	Actuarial Accrued Liability ($)	Unfunded Actuarial Liability ($)	Funded Ratio (%)
2006	15,598.1	13,823.3	(1,774.8)	112.8
2007	15,769.3	13,611.1	(2,158.2)	115.9
2008	11,600.1	14,036.0	2,435.9	82.6
2009	13,014.7	14,771.7	1,757.0	88.1
2010	13,529.8	15,116.4	1,586.5	89.5
2011	13,208.2	15,660.0	2,451.8	84.3
2012[3]	14,532.1	15,713.6	1,181.5	92.5
2013[3]	16,212.3	16,699.9	487.6	97.1
2014[4]	16,889.9	19,978.2	3,088.2	84.5
2015[5]	16,497.3	20,845.5	4,348.2	79.0

Source: State Actuarial Valuation Reports; Oregon PERS.

(1) The Judge Retirement Program is not included in these numbers. The PERS actuary reported that as of December 31, 2015 the Judge Retirement Program has an unfunded actuarial liability of $41.5 million and a funded ratio of 85%.
(2) Includes State Pension Bonds.
(3) Reflects the legislative changes of the 2013 PERS Bills, showing savings that were anticipated from the PERS Bills but will not be realized because most of the bills were invalidated. See "Changes to PERS – Invalidated 2013 Changes to PERS." Also reflects changes to the actuarial assumptions and methods made by the PERS Board in 2013. See TABLE A2-1 "ACTUARIAL ASSUMPTIONS AND METHODS" herein.
(4) Reflects the Oregon Supreme Court decision discussed in "Changes to PERS – Invalidated 2013 Changes to PERS" and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. See TABLE A2-1 "ACTUARIAL ASSUMPTIONS AND METHODS" herein.
(5) Reflects the Oregon Supreme Court decision discussed in "Changes to PERS – Invalidated 2013 Changes to PERS" and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. Also reflects the actual investment returns during 2015. See TABLE A2-3 "OREGON PUBLIC EMPLOYEES RETIREMENT FUND INVESTMENT RETURNS" herein.

State Employer Contribution Rates

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. Pursuant to Oregon Revised Statutes 238.225, all employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. Due to the contribution rate stabilization method ("Rate Collar") described under "ACTUARIAL METHODS AND ASSUMPTION," above, the PERS Board-approved employer contribution rates for some employers, including the State, are currently less than the actuarially required contribution (ARC). The Rate Collar is an actuarially sound methodology that stabilizes contribution rates by spreading large rate increases over multiple biennia.

The following table shows the State's employer contribution rates expressed as percentages of the actuarially determined covered payroll for PERS pension and PERS-sponsored healthcare costs for the 2015-17 biennium based on the 2013 State Valuation and the 2017-19 biennium based on the 2015 State Valuation.

Recent action by the PERS Board to reduce the assumed earnings rate is expected to cause System average employer contribution rates to increase by approximately 2.10% of payroll. See "Changes to PERS—2017 PERS Board Changes." However, because of the contribution rate stabilization method utilized by PERS, such increases in the employer contribution rates are not expected to take effect before the 2021-23 biennium.

TABLE A2-6
STATE CONTRIBUTION RATES

Payrolls Paid(1)	**2015-2017 (%)**	**2017-2019 (%)**
T1/T2	13.81	17.68
OPSRP General Service	7.31	9.97
OPSRP Police and Fire	11.42	14.74
Blended Rate(2)	10.36	13.81

Sources: Oregon PERS; 2013 State Valuation and 2015 State Valuation.

(1) The employee contribution rate for the Judge Retirement Program is calculated separately. For the 2015-17 biennium the rate was 15.03% and for the 2017-19 biennium the rate is 18.05%. According to the 2015 System Valuation and the State Judiciary Valuation as of December 31, 2015, the value of the covered payroll of the judiciary as of December 31, 2014 is approximately $23.6 million, compared to the value of the covered payroll of all Pension Programs of approximately $9,544.1 million as of December 31, 2015.

(2) The Blended Rate is calculated by the PERS actuary. It is a weighted average of the three separate payroll rates based on the proportion of estimated State payroll in each rate category. The Blended Rate is an estimate provided for budgeting purposes only, and is not adopted by the PERS Board.

State Contributions

The following table shows the historical amount of State contributions paid to PERS for the three pension programs and the two PERS-sponsored health care programs and the amount paid for the debt service on the State Pension Bonds.

TABLE A2-7
STATE CONTRIBUTIONS TO PERS AND PERS-RELATED DEBT SERVICE
(IN MILLIONS)

Fiscal Year Ended 6/30	State Employer Contribution to PERS ($)[1]	Percent Change (%)	Employee Contribution Paid By State ($)[2]	POB Debt Service ($)[3]	Total ($)	Percent Change (%)
2007	199.1	85.9	116.8	120.8	436.7	30.2
2008	177.0	-11.1	124.8	126.0	427.8	-2.0
2009	155.3	-12.3	133.1	131.3	419.7	-1.9
2010[4]	73.7	-52.5	142.3	136.9	352.9	-15.9
2011	86.7	17.6	142.8	142.7	372.2	5.5
2012	230.7	166.1	139.2	148.8	518.7	39.4
2013	232.7	0.9	141.4	155.1	529.2	2.0
2014	249.4	7.2	150.5	161.7	561.6	6.1
2015[5]	169.6	-32.0	129.4	168.6	467.6	-16.7
2016	224.5	32.4	129.6	175.7	529.8	13.3

Sources: State of Oregon Comprehensive Annual Financial Report (CAFR), Note Disclosure 12 and 13 for Fiscal Year (FY) 2007; Note Disclosure 13 and 14 for FY 2008; Note Disclosure 14 & 15 for FY 2009 and FY 2016; Note Disclosure 15 and 16 for FY 2010 through 2015; and Oregon State Treasurer. Covered payroll amounts used to derive employee contributions for FY 2006 through FY 2011 are from the RHIPA Schedule of Funding Progress in the State's CAFR for each fiscal year.

(1) Amount includes employer contributions for the primary government, but excludes discretely presented component units. Amount includes employer contributions for RHIA and RHIPA, but excludes all other retirement plans other than PERS and does not include employer paid employee contributions.

(2) The State pays employee contributions into the Individual Account Program (IAP). Amounts for FY 2007 through FY 2011 are estimates derived from PERS covered payroll for the calendar year ended within the fiscal year reported, based on 6 percent employee contribution rate. Amounts for FY 2012 through FY 2016 are sourced from Employee Retirement Plans note disclosures in the State's CAFR for each fiscal year.

(3) Fiscal Year State Pension Bonds debt service. The State issued Pension Bonds October 31, 2003. As of June 30, 2016, $1.77 billion principal amount of State Pension Bonds remain outstanding.

(4) The State's PERS contribution rate was 6.71 percent of payroll from January 1, 2009 through June 30, 2009. That rate dropped to 3.17 percent of payroll for the second half of 2009 and all of 2010, resulting in a substantial decrease in the State's contribution to PERS.

(5) Beginning with FY 2015, three public universities (OSU, UO & PSU) were reported as component units, which contributed to a significant decrease in the State's employer contributions. In addition, employer rates declined from the 2013-15 to 2015-17 biennium, which also contributed to the reduction.

Changes in Financial Reporting for Pension Plans

The Governmental Accounting Standards Board (GASB) adopted new pension accounting standards effective for the June 30, 2014 fiscal year, which differed from historical methodologies used by the State for funding purposes and those used to represent funded status. Among the changes to the GASB standards are the inclusion of unfunded pension liabilities on a government's balance sheet; mark to market valuation of assets; lower actuarial discount rates; and the recognition of differences between expected and actual demographic and investment experience are recognized incrementally over a closed period when reporting annual employer pension expense. The new accounting standards affect financial reporting but do not require changes to funding policies. GASB required disclosures appear annually in the CAFR.

Total and Net Pension (Asset)/Liability

Beginning with the fiscal year ended June 30, 2014, PERS began reporting financial information in conformity with new accounting and financial reporting requirements applicable to pension plans. Beginning with the fiscal year ended June 30, 2015, the State began reporting financial information in conformity with the new accounting and financial reporting requirements applicable to employers who participate in pension plans, which significantly changed the way pension liabilities are reported in their CAFRs by states and local governments. As a result of these changes, the State reports its Net Pension (Asset)/Liability based upon the State's proportionate share of the PERS system-wide Net Pension (Asset)/Liability. The following table shows the historical changes in Net Pension (Asset)/Liability of the PERS defined benefit pension plan for fiscal year 2014 through fiscal year 2016. In addition, the table shows the State's proportionate share of the Net Pension (Asset)/Liability as reported in the Statement of Net Position in the comprehensive annual financial reports for fiscal year 2015 and fiscal year 2016. Due to the timing of when information is available to participating employers, there is a one-year lag in the measurement date and the valuation date for the State's share.

TABLE A2-8
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HISTORICAL CHANGES IN NET PENSION (ASSET)/LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30
(IN MILLIONS)

Defined Benefit Pension Plan (PERS)	**FY 2014**	**FY 2015**	**FY 2016**
Total Pension Liability[1]			
Service Cost[2]	$ 1,020.3	$ 960.9	$ 1,016.8
Interest on Total Pension Liability	4,819.4	4,779.5	5,355.3
Changes in Benefit Terms	(2,423.6)	5,353.5	-
Changes in Assumptions	-	-	3,946.4
Differences Between Expected and Actual Experience	-	380.0	317.3
Benefit Payments	(3,863.4)	(3,943.6)	(4,206.5)
Net Change in Total Pension Liability	(447.3)	7,530.3	6,429.3
Total Pension Liability - Beginning	63,582.1	63,134.8	70,665.1
Total Pension Liability - Ending	63,134.8	70,665.1	77,094.4
Plan Fiduciary Net Position - Ending	65,401.4	64,923.6	62,082.1
Net Pension Liability/(Asset)[3]	$ (2,266.6)	$ 5,741.5	$15,012.3
Measurement Date	6/30/2014	6/30/2015	6/30/2016
Valuation Date	12/31/2012	12/31/2013	12/31/2014
Discount Rate	7.75%	7.75%	7.50%

State of Oregon Employer[4]		**FY 2015**[4]	**FY 2016**[4]
Proportionate Share of Net Pension Liability/(Asset)[5]		19.0%	19.7%
State's Net Pension Liability/(Asset)[3]		$ (430.9)	$ 1,133.3
Covered Payroll		2,488.0	2,137.6
States' Net Pension Liability//(Asset) as a Percentage of Covered Payroll		17.3%	53.0%
Measurement Date		6/30/2014	6/30/2015
Valuation Date		12/31/2012	12/31/2013

Sources: Comprehensive Annual Financial Reports (CAFRs) of the Oregon Public Employees Retirement System for PERS Plan, and of the State of Oregon for State employer reporting for each fiscal year.

[1] Total pension liability is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with requirements of GASB Statement No. 67. The actuarial present value of projected benefit payments are projected benefit payments discounted to reflect the expected effects of the time value (present value) of money.
[2] Service cost is the portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
[3] Includes side accounts.
[4] Employer reporting in CAFR is based upon a measurement date one year prior to the fiscal year end reporting date and a valuation date that lags by one year the valuation date used for pension plan reporting. In addition, the implementation of Governmental Accounting Standards Board statements on pension accounting and financial reporting for employers was one year later than standards applicable to pension plans; therefore, fiscal year 2015 is the first year applicable to employer reporting.
[5] Excludes entities reported as component units in the State's Comprehensive Annual Financial Report.

Other Post-Employment Benefits

In addition to pension benefits provided through PERS, the State provides healthcare benefits (medical, vision and dental) through two PERS health insurance programs, as described further below, and through PEBB. At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB. Approximately 46,147 retirees receive healthcare benefits through PERS health insurance programs and approximately 818 retirees receive healthcare benefits through PEBB.

PERS-Sponsored Retirement Health Insurance Account Plan ("RHIA")

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may receive a subsidy towards the payment of health insurance premiums. ORS 238.420 established the Retirement Health Insurance Account program under which qualified retirees may receive a subsidy for Medicare supplemental health insurance of up to $60 per month towards the cost of their health insurance premiums. The State's employer contribution rate for the RHIA program for the 2015-17 biennium was 0.53 percent of payroll and was a component of the estimated State blended employer contribution rate of 10.36 percent for the 2015-17 biennium. As of December 31, 2015 the RHIA program has an unfunded actuarial liability of approximately $46.3 million representing a funded ratio of approximately 90.0 percent, of which $13.6 million is allocable to the State.

TABLE A2-9
RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS)

Calendar Year Ending	Program UAL ($)	Program Funded Ratio (%)	State Share of UAL ($)
2006	290.3	43.3	77.1
2007	248.8	50.2	66.5
2008	310.2	37.2	83.9
2009	296.9	41.9	82.7
2010	314.8	42.5	85.6
2011	221.5	52.0	61.6
2012	180.2	61.8	50.6
2013	120.1	74.7	34.7
2014	72.5	84.5	21.4
2015	46.3	90.0	13.6

Source: Actuarial valuations of System and State actuarial valuation reports; PERS.

PERS-Sponsored Retiree Health Insurance Premium Account Plan ("RHIPA")

Another subsidy is available to pre-Medicare-age State retirees through the Retiree Health Insurance Premium Account plan. On or before January 1 of each year, the PERS Board calculates the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the PERS Board and health insurance premiums paid by State employees who are not retired. RHIPA authorizes payment of this average difference to qualified retired State employees. The State's employer contribution rate for the RHIPA program for the 2015-17 biennium was 0.44 percent of payroll and was a component of the estimated State blended employer contribution rate of 10.36 percent for the 2015-17 biennium. As of December 31, 2015, the RHIPA program had an unfunded actuarial liability of approximately $56.6 million, representing a funded ratio of approximately 16.5 percent, all of which is allocable to the State.

TABLE A2-10
RETIREE HEALTH INSURANCE PREMIUM ACCOUNT (RHIPA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS)[(1)]

Calendar Year Ending	Program UAL ($)	Program Funded Ratio (%)
2006	16.4	29.9
2007	15.5	33.6
2008	15.6	26.7
2009	18.1	26.1
2010	28.2	16.8
2011	29.9	13.2
2012	55.9	7.3
2013	55.9	8.6
2014	63.3	10.2
2015	56.6	16.5

Source: Actuarial valuations of System.

(1) RHIPA benefits are only available to State employees; therefore, the RHIPA plan UAL is allocable entirely to the State.

PEBB Retiree Health Insurance Benefit Plan

In addition to the explicit pension and healthcare benefits provided to retired State employees through PERS, the State provides an implicit rate subsidy for healthcare benefits (medical, vision and dental) through PEBB to approximately 953 retirees (as of June 30, 2015) who do not receive healthcare benefits through PERS and are not yet eligible for Medicare. This PEBB's rate subsidy is considered a State obligation for accounting purposes to comply with OPEB standards (GASB 43 and GASB 45). The PEBB OPEB obligation exists because the State is providing an implicit rate subsidy to retirees to purchase healthcare through the PEBB at the same premium amount as active employees.

The State's actuary for PEBB prepared an actuarial valuation as of July 1, 2013 (the "2013 PEBB Valuation") for purposes of complying with the OPEB standards. The valuation was prepared using the Entry Age Normal actuarial cost method. Significant assumptions used in the actuarial valuation include a 3.5 percent rate of return on the investment of assets and projected payroll growth of 3.5 percent. The plan uses a medical healthcare cost inflation adjustment of 3.58 percent in fiscal year 2014, 5.9 percent in fiscal year 2015, 5.6 percent in fiscal year 2016, 6.9 percent in 2017, an average of 6.1 percent between fiscal years 2018 and 2042, and the rate grades down from 5.9 percent to 5.4 percent between fiscal years 2043 and 2063. The dental healthcare cost inflation adjustment was graded from 2.21 percent in fiscal year 2014 to 5 percent for all subsequent fiscal years. The plan's inflation assumption is 2.75 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll using an open 15-year period. The State's unfunded actuarial accrued liability in the 2013 PEBB Valuation for post-employment benefits provided through PEBB was estimated at $105.1 million. There is no contractual obligation for this pooled healthcare program, but it is being recorded in the 2013 PEBB Valuation as a means to comply with OPEB standards.

For fiscal year 2015, the Annual Required Contribution (ARC) for post-employment benefits provided through PEBB, was $13.3 million, plus interest on the net OPEB obligation of $2.8 million, less the ARC adjustment of $5.3 million. Because the State pays the PEBB OPEB benefit on a pay-as-you-go basis, the net OPEB obligation reported at the end of fiscal year 2015 in the State's financial statements was $83.6 million.

Changes to PERS

2017 PERS Board Changes

At its July 28, 2017 meeting, the PERS Board reduced the assumed earnings rate of the investment fund from 7.50% to 7.20%. Detailed information of the impact on the System's and State's unfunded actuarial liability, funded status, and projected employer contribution rates will be available in the actuarial valuation report as of December 31, 2016, which, for the System, is expected to be released in September 2017. See above "TABE A2-1 – PUBLIC EMPLOYEES' RETIREMENT SYSTEM ACTUARIAL ASSUMPTIONS AND METHODS."

Invalidated 2013 Changes to PERS

In 2013, the Legislative Assembly enacted the 2013 PERS Bills that were expected to: limit annual benefits cost of living adjustments ("COLAs") for PERS retirees, eliminate a benefit increase for out-of-state retirees based on Oregon income tax, exclude certain salary increases from the pension benefits calculation, and reduce legislators' participation in PERS. The 2013 PERS Bills were expected to reduce future benefit payments, resulting in a reduction of the System's unfunded actuarial liability by approximately $5 billion. Lawsuits were filed challenging provisions of the 2013 PERS Bills, including the changes to the COLA adjustment and the elimination of a benefit increase for out-of-state retirees based on Oregon income tax. In April 2015, the Oregon Supreme Court announced a decision that upheld the elimination of the benefit increase for out-of-state retirees. The COLA reductions were declared unconstitutional as applied to benefits earned prior to the June 1, 2013 effective date of the 2013 PERS Bills. However, the reduced COLA could be applied to the benefits earned after the 2013 PERS Bills became effective.

APPENDIX B

OREGON DEPARTMENT OF TRANSPORTATION
ANNUAL FINANCIAL REPORT (UNAUDITED) FOR THE
FISCAL YEAR ENDED JUNE 30, 2016

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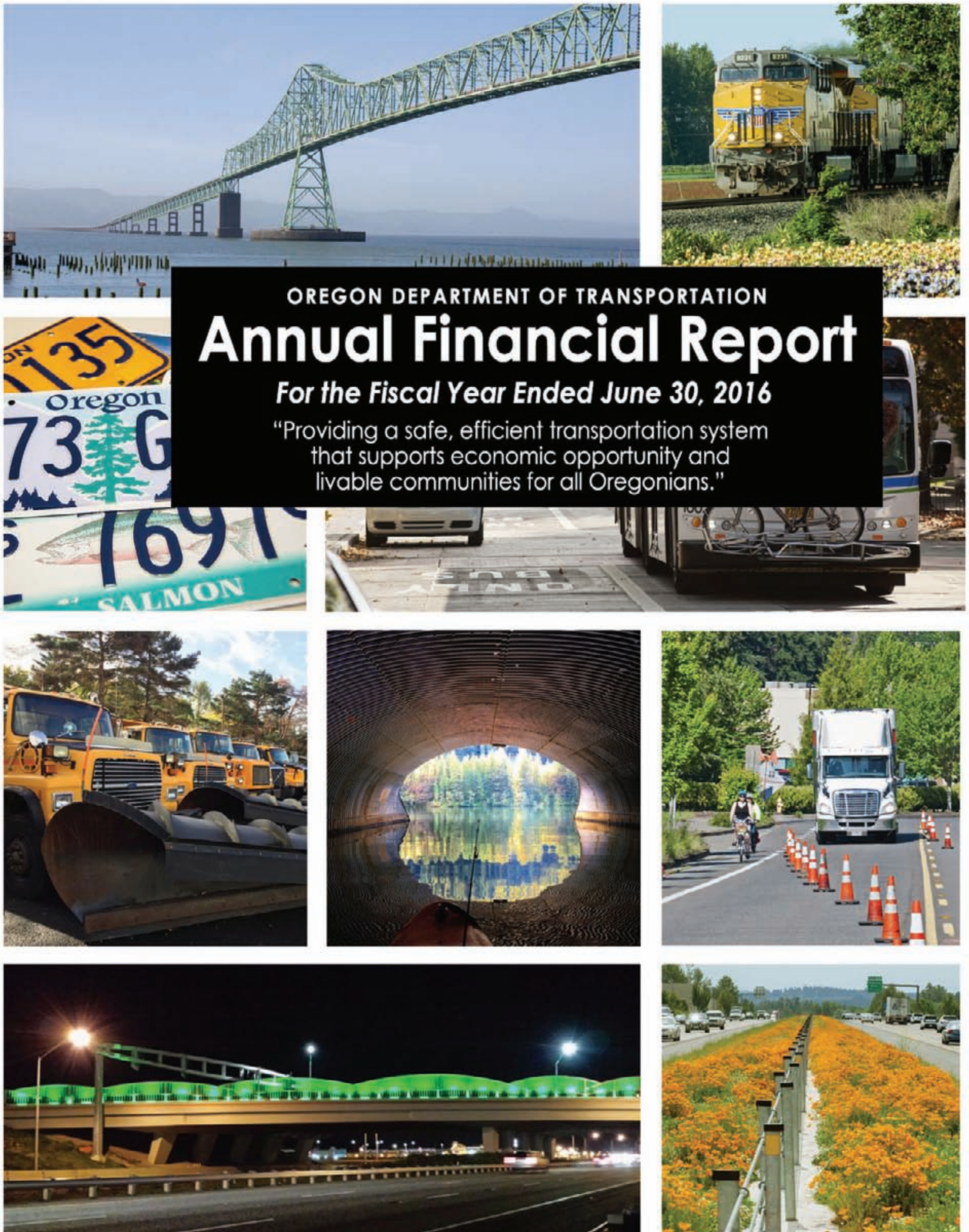
OREGON DEPARTMENT OF TRANSPORTATION

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."



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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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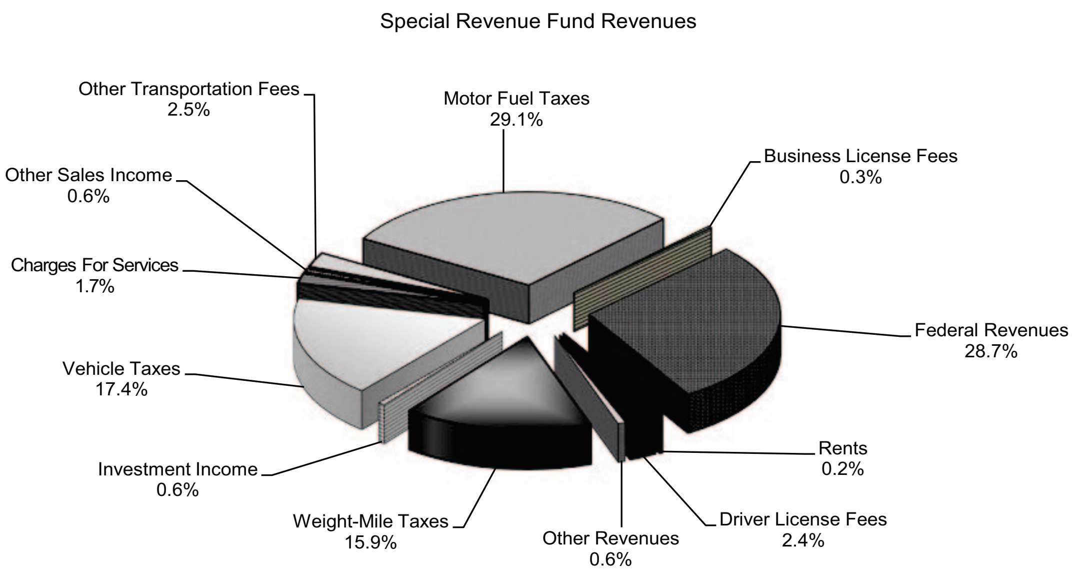
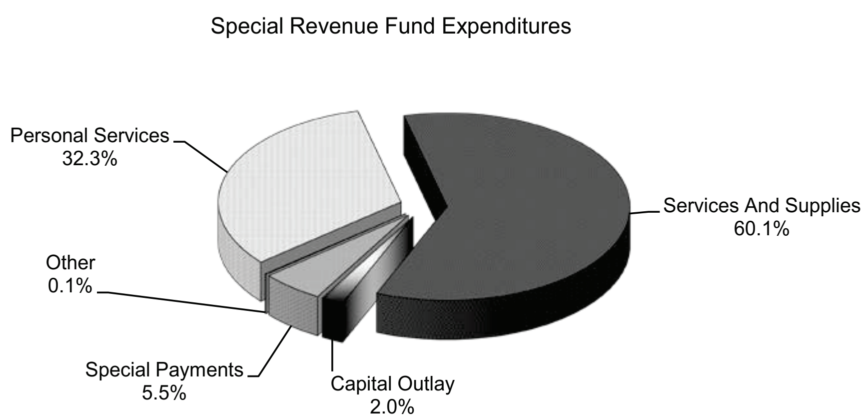
FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

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

Commissioner	Commission Expires
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

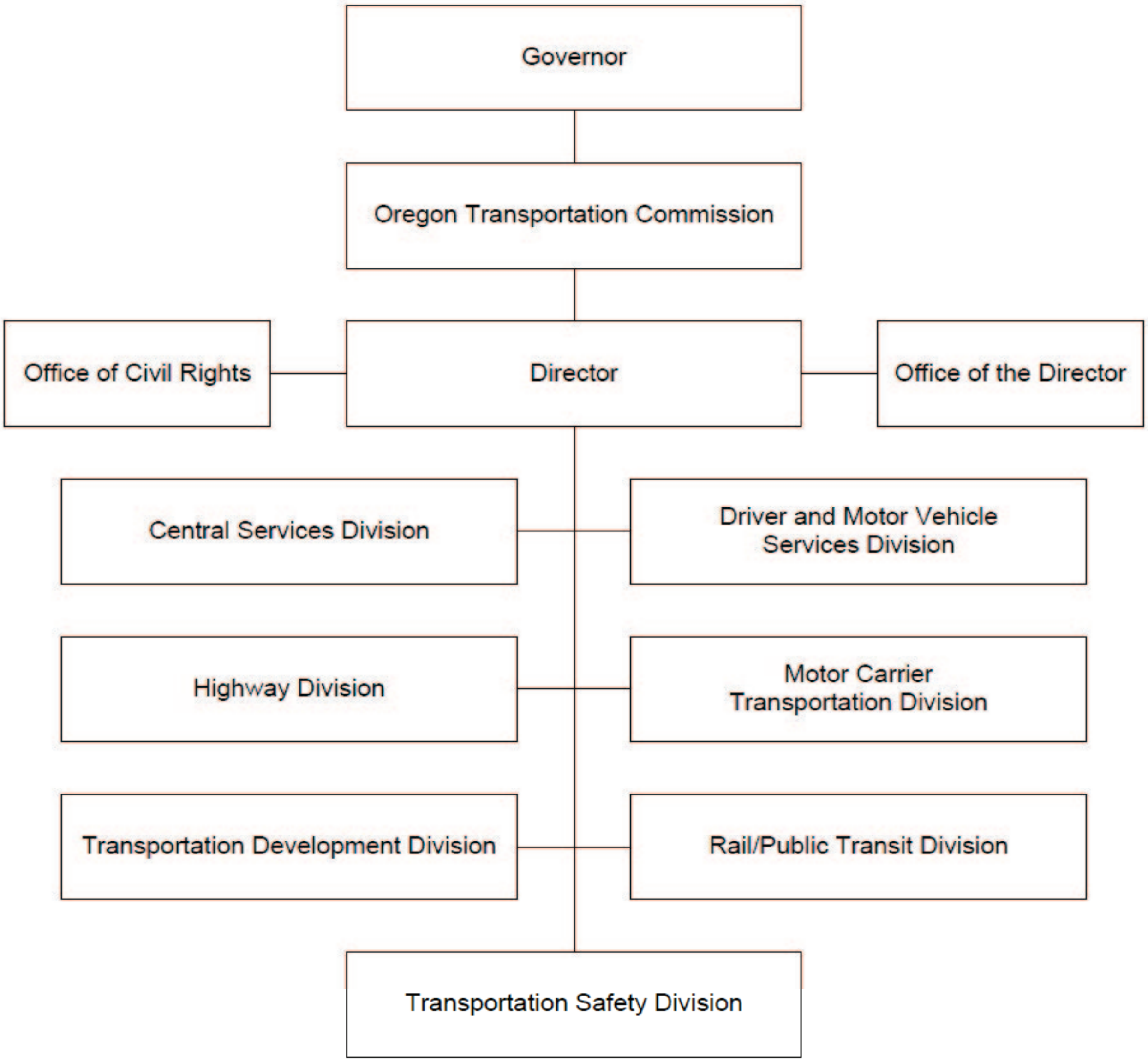
Administrator, Transportation Development Division – Jerri Bohard

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					Fiduciary Funds
	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds	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						
Liabilities:						
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
Fund Balances:						
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

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
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	-	1,829,507,206	10,207,047	447,382	1,840,161,635
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	11,563,070	1,322,006,594	262,697,081	4,539,072	1,600,805,817
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,563,070)	507,500,612	(252,490,034)	(4,091,690)	239,355,818
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)	11,563,070	(627,379,079)	265,574,284	(10,950,954)	(361,192,679)
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	$ -	$ 550,149,832	$ 98,523,447	$ -	$ 648,673,279

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	(19,812,588)	(11,563,070)	(8,249,518)	392,312,611	507,500,612	(115,188,001)
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	$ -	-	$ -	$ 94,595,516	(119,878,467)	$ 214,473,983
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.

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*.

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.

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.

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:

	Total
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	67,752,525
Total	$ 659,821,865

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.

Transfer activity for the year ended June 30, 2016:

Departmental transfers:	Transfers In	Transfers Out
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	241,713,294	241,713,294
State agency transfers:		
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	57,438,694	42,693,360
Local government transfers:		
Special Revenue Funds		
Cities	-	164,775,679
Counties	-	245,771,166
Total local government transfers	-	410,546,845
Transfers to nongovernmental entities:		
Special Revenue	-	1,291,392
Total transfers	$ 299,151,988	$ 696,244,891

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	$ 15,793,430,549	$1,067,089,166	$ (589,048,781)	$ 16,271,470,934

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.

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:

Year Ending June 30	Total
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	$ 37,245,788

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 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

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:

Year Ending June 30	Principal	Interest	Total
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	$ 570,457,688	$ 246,676,265	$ 817,133,953

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 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.

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(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.

- 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.

[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	$ 2,257,365,000	$ 1,243,331,945	$ 3,500,696,945

[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.

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

Year Ending June 30	Principal	Interest	Total
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	$ 13,561,543	$ 2,072,102	$ 15,633,645

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

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	$ 145,275,863	$ 70,035,354	$ 215,311,217

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	$ 3,094,659,782	$ 83,855,600	$ (191,855,288)	$ 2,986,660,094	$ 114,739,035

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.

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:

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

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						
Liabilities:						
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
Fund Balances:						
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	532,024,078	532,962,596	341,771,986	363,858,310	58,890,236	1,829,507,206
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	1,022,264,831	90,770,730	30,035,276	80,263,994	98,671,763	1,322,006,594
Excess (Deficiency) of Revenues Over (Under) Expenditures	(490,240,753)	442,191,866	311,736,710	283,594,316	(39,781,527)	507,500,612
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)	353,638,596	(442,185,158)	(311,723,452)	(283,651,549)	56,542,484	(627,379,079)
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	$ 436,495,704	$ 51,056	$ 83,163	$ 2,432,977	$ 111,086,932	$ 550,149,832

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

	Public Transit	Transportation Safety	Rail	Snowmobile	Transportation Operating
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	$ 6,946,355	$ 14,704,743	$ 13,660,804	$ 6,587,591	$ 10,500,478
Liabilities and Fund Balances					
Liabilities:					
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	3,545,198	1,201,460	602,935	262	2,181,953
Fund Balances:					
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	3,401,157	13,503,283	13,057,869	6,587,329	8,318,525
Total Liabilities and Fund Balances	$ 6,946,355	$ 14,704,743	$ 13,660,804	$ 6,587,591	$ 10,500,478

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
$ 3,169,356	$ 100,834	$ 41,147,368	$ 29,372,959	$ 126,190,488
$ 199,662	$ 2,345	$ -	$ 2,904,305	$ 5,997,135
-	-	4,465,436	-	4,465,436
-	-	-	-	2,050,519
-	-	-	-	2,590,466
199,662	2,345	4,465,436	2,904,305	15,103,556
-	-	-	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
2,969,694	98,489	36,681,932	26,468,654	111,086,932
$ 3,169,356	$ 100,834	$ 41,147,368	$ 29,372,959	$ 126,190,488

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

	Public Transit	Transportation Safety	Rail	Snowmobile	Transportation Operating
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	31,559,507	7,461,215	11,135,973	239,462	5,625,774
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	42,686,014	12,333,152	14,500,177	1,351,554	3,527,820
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,126,507)	(4,871,937)	(3,364,204)	(1,112,092)	2,097,954
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)	7,337,370	5,394,452	4,720,932	640,571	1,812,388
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	$ 3,401,157	$ 13,503,283	$ 13,057,869	$ 6,587,329	$ 8,318,525

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
1,957,416	42,780	785,802	82,307	58,890,236
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
1,381,380	33,569	239,521	22,618,576	98,671,763
576,036	9,211	546,281	(22,536,269)	(39,781,527)
-	-	-	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
$ 2,969,694	$ 98,489	$ 36,681,932	$ 26,468,654	$ 111,086,932

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STATISTICAL SECTION

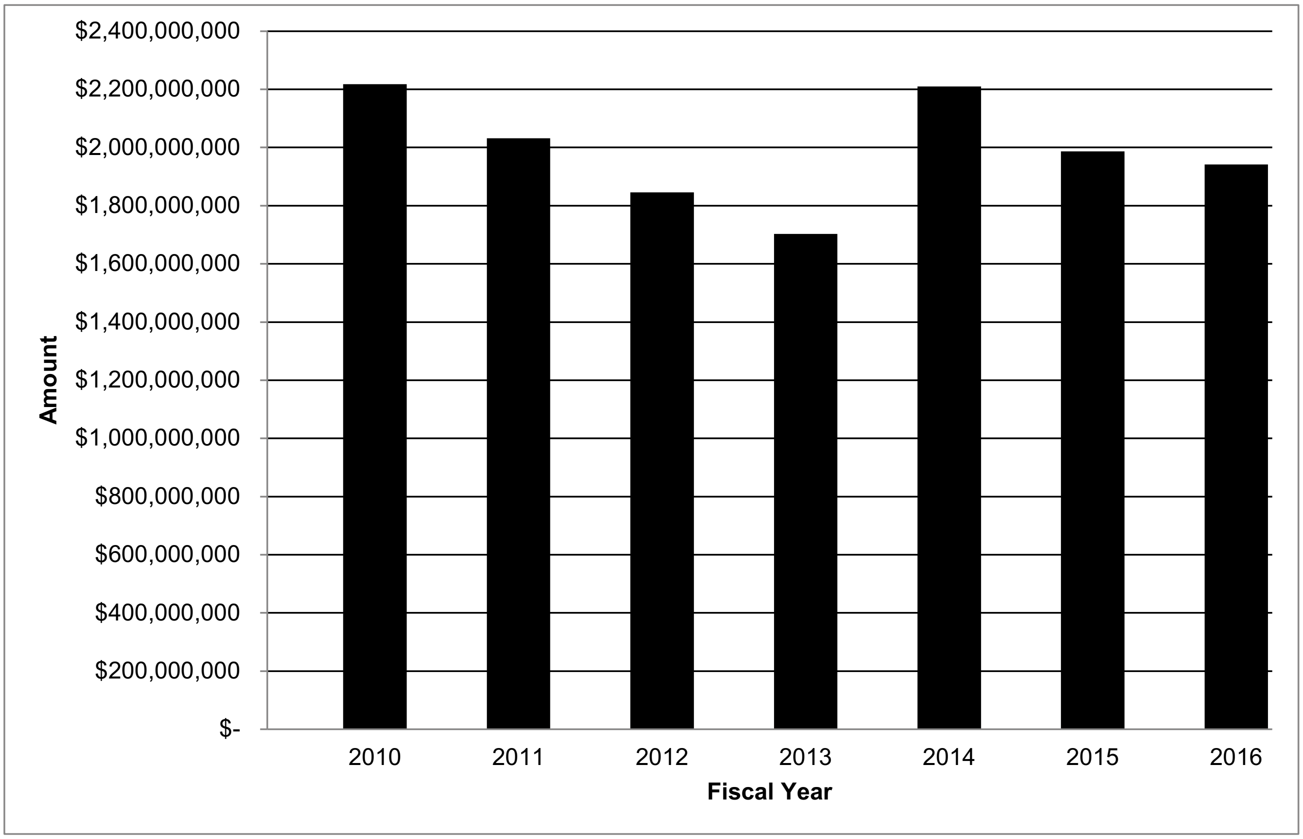
Table 1

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	$ 524,704,336

Table 2

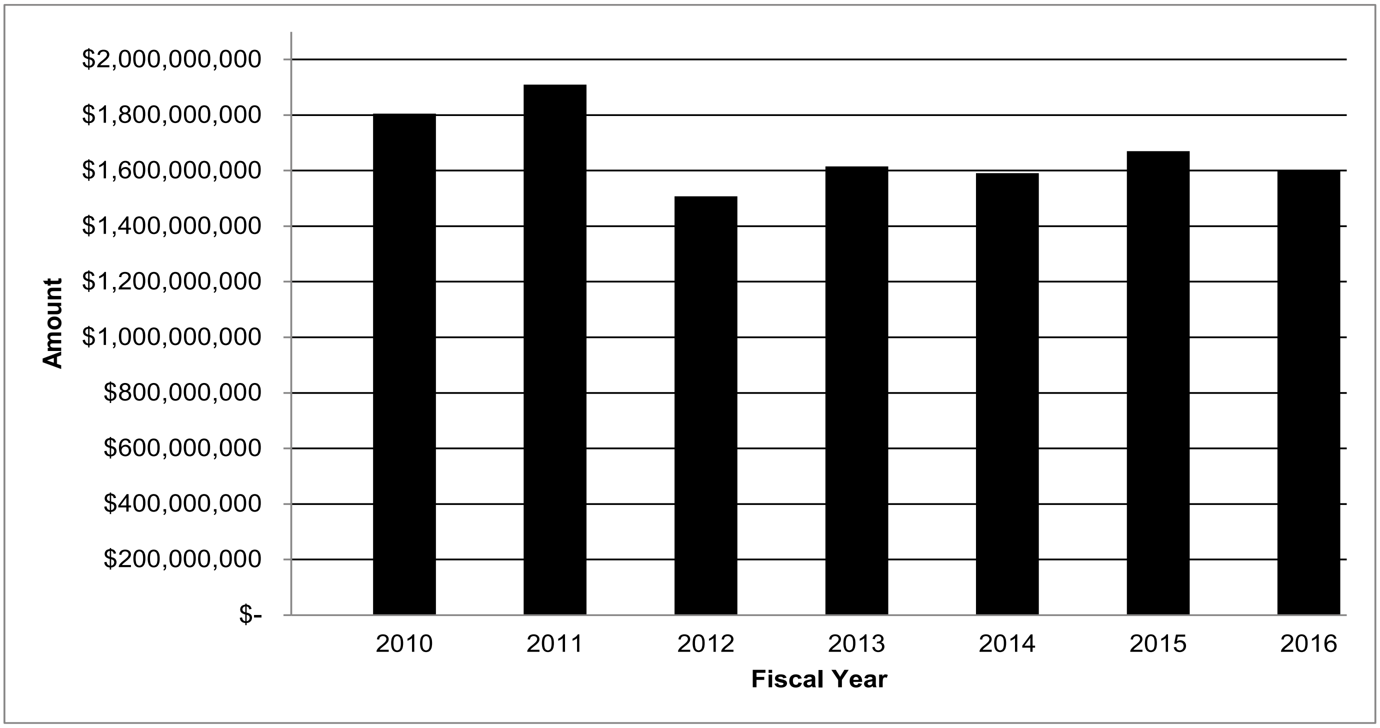
Net Revenues and Other Sources - Seven-Year Trend



	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

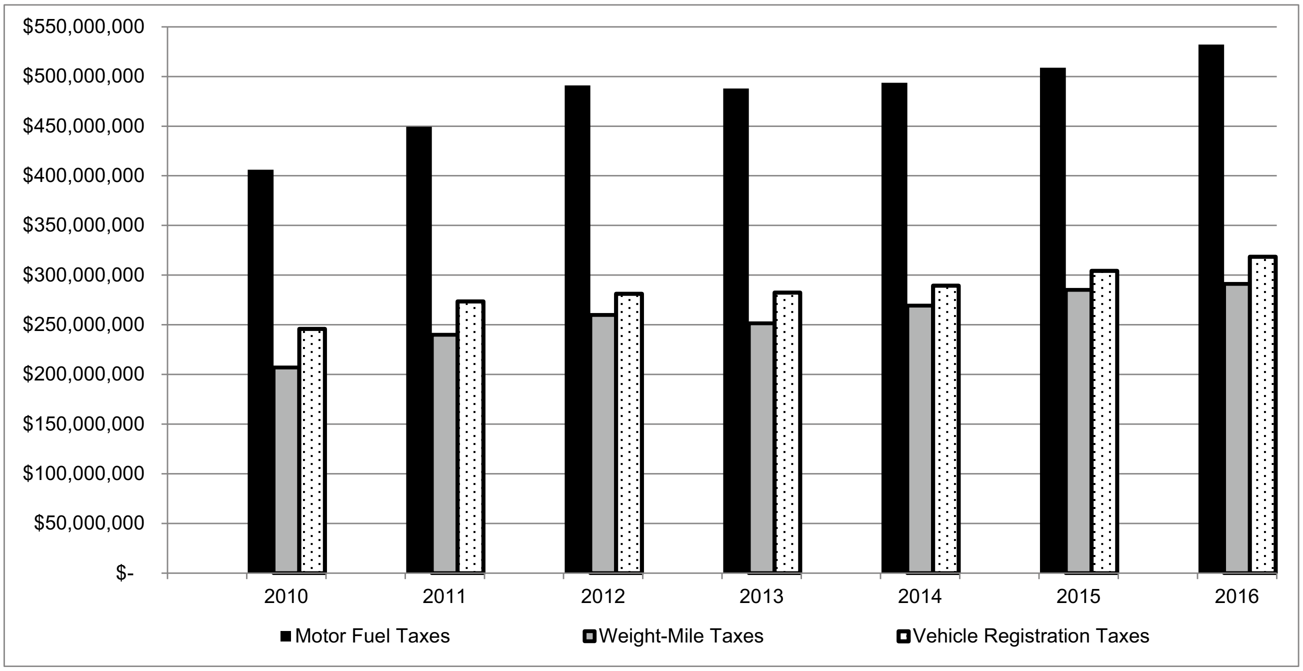
Total Expenditures - Seven-Year Trend



	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

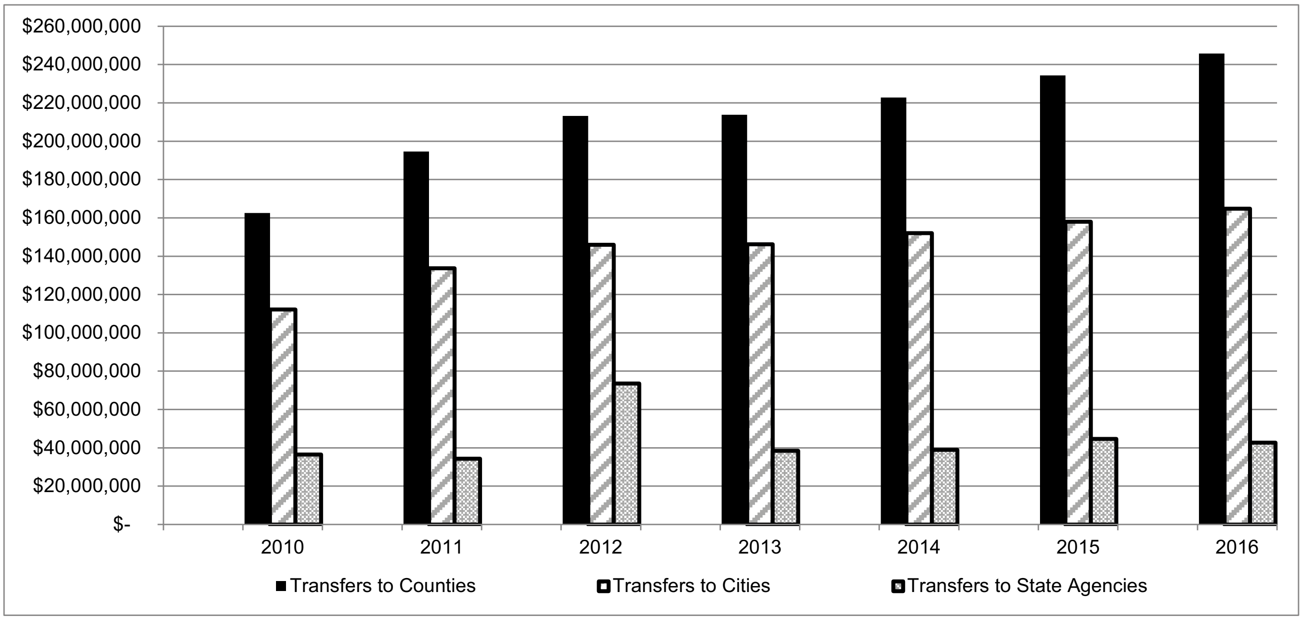
Net Vehicle-Related Tax Collections - Seven-Year Trend



	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.

APPENDIX C

OREGON DEPARTMENT OF TRANSPORTATION
JUNE 2017 REVENUE FORECAST

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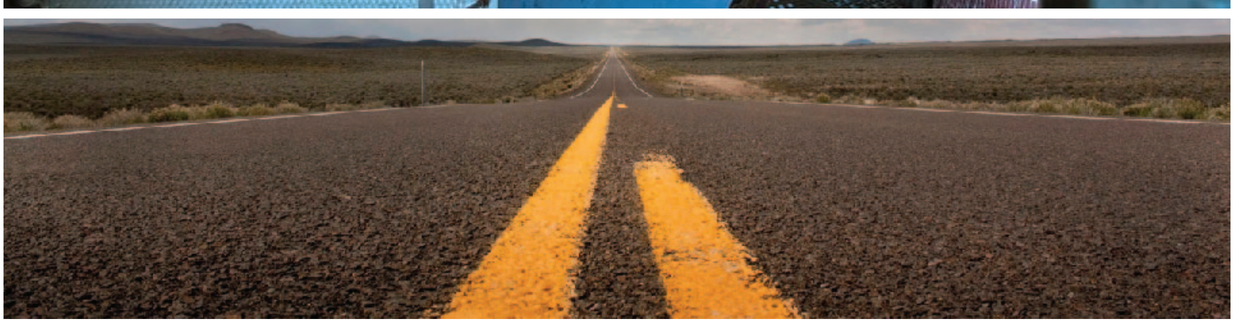
ODOT Transportation Development Division

Oregon Department of Transportation

June 2017 Revenue Forecast



Foreword

This summary report presents a selection of State Other Funds Revenue forecasts for the Oregon Department of Transportation. It is published twice a year to assist in financial planning, the formulation of transportation budgets, and to support other decision-making activities. The forecast is consistent with the Department of Administrative Services' Oregon Economic & Revenue Forecast (Vol. XXXVII, No. 2, May 2017) and the associated baseline macroeconomic forecast from IHS Markit.

This document is also available online at: http://www.oregon.gov/ODOT/Data/Pages/Revenue-Forecasts.aspx and scroll down to the "Most Recent Forecast."

Questions and comments should be directed to:

Daniel Porter
ODOT Transportation Development Division
Phone: (503) 986-5365
E-mail: daniel.r.porter@odot.state.or.us

Table of Contents

Tables and Figures

Forecast Summary

The strong growth in revenues experienced over the last few years looks to be coming to an end.

Following the strong growth of the last few years, transportation revenues are currently heading into slower growth territory. As job growth slows and fewer people move to Oregon, we expect a slowdown in the growth of our three primary revenue collectors, DMV, Motor Carrier and Motor Fuels.

Going forward, the key questions facing us are: How quickly will growth slow? How slow will growth be? And for how long? The current recessionary risk is low; only housing affordability is acting as a hindrance to growth. Still, we expect revenue growth to slow through 2019 before flattening in 2020. This slowing growth will have tangible impacts on departmental revenues.

Motor Fuels revenue growth finished calendar year 2016 at 4.4 percent, a result of the strongest growth in taxable sales seen in recent history. However, 2017 has exhibited little growth over the first quarter. Extreme weather certainly has contributed, but the economic slowdown is definitely here. 2017 calendar year growth is expected to drop to 1.2 percent and remain there through 2018. It dips further to no growth or slight negative growth in 2020 and beyond.

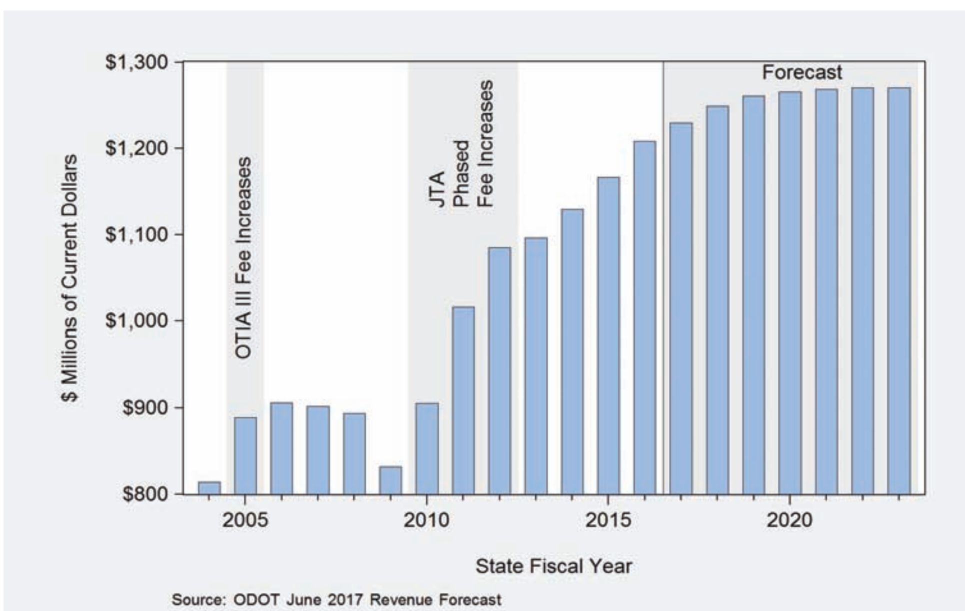
Motor Carrier revenue, led by weight-mile collections, has seen more modest growth rates recently compared to motor fuels. Its recovery growth came in the 2013-2015 timeframe. Revenue grew 2.0 percent in calendar year 2016, and is expected to average 2.3 percent in 2017 before falling to at most 1 percent by 2019.

Gross revenues in FY16 were up $42 million over FY15 and are on pace to finish FY17 up $21 million over FY16.

DMV revenue experienced a boom similar to motor fuels. The rapid increase in in-migration led to new driver and vehicle transactions, and following years of strong growth revenues finished calendar year 2016 up 3.0 percent. Going forward, growth should slow considerably as in-migration and vehicle sales slow. On a fiscal year basis, in 2015-17 overall gross state revenues are 6.8 percent (~ $142 million) greater than 2013-15. However relative to the prior forecast gross revenues are down slightly ($6.6 million) in 2015-17, and through 2021-23 gross revenues are lower by $2.3 million.

Overall, this forecast is predicting slowing growth as our economic expansion matures. The change from the prior forecast is minimal as the economic outlook has changed little over the last six months and generally revenues have tracked with the forecast. Forecast yields have adjusted slightly with this forecast. We estimate a penny increase in the motor fuel tax rate will yield $17.8

Figure 1. Total Gross State Highway Revenue by Fiscal Year



Overall changes from the prior forecast are very minor.

Table 1. Change in Gross Revenues from the December 2016 Forecast

($ Millions)	2015-17	2017-19	2019-21	2021-23
Motor Fuels				
Gross	$(6.4)	$(1.9)	$4.8	$5.1
Net Apportionable	$(6.4)	$(1.9)	$4.8	$5.1
Motor Carrier				
Gross	$(2.1)	$(7.6)	$(6.1)	$(10.6)
Net Apportionable	$(2.1)	$(7.6)	$(6.1)	$(10.6)
DMV				
Gross	$1.8	$6.6	$6.7	$7.2
Net Apportionable	$1.9	$6.9	$7.1	$7.7
Total				
Gross	$(6.6)	$(2.9)	$5.4	$1.8
Net Apportionable	$(6.6)	$(2.6)	$5.7	$2.2

A penny increase in the motor fuels tax will yield about $28.2 million in net revenue with the heavy equivalent included.

million in net revenue per year without the weight-mile tax and $28.2 million in net revenue per year with the weight-mile tax included. Net motor fuel tax revenue (gross revenue minus the non-highway fuel tax transfers for the fuel used in non-highway sources, like ATV's and lawnmowers) will be affected by price; a significant increase in the tax will drive down demand.

Transportation Backdrop

Net migration appears to have peaked in the current expansion at over 50,000 in 2016.

In general, the Oregon vehicle miles traveled (VMT) follows the economy. After peaking in 2004, it declined through 2012, and has grown significantly since then. 2014's growth was larger than 2013, and in 2015 VMT surpassed 2004's high. This 4.0 percent increase in VMT in 2015 mirrors growth in motor fuel over the same period, affirming the motor fuels data. In 2016 both VMT and Motor Fuels continued to grow. While final VMT numbers are not yet available, preliminary numbers suggest that Motor Fuels consumption grew faster than VMT in 2016.

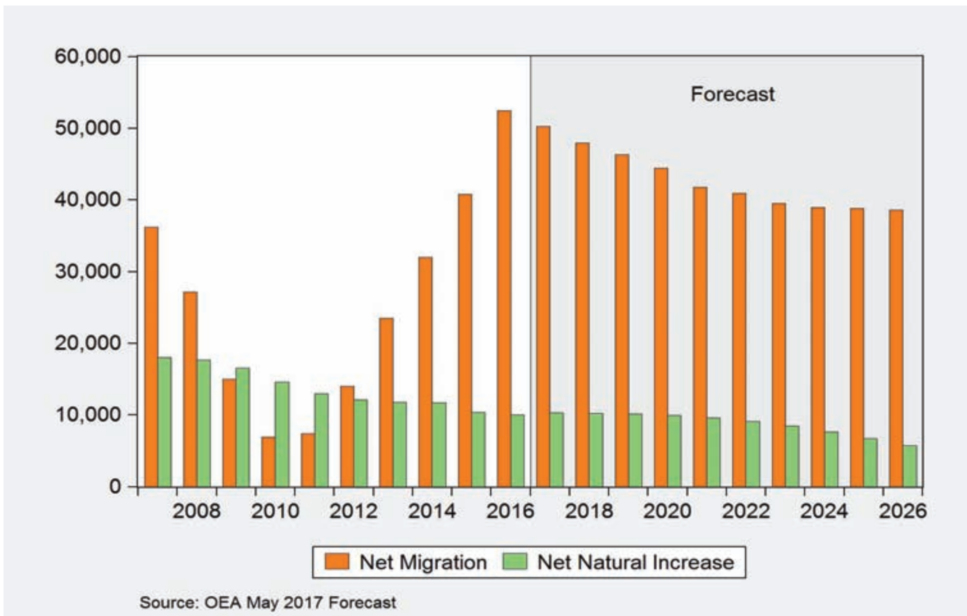
Driving the increase in fuel consumption and VMT is an expanding economy and increasing in-migration. The Motor Fuels, Motor Carrier and DMV sections delve into specific detail about the factors affecting each section. However one factor in particular has impacted all revenue sources: rapid population growth. Oregon's population increases, especially recently, have been heavily dependent on migrants. The difference between the number of births and deaths, or the net natural change in population, has been steadily declining since the last recession. However net migration, the difference between people moving into and out of Oregon, has been steadily growing.

This growth generates more drivers and vehicles in Oregon as well as an additional workload on DMV. The additional vehicles driven increases the amount of fuel consumed, leading to motor fuels tax growth. The consumption of other goods leads to more trucks delivering goods to warehouses and retail locations, increasing the heavy truck weight-mile tax revenue.

The figure below plots the annual population increase from changes in net natural and net migration since 2007. The net natural increase peaked in 2007 at just over 18,000 people, and has been falling since that time. Net migration has more closely followed economic growth, bottoming in 2010 before growing rapidly as the economy expands. Importantly, the forecast expects lower net natural growth, putting an even greater burden on the more volatile net migration for overall population growth, a strong driver for transportation revenues.

The most recent Net-Migration forecast supports the rapid growth in DMV workload.

Figure 2. Components of the Oregon Demographic Forecast



As noted above, while these population components are critical variables in the ODOT revenue forecast models, there are others. Table 2 below contains a selection of other important variables that are used in the forecast models. Table 3 below highlights changes for some of the most important revenue generating variables in the ODOT revenue forecast.

A full discussion of the state and national economic forecasts can be found on the Oregon Office of Economic Analysis website located here. http://www.oregon.gov/DAS/OEA/Pages/index.aspx

Table 2. Percentage Change in Key Economic Variables

	Actuals				Forecast						
	CY 13	CY 14	CY 15	CY 16	CY 17	CY 18	CY 19	CY 20	CY 21	CY 22	CY 23
OREGON EMPLOYMENT--TOTAL	2.1%	2.9%	3.4%	2.8%	2.0%	2.4%	1.6%	1.0%	0.7%	0.7%	0.6%
EMPLOYMENT--CONSTRUCTION	6.1%	8.0%	4.0%	8.2%	5.9%	2.2%	0.8%	0.4%	0.7%	0.5%	0.6%
EMPLOYMENT--TRANSPORTATION	1.6%	3.6%	3.8%	2.7%	3.0%	1.7%	1.7%	0.7%	0.2%	-0.1%	-0.2%
EMPLOYMENT--DURABLE GOODS	1.3%	2.4%	3.3%	0.6%	0.4%	0.9%	0.5%	0.3%	0.4%	0.3%	0.0%
OREGON HOUSING STARTS	31.5%	9.2%	2.5%	19.5%	9.4%	9.6%	1.2%	3.8%	2.2%	0.6%	-0.7%
OREGON POPULATION	0.9%	1.1%	1.3%	1.5%	1.5%	1.4%	1.3%	1.3%	1.2%	1.1%	1.1%
PORTLAND METRO CONSUMER PRICE INDEX	2.5%	2.4%	1.2%	2.1%	2.4%	2.2%	2.5%	2.7%	2.8%	2.7%	2.7%
OREGON REAL PERSONAL INCOME	0.4%	5.1%	6.2%	3.4%	3.2%	4.2%	3.6%	3.0%	2.5%	2.5%	2.3%
NATIONAL REAL PRICE OF GASOLINE	-4.3%	-5.9%	-27.0%	-13.2%	9.6%	-3.3%	8.7%	7.5%	4.8%	4.4%	2.6%
NATIONAL UNIT SALES OF NEW LIGHT VEHICLES	7.6%	6.0%	5.7%	0.4%	-0.4%	1.0%	-0.0%	-0.9%	-1.9%	-0.5%	0.3%

Table 3. Percentage Change in Transactions for Key Oregon Transportation Variables

	Actuals				Forecast						
	CY 13	CY 14	CY 15	CY 16	CY 17	CY 18	CY 19	CY 20	CY 21	CY 22	CY 23
MOTOR VEHICLE FUELS (GALLONS)	1.0%	1.4%	4.1%	4.3%	1.0%	1.3%	0.6%	-0.0%	-0.2%	-0.3%	-0.3%
ORIGINAL CLASS C LICENSES	9.7%	7.8%	10.3%	3.4%	-4.8%	-3.1%	-1.3%	-0.5%	0.0%	0.4%	0.5%
PASSENGER VEHICLE REGISTRATIONS	0.6%	1.3%	3.4%	2.6%	0.5%	1.1%	-0.2%	0.7%	-0.3%	0.5%	-0.1%
TITLE TRANSFERS	2.5%	4.4%	1.3%	0.9%	1.4%	0.8%	-0.2%	0.2%	0.1%	0.0%	0.0%
TRUCKING ACTIVITY (WEIGHT-MILE)	3.7%	4.2%	4.1%	1.9%	1.9%	1.8%	0.9%	1.0%	0.6%	0.6%	0.5%

DMV

DMV has the largest number of transactions to forecast but only a handful have significant impacts on revenue.

The Driver and Motor Vehicle Services Division (DMV) is responsible for administration of driver and motor vehicle related activities. Revenues collected from the fees charged for the various DMV activities flow into the State Highway Fund, the Transportation Operating Fund and into other funds administered by ODOT divisions such as Public Transit and Passenger Rail. Additionally some fees net of costs are transferred to outside entities. For example, RV-related fees are transferred to the Oregon Parks and Recreation Department. Lastly, revenues remaining after transfers and costs are deducted are apportioned to cities and counties statewide for local road repair, maintenance and construction.

The DMV forecast is produced at the transaction level and aggregated to the summary level. The transactions are grouped into three different business lines: Vehicle, Driver, and Business Regulation. The Vehicle program area contains the transactions related to legal ownership and operation of a vehicle, including titling, plates, registrations and permits. The Driver program contains the transactions related to the legal right to operate a vehicle, including permits, licenses, endorsements and the associated tests to obtain these rights to drive. The Business Regulation program is tasked with ensuring the businesses that sell vehicles in Oregon are properly licensed along with those that dismantle and transport vehicles.

In total the DMV forecast contains over 240 individual product transactions and over 100 different forecast equations. However, most of these transactions have little significant impact on the overall forecast as their volumes and fee levels are small. Of the total number of transactions, over 90 percent of the revenue is collected by about 10 DMV transactions. Passenger vehicle registrations alone account for almost 50 percent of all revenue collected by DMV. Other significant contributors are truck and light trailer registrations, light vehicle trip permits, light title transactions, vehicle and driver related record fees and class C non-commercial licenses and renewals.

DMV activities are affected by various economic and demographic variables and provide a reflection of broad undercurrents in the state. The impacts from changes in population, employment, migration, and economic production are readily evident in many of the DMV data series. In general, DMV activities are more strongly affected by demographic than economic changes, and as such are generally more immune to cyclical swings typical with economic variables. Of the three business lines in DMV, the Vehicle and Business Regulation programs are most susceptible to economic influences, especially related to new vehicle titles.

DMV provides the gateway to access Oregon's transportation system and is heavily influenced by changes in population.

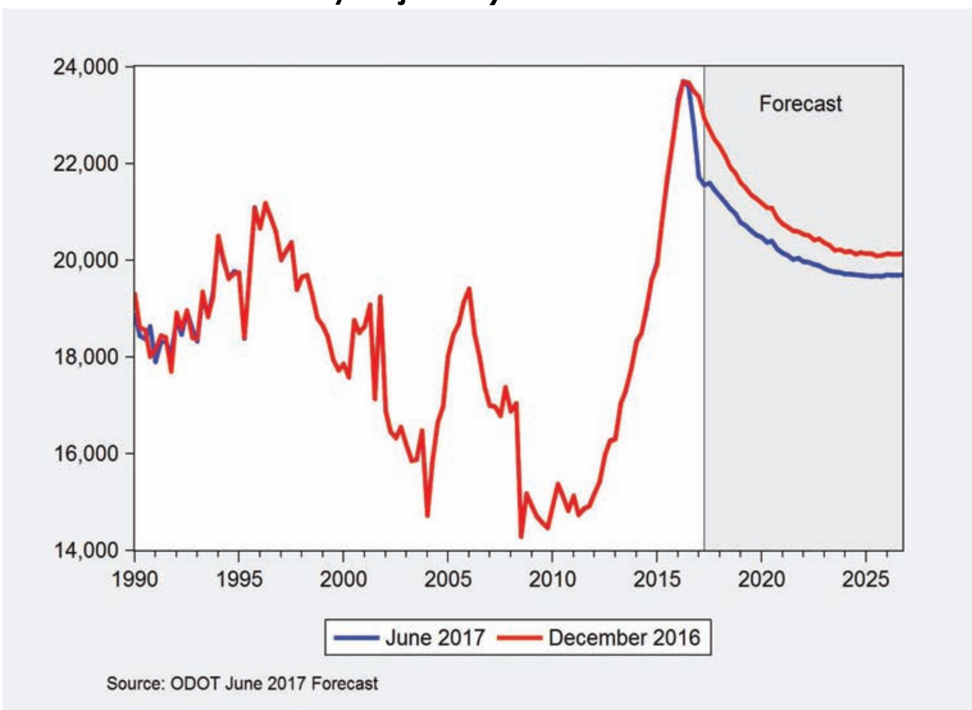
Currently DMV is in a transition period; after several years of strong growth DMV is likely headed toward several years of slightly positive growth. While the economy is still expanding, the rate is slowing. U.S. economic expansion generally means jobs are plentiful and movement across state borders is easier. States with higher quality of lives see increases in in-migration during these periods. As Oregon enjoys a high standard of living, its population is currently increasing, which impacts both the Driver and Vehicles programs in DMV.

In the prior outlook it appeared that in-migration rates had peaked, leading to slowing overall growth across DMV caused by changes in population. In addition, flattening new vehicle sales were expected to limit growth due to new vehicles added to the fleet. The charts and text below tell the story of how these factors impact DMV transactions beginning with surrendered licenses.

A surrendered license transaction occurs when a person moves into Oregon from another state surrendering their out-of-state license to DMV. This is the first contact with DMV for this group of

In 2016 the number of out-of-state surrendered licenses set a new all-time record at over 93,000.

Figure 3. Out-of-State Surrendered License - Forecast Comparison (quarterly frequency - seasonally adjusted)

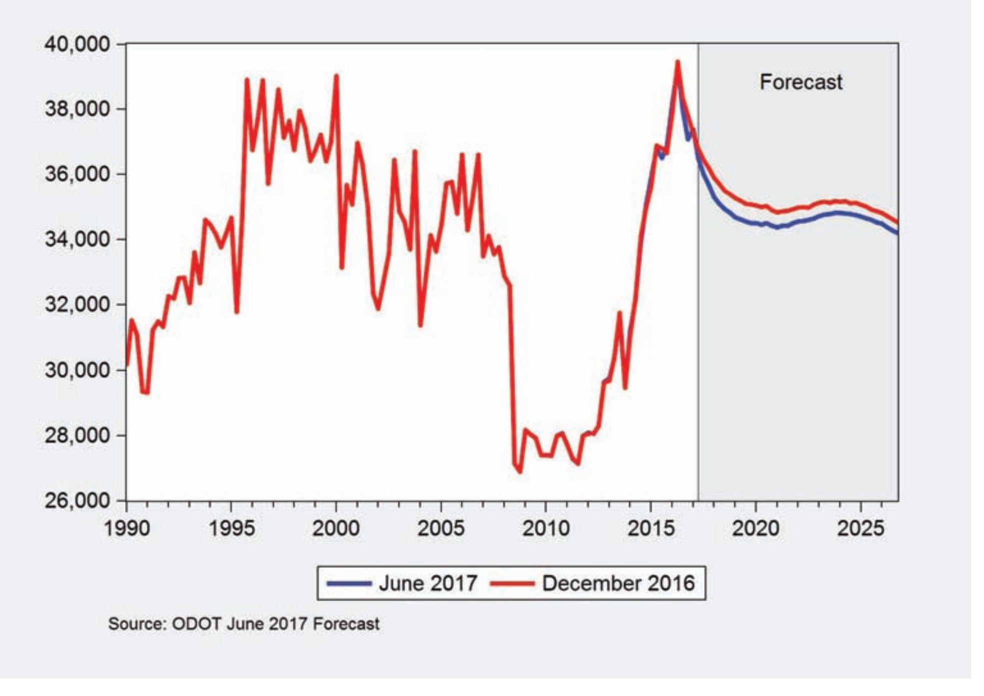


people. Unfortunately we lack additional information about who these people are, such as their age and location to which they are moving. Regardless, it is a valuable statistic that influences other DMV transactions. The above chart compares the surrendered license forecast to the prior outlook. Since 2012, surrendered license growth has accelerated and each forecast would predict that a peak was reached and growth would settle at a level between 18,000 and 20,000 licenses surrendered per quarter. Data since the last forecast shows that growth peaked at the end of 2016 and the rate has begun to drop. The current outlook is for the rate to continue falling leveling out at about 20,000 per quarter.

As people move into Oregon this starts a chain reaction of transactions in DMV, beginning with getting an Oregon driver license.

The impact that surrendered licenses have on other DMV transactions begins first with non-commercial class C licenses. As an individual moves into Oregon and surrenders their old license, they get a new Oregon issued license. The chart below compares the current forecast to the prior one. As the chart shows, license sales bottomed out in 2011 with about 110,000 licenses sold that year before growing rapidly in a very similar pattern to the surrendered license chart above. Following the pattern in surrendered licenses, growth seems to have peaked in 2016 at over 150,000 sold, getting us back to our peak from the mid to late 1990's when technology firms were expanding rapidly and hiring outside talent.

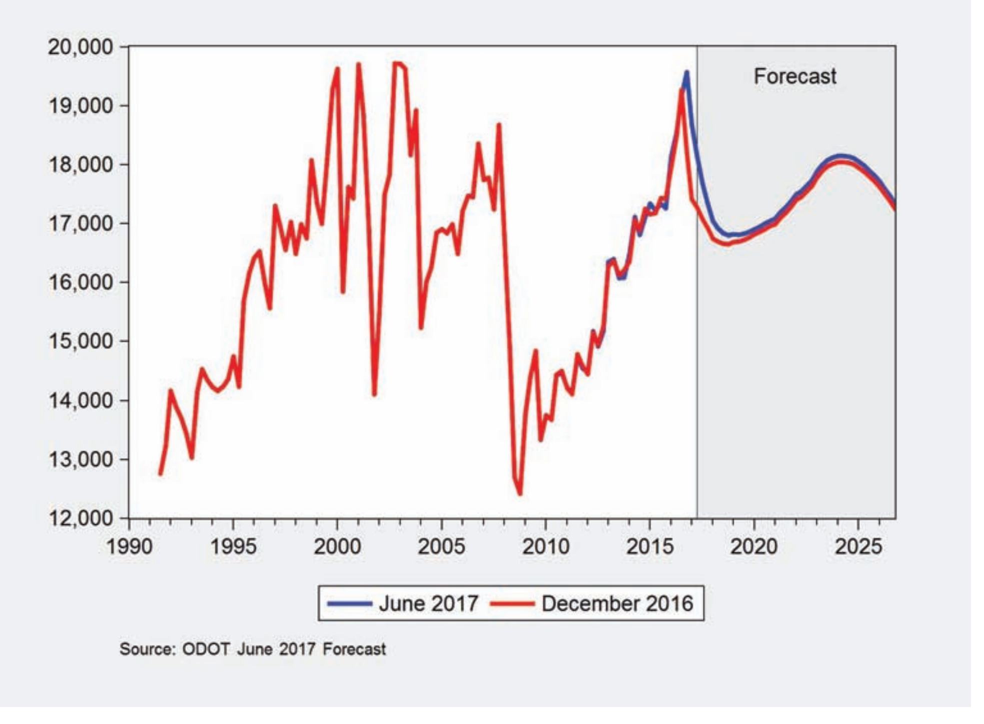
Figure 4. Original Class C Non-Commercial License - Forecast Comparison (quarterly frequency – seasonally adjusted)



Not only have we been seeing an increase in license sales but young people are also getting their permit in greater numbers.

The other factor influencing the growth in driver licenses is instructional permits. Beginning in March of 2000, young adults under the age of 18 looking to obtain their driver license must first get their permit and complete 50 hours of certified driving experience. Prior to this, the instruction permit was only required for drivers under 16. As the chart shows, the recession and possibly legal presence legislation had a negative impact on permit sales. As the economy recovered so has permit sales, with growth accelerating over the last few quarters.

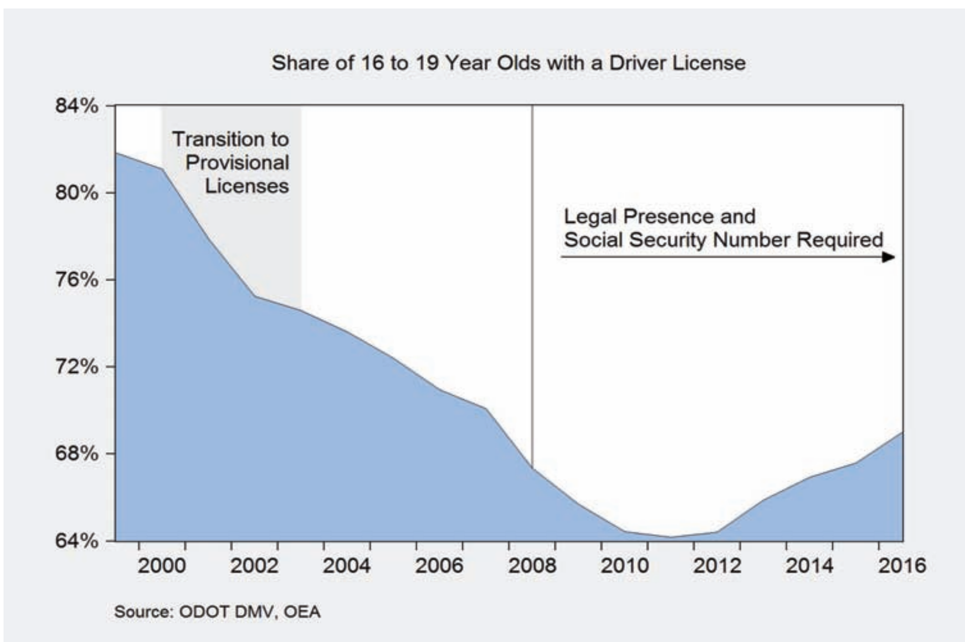
Figure 5. Non-Commercial Instructional Permits - Forecast Comparison (quarterly frequency – seasonally adjusted)



Another factor increasing the Driver program transactions is that over the last few years we've seen an increase in the share of young people getting their driver license. In 1999 about 83 percent of youth aged 16 to 19 had a driver license. As we move forward in time that percentage has fallen substantially to just over 64 percent by 2011. Part of the reason for the decline was due to legislative action, with the creation of the provisional license program and then the proof of legal presence requirement. But even after these legislative actions the share continued to decline. As the economy recovered things have slowly turned around, and by the end of 2016 the percentage of this age group with a license has increased to 69 percent. How long this increase will continue is uncertain as it will depend on what is causing these young people to drive again. But as the economy is expected to continue expanding at a solid rate through at least 2017, we expect at least another year or two of increase, adding to the impact on DMV's workload.

Additionally the share of teens getting their license is growing again; will this continue into the future?

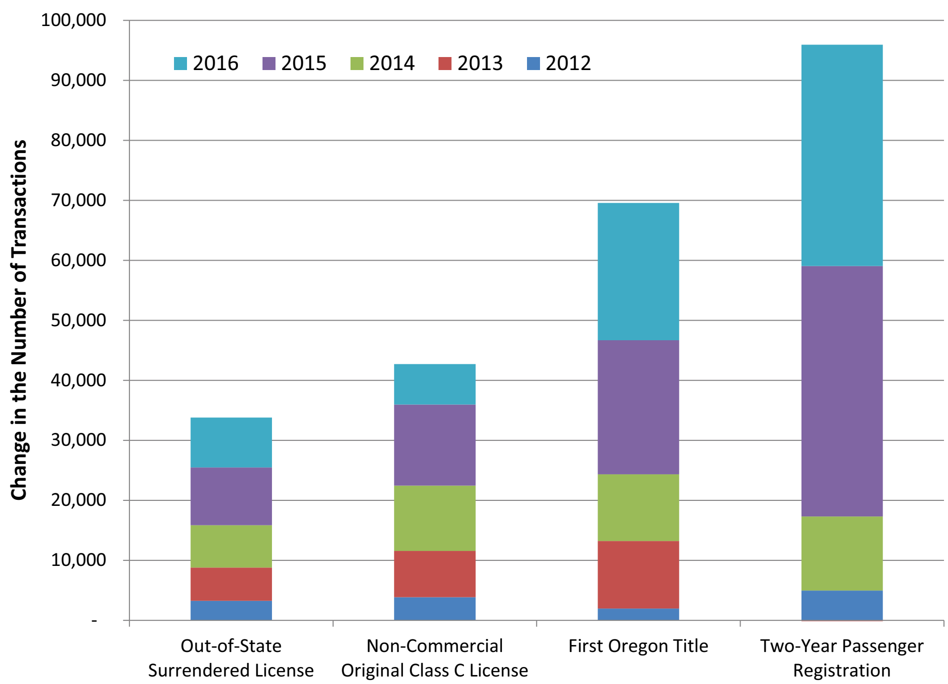
Figure 6. Share of 16 to 19 Year Olds with a Driver License



This increased workload from in-migration and from existing Oregon residents impacts the Vehicle program as well. When someone surrenders their license they likely have a vehicle they want to legally title and register in Oregon. What starts out as a single transaction can end up producing multiple transactions within DMV. The chart below shows this effect, where a surrendered license leads to, at a minimum, a non-commercial license along with one or more vehicle transactions.

As people move to Oregon they generally bring with them two or more vehicles per household.

Figure 7. Impact of In-migration on DMV transactions (annual frequency)

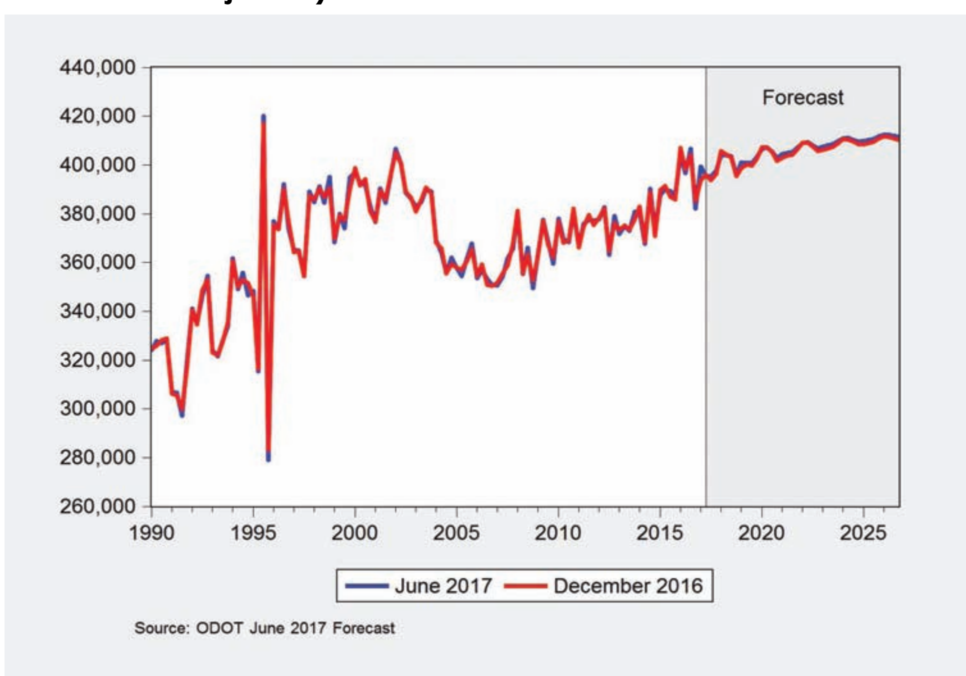


Source: ODOT June 2017 Forecast

While having an Oregon title provides documented ownership of a vehicle, to be driven legally on the road the vehicle needs to be registered. New vehicle registration lasts four years, while used vehicles brought into the state or vehicles already registered in Oregon renewing their registration register for two. The two year registration forecast, which accounts for over 40 percent of total DMV revenue, is shown below. It is primarily impacted by the existing fleet as it renews, but strong in-migration is also causing a pronounced increase in registrations. The chart below shows a spike in registrations during the first quarter of 2016 that continues through the third quarter of 2016. Growth has slowed in recent quarters as expected and the forecast expects growth to average 0.4 percent per year.

There are over 3.5 million registered passenger vehicles in Oregon.

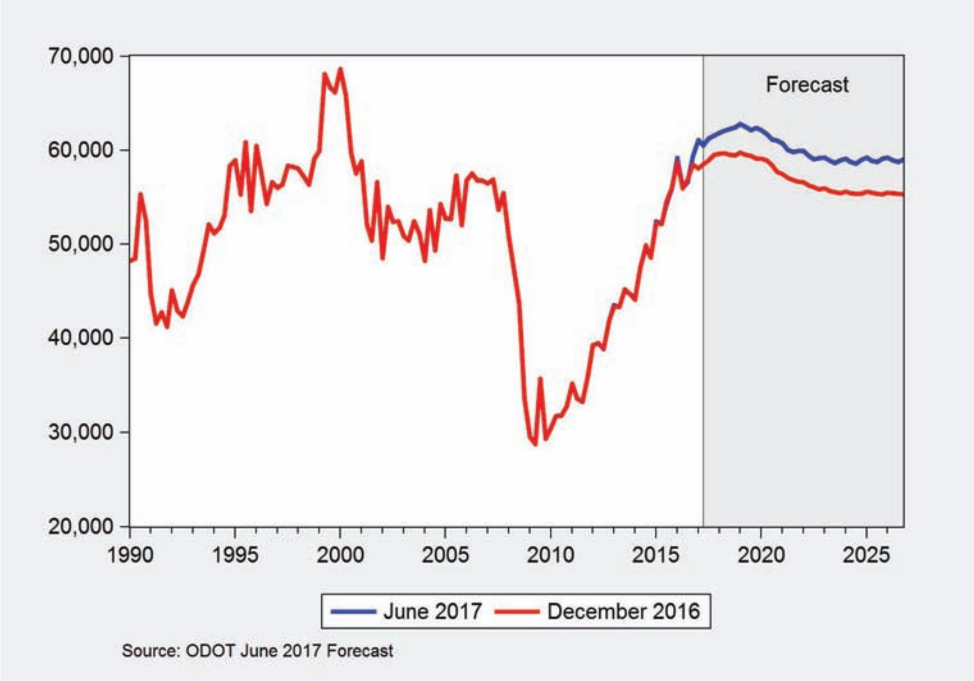
Figure 8. Two-Year Passenger Vehicle Registrations - Forecast Comparison (quarterly frequency – seasonally adjusted)



In-migration also creates a direct impact on DMV revenues through new vehicle sales. The recession created pent-up demand for new vehicle sales, leading to consistent growth between 2012 and 2015 in light vehicle sales. In the prior forecast, growth was expected to flatten out over the next couple years before slowly declining. Based on updated national sales forecast data and stronger than expected sales in the first quarter of 2017, the current forecast calls for slight growth over the next couple years before declining. The basic forecast shape remains the same as in the prior outlook with the unexpected increase in 2017 shifting the curve up.

The uptick in new vehicle sales recently is helping boost DMV revenues over the prior forecast.

Figure 9. New Light Vehicle Titles - Forecast Comparison (quarterly frequency – seasonally adjusted)



The combined impact of the economic expansion and population growth had a profound impact on DMV transaction growth, translating into a sharp increase in revenues. Table 4 shows this revenue impact as well as other changes impacting DMV. The gross revenue portion of Table 4 is grouped into three major components reflecting the primary revenue sources: vehicle registrations, driver licenses, and vehicle titles. Row one and three contain the Vehicle program revenue which is dominated by light vehicle title transfer and passenger vehicle registration revenue. Overall, DMV gross revenues growth is expected to slow considerably in the coming years as the economy slows leading to reduced rates of in-migration and ultimately slowing transaction volumes for the Vehicle and Driver programs.

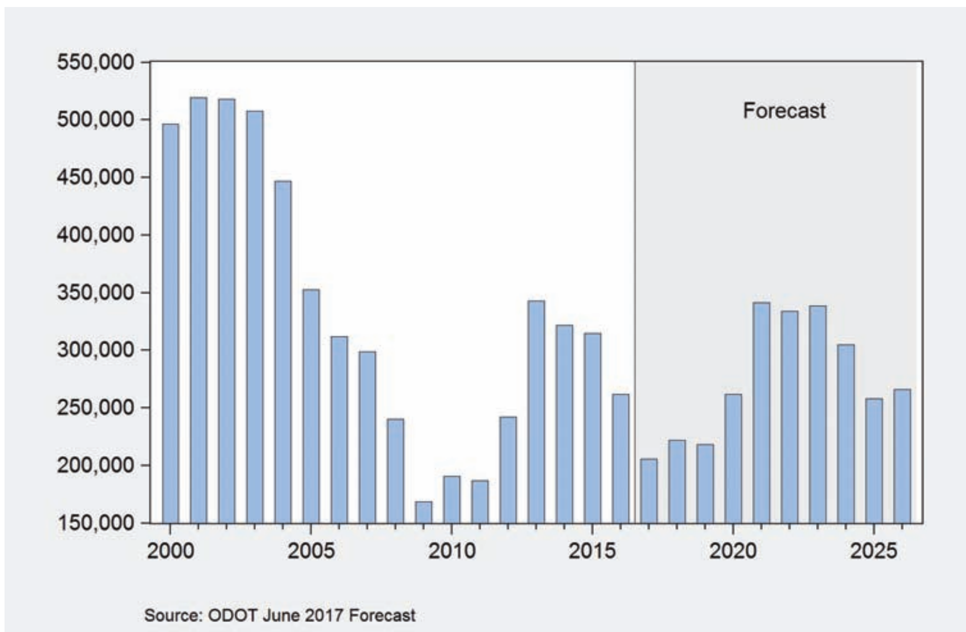
The driver license renewal cycle is quite severe ranging from a low of 170,000 in 2009 to a high of 240,000 in 2013.

Driver revenue includes original issuance, renewal, and replacement of commercial and non-commercial licenses and permits, testing fees and other associated fees. Gross revenues are shown in row 2, and despite strong sales of new licenses and endorsements, revenues are expected to fall in the coming years due to the renewal cycle of the non-commercial licenses. For example, as shown below the large increase in 2013 is from licenses renewed for eight years beginning in October of 2004 and expiring in October of 2012. The number of eight-year renewals peaked in early 2005, and fell steadily through 2008. This is the dominant factor for the decline in revenues in FY17 and FY18 and the subsequent increase in FY21 and FY22. While this cycle will continue to repeat itself into the future, growth in revenues controlling for this fluctuation will depend on the renewal rate of license holders.

Licenses that were issued/renewed in October of 2000 or later were issued/renewed for an eight year period instead of the previous four year period. These licenses began expiring in October of 2008. What the average renewal rate would be from this shift to an eight year cycle, was, and still is, a relevant consideration. The current renewal rate is about 74 percent is higher than our original expectation of 63 percent, and has been increasing over the last couple years. This increase could be partly related to the economic expansion as people may have a reason to renew for employment purposes. It might also be possible that individuals, previously unable to meet the increased`v documentation requirements from 2008's SB 1080 , have now acquired the correct documentation and have adjusted to the new way of doing business with DMV.

Prior to creation of the 8 year licenses, renewals were more consistent, averaging about 500,000 per year.

Figure 10. Class C Non-Commercial Driver License Renewals



Rows 6 through 11 and 13 through 15 of Table 4 give the costs associated with administration of DMV and transfers of the DMV revenues out to support JTA and OTIA projects and for other stat-utory purposes.

DMV program costs primarily change when personal services costs change or programs are phased in or phased out. ODOT's approved budget for 2015-17 includes expenditure authorization for two major packages, the first phase of a DMV computer system modernization project, and a project allowing DMV to accept debit and credit card payments from customers.

With almost half of the $90 million in planned system upgrade expenditures occurring during the 2017-19 biennium, net DMV revenues will drop.

The larger of the two projects is the computer system upgrade. This project replaces a system created in the 1960's with one using current technologies, and is estimated to cost $90 million over 10 years. During the 2015 legislative session the legislature decided to fund the project one phase at a time and allocated $30.4 million in the 2015-17 biennium. However, DMV estimates they will likely spend less than that amount and the 2017-19 agency requested budget adjusts the 2015-17 expenditures to reflect this expected reduction for a total of $16 million. This pushes the estimated expenditures in 2017-19 up to $41 million, which drives the big increase in costs for 2017-19 in the forecast. Currently 2019-21 expenditures are expected to be $18 million and $10 million in 2021-23.

The smaller of the two projects adds the hardware and the merchant fees to allow the use of debit and credit cards in field offices. This project has a budgeted amount of $6.3 million in the 2015-17 biennium. DMV expects actual expenditures to be slightly less at $4.8 million in 2015-17, increasing to $5.8 million in the 2017-19 biennium and holding at that rate going forward, which are the numbers used in this forecast and match the prior forecast.

Net DMV revenues, as represented in row 12, show the impact of the DMV projects on revenue growth as well as general inflation impacts on DMV programs. The revenue increase almost kept up with the expenditure increases in FY16, but going forward as revenue growth slows, the computer system upgrade project cost changes are driving the increases and decreases in annual net revenues.

Row 5 summarizes the change in gross revenues from the previous forecast. Overall, there is an expected cumulative increase of $22.4 million from FY17 to FY23. The change is primarily driven by the uptick in new vehicle sales, leading to an increase in both new titles and registrations.

Row 9 has been added to show the incremental revenue increase from the electronic driver records sold to disseminators who sell driver records to businesses like insurance companies. The initial forecast estimated incremental revenues would average about $5.6 million per year, and the first full fiscal year of revenue in FY13 matched that estimate. Sales softened through FY15 and are expected to remain fairly constant through the forecast.

Demand for products are sensitive to price changes, even seemingly mandatory products can be affected.

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

		Actual			Forecast						
		FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
1	VEHICLE REGISTRATIONS	$175.9	$181.1	$187.4	$192.2	$196.4	$197.0	$198.0	$197.1	$197.7	$197.1
2	DRIVER LICENSES & OTHER	$34.6	$35.4	$35.8	$32.7	$31.4	$31.3	$31.3	$34.2	$35.0	$35.1
3	TITLE, PLATE & OTHER	$99.1	$105.1	$111.9	$114.1	$114.9	$115.3	$115.0	$114.4	$114.1	$113.9
4	**TOTAL DMV COLLECTIONS**	**$309.6**	**$321.6**	**$335.0**	**$339.0**	**$342.7**	**$343.6**	**$344.3**	**$345.7**	**$346.8**	**$346.1**
5	Change from Previous Forecast	$0.0	$0.0	$0.0	$1.8	$3.0	$3.6	$3.2	$3.5	$3.5	$3.7
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($78.4)	($80.0)	($92.6)	($94.4)	($110.7)	($113.0)	($102.2)	($104.3)	($101.1)	($103.2)
7	TRAFFIC SAFETY TRANSFER	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)	($0.7)
8	DEPARTMENT OF EDUCATION TRANSFER	($0.1)	$0.0	($0.1)	$0.0	($0.1)	$0.0	($0.1)	$0.0	($0.1)	$0.0
9	E-GOV RECORDS INCREMENTAL REVENUE TRANSFER	($5.3)	($5.2)	($5.3)	($5.3)	($5.2)	($5.1)	($5.1)	($5.1)	($5.1)	($5.1)
11	ODOT CENTRAL SERVICES ASSESSMENT	($24.2)	($24.7)	($27.7)	($28.3)	($30.1)	($30.7)	($31.1)	($31.7)	($32.1)	($32.7)
12	**NET DMV REVENUE**	**$201.2**	**$211.3**	**$208.8**	**$210.5**	**$196.0**	**$194.2**	**$205.2**	**$204.0**	**$207.8**	**$204.4**
13	REVENUE SET-ASIDE TO OTIA I & II - memo	($7.0)	($7.0)	($7.0)	($6.9)	($6.9)	($6.8)	($6.8)	($6.9)	($6.9)	($6.9)
14	REVENUE PLEDGED TO OTIA III - memo	($75.5)	($78.9)	($82.1)	($83.2)	($84.0)	($84.2)	($84.4)	($84.1)	($84.2)	($84.0)
15	REVENUE DUE TO JTA (HB 2001) - memo	($99.7)	($104.1)	($109.1)	($111.2)	($112.2)	($112.6)	($112.9)	($112.4)	($112.4)	($112.2)

		Actual	Forecast			
		BI 13-15	BI 15-17	BI 17-19	BI 19-21	BI 21-23
1	VEHICLE REGISTRATIONS	$357.0	$379.5	$393.5	$395.1	$394.8
2	DRIVER LICENSES & OTHER	$70.0	$68.5	$62.6	$65.5	$70.1
3	TITLE, PLATE & OTHER	$204.2	$226.0	$230.2	$229.4	$227.9
4	**TOTAL DMV COLLECTIONS**	**$631.2**	**$674.0**	**$686.3**	**$690.0**	**$692.9**
5	Change from Previous Forecast	$0.0	$1.8	$6.6	$6.7	$7.2
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($158.4)	($187.0)	($223.7)	($206.5)	($204.3)
7	TRAFFIC SAFETY TRANSFER	($1.0)	($1.1)	($1.2)	($1.3)	($1.4)
8	DEPARTMENT OF EDUCATION TRANSFER	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)
9	E-GOV RECORDS INCREMENTAL REVENUE TRANSFER	($10.5)	($10.5)	($10.3)	($10.2)	($10.1)
11	ODOT CENTRAL SERVICES ASSESSMENT	($48.8)	($56.0)	($60.8)	($62.8)	($64.8)
12	**NET DMV REVENUE**	**$412.4**	**$419.3**	**$390.2**	**$409.2**	**$412.2**
13	REVENUE SET-ASIDE TO OTIA I & II - memo	($14.0)	($13.9)	($13.7)	($13.6)	($13.8)
14	REVENUE PLEDGED TO OTIA III - memo	($154.4)	($165.4)	($168.2)	($168.5)	($168.2)
15	REVENUE DUE TO JTA (HB 2001) - memo	($203.8)	($220.3)	($224.8)	($225.3)	($224.6)

Motor Carrier

The weight-mile tax was created in 1933 based on loaded weight and number of miles traveled each year.

Trucking activity and the freight industry contribute to the State Highway Fund through the weight-mile tax, heavy vehicle registration fees, and other Motor Carrier fees. Changes in economic conditions within Oregon and the nation as a whole influence each of these revenue sources. State and federal legislation can also impact trucking activity.

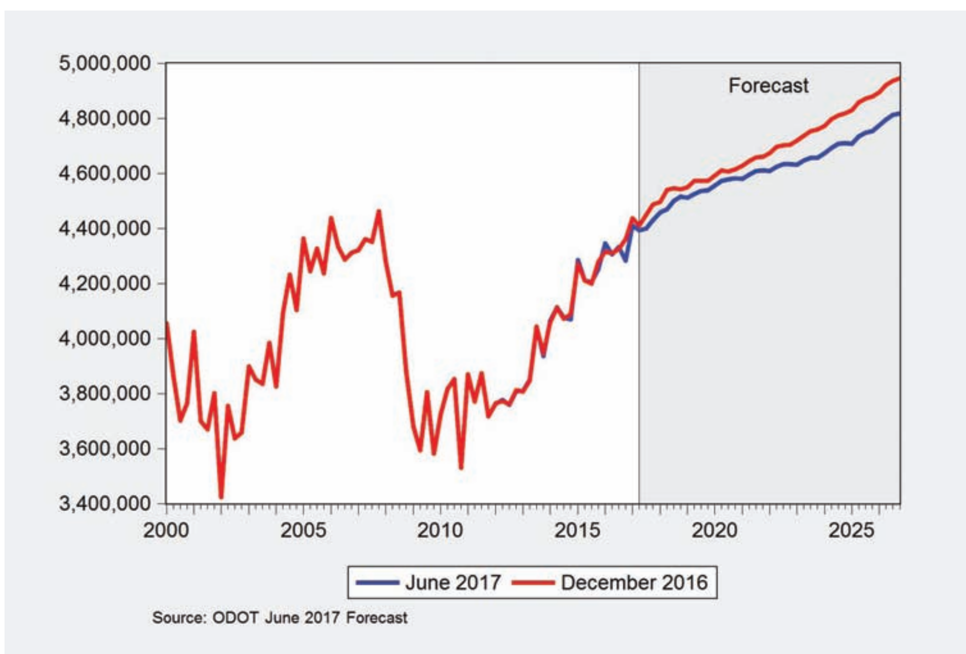
The weight-mile tax is the largest source of trucking-related revenue. This highway use tax applies to trucks with a gross weight over 26,000 pounds. The tax paid by a motor carrier varies with the weight of the vehicle, the number of miles traveled, and the axle configuration. The carriers generally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

An estimate of weight-mile "transactions" provides the basis for the current forecast of weight-mile revenues. This methodology, also used for prior forecasts, constructs a measure of weight-mile transactions by normalizing revenue by the tax rate paid for a typical heavy vehicle. The forecasting model regresses the normalized weight-mile transactions on Oregon construction and durable goods employment, real fuel prices, real consumer spending on durable goods, and industrial production and sales of heavy trucks in order to estimate weight-mile transactions. The variables in the model that have the most significant impact on the forecast are real consumer spending on durable goods and Oregon construction employment. Both of these variables increased over the prior forecast and have growth rates that remain positive but slow over time, pointing to a forecast for weight-mile with slowing but positive growth rates.

Combined, these variables produce the forecast shown below. Compared to the prior forecast there is only a small change in the near term and weaker growth in the later years. The forecast is lower than the prior forecast due to the over-prediction of that

While weight-mile is expected to generally grow overall in the coming years, the business cycle will influence the shape of the forecast.

Figure 11. Weight-Mile Transactions - Forecast Comparison



forecast over the last two quarters. The cause of this over-prediction is not well understood but is being investigated.

Row 1 of Table 5 shows the amount of weight-mile and flat fee revenues collected each fiscal year. In 2016, weight-mile and flat-fee revenues totaled $293.2 million, increasing 3.3 percent over 2015. As discussed above, growth in consumer spending and construction employment are the driving forces pushing weight-mile revenues higher in the forecast, albeit at slowing rates. Growth in 2017 and 2018 is expected to average 1.9 percent. Growth is expected to slow to just less than 1 percent in the later years, closely matching cooler employment and population growth.

With no growth in heavy registrations, continually increasing weight-mile revenues imply the existing trucks are driving more miles.

Row 2 of Table 5 shows heavy vehicle registration fee revenues. It includes both International Registration Plan (IRP) registration fees paid by interstate carriers and the Commercial registration fees paid by intrastate carriers. Together these heavy vehicle registration fees totaled $41.3 million in FY16, a decrease of $1.5 million over FY15. Revenues are consistent for these sources over time, and going forward revenues are expected to hold between $42-43 million per year.

An interesting result from the continued growth in weight-mile while registration revenue remains fairly flat is that these extra miles need to be absorbed by the existing fleet. This implies there is excess capacity, which at some point will be filled resulting in an increase in registration revenue.

Row 3 shows the revenues from Road Use Assessment Fees (RUAF), permits, passes, and credentials such as weight receipts and cab cards. This row also includes OTIA III Local Fund fee increments from the commercial driver permits, licenses, and tests, along with weight receipts. Overall, total revenue from these heavy vehicle sources was $10.1 million in FY16, a $0.8 million de-

Weaker weight-mile revenues are driving the change from the prior forecast for Motor Carrier.

crease over FY15. Beyond FY15, revenue is expected to drop in FY17 to about $9.5 million and hover in the low $9 million range in the outer years of the forecast.

Row 4 reports the total gross revenues for the Motor Carrier Division and row 5 shows the change from the prior forecast. Overall gross revenues are expected to grow at a 1.0 percent annual rate through FY23, a 0.2 percentage point decrease over the prior forecast. Overall, the cumulative change from the prior forecast is $26.4 million lower over FY17 to FY23, a result of the slower growth in weight-mile.

Row 9 reports the revenues net of collection costs. Net revenues are expected to grow throughout the forecast. However, costs are expected to grow slightly faster than revenues leading to a 0.9 percent overall annual growth rate in net revenues from FY17 to FY23, 0.1 percentage point lower than gross revenues.
Rows 10 through 12 highlight the amounts Motor Carrier contributes to the OTIA and JTA programs, either as a portion of the OTIA I set-aside shown in row 10 or as the incremental revenues from the OTIA III and JTA programs shown in rows 11 and 12.

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

		Actual			Forecast							Actual	Forecast			
		FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	BI 13-15	BI 15-17	BI 17-19	BI 19-21	BI 21-23
1	WEIGHT-MILE TAX	$275.8	$283.9	$293.2	$297.7	$304.5	$309.6	$312.1	$314.4	$316.4	$317.9	$559.7	$590.9	$614.1	$626.6	$634.2
2	IRP & COMMERCIAL VEHICLE REGISTRATIONS*	$41.8	$42.8	$41.3	$43.1	$41.6	$42.0	$42.1	$42.2	$42.5	$42.6	$84.6	$84.5	$83.6	$84.4	$85.1
3	RUAF, PERMITS, PASSES & CREDENTIALS**	$9.5	$10.9	$10.1	$9.5	$9.1	$9.1	$9.2	$9.3	$9.4	$9.5	$20.3	$19.5	$18.2	$18.5	$18.9
4	**TOTAL MCTD COLLECTIONS**	**$327.1**	**$337.6**	**$344.6**	**$350.3**	**$355.1**	**$360.8**	**$363.5**	**$366.0**	**$368.2**	**$370.0**	**$664.7**	**$694.9**	**$715.9**	**$729.5**	**$738.2**
5	Change from Previous Forecast	($0.2)	$0.0	$0.0	($2.1)	($4.4)	($3.2)	($2.9)	($3.2)	($4.6)	($6.0)	($0.1)	($2.1)	($7.6)	($6.1)	($10.6)
6	COLLECTION/ADMINISTRATION & PROGRAM COST	($29.7)	($30.3)	($31.2)	($31.8)	($32.8)	($33.4)	($33.7)	($34.4)	($34.7)	($35.4)	($60.0)	($63.0)	($66.2)	($68.1)	($70.1)
7	IFTA BUDGETED EXPENDITURES***	$1.1	$1.1	$1.1	$1.1	$1.1	$1.1	$1.1	$1.1	$1.1	$1.1	$2.2	$2.2	$2.2	$2.2	$2.2
8	ODOT CENTRAL SERVICES ASSESSMENT	($9.7)	($9.9)	($8.8)	($9.0)	($9.9)	($10.1)	($10.3)	($10.5)	($10.6)	($10.8)	($19.5)	($17.7)	($20.1)	($20.7)	($21.4)
9	**NET MCTD REVENUE**	**$288.8**	**$298.5**	**$305.7**	**$310.6**	**$313.5**	**$318.3**	**$320.6**	**$322.2**	**$324.0**	**$324.9**	**$587.4**	**$616.3**	**$631.8**	**$642.8**	**$648.9**
10	REVENUE SET-ASIDE TO OTIA I & II - memo	($9.5)	($9.6)	($9.4)	($9.4)	($9.4)	($9.4)	($9.4)	($9.4)	($9.4)	($9.4)	($19.0)	($18.8)	($18.8)	($18.8)	($18.9)
11	REVENUE PLEDGED TO OTIA III - memo	($29.0)	($29.9)	($30.4)	($31.1)	($31.2)	($31.6)	($31.9)	($32.1)	($32.3)	($32.5)	($58.9)	($61.5)	($62.8)	($64.0)	($64.8)
12	REVENUE DUE TO JTA (HB 2001) - memo	($76.7)	($78.8)	($79.8)	($81.6)	($82.1)	($83.4)	($83.9)	($84.4)	($84.9)	($85.3)	($155.4)	($161.4)	($165.5)	($168.3)	($170.2)

*IRP: International Registration Plan.

**RUAF: Road Use Assessment Fees.

***IFTA: International Fuel Tax Agreement.

Motor Fuels

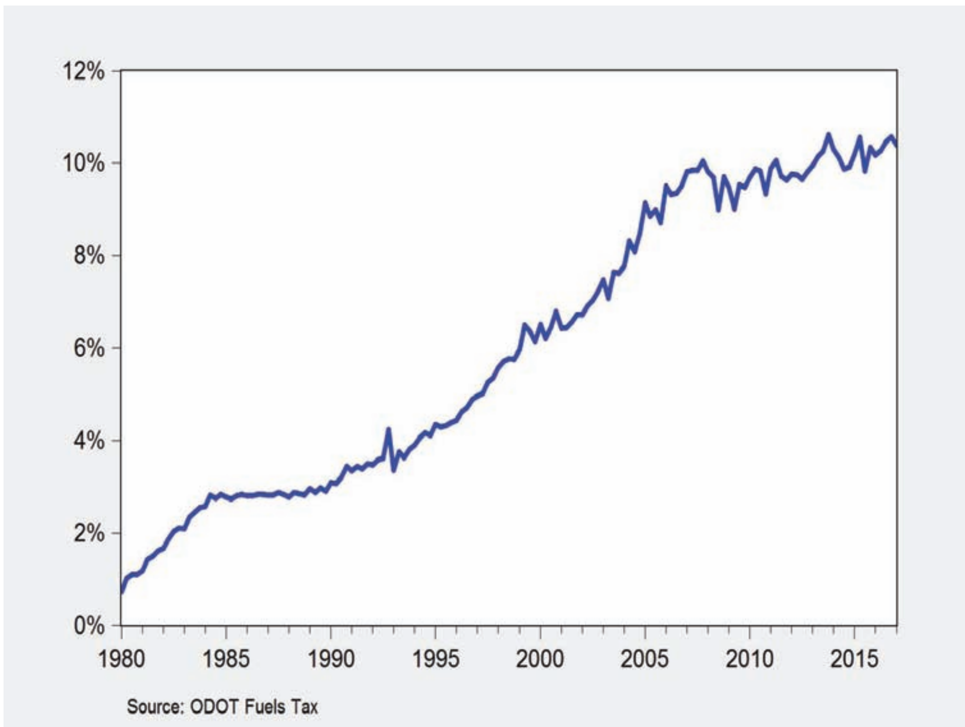
Motor Fuels revenue is derived from the tax paid on the sale of both motor vehicle fuels (gasoline) and use fuels (predominately diesel). The distinction is important because the tax is collected in different parts of the supply chain. Gasoline is taxed at the point of first sale, when the dealer or distributor purchases the fuel from the terminal. Diesel on the other hand is taxed later in the supply chain, at the retail level. This gives retailers like card lock stations the option of not imposing the tax for heavy trucks that pay the weight-mile tax instead of the motor fuels tax. The separation between when a vehicle pays the fuels tax or pays the weight-mile tax is at a weight of 26,000 pounds. Generally a vehicle up to 26,000 pounds will pay the fuels tax and register their vehicle through DMV, while vehicles over this weight will pay the weight-mile tax and register their vehicle through Motor Carrier.

Oregon implemented the nation's first gasoline tax in 1919 at 1 cent per gallon.

Gasoline comprises the largest share of taxed fuel at roughly 90 percent, while diesel comprises the remaining 10 percent. This has not always been the case: in the past, taxable diesel represented as low as one percent of sales. However as more vehicles required to pay the fuels tax switch to diesel, it has been steadily increasing its share. An interesting feature of this diesel data is that it includes both light passenger vehicles and commercial vehicles subject to the fuels tax. We estimate the share of taxable diesel that is commercial based on DMV registration data is close to 30 percent.

As more vehicles that pay the fuels tax have diesel engines diesel's share of taxable fuel sales has grown steadily over the years.

Figure 12. Use Fuel Share of the Tax Paid Total Motor Fuels Gallons



Weighing on the future viability of the motor fuels tax as a stable revenue source is the fuel efficiency of the vehicles paying the fuels tax. For many years through the 1990's and early 2000's the fuel efficiency of the light vehicle fleet did not significantly change, as fuel prices remained low and vehicle manufacturers had no real incentive to improve the fuel economy of the vehicles they produced. However, in 2007 legislation was passed establishing new fuel efficiency standards for light vehicles in a two phase approach. Phase 1 impacts model year 2012-2016 vehicles setting a fuel efficiency target of 34.1 miles per gallon (MPG) by model year 2016. Phase 2 builds on this by continuing to expect improvements with each model year reaching a mod-

Increasing CAFE standards aimed at reducing emissions will lead to light vehicles getting increasingly better fuel economy.

el year 2025 target of 54.5 MPG. The actual standard is expected to be 49.6 MPG by 2025, with the remaining 5 MPG equivalent reached through improvements in vehicle air conditioners. As the 54.5 MPG target is only required under ideal test conditions not fully representative of all driving conditions, the actual on-road average is expected to be closer to 38 MPG. Still, at a minimum this is an improvement of over 10 miles per gallon compared to the previous standards.

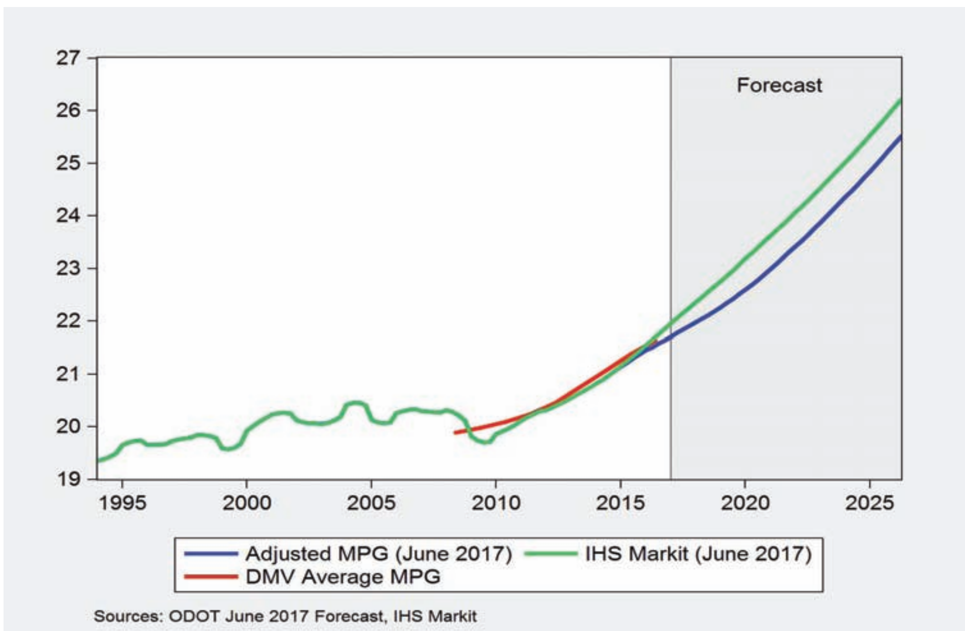
Currently, the EPA is reviewing the targets and the progress vehicle manufacturers have made so far. While it is possible that the EPA might alter or revoke the current standards, California has the authority to impose their own tougher standards. They have not wavered from their goals of continuing with their efficiency program. Since the vehicle manufacturers do not want to make different vehicles for more than one US market, it is reasonable to assume the current standards will remain in place.

While the new vehicle fuel economy is expected to increase rapidly over the next 10 years, stock fuel efficiency will grow much more slowly. With Oregon's 3.5 million registered passenger vehicles, 140,000 new registrations a year, and an average vehicle age of 12 years, it will take quite some time for these new higher efficient vehicles to replace the older less fuel efficient ones. Additionally, the health of the economy impacts vehicle purchase decisions. Prior to the recession the average vehicle age was only 10 years, but during and after the recession people have hung onto their vehicles for longer. This also could be due to the increased durability of newer cars. When people do replace their older vehicle, the type of vehicle in which they replace their older one will impact the overall fleet fuel economy. Are they replacing the older vehicle with one of the same class that is more fuel efficient or with a larger or smaller vehicle class? These decisions will mute or intensify the impact of the fuel efficiency improvement.

The chart below shows the history and forecast from the IHS Markit macroeconomic forecast, the Oregon DMV data and an adjusted forecast from IHS Markit to match the fuel efficiency growth of Oregon's light vehicle fleet. Prior to 2016, the average EPA combined fuel economy rating of light vehicles in Oregon closely matched the IHS Markit forecast. However, in 2016 the overall growth in fuel efficiency of the light vehicle fleet in Oregon has not kept up with the forecast. The blue line represents an adjustment to the IHS Markit forecast to compensate for the slower growth in Oregon.

The impact of the increasing fuel efficiency standards is evident in the Oregon data where in 2008 the average stock light vehicle mpg was under 20 and by 2016 is over 21.

Figure 13. Light Duty Vehicle Stock Fuel Efficiency Comparison



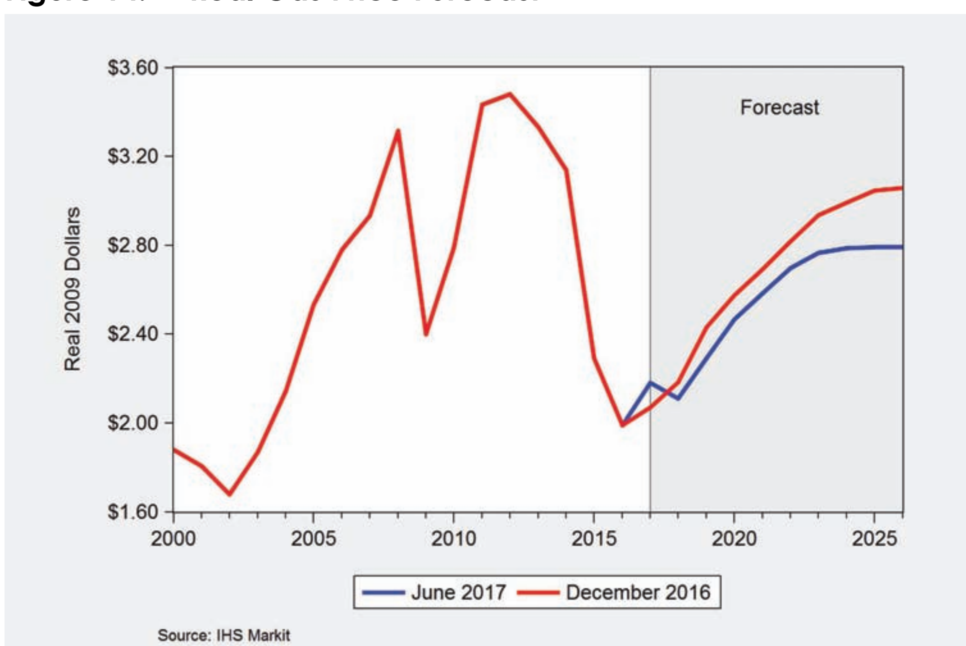
Consumption of motor vehicle fuel is generally considered a means to an end rather than an end itself. Because of this, the price of fuel is not as significant a consideration of whether a person will choose to drive as other considerations. However, the price of fuel impacts the disposable income of a person looking to drive, and at higher price levels has a greater impact on a decision to drive than at lower price levels.

Fuel prices have experienced a lot of volatility over the last decade compared to the stability of prior decades. This is due mainly to the run up in oil prices beginning in 2004, peaking in the summer of 2008. After falling briefly during the recession oil and fuel prices rose again and sustained elevated levels through the summer of 2014 before falling to levels we see today. Looking into the future, abundant crude oil stocks and production are expected to keep retail prices low in the near term. In the 2020 time frame, the current outlook is for national prices to slowly rise capping at about a $2.80 per gallon average in real dollars.

Table 6 shows the results of the motor fuels forecast. The current

Historically large oil inventories and mild global demand have allowed oil prices to remain low and are expected to stay low in the near term.

Figure 14. Real Gas Price Forecast

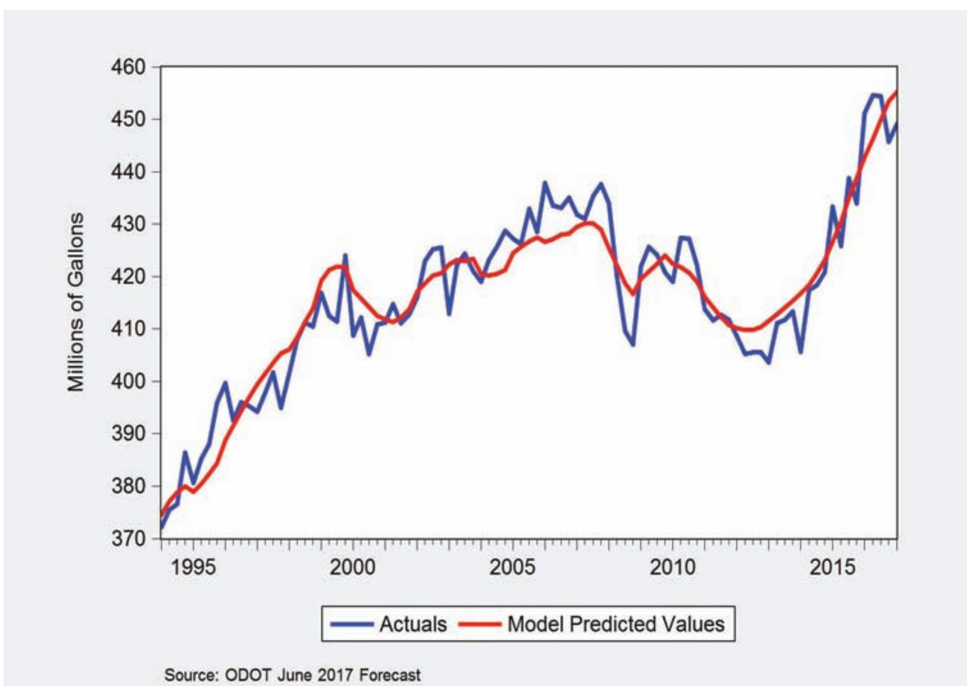


forecast model combines the use fuel and motor vehicle fuel to produce one forecast including both sources. Model variables include fuel efficiency, total Oregon nonfarm employment, stock of registered passenger vehicles in Oregon and the real price of gasoline. The model forecasts the quantity of taxable fuel consumed and is multiplied by the fuels tax rate to arrive at the gross revenues reported in row 1.

The forecast model provides an accurate prediction of the quantity of taxable gallons sold, assuming the model's exogenous variables are also accurately forecasted. The chart below shows both the predicted and actual values over time, revealing the ability of the model to generally predict the ups and downs associated with the change in fuel sales. As discussed above, the fuel

The motor fuels model closely follows the overall ups and downs of consumption over time.

Figure 15. Motor Fuels Gallons Model – Actuals vs. Model Predicted Values (quarterly frequency – seasonally adjusted)



A rebound effect means that an individual is likely to drive slightly more miles in a more fuel efficient vehicle.

efficiency variable is expected to have a significant impact on fuel sales in the future. The increasing CAFE standards will slowly increase the overall fleet fuel efficiency, enabling drivers to go further on the same amount of fuel. In a static environment holding all else constant, a ten percent increase in the fuel efficiency roughly equates to a nine percent decrease in consumption. However, there is a rebound effect associated with fuel efficiency where miles driven increase as fuel economy increases. This effect has been measured in the short-run at around 0.2 to 0.4 percent for a one percent increase in fuel efficiency. Adjusting for the rebound effect yields an estimated decrease in consumption of between five and seven percent for a ten percent increase in fuel efficiency.

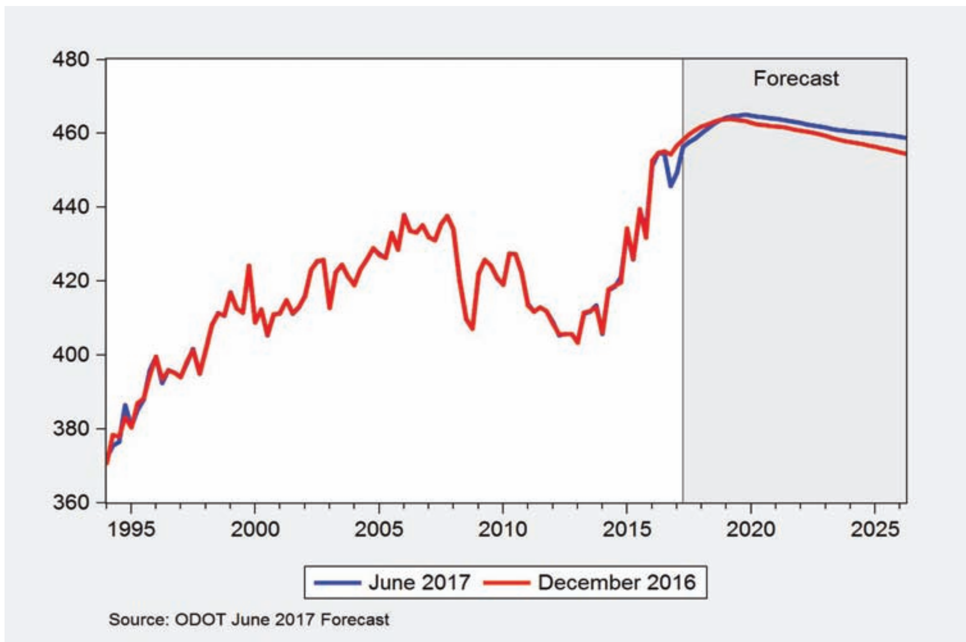
The sensitivity of the fuel efficiency variable over the estimation sample interval is estimated to be -0.48 with respect to fuel consumption. The means a one percent increase in fuel efficiency leads to a 0.48 decrease in consumption. For a ten percent increase in fuel efficiency this leads to a 4.8 percent decrease in fuel consumption, falling on the outer low end edge of the expected range above.

The chart below shows the current forecast compared to the prior forecast. Overall there is very little change in the forecast. The dip during the winter months is likely due to the unusually harsh winter. Taxable fuel sales growth is expected to continue peaking in 2019 and slowly declines in the out years. Of course with five forecasts between now and the expected peak in sales, there is a lot of room for adjustments. The strength of the economy and the pace of fuel efficiency increases in the light vehicle fleet will both have a strong impact on the sales in the future.

Row 2 of Table 6 shows the total gross revenue from the motor fuels taxes. 2016 finished with $529 million in gross revenues growing at a 4.2 percent rate, an increase of $21.5 million over 2015. 2017

As economic growth slows, fuel efficiency and slowly increasing fuel prices drag down overall consumption growth.

Figure 16. Gallons of Motor Fuels Tax Paid – Forecast Comparison



is on pace to add $11.4 million over 2016, growing at a 2.2 percent rate. However, as the economy cools, growth slows from 2.0 percent in 2018, to 0.9 percent in 2019, to slight negative growth beyond 2020.

Row 3 shows the change from the prior forecast. As noted above, there is very little change in the forecast. The slight negative change in 2016 and 2017 is primarily the result of the dip from the last two quarters.

Rows 4 through 13 lists the costs associated with the Fuels Tax program and the statutory transfers that occur prior to apportionment. Row 14 is a special memo row to show the impact of the B20 biofuels tax exemption program. Since the B20 fuel is tax exempt, it is not included in the gross revenue above and is included as a memo item only for tracking purposes.

Rows 16 through 18 highlight the amounts that the motor fuels tax contributes to the OTIA and JTA programs, either as a portion of the OTIA I set-aside shown in row 10 or as the incremental revenues from the OTIA III and JTA programs shown in rows 11 and 12. Note that the OTIA III legislation did not increase the motor fuels tax rate so the incremental amount is zero.

The fuels tax program is very efficient. Collection costs are only about 0.3% of total revenue collected.

Table 6. Highway Fund Revenue Collected by Fuels Tax (Millions of Current Dollars)

		Actual			Forecast						
		FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
1	MOTOR FUELS TAXES	$492.7	$507.5	$529.0	$540.4	$551.1	$556.2	$557.6	$556.8	$555.4	$553.9
2	**TOTAL FSB COLLECTIONS**	**$492.7**	**$507.5**	**$529.0**	**$540.4**	**$551.1**	**$556.2**	**$557.6**	**$556.8**	**$555.4**	**$553.9**
3	Change from Previous Forecast	$0.0	$0.0	$0.0	($6.4)	($2.1)	$0.2	$2.2	$2.6	$2.5	$2.7
4	COLLECTION/ADMINISTRATION COST	($1.5)	($1.5)	($1.8)	($1.8)	($1.9)	($1.9)	($1.9)	($2.0)	($2.0)	($2.0)
5	ODOT CENTRAL SERVICES ASSESSMENT	($0.2)	($0.2)	($0.2)	($0.2)	($0.4)	($0.4)	($0.4)	($0.4)	($0.4)	($0.4)
6	SNOWMOBILE TRANSFER	($0.7)	($0.6)	($0.7)	($0.6)	($0.6)	($0.6)	($0.6)	($0.6)	($0.6)	($0.6)
7	CLASS I ATV TRANSFER	($2.9)	($2.9)	($2.7)	($2.6)	($2.6)	($2.6)	($2.6)	($2.5)	($2.5)	($2.5)
8	MARINE BOARD TRANSFER	($5.0)	($4.1)	($4.2)	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)	($4.1)
9	CLASS II ATV TRANSFER	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.0)	($1.0)	($1.0)	($1.0)
10	CLASS III ATV TRANSFER	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)	($1.1)
11	CLASS IV ATV TRANSFER	($0.4)	($0.5)	($0.6)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)
12	TRANSPORTATION OPERATING FUND (TOF)	($5.4)	($5.4)	($5.5)	($5.5)	($5.6)	($5.6)	($5.7)	($5.7)	($5.7)	($5.8)
13	AVIATION TRANSFER	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)	($0.1)
14	HB 2435 (2013 Session) B20 FUEL TAX EXEMPTION -memo	($0.5)	($4.1)	($5.2)	($5.3)	($5.7)	($5.9)	($3.0)	$0.0	$0.0	$0.0
15	**NET FSB REVENUE**	**$474.3**	**$489.9**	**$511.1**	**$522.7**	**$533.2**	**$538.3**	**$539.7**	**$538.7**	**$537.4**	**$535.8**
16	REVENUE ALLOCATION TO OTIA I & II SET-ASIDE - memo	($19.1)	($19.0)	($19.2)	($19.3)	($19.4)	($19.4)	($19.4)	($19.4)	($19.3)	($19.3)
17	REVENUE PLEDGED TO OTIA III - memo	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
18	REVENUE DUE TO JTA (HB 2001) - memo	($99.0)	($101.9)	($106.6)	($108.4)	($110.3)	($111.3)	($111.6)	($111.4)	($111.1)	($110.8)

		Actual	Forecast			
		BI 13-15	BI 15-17	BI 17-19	BI 19-21	BI 21-23
1	MOTOR FUELS TAXES	$1,000.2	$1,069.4	$1,107.3	$1,114.4	$1,109.4
2	**TOTAL FSB COLLECTIONS**	**$1,000.2**	**$1,069.4**	**$1,107.3**	**$1,114.4**	**$1,109.4**
3	Change from Previous Forecast	$0.0	($6.4)	($1.9)	$4.8	$5.1
4	COLLECTION/ADMINISTRATION COST	($3.1)	($3.6)	($3.8)	($3.9)	($4.0)
5	ODOT CENTRAL SERVICES ASSESSMENT	($0.4)	($0.4)	($0.8)	($0.8)	($0.8)
6	SNOWMOBILE TRANSFER	($1.3)	($1.3)	($1.2)	($1.2)	($1.2)
7	CLASS I ATV TRANSFER	($5.8)	($5.3)	($5.2)	($5.1)	($5.0)
8	MARINE BOARD TRANSFER	($9.1)	($8.2)	($8.2)	($8.2)	($8.2)
9	CLASS II ATV TRANSFER	($2.2)	($2.2)	($2.1)	($2.1)	($2.1)
10	CLASS III ATV TRANSFER	($2.2)	($2.2)	($2.2)	($2.1)	($2.1)
11	CLASS IV ATV TRANSFER	($0.8)	($1.1)	($0.9)	($0.9)	($0.9)
12	TRANSPORTATION OPERATING FUND (TOF)	($10.8)	($11.0)	($11.2)	($11.4)	($11.5)
13	AVIATION TRANSFER	($0.2)	($0.2)	($0.2)	($0.2)	($0.2)
14	HB 2435 (2013 Session) B20 FUEL TAX EXEMPTION -memo	($4.6)	($10.6)	($11.6)	($3.0)	$0.0
15	**NET FSB REVENUE**	**$964.2**	**$1,033.8**	**$1,071.5**	**$1,078.4**	**$1,073.2**
16	REVENUE ALLOCATION TO OTIA I & II SET-ASIDE - memo	($38.2)	($38.5)	($38.7)	($38.8)	($38.6)
17	REVENUE PLEDGED TO OTIA III - memo	$0.0	$0.0	$0.0	$0.0	$0.0
18	REVENUE DUE TO JTA (HB 2001) - memo	($200.9)	($215.0)	($221.6)	($223.0)	($221.9)

Highway Revenue Forecast Summary

The forecasted revenue is based on current law tax and fee rates. While it is likely that sometime in the near future rates will increase, this forecast is based on rates as they stand today.

We are transitioning from a period of robust growth into a slower growth environment, which will have significant impacts on the revenues collected. Table 7 shows the combined revenues and row 4 summarizes the total gross revenue. The last three fiscal years, 2014-2016 has shown solid growth of 3.0, 3.3 and 3.6 percent respectively, with growth peaking in 2016. Growth is slowing in 2017 and 2018 at rates roughly half of the peak growth, and then drops to basically zero growth in the outer forecast years. Average annual growth from 2017-2023 is 0.7 percent. Compared to the prior forecast, overall gross revenues are down $2.4 million between 2017 and 2023, with essentially all of that coming in 2017 and 2018.

Row 5 of Table 7 sums all the collection and program costs for DMV, Motor Carrier, and Motor Fuels, and the pre-apportionment transfers. It also includes the incremental revenues from the OTIA III and JTA programs. Row 6 is the total gross revenue minus the amount in row 5. Taking costs and transfers into consideration this brings down the overall average annual growth rate to just 0.7 percent over the 2017-FY23 period.

Rows 7 through 15 are memo items creating summaries of different components of and affecting forecast revenues. Notable are the incremental revenues from the OTIA and JTA programs and the associated debt service from bond sales associated with these programs.

Rows 17 through 21 summarize the net revenue for each OTIA and JTA program disaggregated by amounts to the local governments or to the state. Row 22 represents the total net revenue for distribution by summing rows 17 through 21 plus row 6.
Table 8 separates the total from row 22 in Table 7 into county, city and state apportionments by apportionment formula, whether it was pre-OTIA, OTIA I&II, OTIA III or JTA program.

A separate monthly forecast of the County/City Apportionments is available under "Highway Revenue Apportionment Forecasts" at http://www.oregon.gov/ODOT/Data/Pages/Revenue-Forecasts.aspx.

Table 7. Highway Fund Revenue by Fiscal Year and Biennium (Millions of Current Dollars)

		Actual			Forecast							Actual	Forecast			
		FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	BI 13-15	BI 15-17	BI 17-19	BI 19-21	BI 21-23
1	TOTAL MCTD COLLECTIONS	$327.1	$337.6	$344.6	$350.3	$355.1	$360.8	$363.5	$366.0	$368.2	$370.0	$664.7	$694.9	$715.9	$729.5	$738.2
2	TOTAL FSB COLLECTIONS	$492.7	$507.5	$529.0	$540.4	$551.1	$556.2	$557.6	$556.8	$555.4	$553.9	$1,000.2	$1,069.4	$1,107.3	$1,114.4	$1,109.4
3	TOTAL DMV COLLECTIONS	$309.6	$321.6	$335.0	$339.0	$342.7	$343.6	$344.3	$345.7	$346.8	$346.1	$631.2	$674.0	$686.3	$690.0	$692.9
4	**TOTAL GROSS HIGHWAY FUND**	**$1,129.4**	**$1,166.7**	**$1,208.6**	**$1,229.7**	**$1,248.9**	**$1,260.6**	**$1,265.4**	**$1,268.5**	**$1,270.4**	**$1,270.0**	**$2,296.1**	**$2,438.3**	**$2,509.5**	**$2,533.9**	**$2,540.4**
5	COLLECTION, PROGRAMS, & TRANSFERS (incl.obligated OTIA & JTA)	($526.4)	($543.2)	($572.2)	($581.2)	($605.3)	($611.9)	($600.6)	($600.7)	($599.1)	($602.5)	($1,069.6)	($1,153.5)	($1,217.3)	($1,201.3)	($1,201.6)
6	**NET REVENUE TO HIGHWAY FUND**	**$603.0**	**$623.5**	**$636.3**	**$648.5**	**$643.6**	**$648.6**	**$664.8**	**$667.8**	**$671.3**	**$667.5**	**$1,226.5**	**$1,284.8**	**$1,292.3**	**$1,332.6**	**$1,338.9**
7	OTIA I & II SET ASIDE - memo	$35.6	$35.6	$35.6	$35.6	$35.6	$35.6	$35.6	$35.6	$35.6	$35.6	$71.2	$71.2	$71.2	$71.2	$71.2
8	DEBT SERVICE (OTIA I & II) - memo	($32.4)	($34.6)	($36.2)	($34.3)	($33.4)	($31.8)	($29.9)	($26.9)	($21.7)	($19.3)	($67.0)	($70.4)	($65.2)	($56.8)	($40.9)
9	OTIA III Dedicated Revenues - memo	$97.2	$101.1	$104.7	$106.4	$107.5	$108.2	$108.6	$108.4	$108.7	$108.6	$198.3	$211.1	$215.7	$217.1	$217.3
10	DEBT SERVICE (OTIA III) - memo	($111.2)	($106.3)	($105.2)	($103.7)	($104.2)	($103.6)	($99.2)	($103.2)	($110.4)	($112.4)	($217.5)	($209.0)	($207.8)	($202.4)	($222.8)
11	JTA Total Gross Revenues - memo	$275.4	$284.7	$295.5	$301.2	$304.6	$307.3	$308.4	$308.2	$308.5	$308.3	$560.1	$596.7	$611.8	$616.6	$616.7
12	JTA Allocation for Long-Range Planning and TIC Transfers - memo	($24.0)	($24.0)	($24.0)	($24.0)	($24.0)	($24.0)	($24.0)	($24.0)	($24.0)	($24.0)	($48.0)	($48.0)	($48.0)	($48.0)	($48.0)
13	DEBT SERVICE (JTA) - State Only - memo	($17.5)	($29.1)	($28.4)	($32.5)	($46.4)	($58.3)	($64.4)	($66.5)	($66.8)	($67.1)	($46.5)	($61.0)	($104.7)	($130.9)	($134.0)
14	Oregon Travel Experience Transfer - State Only - memo	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($13.1)	($13.1)	($13.1)	($13.1)	($13.1)
15	E-GOV Records Incremental Revenue Transfer - memo	($5.3)	($5.2)	($5.3)	($5.3)	($5.2)	($5.1)	($5.1)	($5.1)	($5.1)	($5.1)	($10.5)	($10.5)	($10.3)	($10.2)	($10.1)
17	NET OTIA I & II REVENUE FOR DISTRIBUTION	$3.2	$1.0	($0.6)	$1.3	$2.2	$3.8	$5.7	$8.7	$13.9	$16.3	$4.2	$0.8	$6.0	$14.4	$30.3
18	NET OTIA III REVENUE FOR DISTRIBUTION - LOCAL	$28.5	$33.9	$38.2	$35.6	$33.4	$35.5	$38.5	$37.4	$31.7	$28.6	$62.4	$73.8	$68.8	$75.9	$60.3
19	NET OTIA III REVENUE FOR DISTRIBUTION -STATE	($35.2)	($31.4)	($30.9)	($25.0)	($22.5)	($23.2)	($21.4)	($24.4)	($25.5)	($24.5)	($66.6)	($56.0)	($45.7)	($45.8)	($50.1)
20	NET JTA REVENUE FOR DISTRIBUTION - LOCAL	$125.7	$130.4	$135.8	$138.6	$140.3	$141.6	$142.2	$142.1	$142.2	$142.1	$256.1	$274.4	$281.9	$284.3	$284.4
21	NET JTA REVENUE FOR DISTRIBUTION ABOVE D/S -STATE	$47.0	$37.8	$41.1	$38.5	$25.5	$14.3	$8.5	$6.3	$6.1	$5.7	$84.7	$79.7	$39.8	$14.8	$11.8
22	**TOTAL NET REVENUE FOR DISTRIBUTION**	**$772.2**	**$795.2**	**$820.0**	**$837.5**	**$822.5**	**$820.7**	**$838.4**	**$837.8**	**$839.7**	**$835.8**	**$1,567.4**	**$1,657.4**	**$1,643.2**	**$1,676.2**	**$1,675.5**

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

Table 8. Distribution of Total Net Revenues (Millions of Current Dollars)

			Actual			Forecast							Actual	Forecast			
		Distribution Percentage	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	BI 13-15	BI 15-17	BI 17-19	BI 19-21	BI 21-23
1	COUNTY APPORTIONMENT (ORS 366.739)	24.38%	$133.7	$138.1	$140.6	$143.2	$141.8	$142.9	$146.8	$147.5	$148.4	$147.4	$271.8	$283.8	$284.7	$294.3	$295.8
2	SPECIAL COUNTY (ORS 366.772)		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)
4	COUNTY APPORTIONMENT (OTIA I & II)	30.00%	$1.0	$0.3	($0.2)	$0.4	$0.7	$1.1	$1.7	$2.6	$4.2	$4.9	$1.3	$0.2	$1.8	$4.3	$9.1
5	COUNTY APPORTIONMENT (OTIA III)	25.48%	$24.8	$25.8	$26.7	$27.1	$27.4	$27.6	$27.7	$27.6	$27.7	$27.7	$50.5	$53.8	$55.0	$55.3	$55.4
6	DEBT SERVICE (OTIA III)	84.07%	($16.8)	($14.0)	($11.9)	($14.7)	($16.7)	($15.2)	($12.9)	($13.8)	($18.8)	($21.4)	($30.9)	($26.6)	($32.0)	($26.7)	($40.2)
7	COUNTY APPORTIONMENT (OTIA III-Local)	60.00%	$4.4	$4.6	$4.7	$4.7	$4.6	$4.6	$4.6	$4.7	$4.7	$4.8	$9.0	$9.5	$9.1	$9.3	$9.5
8	COUNTY APPORTIONMENT (JTA)	30.00%	$75.4	$78.2	$81.5	$83.1	$84.2	$85.0	$85.3	$85.3	$85.3	$85.3	$153.6	$164.6	$169.1	$170.6	$170.6
9	**NET COUNTY APPORTIONMENT**		**$221.9**	**$232.5**	**$240.9**	**$243.4**	**$241.4**	**$245.4**	**$252.7**	**$253.4**	**$251.0**	**$248.2**	**$454.3**	**$484.3**	**$486.8**	**$506.1**	**$499.2**
10	CITY APPORTIONMENT (ORS 366.739)	15.57%	$85.4	$88.2	$89.8	$91.5	$90.6	$91.3	$93.7	$94.2	$94.8	$94.2	$173.6	$181.3	$181.8	$187.9	$188.9
11	SPECIAL CITY (ORS 366.805)		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)
12	CITY APPORTIONMENT (OTIA I & II)	20.00%	$0.6	$0.2	($0.1)	$0.3	$0.4	$0.8	$1.1	$1.7	$2.8	$3.3	$0.8	$0.2	$1.2	$2.9	$6.1
13	CITY APPORTIONMENT (OTIA III)	16.99%	$16.5	$17.2	$17.8	$18.1	$18.3	$18.4	$18.5	$18.4	$18.5	$18.5	$33.7	$35.9	$36.7	$36.9	$36.9
14	DEBT SERVICE (OTIA III)	15.93%	($3.2)	($2.7)	($2.2)	($2.8)	($3.2)	($2.9)	($2.4)	($2.6)	($3.6)	($4.1)	($5.9)	($5.0)	($6.1)	($5.1)	($7.6)
15	CITY APPORTIONMENT (OTIA III-Local)	40.00%	$2.9	$3.1	$3.2	$3.2	$3.0	$3.0	$3.1	$3.1	$3.1	$3.2	$6.0	$6.3	$6.1	$6.2	$6.3
16	CITY APPORTIONMENT (JTA)	20.00%	$50.3	$52.1	$54.3	$55.4	$56.1	$56.7	$56.9	$56.8	$56.9	$56.9	$102.4	$109.7	$112.8	$113.7	$113.7
17	**NET CITY APPORTIONMENT**		**$152.0**	**$157.6**	**$162.2**	**$165.1**	**$164.8**	**$166.7**	**$170.4**	**$171.2**	**$172.0**	**$171.4**	**$309.7**	**$327.3**	**$331.5**	**$341.5**	**$343.3**
18	HIGHWAY DIVISION (including small City/County)	60.05%	$329.3	$340.2	$346.3	$352.8	$349.4	$352.0	$361.5	$363.3	$365.4	$363.2	$669.4	$699.1	$701.3	$724.9	$728.6
19	SPECIAL COUNTY (ORS 366.772)		($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)
20	SPECIAL CITY (ORS 366.805)		($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)
21	HIGHWAY DIVISION: TOTAL (OTIA I & II)	50.00%	$1.6	$0.5	($0.3)	$0.7	$1.1	$1.9	$2.9	$4.3	$7.0	$8.2	$2.1	$0.4	$3.0	$7.2	$15.1
22	HIGHWAY DIVISION: TOTAL (OTIA III)	57.53%	$55.9	$58.2	$60.2	$61.2	$61.9	$62.3	$62.5	$62.4	$62.5	$62.5	$114.1	$121.4	$124.1	$124.9	$125.0
23	DEBT SERVICE (OTIA III)	100.00%	($91.1)	($89.6)	($91.1)	($86.2)	($84.3)	($85.5)	($83.9)	($86.8)	($88.1)	($87.0)	($180.7)	($177.4)	($169.8)	($170.7)	($175.1)
24	STATE APPORTIONMENT (OTIA III)	0.00%	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
25	HIGHWAY DIVISION: NON-DEDICATED JTA REVENUES	48.75%	$61.3	$63.6	$66.2	$67.6	$68.4	$69.0	$69.3	$69.3	$69.3	$69.3	$124.8	$133.7	$137.4	$138.6	$138.6
26	HIGHWAY DIVISION: DEDICATED JTA DEBT SERVICE	51.25%	$64.4	$66.8	$69.6	$71.0	$71.9	$72.6	$72.9	$72.8	$72.9	$72.8	$131.2	$140.6	$144.5	$145.7	$145.7
27	DEBT SERVICE (JTA)		($17.5)	($29.1)	($28.4)	($32.5)	($46.4)	($58.3)	($64.4)	($66.5)	($66.8)	($67.1)	($46.5)	($61.0)	($104.7)	($130.9)	($134.0)
28	OREGON TRAVEL EXPERIENCE TRANSFER		($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($6.6)	($13.1)	($13.1)	($13.1)	($13.1)	($13.1)
29	**NET HIGHWAY DIVISION**		**$396.6**	**$403.3**	**$415.1**	**$427.2**	**$414.6**	**$406.8**	**$413.5**	**$411.5**	**$415.0**	**$414.5**	**$799.9**	**$842.3**	**$821.3**	**$825.0**	**$829.5**
30	Memo: HIGHWAY MODERNIZATION PROGRAM (included in NET HIGHWAY DIVISION)		$74.3	$76.6	$79.7	$81.5	$82.9	$83.8	$84.5	$84.8	$84.8	$84.7	$150.9	$161.2	$166.7	$169.3	$169.6
31	NET COUNTY APPORTIONMENT		$221.9	$232.5	$240.9	$243.4	$241.4	$245.4	$252.7	$253.4	$251.0	$248.2	$454.3	$484.3	$486.8	$506.1	$499.2
32	NET CITY APPORTIONMENT		$152.0	$157.6	$162.2	$165.1	$164.8	$166.7	$170.4	$171.2	$172.0	$171.4	$309.7	$327.3	$331.5	$341.5	$343.3
33	NET HIGHWAY DIVISION		$396.6	$403.3	$415.1	$427.2	$414.6	$406.8	$413.5	$411.5	$415.0	$414.5	$799.9	$842.3	$821.3	$825.0	$829.5
34	**NET HIGHWAY FUNDS REVENUE**		**$770.4**	**$793.4**	**$818.2**	**$835.7**	**$820.7**	**$818.9**	**$836.6**	**$836.0**	**$838.0**	**$834.0**	**$1,563.9**	**$1,653.9**	**$1,639.7**	**$1,672.7**	**$1,672.0**
35	SPECIAL COUNTY/CITY TRANSFERS TO ALLOTMENT FUND		$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$1.8	$3.5	$3.5	$3.5	$3.5	$3.5
36	**TOTAL NET REVENUES FOR DISTRIBUTION**		**$772.2**	**$795.2**	**$820.0**	**$837.5**	**$822.5**	**$820.7**	**$838.4**	**$837.8**	**$839.7**	**$835.8**	**$1,567.4**	**$1,657.4**	**$1,643.2**	**$1,676.2**	**$1,675.5**

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

Oregon
Department
of Transportation

June 30, 2017

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE DECLARATION

The following is a summary of certain provisions of the Master Declaration and the Fifteenth Supplemental Declaration which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to each of said documents for a full and complete statement of their provisions.

DEFINITIONS

The following is a summary of certain terms used in this Appendix D. All capitalized terms used but not defined in this Appendix D or elsewhere in the Official Statement have the meanings set forth in the Master Declaration or the Fifteenth Supplemental Declaration.

"**2010 Supplemental Declaration**" means the Fourth Supplement to the Amended and Restated Master Highway User Tax Revenue Bond Declaration, dated as of April 1, 2010.

"**2017 Bonds**" means the State of Oregon Department of Transportation Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C.

"**Accreted Value**" means, as of the date of computation with respect to any Capital Appreciation Obligations, an amount equal to:

(a) the original principal amount of such Capital Appreciation Obligations (the issue price at the date of issuance), plus

(b) the interest accrued on such Capital Appreciation Obligations from the date of original issuance of such Capital Appreciation Obligations to the Interest Payment Date next preceding the date of computation or the date of computation if an Interest Payment Date, such interest to accrue at an approximate rate per annum of the Capital Appreciation Obligations, set forth in the Supplemental Declaration providing for the issuance of such Capital Appreciation Obligations, compounded at such intervals as specified in such Supplemental Declaration, plus

(c) with respect to matters related to the payment upon redemption of such Capital Appreciation Obligations, if such date of computation will not be an Interest Payment Date, a portion of the difference between the Accreted Value as of the immediately preceding Interest Payment Date (or the date of original issuance if the date of computation is prior to the first Interest Payment Date succeeding the date of the original issuance) and the Accreted Value as of the immediately succeeding Interest Payment Date, calculated based on the assumption that Accreted Value accrues during any period in equal daily amounts on the basis of a 360-day year of twelve 30-day months.

A table of Accreted Values for each Interest Payment Date for each Series of Senior Lien Bonds issued as Capital Appreciation Obligations or for each Series of Subordinate Lien Obligations issued as Capital Appreciation Obligations is requested to be incorporated in a Supplemental Declaration, relating to such Capital Appreciation Obligations.

"**Accrued Aggregate Debt Service**" means, with respect to Outstanding Senior Lien Bonds of each Series, as of any date of calculation, an amount equal to the sum of (i) interest on the Outstanding Current Interest Bonds of such Series accrued and unpaid, plus interest on the Outstanding Current Interest Bonds due to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series of Outstanding Senior Lien Bonds next due which would have accrued (if deemed to accrue daily in equal amounts from the next preceding Interest Payment Date on which the Principal Installment is payable or, if there is no such preceding Interest Payment Date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Senior Lien Bonds of such Series, whichever date is later) to the end of such calendar month.

"**Accrued Aggregate Subordinate Debt Service**" means with respect to Outstanding Subordinate Lien Obligations of each Series, as of any date of calculation, an amount equal to the sum of (i) interest on the Outstanding Current Interest Subordinate Lien Obligations of such Series accrued and unpaid, plus interest on the Outstanding Current Interest Subordinate Lien Obligations due to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series of Outstanding Subordinate Lien Obligations next due which would have accrued (if deemed to accrue daily in equal amounts from the next preceding Interest Payment Date on which the Principal Installment is payable or, if there is no such preceding Interest Payment Date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Subordinate Lien Obligations of such Series, whichever date is later) to the end of such calendar month.

"**Act**" means Article IX, Section 3a of the Oregon Constitution and Statutes of the State, including ORS 367.605 to 367.665, ORS Chapter 286A, Chapter 3, Oregon Laws 2002 (First Special Session), Chapter 618, Oregon Laws 2003 and Chapter 865, Oregon Laws 2009, as amended by Chapter 30, Oregon Laws 2010, Chapter 11, Oregon Laws 2013, Chapter 344, Oregon Laws 2015 and Chapter 38, Oregon Laws 2016.

"**Additional Pledged Revenues**" means revenues derived by the Department from increases in any of the component parts of the Pledged Revenues as listed in subsections (a) through (g) under the heading "Security" in this Appendix D, that are approved by the Legislative Assembly or approved by Oregon voters by a statewide initiative or referendum, as applicable, and that are available to pay and secure the Senior Lien Bonds and any Additional Senior Lien Bonds and any Subordinate Lien Obligations and any Additional Subordinate Lien Obligations pursuant to a Supplemental Declaration.

"**Additional Senior Lien Bonds**" means Senior Lien Bonds issued pursuant to the provisions of the Master Declaration described under the headings "Issuance of Additional Senior Lien Bonds" or "Refunding Obligations" below and any Supplemental Declaration, which Additional Senior Lien Bonds are to be secured on an equal and ratable (*pari passu*) basis with the Existing Senior Lien Bonds and other Senior Lien Bonds then Outstanding with respect to the lien on the Trust Estate.

"**Additional Subordinate Lien Obligations**" means Subordinate Lien Obligations of any Series issued pursuant to the provisions of the Master Declaration described under the headings "Issuance of Additional Subordinate Lien Bonds" or "Indebtedness Limitations and Defeasance" below and any Supplemental Declaration, that are issued after the first Series of Subordinate Lien Obligations, which Additional Subordinate Lien Obligations are to be secured on an equal and ratable (*pari passu*) basis with other Subordinate Lien Obligations then Outstanding with respect to the lien on the Subordinate Security.

"**Alternate Credit Facility**" means any Credit Facility substituted for a Credit Facility.

"**Alternate Liquidity Facility**" means any Liquidity Facility substituted for a Liquidity Facility.

"**Annual Debt Service**" means the amount required to be paid in a Fiscal Year of principal or Accreted Value of and interest on any Outstanding Senior Lien Bonds, calculated as follows:

(a) with respect to any Outstanding Senior Lien Bonds, an amount equal to the sum of (i) interest payable during such Fiscal Year on such Current Interest Bonds, including any interest due under a Parity Reimbursement Obligation, if any, pursuant to the Master Declaration, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (ii) the Principal Installments of such Current Interest Bonds payable during such Fiscal Year, including principal, if any, due on Parity Reimbursement Obligations pursuant to the Master Declaration. Such interest and Principal Installments are to be calculated on the assumption that no such Senior Lien Bonds, or Parity Reimbursement Obligations Outstanding at the date of calculation would cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments; provided, further, that if the Department has, in connection with any Senior Lien Bonds bearing interest at fixed rates, entered into a Financial Contract that provides that the Department is to pay to the Qualified Counterparty an amount based upon a variable rate of interest on the outstanding principal amount of such fixed rate Senior Lien Bonds and that the Qualified Counterparty is to pay to the Department an amount determined based upon a fixed rate, it is to be assumed that such fixed rate Senior Lien Bonds bear interest at their fixed rates of interest.

(b) Variable Rate Senior Lien Bonds are to be assumed to bear interest at the greater of (i) the rate or rates that were assumed by the Department to be borne by Variable Rate Senior Lien Bonds during such Fiscal Year or (ii) the average rate or rates borne on Variable Rate Senior Lien Bonds outstanding during the twelve calendar months preceding the date of calculation, but at a rate not less than the rate or rates borne thereon as of such date of calculation; provided, however, that if the Department has in connection with any Variable Rate Senior Lien Bonds entered into a Financial Contract that provides that the Department is to pay to the Qualified Counterparty an amount determined based upon a fixed rate of interest on the outstanding principal amount of such Variable Rate Senior Lien Bonds and that the Qualified Counterparty is to pay to the Department an amount determined based upon the rate the Variable Rate Senior Lien Bonds bear interest, it is to be assumed that such Variable Rate Senior Lien Bond bears interest at the fixed rate or rates of interest to be paid by the Department.

(c) Each Series of Interim Obligations are to be assumed to bear interest at their stated rate prior to their final maturity date. The principal amount of each Series of Interim Obligations plus the interest due on that Series of Interim Obligations at their final maturity date (the "Assumed Principal") are to be assumed to bear interest from the final maturity date of the Interim Obligations at the Interim Obligation Rate. The Assumed Principal is to be assumed to be paid in fifty (50) equal semiannual payments that are sufficient to fully amortize the Assumed Principal, with interest at the Interim Obligation Rate. The first semiannual payment is to be assumed to be due on the fifteenth day of November that is at least six months after the final maturity date of the Interim Obligations, and subsequent semiannual payments are to be assumed to be due on the following fifteenth day of each May and November of each year.

"**Annual Subordinate Debt Service**" means the amount required to be paid in a Fiscal Year of principal or Accreted Value of and interest on any Outstanding Subordinate Lien Obligations and any Outstanding Interim Obligations, issued on parity with any Outstanding Subordinate Lien Obligations, outstanding in a Fiscal Year, calculated as follows:

(a) With respect to any Outstanding Subordinate Lien Obligations, an amount equal to the sum of (i) interest payable during such Fiscal Year on such Current Interest Subordinate Lien Obligations, including any interest due under a Subordinate Reimbursement Obligation, if any, pursuant to the Master Declaration, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (ii) the Principal Installments of such Current Interest Subordinate Lien Obligations payable during such Fiscal Year, including principal, if any, due on Subordinate Reimbursement Obligations pursuant to the Master Declaration. Such interest and Principal Installments are to be calculated on the assumption that no such Subordinate Lien Obligations, or Subordinate Reimbursement Obligations Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments.

(b) (1) If any Outstanding Subordinate Lien Obligations constitute Variable Rate Subordinate Lien Obligations, such Subordinate Lien Obligations are to be assumed to bear interest at the average rate or rates borne on Variable Rate Subordinate Lien Obligations outstanding during the twelve calendar months preceding the date of calculation, but at a rate not less than the rate or rates borne thereon as of such date of calculation.

(2) If any Subordinate Lien Obligations proposed to be issued are to be Variable Rate Subordinate Lien Obligations the interest on which is excluded from gross income for federal income tax purposes, then such Subordinate Lien Obligations are to be assumed to bear interest at an interest rate equal to the average BMA Index during the twelve calendar months preceding the date of calculation, or if the BMA Index is not available for such period, another similar rate or index selected by the Department. If any Subordinate Lien Obligations proposed to be issued are to be Variable Rate Subordinate Lien Obligations the interest on which is included in gross income for federal income tax purposes, then such Subordinate Lien Obligations are to be assumed to bear interest at an interest rate equal to the average One Month USD LIBOR Rate during the twelve months preceding the date of calculation, or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the Department.

(c) Each Series of Interim Subordinate Lien Obligations is to be assumed to bear interest at their stated rate prior to their final maturity date. The principal amount of each Series of Interim Subordinate Lien Obligations plus the interest due on that Series of Interim Subordinate Lien Obligations at their final maturity date (the "Assumed Principal") is to be assumed to bear interest from the final maturity date of the Interim Subordinate Lien Obligations at the Interim Obligation Rate. The Assumed Principal is to be assumed to be paid in fifty (50) equal semiannual payments that are sufficient to fully amortize the Assumed Principal, with interest at the Interim Obligation Rate. The first semiannual payment is to be assumed to be due on the fifteenth day of November that is at least six months after the final maturity date of the Interim Subordinate Lien Obligations, and subsequent semiannual payments is to be assumed to be due on the following fifteenth day of each May and November of each year.

(d) For purposes of computing Annual Subordinate Debt Service on any Outstanding Subordinate Lien Obligations that constitute Balloon Obligations, it is to be assumed that the principal of such Balloon Obligations, together with interest thereon at the rate applicable to such Balloon Obligations, is to be amortized in equal annual installments over a term equal to the lesser of (1) 30 years or (2) the average weighted useful life (expressed in years, rounded to the next highest integer and to be set forth in a written certificate of the Director) of the properties and assets constituting the project (if any) financed out of the proceeds of such Balloon Obligations.

(e) (1) For purposes of computing the Annual Subordinate Debt Service on any Series of Outstanding Subordinate Lien Obligations with respect to which the Department has entered into a Financial Contract, the Annual Subordinate Debt Service computed as described in subsections (a) through (d) of this definition for such Series of Outstanding Subordinate Lien Obligations is to be adjusted by adding to Annual Subordinate Debt Service the amounts, if any, the Department has paid as Financial Contract Payments during the twelve calendar months preceding the date of calculation and by subtracting from Annual Subordinate Debt Service the amounts, if any, the Department has received as Financial Contract Receipts during the twelve calendar months preceding the date of calculation.

(2) For purposes of computing the Annual Subordinate Debt Service on any Series of Subordinate Lien Obligations proposed to be issued with respect to which the Department is to enter into a Financial Contract, the Annual Subordinate Debt Service computed as described in subsections (a) through (d) of this definition for such Series of Subordinate Lien Obligations is to be adjusted by adding to Annual Subordinate Debt Service the estimated payments, if any, the Department expects to pay as Financial Contract Payments during the twelve calendar months following the execution of the Financial Contract and by subtracting from Annual Subordinate Debt Service the estimated receipts, if any, the Department expects to receive as Financial Contract Receipts during the twelve calendar months following the execution of the Financial Contract. The estimated payments and estimated receipts are to be calculated as if the Financial Contract had been in place during the preceding twelve calendar months.

(f) For purposes of computing the Annual Subordinate Debt Service on any Series of Subordinate Lien Obligations, the Annual Subordinate Debt Service computed as described in subsections (a) through (d) of this definition for such Series of Subordinate Lien Obligations is to be adjusted by subtracting from Annual Subordinate Debt Service the related Subordinate Lien Subsidy Payments in the years in which such Subordinate Lien Subsidy Payments are scheduled or expected to be received.

"**Balloon Obligations**" means any Outstanding Subordinate Lien Obligations (including without limitation commercial paper notes and bond anticipation notes), 25 percent or more of the principal of which matures or is payable on the same date and is not required by the Supplemental Declaration pursuant to which such Subordinate Lien Obligations were incurred to be amortized by payment or redemption prior to such date, and that are designated as "Balloon Obligations" in such Supplemental Declaration.

"**Beneficial Owner**" means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Obligations (including persons holding Obligations through nominees, depositories or other intermediaries).

"**Bond Counsel**" means any law firm appointed as bond counsel to the Department and having knowledge and expertise in the field of municipal law and whose opinions are generally accepted by purchasers of municipal bonds.

"**Bond Declaration**" means, collectively, the Master Declaration and any subsequent amendment or supplement that is made in a Supplemental Declaration in accordance with the restrictions contained in the Bond Declaration.

"**Bond Proceeds Account**" means the account by that name established by the Department within the State Highway Fund pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D.

"**Bondowner**," "**Owner**" or "**Registered Owner**" means a registered owner of an Obligation.

"**Bond Registrar**" or "**Registrar**" means the paying agent and registrar designated by the Department and the State Treasurer as provided in the Master Declaration.

"**Book-Entry-Only System**" means a system for clearance and settlement of securities transactions through electronic book-entry changes, which eliminates the need for physical movement of securities.

"**Business Day**" means, for purposes of the Master Declaration, any day that is not a Saturday, Sunday, legal holiday or a day on which the offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed and which will not be a day on which the New York Stock Exchange or the Depository is closed.

"**Capital Appreciation Obligations**" means those Senior Lien Bonds or those Subordinate Lien Obligations for which interest is compounded periodically on each of the applicable periodic dates designated for compounding and payable at the maturity or earlier redemption thereof, all as so designated in a Supplemental Declaration of the Department providing for the issuance thereof, including any Senior Lien Bonds or any Subordinate Lien Obligations that accrue and compound interest for a period of time, but later convert to Current Interest Bonds or Current Interest Subordinate Lien Obligation and upon the Conversion Date such Senior Lien Bonds or such Subordinate Lien Obligations will no longer be Capital Appreciation Obligations, but will be treated as having a principal amount equal to their Accreted Value on the Conversion Date.

"**Capitalized Interest**" means that portion of the proceeds of any Senior Lien Bonds deposited in the Capitalized Interest Account of the Debt Service Account or that portion of the proceeds of any Subordinate Lien Obligations deposited in the Capitalized Interest Subaccount of the Subordinate Lien Obligations Account, and interest earnings thereon to the extent retained in the Capitalized Interest Account or Capitalized Interest Subaccount, as provided in the Master Declaration, for the purpose of funding the payment of a portion of the interest on any Senior Lien Bonds or any Subordinate Lien Obligations.

"**Capitalized Interest Account**" means the account by that name established by the Department in the Debt Service Account in connection with any Senior Lien Bonds pursuant to the Master Declaration.

"**Capitalized Interest Subaccount**" means the subaccount by that name established by the Department in the Subordinate Lien Obligations Account in connection with any Subordinate Lien Obligations pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D.

"**Code**" means the Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder and amendments thereto.

"**Commission**" means the Oregon Transportation Commission.

"**Conversion Date**" means the date from and after which Capital Appreciation Obligations convert to Current Interest Bonds or Current Interest Subordinate Lien Obligations and from and including which interest becomes payable on a periodic basis.

"**Credit Agreement**" means an agreement with a Credit Provider evidencing the Department's obligations to the Credit Provider.

"**Credit Facility**" means any direct-pay letter of credit, municipal bond insurance policy, surety bond, or other credit enhancement device given, issued or posted for or that guarantees (i) the payment of scheduled principal or Accreted Value of and interest on Obligations or (ii) the scheduled payment obligations under a Financial Contract, including any Alternate Credit Facility.

"**Credit Provider**" means the person or entity, if any, providing a Credit Facility.

"**Current Interest Bonds**" means those Senior Lien Bonds that bear interest payable periodically on specified or determinable dates prior to the maturity or redemption dates, including any Senior Lien Bonds designated as Capital Appreciation Obligations from and after the Conversion Date, all as so designated in a Supplemental Declaration providing for the issuance or incurrence of such Senior Lien Bonds, and which may be either Serial Obligations or Term Obligations including without limitation Variable Rate Senior Lien Bonds.

"**Current Interest Subordinate Lien Obligations**" means those Subordinate Lien Obligations that bear interest payable periodically on specified or determinable dates prior to the maturity or redemption dates, including any Subordinate Lien Obligations designated as Capital Appreciation Obligations from and after the Conversion Date, all as so designated in a Supplemental Declaration providing for the issuance or incurrence of such Subordinate Lien Obligations, and which may be either Serial Obligations or Term Obligations including without limitation Variable Rate Subordinate Lien Obligations.

"**Debt Service Account**" means the account of that name created and established by the Department pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D.

"**Defeasance Obligations**" means noncallable, nonprepayable obligations of the type described in clause (b), (c), or (i) of the definition of Investment Securities herein, if and to the extent the same are at the time legal investments by the Department for such purpose, that are not subject to redemption prior to maturity except at the option of the owner, provided however that Defeasance Obligations will not include ownership interests described in clause (b)(ii) of the definition of Investment Securities herein, if the underlying obligations can be redeemed at the option of the owner or if the ownership interest is in interest only.

"**Department**" means the Department of Transportation of the State.

"**Depository**" or "**DTC**" means The Depository Trust Company or any other qualified securities depository designated by the Department or the State Treasurer as its successor.

"**Director**" means the Director of the Department, or his or her duly authorized designee.

"**Existing Senior Lien Bonds**" means all bonds having an equal and ratable (*pari passu*) lien on the Trust Estate issued pursuant to the Original Master Declaration and the Original Master Declaration Supplements and Outstanding as of June 1, 2006.

"**Fifteenth Supplemental Declaration**" means the Fifteenth Supplement to the Amended and Restated Master Highway User Tax Revenue Bond Declaration, dated as of September 1, 2017, authorizing the 2017 Bonds in accordance with the Master Declaration.

"**Financial Contract**" means any financial arrangement entered into by the Department or the State Treasurer, to the extent from time to time permitted by law, with respect to Obligations, and any financial arrangement entered into by the Department for the purpose of moderating interest rate fluctuations or any other purpose, (i) which is entered into with an entity that is a Qualified Counterparty at the time the arrangement is entered into and (ii) which is any of the following, or any combination thereof, or any option with respect thereto: a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Obligations or a notional principal amount relating to all or a portion of the principal amount of such Obligations); asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; or other similar transaction (however designated).

"**Financial Contract Payments**" means payments periodically required to be paid to a Qualified Counterparty by the Department pursuant to a Financial Contract.

"**Financial Contract Receipts**" means payments periodically required to be paid to the Department by a Qualified Counterparty pursuant to a Financial Contract.

"**Fiscal Year**" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or as otherwise defined by State law.

"**Fitch**" means Fitch, Inc. (doing business as Fitch Ratings), a corporation organized and existing under the laws of the State of Delaware, its successor and their assigns.

"**Interest Payment Date**" means with respect to a particular Series of Obligations, any date upon which interest on and/or principal of the Obligations of such Series is due and payable in accordance with the terms thereof as more specifically provided in a Supplemental Declaration with respect to such Series of Obligations.

"**Interim Obligation Rate**" means the most recently published Bond Buyer Revenue Bond Index Rate published in *The Bond Buyer*, or, if that index rate ceases to be available, a reasonably comparable index rate selected by the Department.

"**Interim Obligations**" means any Additional Senior Lien Bonds that mature within five years or less after they are issued and that are designated as "Interim Obligations" in a Supplemental Declaration.

"**Interim Subordinate Lien Obligations**" means any Subordinate Lien Obligations that mature within five years or less after they are issued, and that are designated as "Interim Subordinate Lien Obligations" in a Supplemental Declaration.

"**Investment Securities**" means and includes any of the following securities, if and to the extent the same are at the time legal investments by the Department:

(a) direct obligations of, or obligations guaranteed as to principal and interest by, any state or the United States of America, or direct obligations of any agency, public department or political subdivision thereof, provided such obligations are rated, at the time of purchase, in one of the three highest Rating Categories by any Rating Agency;

(b) (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may thereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (ii) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (i) of this clause (b);

(c) obligations of any agency, subdivision, department, division or instrumentality of the United States of America, or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America;

(d) banker's acceptances or certificates of deposit issued by a commercial bank with its principal place of business within the State and having capital and surplus of more than $100,000,000;

(e) corporate securities, including commercial paper and fixed income obligations, which are, at the time of purchase, rated by any Rating Agency in one of its three highest Rating Categories for comparable types of obligations;

(f) repurchase agreements or other investment agreements collateralized by securities described in clause (b) and (c) of this definition with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by at least two Rating Agencies, provided that (i) a specific written repurchase agreement governs the transaction, (ii) the securities are held, free and clear of any lien, by the State Treasurer or an independent third party acting solely as agent for the State Treasurer, and such third party is either a direct member of the Federal Reserve Bank or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25,000,000, and the State Treasurer will have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the State Treasurer (iii) the repurchase agreement has a term of thirty days or less, or the State Treasurer will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102 percent;

(g) investment agreements or guaranteed investment contracts with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time such agreement or contract is entered into) in one of the three highest Rating Categories for comparable types of obligations by any Rating Agency;

(h) money market funds rated in one of the three highest Rating categories for comparable types of obligations by any Rating Agency;

(i) municipal obligations, the payment of principal and redemption price, if any, and interest on which is irrevocably secured by obligations of the type referred to in clauses (a), (b) or (c) of this definition and which obligations have been deposited in an escrow arrangement which is irrevocably pledged to the payment of such municipal obligations and which municipal obligations are rated in the highest Rating Category by any Rating Agency, or any other municipal obligation rated in the highest Rating Category by any Rating Agency;

(j) obligations of any person or entity which will be rated at the time of the investment in one of the three highest Rating Categories by any Rating Agency; and

(k) any other investment in which the State is permitted to invest under applicable law, notwithstanding any limitations set forth in clauses (a) through (j) of this definition.

"**Liquidity Facility**" means a line of credit, standby bond purchase agreement, standby or direct-pay letter of credit, surety bond or any other instrument that provides for the payment of the purchase price of Obligations of one or more Series, including any Alternate Liquidity Facility.

"**Liquidity Provider**" means the provider of a Liquidity Facility.

"**Mandatory Redemption Schedule**" means with respect to particular Obligations, the schedule pursuant to which the principal portions are subject, without contingency, to mandatory redemption or prepayment prior to maturity, all as set forth in the Supplemental Declaration pursuant to which such Series of Obligations are issued.

"**Master Declaration**" means the Amended and Restated Master Highway User Tax Revenue Bond Declaration as it may be amended and restated or supplemented from time to time in accordance with its provisions.

"**Maximum Annual Aggregate Debt Service**" means the greatest combined Annual Debt Service and Annual Subordinate Debt Service occurring in the same Fiscal Year.

"**Maximum Annual Debt Service**" means the greatest Annual Debt Service, calculated on all Senior Lien Bonds (including the effect of any Financial Contract, as stated in the definition of Annual Debt Service) which are Outstanding on the date of calculation.

"**Maximum Interest Rate**" means the greatest annual rate of interest that any Variable Rate Senior Lien Bonds or Variable Rate Subordinate Lien Obligations may bear as provided in the Supplemental Declaration authorizing their issuance.

"**Moody's**" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

"**New Pledged Revenues**" means any revenues not listed in subsections (a) through (g) under the heading "Security" in this Appendix D that are approved by the Legislative Assembly or approved by the Oregon voters in a statewide election by initiative or referendum, as applicable, and that are pledged and available to pay and secure the Senior Lien Bonds and any Additional Senior Lien Bonds or any Subordinate Lien Obligations.

"**Obligation**" or "**Obligations**" means the Senior Lien Bonds, the Subordinate Lien Obligations and the Second Subordinate Lien Obligations issued pursuant to the Bond Declaration.

"**Opinion of Bond Counsel**" means an opinion in writing of Bond Counsel addressed to the Department to the effect that the action proposed to be taken is authorized or permitted by the laws of the State and the Master Declaration or other such action will not adversely affect the validity of the Obligations under the laws of the State or the exclusion from gross income for federal income tax purposes of interest on the Obligations to the extent such Obligations were issued as Tax-Exempt Obligations.

"**Original Master Declaration**" means the Master Highway User Tax Revenue Bond Declaration dated as of August 1, 2000.

"**Original Master Declaration Supplements**" means the declarations supplemental to or amendatory of the Original Master Declaration entered into by the Department in accordance with the Original Master Declaration prior to the amendment and restatement of the Original Master Declaration effective as of June 1, 2006.

"**ORS**" means the Oregon Revised Statutes, as amended.

"**Outstanding**" means, when used with reference to the Obligations, the Obligations that have been authorized and delivered pursuant to the Master Declaration and any Supplemental Declaration, except:

(a) Obligations paid or cancelled by the Bond Registrar;

(b) Obligations (or portions thereof) for the payment or redemption or purchase for cancellation of which sufficient moneys will be held in trust under the Master Declaration and set aside for such purpose (whether at or prior to the maturity or redemption date), provided that if such Obligations are to be redeemed, irrevocable notice of such redemption (or irrevocable instructions to give such notice) has been duly given pursuant to the Master Declaration and any applicable Supplemental Declaration; and

(c) Obligations in exchange for or in lieu of which other Obligations will have been authenticated and delivered pursuant to the Master Declaration as described under the heading "Authentication, Registration, Exchange and Transfer" below.

"**Parity Reimbursement Obligation**" means any Reimbursement Obligation in connection with the Senior Lien Bonds and secured on a parity with the Senior Lien Bonds.

"**Paying Agent**" means any paying agent for any Obligations, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Master Declaration.

"**Pledged Revenues**" means the Pledged Revenues as defined and as set forth in the Master Declaration, which is summarized under the heading "Security" in this Appendix D.

"**Principal Installment**" means, as of any date of calculation and with respect to any Outstanding Obligations:

(a) the principal amount or Accreted Value of such Obligations for which no Sinking Fund Installments have been established (including (x) any amount designated in, or determined pursuant to, the applicable Supplemental Declaration as the "principal amount" with respect to any Obligations that do not pay full current interest for all or any part of their term and (y) the principal amount of any Parity Reimbursement Obligation then Outstanding or any Subordinate Reimbursement Obligation then Outstanding, as applicable; provided, that if the principal of or interest on any Obligations have been paid by a Credit Provider under a Credit Facility such Obligations will not be deemed paid for purposes of the Master Declaration and will remain Outstanding and will continue to be due and owing until paid by the Department in accordance with the provisions of the Master Declaration), and

(b) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for such Obligations.

"**Qualified Counterparty**" means an entity:

(a) whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability are rated (at the time the subject Financial Contract is entered into) in any of the three highest Rating Categories from any nationally recognized statistical rating organization, or

(b) whose payment obligations under a Financial Contract are guaranteed by an entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability, are rated (at the time the subject Financial Contract is entered into) in any of the three highest Rating Categories from any nationally recognized statistical rating organization, or

(c) whose obligation, if any, to make payment to the Department upon the termination of the subject Financial Contract is fully collateralized by Investment Securities of the type described in clause (c) of the definition of Investment Securities; provided, however, that such obligation will be deemed to be fully collateralized if the Investment Securities have a market value, determined periodically in accordance with the Financial Contract, that is not less than 102 percent of any termination payment set forth in the Financial Contract.

"**Rating Agency**" means:

(a) with respect to any Obligations which, at the request of the State, are then rated by S&P, S&P; or

(b) with respect to any Obligations which, at the request of the State, are then rated by Moody's, Moody's; or

(c) with respect to any Obligations which, at the request of the State, are then rated by Fitch, Fitch; or

(d) with respect to any Obligations rated which, at the request of the State are then rated by any other nationally recognized securities rating agency, such other financial rating service.

"**Rating Category**" means a general rating category of an applicable Rating Agency or nationally recognized statistical rating organization without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

"**Rebate Account**" means any rebate account that may be established within the Debt Service Account pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D to comply with the Tax Covenants in connection with any Senior Lien Bonds.

"**Rebate Subaccount**" means any rebate subaccount that may be established within the Subordinate Lien Obligations Account pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D to comply with the Tax Covenants in connection with any Subordinate Lien Obligations.

"**Record Date**" means:

(a) with respect to the 2000 Bonds, the date which is the first (1^{st}) day of the month, whether or not a Business Day, and

(b) with respect to any other Series of Obligations, such date or dates established by the Supplemental Declaration pursuant to which such Series of Obligations is issued.

"**Redemption Price**" means, with respect to any Obligations, the amount payable upon the redemption or prepayment thereof prior to maturity, including the principal of, premium (if any) and accrued or accreted interest thereon.

“**S&P**” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns.

“**Second Subordinate Lien Obligations**” mean any revenue bonds, notes, or other evidences of indebtedness of the Department (including but not limited to any Second Subordinate Lien Obligations bearing interest at fixed rates, variable rates or Financial Contracts) permitted under applicable law, and issued pursuant to the Master Declaration and any Supplemental Declaration and that will be secured on an equal and ratable (*pari passu*) basis with any other Second Subordinate Lien Obligations Outstanding with respect to the lien on the Subordinate Security, such Second Subordinate Lien Obligations will be junior and subordinate to the pledge and lien on the Trust Estate in favor of the Senior Lien Bonds and will be junior and subordinate to the pledge and lien on the Subordinate Security in favor of the Subordinate Lien Obligations, as provided for in the Master Declaration.

“**Senior Lien Bond**” or “**Senior Lien Bonds**” means all of the Existing Senior Lien Bonds and any Additional Senior Lien Bonds (including but not limited to any Senior Lien Bonds or other obligations bearing interest at fixed rates, Variable Rate Senior Lien Bonds or Financial Contracts) issued pursuant to the Master Declaration and a Supplemental Declaration with an equal and ratable (*pari passu*) lien on the Trust Estate as the lien of the Existing Senior Lien Bonds, but not including Subordinate Lien Obligations or Second Subordinate Lien Obligations.

“**Senior Lien Bonds Debt Service Subaccount**” means the subaccount by that name established within the Debt Service Account pursuant to the provisions of the Master Declaration described under the heading “Funds and Accounts” in this Appendix D.

“**Serial Obligations**” means Obligations that are stated to mature on the same date in consecutive years or in consecutive six-month periods or are stated to mature in consecutive annual or semiannual installments and so designated in a Supplemental Declaration.

“**Series”** means the separate series of Senior Lien Bonds, series of Subordinate Lien Obligations or series of Second Subordinate Lien Obligations identified as such and issued, authenticated and delivered pursuant to the Master Declaration or a Supplemental Declaration and Senior Lien Bonds, Subordinate Lien Obligations or Second Subordinate Lien Obligations thereafter authenticated and delivered in lieu of or in substitution therefor pursuant to the Master Declaration or such Supplemental Declaration regardless of variations in maturity, interest rate or other provisions.

“**Sinking Fund Installment**” means, as of any particular date of calculation, the amount required, as of such date of calculation, to be paid by the Department on a future date for the redemption of Outstanding Obligations that are stated to mature subsequent to such future date, but does not include any amount payable by the Department by reason only of the maturity of an Obligation.

“**State**” means the State of Oregon acting by and through the State Treasurer or the Department.

“**State Highway Fund**” means the fund established under ORS 366.505. The State Highway Fund is a trust fund, separate and distinct from the State’s general fund.

“**Subordinate Lien Obligations**” means any revenue bonds, notes, other obligations of the Department and any Additional Subordinate Lien Obligations (including but not limited to any Subordinate Lien Obligations bearing interest at fixed rates, Variable Rate Subordinate Lien Obligations or Financial Contracts) permitted under applicable law and issued pursuant to the Master Declaration and any Supplemental Declaration with an equal and ratable (*pari passu*) lien on the Subordinate Security and issued on a subordinate basis to the Senior Lien Bonds, but not including Second Subordinate Lien Obligations.

"**Subordinate Lien Obligations Account**" means the account by that name established within the Debt Service Account pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D.

"**Subordinate Lien Obligations Proceeds Account**" means the account by that name established by the Department within the State Highway Fund pursuant to the provisions of the Master Declaration described under the heading "Funds and Accounts" in this Appendix D.

"**Subordinate Lien Subsidy Payments**" means such Subsidy Payments related to only Subordinate Lien Obligations.

"**Subordinate Reimbursement Obligation**" means any Reimbursement Obligation in connection with the Subordinate Lien Obligations.

"**Subordinate Security**" means the Subordinate Security pledged to secure payment of the Subordinate Lien Obligations as described under the heading "Lien on Pledged Revenues and Pledge of Trust Estate and Subordinate Security" in this Appendix D.

"**Subsidy Payments**" means any payments received by or on behalf of the State or the Department in connection with a debt service obligation of the State or the Department related to Senior Lien Bonds or Subordinate Lien Obligations issued pursuant to the Master Declaration, including but not limited to subsidy payments by the federal government on account of the issuance of Build America Bonds pursuant to the federal American Recovery and Reinvestment Act of 2009 or any successor legislation.

"**Supplemental Declaration**" means any declaration supplemental to or amendatory of the Master Declaration entered into by the Department in accordance with the Master Declaration.

"**Tax Certificate**" means the Tax Certificate executed by the Department in connection with the 2017 Bonds.

"**Tax Covenants**" means with respect to Tax-Exempt Obligations the covenants of the Department to comply with the Code to ensure the initial and continued exclusion from gross income for federal income tax purposes of the interest on such Senior Lien Bonds or Subordinate Lien Obligations.

"**Tax-Exempt Obligation**" means any Obligation, the interest on which is excluded from gross income for federal income tax purposes.

"**Taxable Obligation**" means any Obligation, the interest on which is included in gross income for federal income tax purposes.

"**Tender Agent**" means with respect to a particular Series of Obligations, the person or entity designated to act in such capacity with respect to such Series of Obligations pursuant to the Supplemental Declaration under which such Obligations are issued.

"**Term Obligations**" means the portion of a Series of Obligations, as applicable, which mature on one date and that may be subject to scheduled mandatory redemption prior to maturity pursuant to a Mandatory Redemption Schedule.

"**Trust Estate**" means the Trust Estate pledged to secure payment of Senior Lien Bonds as described under the heading "Lien on Pledged Revenues and Pledge of Trust Estate and Subordinate Security" in this Appendix D.

"**Variable Rate Senior Lien Bond**" means, as of any date of determination, any Senior Lien Bond on which the interest rate borne thereby may vary during any part of its remaining term.

"**Variable Rate Subordinate Lien Obligations**" means, as of any date of determination, any Subordinate Lien Obligations on which the interest rate borne thereby may vary during any part of its remaining term.

MASTER DECLARATION

The following is a summary of certain provisions of the Master Declaration. This summary of the Master Declaration does not purport to be complete or definitive and reference is made to the Master Declaration for the complete terms thereof.

General

The Master Declaration authorizes the Department to apply for the approval of and the issuance by the State Treasurer of each Series of Highway User Tax Revenue Bonds to be issued under the Master Declaration and sets forth the terms and conditions governing each Series of Obligations issued.

Except as expressly amended by the provisions of the Master Declaration, all terms and conditions of the Original Master Declaration Supplements remain in full force and effect with respect to the Existing Senior Lien Bonds. The Master Declaration was conformed as of November 1, 2010 to incorporate amendments made in the 2010 Supplemental Declaration.

Authentication, Registration, Exchange and Transfer

In connection with all Obligations, the following will apply unless otherwise provided in a Supplemental Declaration:

(a) the Paying Agent and Bond Registrar will authenticate and deliver all Obligations at closing and will additionally authenticate all Obligations properly surrendered for exchange or transfer under the Master Declaration;

(b) all Obligations will be in registered form;

(c) the ownership of all Obligations will be entered in the Bond register maintained by the Bond Registrar and the Bond Registrar may treat the person listed as Owner in the Bond register as the Owner of the Obligations for all purposes;

(d) the Bond Registrar will mail or cause to be delivered each interest payment on the Interest Payment Date (or the next Business Day if the Interest Payment Date is not a Business Day) to the name and address of the Owner, as that name and address appear on the Bond register as of the Record Date. If payment is so mailed or delivered, neither the State nor the Bond Registrar will have any further liability to any party for such payment;

(e) Obligations may be exchanged for an equal principal amount or Accreted Value of Obligations of the same series and maturity that are in different authorized denominations, and Obligations may be transferred to other Owners if the Owner submits the following to the Bond Registrar:

(i) written instructions for exchange or transfer satisfactory to the Bond Registrar, signed by the Owner or his attorney in fact and guaranteed or witnessed in a manner satisfactory to the Registrar; and

(ii) the Obligations to be exchanged or transferred;

(f) the Bond Registrar will not be required to exchange or transfer any Obligations submitted to it during any period beginning with a Record Date and ending on the next following payment date; however, such Obligations will be exchanged or transferred promptly following the payment date, except as provided in a Supplemental Declaration;

(g) the Bond Registrar will not be required to exchange or transfer any Obligations that have been designated for redemption if such Obligations are submitted to it during the fifteen-day period preceding the designated redemption date, except as provided in a Supplemental Declaration;

(h) Obligations will be considered submitted to the Registrar on the date the Registrar actually receives the materials described in subsection (e) above; and

(i) the State may alter the provisions described under this heading with regard to registration and transfer by mailing notification of the altered provisions to all Owners. The altered provisions will take effect on the date stated in the notice, which will not be earlier than 45 days after notice is mailed.

Use of Proceeds of the Obligations

Upon the closing of the sale of each Series of Obligations and the receipt of the proceeds thereof, the proceeds of the Obligations will be used and applied as provided in the Supplemental Declaration pursuant to which such Series of Obligations is issued.

Security

The Pledged Revenues consist of the sources of revenue described under this heading that the laws then in effect permit to be used to pay and secure the Senior Lien Bonds, to pay and secure the Subordinate Lien Obligations, on a junior, inferior and subordinate basis to the pledge and lien that secures the Senior Lien Bonds and to pay and secure the Second Subordinate Lien Obligations, on a junior, inferior and subordinate basis to the pledge and lien that secures the Senior Lien Bonds and the pledge and lien that secures the Subordinate Lien Obligations. The Pledged Revenues consist of the sources of revenue described in subsections (a) through (l) under this heading which remain after deducting: (i) administrative expenses and costs of collection; (ii) transfers and allocations described in ORS 366.742 and ORS 367.605(3) (which includes moneys provided for appropriations to counties under ORS 366.762 to 366.768, moneys for appropriations to cities under ORS 366.785 to 366.820 and moneys in the account established under ORS 366.512 for parks and recreation); (iii) allocations of moneys from specified fee and tax increases under ORS 366.744(1) (which includes allocations of moneys to counties under ORS 366.744(2)(b) and to cities under ORS 366.744(2)(c) if such moneys are not needed for payment of principal and interest on the 2004A Bonds); (iv) allocations of moneys under ORS 366.747 resulting from the increase in fees under ORS 807.370 by Section 49, Chapter 618, Oregon Laws 2003; and (v) allocations of moneys under ORS 366.752(2), ORS 366.752(3)(b) and ORS 366.752(3)(c) (which includes allocations of moneys to counties under ORS 366.762 and cities under ORS 366.800) resulting from the increases in fees under ORS 803.090, 803.420, 803.570, 803.645, 319.020, 319.530, 818.225, 825.476 and 825.480, by JTA Sections 42, 43, 43a, 44, 44a, 48, 49 and 51 to 53, respectively:

(a) Moneys from the taxes and fees on motor carriers imposed under ORS 825.474, 825.476 and 825.480; and

(b) Moneys from the tax on motor vehicle fuel imposed under ORS 319.020; and

(c) Moneys from the tax on fuel used in motor vehicles imposed under ORS 319.530; and

(d) Moneys described under ORS 803.090 from the titling of vehicles; and

(e) Moneys described under ORS 803.420 from the registration of vehicles; and

(f) Moneys described under ORS 807.370 relating to the issuance of driver licenses and driver permits; and

(g) Moneys described under ORS 818.225 relating to road use assessment fees; and

(h) Moneys described under ORS 803.570 relating to manufacturing of registration plates for vehicles; and

(i) Moneys described under ORS 803.645 relating to the issuance of trip permits; and

(j) Subsidy Payments; and

(k) Additional Pledged Revenues; and

(l) Any other moneys legally available to the Department that the Department may hereafter expressly pledge to secure the Senior Lien Bonds or the Subordinate Lien Obligations pursuant to a Supplemental Declaration.

The Department is required to deposit the Pledged Revenues in the State Highway Fund. The Pledged Revenues are pledged by the Master Declaration to secure the payment of the principal or Accreted Value of, premium, if any, and interest on the Senior Lien Bonds. Further, the Pledged Revenues are pledged, on a subordinate, junior and inferior basis to the Senior Lien Bonds, to secure the payment of the principal or Accreted Value of, premium, if any and interest on the Subordinate Lien Obligations.

In addition to the pledge of moneys in the State Highway Fund, as described above, the Department may use other moneys legally available to the Department to pay principal or Accreted Value of, premium, if any, and interest on the Senior Lien Bonds as authorized by ORS 367.605(4)(b). The Department may also use other moneys legally available to the Department to pay principal or Accreted Value of, premium, if any, and interest on Subordinate Lien Obligations, on a subordinate, junior and inferior basis to the Senior Lien Bonds, as authorized by ORS 367.605(4)(b).

The Obligations do not constitute a general obligation debt of the State nor a debt or general obligation of any political subdivision thereof. No Registered Owners of the Obligations will have the right to compel the exercise of the ad valorem taxing power of the State or any political subdivision thereof nor is such taxing power pledged to pay bond debt service on the Obligations. In addition, no Registered Owners of the Obligations will have the right to compel the exercise of any other taxing power of the State except as described in the following sentence. The State, pursuant to ORS 367.615(2), will provide for the continued assessment, levy, collection and deposit into the State Highway Fund of moneys sufficient to pay, when due, the Annual Debt Service on the Senior Lien Bonds and the Annual Subordinate Debt Service on the Subordinate Lien Obligations or any other junior lien debt, including without limitation Second Subordinate Lien Obligations, if any, secured by Pledged Revenues. Further, pursuant to ORS 367.615(3), the State will not in any way impair the obligations of the agreement of the Master Declaration between the State and the Registered Owners of the Obligations.

Lien on Pledged Revenues and Pledge of Trust Estate and Subordinate Security

(a) *The Senior Lien Bonds*. Pursuant to ORS 367.660 and ORS 286A.102, a first lien and security interest is established in the Master Declaration upon the Pledged Revenues to pay the Senior Lien Bonds and any Additional Senior Lien Bonds that may be issued on a parity of security with the Senior Lien Bonds as set forth in the Master Declaration. Such lien is valid and binding from the effective date of the Master Declaration and the closing of the sale of the Senior Lien Bonds. Pledged Revenues are immediately subject to such lien without physical delivery or further act and the lien is valid and binding against all parties having claims on the Pledged Revenues of any kind, including claims under tort or contract, and will be valid and binding against all parties irrespective of whether the parties have notice of the lien and the Master Declaration need not be recorded or filed to protect such lien and security interest.

(b) *Pledge of Trust Estate*. Pursuant to ORS 367.660 and ORS 286A.102, as security for the payment of the principal or Accreted Value of, interest and premium (if any) on all Outstanding Senior Lien Bonds, a first lien and security interest is established in the Master Declaration upon and the Department pledges in the Master Declaration to the Registered Owners of the Senior Lien Bonds all of the Department's right, title and interest in the following:

(i) the Pledged Revenues;

(ii) any Credit Facility given as security for the payment of any amounts owing on any Senior Lien Bonds (and any moneys drawn or paid thereunder), provided that such Credit Facility secures only those Senior Lien Bonds for which it was given;

(iii) all moneys in the Debt Service Account (other than moneys credited to the Rebate Account therein);

(iv) any Financial Contract Receipts received in connection with any Financial Contract entered in connection with a Series of Senior Lien Bonds; and

(v) such other properties and assets as may be thereafter pledged to the payment of Senior Lien Bonds pursuant to any Supplemental Declaration or which may be delivered, pledged, mortgaged or assigned by any person as security for Senior Lien Bonds.

The foregoing is referred to herein as the "Trust Estate."

The lien on the Trust Estate is valid and binding from the effective date of the Master Declaration and the closing of the sale of the Senior Lien Bonds. The Trust Estate is subject immediately to such lien without physical delivery or further act and the lien is valid and binding against all parties having claims on the Trust Estate of any kind, including claims under tort or contract, and will be valid and binding against all parties irrespective of whether the parties have notice of the lien and the Master Declaration need not be recorded or filed to protect such lien and security interest.

(c) *The Subordinate Lien Obligations*. Pursuant to ORS 367.660 and ORS 286A.102, a lien and security interest is established upon the Pledged Revenues to pay the Subordinate Lien Obligations and any Additional Subordinate Lien Obligations that may be issued on a parity of security with the Subordinate Lien Obligations as set forth under the heading "Issuance of Additional Subordinate Lien Obligations" in this Appendix D, on a subordinate, junior and inferior basis to the lien and security granted to secure the Senior Lien Bonds. Such lien is valid and binding from the effective date of the Master Declaration and the closing of the sale of the Subordinate Lien Obligations. Pledged Revenues are immediately subject to such lien without physical delivery or further act and the lien is valid and binding against all parties having claims on the Pledged Revenues of any kind, including claims under tort or contract, and will be valid and binding against all parties irrespective of whether the parties have notice of the lien and the Master Declaration need not be recorded or filed to protect such lien and security interest.

(d) *Pledge of Subordinate Security*. Pursuant to ORS 367.660 and ORS 286A.102, as security for the payment of the principal or Accreted Value of, interest and premium (if any) on all Outstanding Subordinate Lien Obligations, a lien and security interest is established and the Department pledges in the Master Declaration to the Registered Owners of the Subordinate Lien Obligations all of the Department's right, title and interest in the following:

(i) the Pledged Revenues that are pledged to secure the Senior Lien Bonds, on a subordinate, junior and inferior basis to the lien and security granted to secure the Senior Lien Bonds;

(ii) any Credit Facility given as security for the payment of any amounts owing on any Subordinate Lien Obligations (and any moneys drawn or paid thereunder), provided that such Credit Facility secures only those Subordinate Lien Obligations for which it was given;

(iii) all moneys in the Subordinate Lien Obligations Account within the Debt Service Account (other than (i) moneys credited to the Rebate Subaccount therein and (ii) proceeds of any Credit Facility not pledged to such Series of Subordinate Lien Obligations);

(iv) any Financial Contract Receipts received in connection with any Financial Contract entered in connection with a Series of Subordinate Lien Obligations; and

(v) such other properties and assets as may thereafter be pledged to the payment of the Subordinate Lien Obligations pursuant to any Supplemental Declaration or that may be delivered, pledged, mortgaged or assigned by any person as security for the Subordinate Lien Obligations; provided, however, that such other properties and assets will not include any Pledged Revenues as defined in subsections (a) through (g) under the heading "Security" in this Appendix D as of the date of execution of the Master Declaration.

The foregoing is referred to herein as the "Subordinate Security."

The lien on the Subordinate Security is valid and binding from the effective date of the Master Declaration and the closing of the sale of the Subordinate Lien Obligations. The Subordinate Security is subject immediately to such lien without physical delivery or further act and the lien is valid and binding against all parties having claims on the Subordinate Security of any kind, including claims under tort or contract, and will be valid and binding against all parties irrespective of whether the parties have notice of the lien and the Master Declaration need not be recorded or filed to protect such lien and security interest.

Funds and Accounts

Pursuant to provisions of the Master Declaration described under this heading, the Department may create funds and accounts as may be required to secure and make payments relating to the Senior Lien Bonds, the Subordinate Lien Obligations and the Second Subordinate Lien Obligations, as may be more specifically set forth in any Supplemental Declaration and consistent with the provisions of the Master Declaration described above under the heading "Lien on Pledged Revenues and Pledge of Trust Estate and Subordinate Security."

(a) *Establishment of Funds and Accounts*.

(i) State Highway Fund; Bond Proceeds Account; Subordinate Obligation Proceeds Account. The State Highway Fund is a trust fund, separate and distinct from the State's general fund and is established under ORS 366.505. Within the State Highway Fund, the Department has previously established Bond Proceeds Accounts for each Series of Existing Senior Lien Bonds as specified in the Supplemental Declaration providing for the issuance of such Existing Senior Lien Bonds. The Department may in the future establish Bond Proceeds Accounts for each Series of Additional Senior Lien Bonds and Subordinate Lien Obligations Proceeds Accounts for each Series of Subordinate Lien Obligations and such other accounts and subaccounts as the Department may determine to be necessary or appropriate in connection with the issuance, security, administration or payment of any Senior Lien Bonds or any Subordinate Lien Obligations.

With respect to any Series of Senior Lien Bonds or Series of Subordinate Lien Obligations, references to the State Highway Fund will mean the Bond Proceeds Account or Subordinate Lien Obligations Proceeds Account created within the State Highway Fund pursuant to the provisions of the Master Declaration described under this heading with respect to such Series of Senior Lien Bonds or such Series of Subordinate Lien Obligations, where applicable.

With respect to the Existing Senior Lien Bonds, the application of the proceeds of the Existing Senior Lien Bonds is set forth in the applicable Supplemental Declarations. The Supplemental Declaration for any future Series of Obligations will set forth the deposits to the Bond Proceeds Account or Subordinate Lien Obligations Proceeds Account, as applicable, and such other deposits and uses of proceeds of the Series of Obligations as necessary or appropriate.

(ii) Debt Service Account. The Department has created and established pursuant to the Master Declaration a Debt Service Account that is held in the custody of the State Treasurer for the purpose of payment of the Senior Lien Bonds. Within the Debt Service Account the Department may establish and maintain a Rebate Account, a Subordinate Lien Obligations Account, a Capitalized Interest Account for each Series of Senior Lien Bonds for which Capitalized Interest has been provided, and such other accounts and subaccounts therein as may be required by the terms of the Master Declaration or any Supplemental Declaration or as the Department may determine to be either necessary or appropriate in connection with the issuance, security, administration or payment of any series of Senior Lien Bonds or Subordinate Lien Obligations.

(1) The Supplemental Declarations for the Existing Senior Lien Bonds created subaccounts (the "Existing Senior Lien Bonds Subaccounts") within the Debt Service Account that are further described in each Supplemental Declaration in connection therewith.

For the benefit of any Series of Additional Senior Lien Bonds, pursuant to the Master Declaration the Department established and created within the Debt Service

Account a subaccount designated the Senior Lien Bonds Debt Service Subaccount for the purpose of payment of the Senior Lien Bonds. Pursuant to the Master Declaration and as may be provided for in any Supplemental Declaration, the Department may in the future also create, establish and maintain within the Debt Service Account, the Senior Lien Bonds Debt Service Account or any subaccount created and established therein such other subaccounts as may be required in connection with the issuance of any future Series of Senior Lien Bonds or as the Department may determine to be either necessary or appropriate in connection with the issuance, security, administration or payment of any Series of Senior Lien Bonds, and as otherwise permitted by the Master Declaration.

(2) For the benefit of any Series of Subordinate Lien Obligations, pursuant to the Master Declaration, the Department established and created within the Debt Service Account a subaccount designated the Subordinate Lien Obligations Account for the purpose of payment of the Subordinate Lien Obligations. Pursuant to the Master Declaration and as provided for in any Supplemental Declaration authorizing the issuance of any Subordinate Lien Obligations, the Department may in the future create, establish and maintain such other accounts and subaccounts within the Subordinate Lien Obligations Account, including without limitation a Rebate Subaccount, a Capitalized Interest Subaccount for each Series of Subordinate Lien Obligations for which Capitalized Interest has been provided and such other accounts and subaccounts therein as may be required in connection with the issuance of any Series of Subordinate Lien Obligations or as the Department may determine to be either necessary or appropriate in connection with the issuance, security, administration or payment of any Series of Subordinate Lien Obligations, and as otherwise permitted by the Master Declaration.

(b) *Deposits into State Highway Fund and Accounts*. All Pledged Revenues paid into the State Highway Fund are to be held by the State Treasurer and accounted for by the Department and deposited by the Department into the following subaccounts within the Debt Service Account in the following priority and manner, as soon as practicable in each month, but in any case no later than the last Business Day of such month:

(i) <u>First</u> with respect to the Senior Lien Bonds:

(1) to the applicable Existing Senior Lien Bonds Subaccounts and to the Senior Lien Bonds Debt Service Subaccount, the amount required, if any, so that the balance in said subaccounts will equal the Accrued Aggregate Debt Service as of the last day of such month; provided that for the purposes of computing the amount required to be on deposit in the applicable Existing Senior Lien Bonds Subaccounts or the Senior Lien Bonds Debt Service Subaccount, amounts on deposit in any Capitalized Interest Account designated for such Series of Existing Bonds or such Series of Additional Senior Lien Bonds as available to pay principal or Redemption Price of or interest on such Senior Lien Bonds will be taken into consideration and allowed for;

(2) to each applicable Rebate Account, if any, designated for each Series of Existing Senior Lien Bonds and any Additional Senior Lien Bonds, the amount required, if any; and

(3) to any additional accounts or subaccounts within the Debt Service Account as may be created pursuant to the terms of any Supplemental Declaration executed and delivered in connection with any Series of Senior Lien Bonds.

(ii) Second with respect to the Subordinate Lien Obligations:

(1) to the Subordinate Lien Obligations Account, the amount required, if any, so that the balance in the Subordinate Lien Obligations Account equals the Accrued Aggregate Subordinate Debt Service as of the last day of such month; provided that, for the purposes of computing the amount required to be on deposit in the Subordinate Lien Obligations Account, amounts on deposit in any Capitalized Interest Subaccount designated for such Series of Subordinate Lien Obligations as available to pay principal or Redemption Price of or interest on such Series of Subordinate Lien Obligations will be taken into consideration and allowed for;

(2) to the Rebate Subaccount, if any, designated for any Series of Subordinate Lien Obligations, the amount required, if any; and

(3) to any additional accounts or subaccounts within the Subordinate Lien Obligations Debt Service Account, including but not limited to a reserve account, as may be created pursuant to the terms of the Supplemental Declaration executed and delivered in connection with any Series of Subordinate Lien Obligations.

In the event of a deficiency in the required deposit to any of the funds and accounts as described in the provisions of the Master Declaration summarized under this subsection (b), unless the Department uses lawfully available Pledged Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Pledged Revenues deposited into the State Highway Fund will be deposited: (i) first to the subaccounts within the Debt Service Account to make up any deficiencies in the funds and accounts designated for the Senior Lien Bonds; and (ii) second to the Subordinate Lien Obligations Account and any subaccounts therein to make up any deficiencies in the funds and accounts designated for the Subordinate Lien Obligations.

All funds on deposit in the Existing Senior Lien Bonds Subaccounts or the Senior Lien Bonds Debt Service Subaccount, except those funds credited to a Rebate Account, may be applied in payment upon the final maturity of all of the Senior Lien Bonds. If any funds remain in the Existing Senior Lien Bonds Subaccounts or the Senior Lien Bonds Debt Service Subaccount upon payment of the final maturity of all of the Senior Lien Bonds, such funds will be transferred to the Subordinate Lien Obligations Account or any account or subaccount created and established pursuant to the Master Declaration for any Credit Facility in connection with any Series of Subordinate Lien Obligations and used in connection therewith; provided, however, if there are no Outstanding Subordinate Lien Obligations, any remaining funds may be held in the State Highway Fund, without restriction of the Master Declaration, and may be used for any lawful purpose.

All funds on deposit in the Subordinate Lien Obligations Account, except those funds credited to a Rebate Subaccount, may be applied in payment upon the final maturity of all of the Subordinate Lien Obligations, subject to the priority of deposit set forth in the Master Declaration as summarized in this subsection (b). If any funds remain in the Subordinate Lien Obligations Account upon payment of the final maturity of all of the Subordinate Lien Obligations, such funds may be deposited in the State Highway Fund and may be used for any lawful purpose.

Pursuant to the terms of the Master Declaration and any Supplemental Declaration, moneys received by the Department in connection with any Liquidity Facility will be deposited in such separate fund or account created and designated in connection with the Series of Senior Lien Bonds or the Series of Subordinate Lien Obligations for which the Liquidity Facility is provided. Such separate fund or account will not be included in the Trust Estate or the Subordinate Security and any moneys deposited in such fund or account will be held without investment or commingling.

(c) *Use of Debt Service Account*. Funds deposited into the subaccounts within the Debt Service Account established pursuant to the provisions of the Master Declaration summarized under subsection (a)(ii)(1) under this heading and designated for any Series of Senior Lien Bonds will be used by the Department for the payment of Senior Lien Bonds as follows:

(i) Moneys in the Existing Senior Lien Bonds Subaccounts and the Senior Lien Bonds Debt Service Subaccount within the Debt Service Account are to be used to pay principal of (whether at maturity or mandatory sinking fund redemption) premium, if any, and interest on the Existing Senior Lien Bonds and any Additional Senior Lien Bonds that are Outstanding.

(ii) Moneys in the Capitalized Interest Account, if any, created within the Debt Service Account are to be used for the payment of a portion of the interest on such Series of Senior Lien Bonds for which such Capitalized Interest Account is designated.

(iii) Moneys in the Rebate Account, if any, created within the Debt Service Account designated for any Series of Senior Lien Bonds are to be used for payments, if any, which are required to be paid under Section 148(f) of the Code in connection with such Series of Senior Lien Bonds for which such Rebate Account is designated.

(iv) Moneys in any other account or subaccount created within the Debt Service Account are to be used as provided in the Master Declaration or in any Supplemental Declaration in connection with a Series of Senior Lien Bonds pursuant to which such account or subaccount is created.

(d) *Use of Subordinate Lien Obligations Account*. Funds deposited into the subaccount within the Debt Service Account established pursuant to the provisions of the Master Declaration summarized under subsection (a)(ii)(2) under this heading and designated as the Subordinate Lien Obligations Account will be used by the Department for the payment of Subordinate Lien Obligations as follows:

(i) Moneys in the Subordinate Lien Obligations Account are to be used to pay principal of (whether at maturity or mandatory sinking fund redemption) premium, if any, and interest on any Subordinate Lien Obligations that are Outstanding.

(ii) Moneys in the Capitalized Interest Subaccount, if any, created within the Subordinate Lien Obligations Account are to be used for the payment of a portion of the interest on such Series of Subordinate Lien Obligations for which such Capitalized Interest Subaccount is designated.

(iii) Moneys in the Rebate Subaccount, if any, created within the Subordinate Lien Obligations Account are to be used for payments, if any, that are required to be paid under Section 148(f) of the Code in connection with such Series of Subordinate Lien Obligations for which such Rebate Subaccount is designated.

(iv) Moneys in any other account or subaccount created within the Subordinate Lien Obligations Account are to be used as provided in the Master Declaration or in any Supplemental Declaration in connection with such Series of Subordinate Lien Obligations pursuant to which such account or subaccount is created.

Issuance of Additional Senior Lien Bonds

In the Master Declaration, the Department reserves the authority and right so long as any of the Senior Lien Bonds remain outstanding and all of the payments of principal and interest on the then Outstanding Senior Lien Bonds are current and all requirements of the Master Declaration have been met, to issue Additional Senior Lien Bonds pursuant to a Supplemental Declaration for the purpose of building or maintaining permanent public roads or for any other lawful purpose, but only if the following conditions are met:

(a) The Director certifies that the moneys subject to pledge as Pledged Revenues for the payment of the Senior Lien Bonds for any 12 consecutive months of the preceding 18-month period, equal at least three times Maximum Annual Debt Service on all Outstanding Senior Lien Bonds and on the Additional Senior Lien Bonds to be issued with the Additional Senior Lien Bonds to be treated as Outstanding; or

(b) If the Department issues Additional Senior Lien Bonds based on Pledged Revenues and Additional Pledged Revenues, the Director certifies that the amount of Pledged Revenues and any Additional Pledged Revenues for the first full Fiscal Year immediately following the issuance of Additional Senior Lien Bonds are projected to be not less than three times the Maximum Annual Debt Service on all Outstanding Senior Lien Bonds and on the Additional Senior Lien Bonds to be issued with such Additional Senior Lien Bonds to be treated as Outstanding; or

(c) If the Department issues Additional Senior Lien Bonds based on Pledged Revenues and New Pledged Revenues, the Director certifies that the amount of Pledged Revenues and any New Pledged Revenues for the first full Fiscal Year immediately following the issuance of Additional Senior Lien Bonds are projected to be not less than three times the Maximum Annual Debt Service on all Outstanding Senior Lien Bonds and on the Additional Senior Lien Bonds to be issued with such Additional Senior Lien Bonds to be treated as Outstanding. The State will be required to obtain a certificate or letter from each Rating Agency which is then rating the Senior Lien Bonds, stating that the issuance of such Additional Senior Lien Bonds will not adversely affect its rating on the Outstanding Senior Lien Bonds.

(d) If the Department issues Additional Senior Lien Bonds based on Pledged Revenues, Additional Pledged Revenues and New Pledged Revenues, the Director certifies that the amount of Pledged Revenues, any Additional Pledged Revenues and any New Pledged Revenues for the first full Fiscal Year immediately following the issuance of Additional Senior Lien Bonds are projected to be not less than three times Maximum Annual Debt Service on all Outstanding Senior Lien Bonds and on the Additional Senior Lien Bonds to be issued with such Additional Senior Lien Bonds to be treated as Outstanding. The State will be required to obtain a certificate or letter from each Rating Agency which is then rating the Senior Lien Bonds, stating that the issuance of such Additional Senior Lien Bonds will not adversely affect its rating on the Outstanding Senior Lien Bonds.

(e) Pursuant to the provisions of the Master Declaration summarized under subsection (l) under the heading "Security" in this Appendix D, if a Supplemental Resolution authorizes any Series of Additional Senior Lien Bonds under the provisions of the Master Declaration summarized under subsection (c) or (d) of this heading, the Department will expressly pledge as Pledged Revenues any New Pledged Revenues included in the calculations for the issuance of Additional Senior Lien Bonds.

Nothing contained in the Master Declaration will prohibit or prevent, or be deemed or construed to prohibit or prevent, the State from authorizing and issuing Subordinate Lien Obligations or other bonds, notes, certificates, warrants or other evidences of indebtedness for any lawful purpose relating to the Department or for securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Pledged Revenues, Additional Pledged Revenues, or New Pledged Revenues junior and inferior to the lien and pledge on the Pledged Revenues, Additional Pledged Revenues or New Pledged Revenues created in the Master Declaration for the payment and security of the Senior Lien Bonds.

Issuance of Additional Subordinate Lien Obligations

The Department reserves the authority and right to issue Additional Subordinate Lien Obligations pursuant to a Supplemental Declaration for the purpose of building or maintaining permanent public roads or for any other lawful purpose, but only if all requirements of the Master Declaration, including the following conditions are met; provided that for purposes of the provisions of the Master Declaration described under this heading, Subordinate Lien Subsidy Payments will be excluded from "Pledged Revenues" "Additional Pledged Revenues" and "New Pledged Revenues":

(a) The Director certifies that the moneys subject to pledge as Pledged Revenues for any 12 consecutive months of the preceding 18-month period, equal at least two times the Maximum Annual Aggregate Debt Service, which includes without limitation debt service on all Outstanding Senior Lien Bonds, the Additional Senior Lien Bonds, if any, to be issued simultaneously with the Additional Subordinate Lien Obligations, with such Additional Senior Lien Bonds to be treated as Outstanding, all Outstanding Subordinate Lien Obligations and the Additional Subordinate Lien Obligations to be issued with such Additional Subordinate Lien Obligations to be treated as Outstanding; or

(b) If the Department issues Subordinate Lien Obligations based on Pledged Revenues and Additional Pledged Revenues, the Director certifies that the amount of Pledged Revenues and any Additional Pledged Revenues for the first full Fiscal Year immediately following the issuance of Additional Subordinate Lien Obligations are projected to be not less than two times the Maximum Annual Aggregate Debt Service, which includes without limitation debt service on all Outstanding Senior Lien Bonds, the Additional Senior Lien Bonds, if any, to be issued simultaneously with the Additional Subordinate Lien Obligations, with such Additional Senior Lien Bonds to be treated as Outstanding, all Outstanding Subordinate Lien Obligations and the Additional Subordinate Lien Obligations to be issued with such Additional Subordinate Lien Obligations to be treated as Outstanding; or

(c) If the Department issues Subordinate Lien Obligations based on Pledged Revenues and New Pledged Revenues, the Director certifies that the amount of Pledged Revenues and any New Pledged Revenues for the first full Fiscal Year immediately following the issuance of Additional Subordinate Lien Obligations are projected to be not less than two times the Maximum Annual Aggregate Debt Service, which includes without limitation debt service on all Outstanding Senior Lien Bonds, the Additional Senior Lien Bonds, if any, to be issued simultaneously with the Additional Subordinate Lien Obligations, with such Additional Senior Lien Bonds to be treated as Outstanding, all Outstanding Subordinate Lien Obligations and the Additional Subordinate Lien Obligations to be issued with such Additional Subordinate Lien Obligations to be treated as Outstanding. The State will be required to obtain a certificate or letter from each Rating Agency that is then rating the Senior Lien Bonds or the Subordinate Lien Obligations, if any, stating that the issuance of such Additional Subordinate Lien Obligations will not adversely affect its rating, if any, on the Outstanding Senior Lien Bonds and the Outstanding Subordinate Lien Obligations; or

(d) If the Department issues Subordinate Lien Obligations based on Pledged Revenues, Additional Pledged Revenues and New Pledged Revenues, the Director certifies that the amount of Pledged Revenues, any Additional Pledged Revenues and any New Pledged Revenues for the first full Fiscal Year immediately following the issuance of Additional Subordinate Lien Obligations are projected to be not less than two times the Maximum Annual Aggregate Debt Service, which includes without limitation debt service on all Outstanding Senior Lien Bonds, the Additional Senior Lien Bonds, if any, to be issued simultaneously with the Additional Subordinate Lien Obligations, with such Additional Senior Lien Bonds to be treated as Outstanding, all Outstanding Subordinate Lien Obligations and the Additional Subordinate Lien Obligations to be issued with the Additional Subordinate Lien Obligations to be treated as Outstanding. The State will be required to obtain a certificate or letter from each Rating Agency that is then rating the Senior Lien Bonds or the Subordinate Lien Obligations, if any, stating that the issuance of such Additional Subordinate Lien Obligations will not adversely affect its rating, if any, on the Outstanding Senior Lien Bonds and the Outstanding Subordinate Lien Obligations.

(e) Pursuant to the provisions of the Master Declaration summarized under subsection (l) under the heading "Security" in this Appendix D, if a Supplemental Resolution authorizes any Series of Subordinate Lien Obligations under the provisions of the Master Declaration summarized under subsection (c) or (d) of this heading, the Department will expressly pledge to the payment of such Subordinate Lien Obligations as Pledged Revenues any New Pledged Revenues included in the calculations for the issuance of such Additional Subordinate Lien Obligations.

Nothing contained in the Master Declaration will prohibit or prevent, or be deemed or construed to prohibit or prevent, the State from authorizing and issuing Second Subordinate Lien Obligations or other bonds, notes, certificates, warrants or other evidences of indebtedness for any lawful purpose relating to the Department or for securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Pledged Revenues, Additional Pledged Revenues, or New Pledged Revenues junior and inferior to the lien and pledge on the Pledged Revenues, Additional Pledged Revenues, or New Pledged Revenues created under the Master Declaration for the payment and security of the Senior Lien Bonds and the payment and security of Subordinate Lien Obligations.

Refunding Obligations

(a) *Refunding Bonds.* The Department may issue refunding Senior Lien Bonds as Additional Senior Lien Bonds to refund Outstanding Senior Lien Bonds without complying with the provisions of the Master Declaration summarized under the heading "Issuance of Additional Senior Lien Bonds" in this Appendix D, if the refunded Senior Lien Bonds are paid or defeased on the date of delivery of the refunding Additional Senior Lien Bonds and if the Annual Debt Service on the refunding Additional Senior Lien Bonds does not exceed the Annual Debt Service on the refunded Senior Lien Bonds in any Fiscal Year by more than $5,000. In addition, Additional Senior Lien Bonds may be issued to refund Interim Obligations that are Senior Lien Bonds without complying with the provisions of the Master Declaration summarized under the heading "Issuance of Additional Senior Lien Bonds" in this Appendix D if the refunded Interim Obligations are defeased on the date of delivery of the refunding and the refunding Additional Senior Lien Bonds bear interest at fixed rates, have approximately level annual debt service, and mature serially over at least twenty-five years.

(b) *Refunding Subordinate Lien Obligations.* The Department may issue refunding Subordinate Lien Obligations as Additional Subordinate Lien Obligations without complying with the provisions of the Master Declaration summarized under the heading "Issuance of Additional Subordinate Lien Bonds" in this Appendix D, if the refunded Subordinate Lien Obligations are paid or defeased on the date of delivery of the refunding Additional Subordinate Lien Obligations and if the Annual Subordinate Debt Service on the refunding Additional Subordinate Lien Obligations does not exceed the Annual Subordinate Debt Service on the refunded Subordinate Lien Obligations in any Fiscal Year by more than $5,000. In addition, Additional Subordinate Lien Obligations may be issued to refund Interim Subordinate Lien Obligations without complying with the provisions of the Master Declaration summarized under the heading "Issuance of Additional Subordinate Lien Bonds" in this Appendix D if the refunded Interim Subordinate Lien Obligations are paid or defeased on the date of delivery of the refunding and the refunding Additional Subordinate Lien Obligations bear interest at fixed rates, have approximately level annual debt service, and mature serially over at least twenty-five years.

Indebtedness Limitations and Defeasance

(a) In computing indebtedness for the purpose of any constitutional or statutory debt limit, there will be deducted:

(i) from the amount of Outstanding Senior Lien Bonds the amounts of money and investments credited to or on deposit in the Debt Service Account or in any amount created pursuant to the Master Declaration for retirement of any Senior Lien Bonds or for the defeasance of the Senior Lien Bonds; or

(ii) from the amount of Outstanding Subordinate Lien Obligations the amounts of money and investments credited to or on deposit in the Subordinate Lien Obligations Account of the Debt Service Account or in any amount created pursuant to the Master Declaration for retirement of any Subordinate Lien Obligations or for the defeasance of the Subordinate Lien Obligations.

(b) If the State pays or causes to be paid to the Owners of all Obligations then Outstanding, the Principal Installments and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Master Declaration, then, at the option of the State, expressed in a certificate of an Authorized Representative of the Director and delivered to the Bond Registrar, the covenants, agreements and other obligations of the State to the Owners will be discharged and satisfied and such Owners will cease to be entitled to any lien, benefit or security under the Master Declaration.

(c) Obligations or any portion thereof for the payment or redemption of which moneys have been set aside and held in trust by the Bond Registrar (through deposit by the State of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the provisions of the Master Declaration summarized under subsection (b) under this heading, provided the requirements of the provisions of the Master Declaration summarized under this subsection (c) are met, and provided that the Bond Registrar receives an Opinion of Bond Counsel to the effect that such payment or redemption will not adversely affect the exclusion of the interest on such Obligations (if issued on a tax-exempt basis) from gross income for purposes of federal income taxation and that such payment or redemption otherwise complies with the provisions under this heading or is permitted by the provisions of the Master Declaration. Any Outstanding Obligations or any portion thereof prior to the maturity or redemption date thereof, will be deemed to have been paid within the meaning and with the effect expressed in subsection (b) under this heading either (A) as provided in the Supplemental Declaration authorizing their issuance or (B) if (i) any of said Obligations are to be redeemed on any date prior to their maturity, the State has given to the Bond Registrar irrevocable instructions accepted in writing by the Bond Registrar to mail as provided in the Master Declaration notice of redemption of such Obligations (other than Obligations that have been purchased by the State as thereinafter provided prior to the mailing of such notice of redemption) on said date, (ii) there have been deposited with the Bond Registrar either moneys in an amount that will be sufficient, or Defeasance Obligations the principal installments of and/or the interest on which when due, without reinvestment, will provide moneys which, together with the moneys, if any deposited with the Bond Registrar at the same time, will be sufficient, to pay when due the Principal Installments or Redemption Price, if applicable, and interest due and to become due on said Obligations or portion thereof on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Obligations are not to be redeemed within the next succeeding 60 days, the State has given the Bond Registrar in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners that the deposit required by subsection (c)(B)(ii) above has been made with the Bond Registrar and that said Obligations or portion thereof (as the same thereafter may change) are deemed to have been paid in accordance with the provisions of under this heading and stating such maturity or redemption date (as the same thereafter may change) upon which moneys are to be available for the payment of the Principal Installments or Redemption Price, if applicable, on said Obligations or portion thereof (other than Obligations that have been purchased by the Bond Registrar at the direction of the State as thereinafter provided prior to the publication of the notice of redemption referred to in subsection (c)(B)(i) above). The Bond Registrar also will mail, as soon as practicable, a notice to the Owners of any Obligations affected by any change contemplated by subsection (c)(B)(iii) above, describing such change as required hereby or any applicable Supplemental Declaration. The Bond Registrar will, as and to the extent necessary, apply moneys held by it pursuant to the provisions under this heading to the retirement of said Obligations (or portions thereof) in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Obligations (or portions thereof), all in the manner provided in the Master Declaration.

(d) The Bond Registrar will, if so directed by the State (x) prior to the maturity date of Obligations (or portions thereof) deemed to have been paid in accordance with the provisions under this heading which are not to be redeemed prior to their maturity date or (y) prior to the mailing of the notice of redemption referred to in subsection (c)(B)(i) above with respect to any Obligations deemed to have been paid in accordance with the provisions under this heading which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Bond Registrar in respect of such Obligations and redeem or sell Defeasance Obligations so deposited with the Bond Registrar and apply the proceeds thereof to the purchase of such Obligations and the Bond Registrar will immediately thereafter cancel all such Obligations so purchased; provided, however, that the Bond Registrar will receive a certificate or report of a certified public accounting firm showing that the moneys and Defeasance Obligations remaining on deposit with the Bond Registrar after the purchase and cancellation of such Obligations will be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Obligations, in respect of which such moneys and Defeasance Obligations are being held by the Bond Registrar on or prior to the redemption date or maturity date thereof, as the case may be, and an Opinion of Bond Counsel to the effect that such redemption or sale of such Defeasance Obligations will not adversely affect the exclusion of the interest on such Obligations (if issued on a tax-exempt basis) from gross income for purposes of federal income taxation and that such redemption or sale otherwise complies with or is permitted by the provisions of the Master Declaration. The directions given by the State to the Bond Registrar referred to in the preceding sentence will also specify the portion, if any, of such Obligations so purchased and canceled to be applied against the obligation of the Bond Registrar to pay Obligations deemed paid in accordance with the provisions under this heading upon their maturity date or dates and the portion, if any, of such Obligations so deemed paid in accordance with the provisions under this heading on any date or dates prior to their maturity. In the event that on any date as a result of any purchases and cancellations of Obligations as provided the provisions under this heading the total amount of moneys and Defeasance Obligations remaining on deposit with the Bond Registrar under the provisions under this heading is in excess of the total amount which would have been required to be deposited with the Bond Registrar on such date in respect of the remaining Obligations in order to satisfy subsection (c)(B)(ii) above the Bond Registrar will, if requested by the State, pay the amount of such excess to the State free and clear of any lien or pledge securing said Obligations or otherwise existing under the Master Declaration. Neither Defeasance Obligations nor moneys deposited with the Bond Registrar pursuant to the provisions under this heading nor principal or interest payments on any such Defeasance Obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Obligations; provided, however, that any cash received from such principal or interest payments on such Defeasance

Obligations deposited with the Bond Registrar, (A) to the extent such cash will not be required at any time for such purpose, will be paid over to the Department as received by the Bond Registrar, free and clear of any trust, lien or pledge securing said Obligations or otherwise existing under the Master Declaration, and (B) to the extent such cash will be required for such purpose at a later date, will, to the extent practicable, be reinvested at the written direction of the Director in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Obligations on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments will be paid over to the Department, as received by the Bond Registrar, free and clear of any lien or pledge securing said Obligations or otherwise existing under the Master Declaration.

(e) If the Obligations are Variable Rate Senior Lien Bonds or Variable Rate Subordinate Lien Obligations, the moneys or Defeasance Obligations deposited with the Bond Registrar pursuant the provisions under this heading must be in an amount sufficient to cover all future Principal Installments or Redemption Price, if applicable, and interest due and to become due on said Obligations or portion thereof on or prior to the redemption date or maturity date thereof, as the case may be, assuming the Maximum Interest Rate allowable on the Obligations as provided in the Supplemental Declaration authorizing the issuance of such Obligations. Further, if the Obligations to be defeased are Variable Rate Senior Lien Bonds or Variable Rate Subordinate Lien Obligations, the redemption or purchase of the Obligations will occur upon the first tender or redemption date after the deposit of moneys or Defeasance Obligations with Bond Registrar pursuant to the provisions of this heading, whichever is earlier, for such Obligations as provided in the Supplemental Declaration authorizing the issuance of such Obligations.

Amendments and Consent of Owners

(a) The Master Declaration may be amended by one or more Supplemental Declarations without the consent of any Owners for any one or more of the following purposes:

(i) To cure any ambiguity or formal defect or omission in the Master Declaration or any Supplemental Declaration; or

(ii) To add to the covenants and agreements of the Department or the State in the Master Declaration, other covenants and agreements to be observed by the Department or the State which are not contrary to or inconsistent with the Master Declaration or any Supplemental Declaration as theretofore in effect; or

(iii) To add to the limitations and restrictions in the Master Declaration, other limitations and restrictions to be observed by the Department or the State which are not contrary to or inconsistent with the Master Declaration or any Supplemental Declaration as theretofore in effect; or

(iv) With the prior Opinion of Bond Counsel that to do so will not adversely affect the prior status of any Obligations intended to be, and which still are, Tax-Exempt Obligations, to authorize, in compliance with all applicable law, Obligations of any Series to be issued in the form of coupon Obligations registrable as to principal only and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Obligations, including provisions relating to the timing and manner of provision of any notice required to be given under the Master Declaration to the Owners of such coupon Obligations, which are not contrary to or inconsistent with the applicable provisions of the Master Declaration or any Supplemental Declaration as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such coupon Obligations; or

(v) To modify, amend or supplement the Master Declaration or any Supplemental Declaration in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any of the states of the United States of America; or

(vi) To add additional security subject to the pledge and lien of the Master Declaration or any Supplemental Declaration; or

(vii) To provide any of the Tax Covenants not provided by the Master Declaration or to modify in any respect any Tax Covenant so as to conform to the then applicable requirements of the Code or to delete or restrict the applicability of any Tax Covenant which, under the Code as then in effect, and in the Opinion of Bond Counsel, is no longer applicable to all or any Obligations issued or to be issued under the Master Declaration; or

(viii) To surrender any right, power or privilege reserved to or conferred upon the Department by the terms of the Master Declaration or any Supplemental Declaration, but only if the surrender of such right, power or privilege is not materially contrary to or materially inconsistent with the applicable covenants and agreement of the Department contained in the Master Declaration or any Supplemental Declaration; or

(ix) To confirm, as further assurance, any security interest or pledge created under the Master Declaration or any Supplemental Declaration; or

(x) To comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a Book-Entry-Only System; or

(xi) To insert such provisions clarifying matters or questions arising under the Master Declaration or any Supplemental Declaration as are necessary or desirable and are not contrary to or inconsistent with the applicable provisions of the Master Declaration or any Supplemental Declaration as theretofore in effect; or

(xii) To modify any of the provisions of the Master Declaration or any Supplemental Declaration in any other respect whatever, provided that:

(1) no Obligations affected by such modification will be Outstanding at the date of the adoption of such Supplemental Declaration; or

(2) such modification will be, and be expressed to be, effective only after all affected Outstanding Obligations at the date of the adoption of such Supplemental Declaration will cease to be Outstanding Obligations, and such Supplemental Declaration will be specifically referred to in the text of all Obligations authenticated and delivered after the date of the adoption of such Supplemental Declaration and of Obligations issued in exchange therefor or in place thereof; or

(3) such modification does not materially and adversely affect the rights of the Owners of any Outstanding Obligations as determined by the Department in its reasonable judgment; or

(xiii) To make any change required by a Rating Agency as precondition to the issuance of a rating on any Series of Obligations which is not to the material prejudice of the Owners of the Obligations of any other Series as determined by the Department in its reasonable judgment; or

(xiv) So long as a Credit Facility is in full force and effect with respect to any Obligations affected by such Supplemental Declaration, to make any other change that is consented to in writing by the issuer of such Credit Facility other than any change which:

(1) would result in a downgrading or withdrawal of the rating then assigned to the affected Obligations by the Rating Agencies; or

(2) changes the maturity (except as permitted in the Master Declaration), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Obligations or diminishes the security afforded by such Credit Facility; or

(3) materially and adversely affects the rights and security afforded to the Owners of any Outstanding Obligations not secured by such Credit Facility as determined in the reasonable judgment of the Department; or

(xv) To incorporate into the Master Declaration or any Supplemental Declaration any financing powers hereafter granted to or conferred upon the Department by law; or

(xvi) To enter into any Financial Contract permitted by the laws applicable to the Department and the Master Declaration, and to specify and determine the matters and things thought necessary or desirable in connection with the entering of such Financial Contract as are not contrary to or inconsistent with the provisions of the Master Declaration with respect to Financial Contracts as theretofore in effect.

(b) The Master Declaration may be amended for any other purpose only upon consent of Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Senior Lien Bonds Outstanding; provided, however, that no amendment will be valid without the consent of Bondowners of 100 percent (100%) of the aggregate principal amount of the Senior Lien Bonds Outstanding which:

(i) Extends the maturity of any Senior Lien Bonds, reduces the rate of interest upon any Senior Lien Bond (other than as permitted by a Supplemental Declaration), extends the time of payment or interest on any Senior Lien Bonds, reduces the amount of principal payable on any Senior Lien Bond, or reduces any premium payable on any Senior Lien Bond, without the consent of the affected Bondowner; or

(ii) Reduces the percent of Bondowners required to approve amendatory Supplemental Declarations.

(c) The Master Declaration may be amended for any other purpose with respect to the Subordinate Lien Obligations, if such amendment solely and exclusively relates to the issuance, security, terms, administration or payment of any Subordinate Lien Obligations and in no way amends the terms of the Master Declaration with respect to the Senior Lien Bonds, upon consent of Owners of not less than a majority in aggregate principal amount of the Subordinate Lien Obligations Outstanding; provided, however, that no amendment will be valid without the consent of Owners of 100 percent (100%) of the aggregate principal amount of the Subordinate Lien Obligations Outstanding which:

(i) Extends the maturity of any Subordinate Lien Obligations, reduces the rate of interest upon any Subordinate Lien Obligation (other than as permitted by a Supplemental Declaration), extends the time of payment or interest on any Subordinate Lien Obligations, reduces the amount of principal payable on any Subordinate Obligation, or reduces any premium payable on any Subordinate Lien Obligations, without the consent of the affected Owner; or

(ii) Reduces the percent of Owners required to approve amendatory Supplemental Declarations.

(d) Except as otherwise expressly provided in a Supplemental Declaration, as long as a Credit Facility securing all or a portion of any Outstanding Obligations is in effect, the issuer of such Credit Facility will be deemed to be the Owner of the Obligations secured by such Credit Facility:

(i) At all times for the purpose of the execution and delivery of a Supplemental Declaration or of any amendment, change or modification of the Master Declaration or the initiation by Owners of any action which under the Master Declaration requires the written approval or consent of or can be initiated by the Owners of at least a majority in principal amount of the affected Obligations at the time Outstanding; and following an event of default for all other purposes.

(ii) Notwithstanding the foregoing, the issuer of such Credit Facility will not be deemed to be an Owner secured thereby with respect to any such Supplemental Declaration or of any amendment, change or modification of the Master Declaration which:

(1) would result in a downgrading or withdrawal of the rating then assigned to the affected Obligations by the Rating Agencies; or

(2) changes the maturity (except as expressly permitted herein), the Interest Payment Dates, interest rates, redemption and purchase provisions, and provisions regarding notices of redemption and purchase applicable to the affected Obligations or diminishes the security afforded by such Credit Facility; or

(3) reduces the percentage or otherwise affects the classes of affected Obligations, the consent of the Owners of which is required to effect any such modification or amendment;

(iii) In addition and notwithstanding the foregoing, the issuer of a Credit Facility given as security for any Obligations will not be entitled to exercise any rights under the provisions of this heading during any period in which:

(1) the Credit Agreement or Credit Facility to which such Credit Provider is a party is not in full force and effect;

(2) such Credit Provider has filed a petition or otherwise sought relief under any federal or state bankruptcy or similar law;

(3) such Credit Provider has, for any reason, failed or refused to honor a proper demand for payment under such Credit Facility; or

(4) an order or decree has been entered, with the consent or acquiescence of such Credit Provider, appointing a receiver or receivers or the assets of the Credit Provider, or if such order or decree has been entered without the consent or acquiescence of such Credit Provider, has not been vacated or discharged or stayed within ninety (90) days after the entry thereof.

(e) For purposes of determining the percentage of Owners consenting to, waiving or otherwise acting with respect to any matter that may arise under the Master Declaration, the Owners of Obligations which constitute Capital Appreciation Obligations will be treated as Owners of Senior Lien Bonds or Subordinate Lien Obligations in an aggregate principal amount equal to the Accreted Value of such Obligations as of the date the Bond Registrar sends out notice of requesting consent, waiver or other action as provided in the Master Declaration.

Any act pursuant to this modification or amendment so consented to by the majority of Registered Owners will be binding upon the Registered Owners of all of the Obligations and will not be deemed an infringement of any of the provisions of the Master Declaration, whatever the character of such act may be, and may be done and performed as fully and freely as if expressly permitted by the terms of the Master Declaration. After such consent relating to such specified matters has been given, no Registered Owner of an Obligation will have any right or interest to object to such action or in any manner to question the propriety thereof or to enjoin or restrain the State, the State Treasurer, the Department, the Commission or the Director from taking any action pursuant thereto.

If the Department desires to obtain any such consent, it will cause the Paying Agent and Bond Registrar to mail a notice, postage prepaid, to the Registered Owners of the Obligations at the addresses appearing on the registration books and to the Beneficial Owners, to the extent the addresses of such Beneficial Owners are provided.

Such notice will briefly set forth the nature of the proposed amendment or modification and will state that a copy thereof is on file at the office of the Department for inspection by all Registered Owners of the Obligations. The Paying Agent and Bond Registrar will not be subject to any liability to any Registered Owner of the Obligations by reason of the failure to mail the notice required and any such failure will not affect the validity of such change or modification when consented to and approved as provided under this heading. Whenever at any time within six months after the date of mailing of such notice, the Department will receive an instrument or instruments purporting to be executed by the Registered Owner of not less than a majority in aggregate principal amount of the Obligations then Outstanding, which instrument or instruments refers to the proposed amendment or modification to the Master Declaration as described in such notice, and specifically consents to, and approves of, the adoption thereof in substantially the form of a copy thereof referred to in such notice as on file with the Director of the Department, thereupon, the State may adopt such modification or amendment in substantially such form, without liability or responsibility to any Registered Owner of any Obligations, whether or not such Registered Owner will have consented thereto.

Upon adoption of any modification of the Master Declaration pursuant to the provisions of the Master Declaration summarized under this heading, the Master Declaration will be, and be deemed to be, modified and amended in accordance therewith.

Financial Contracts

The Department, with the approval of the State Treasurer, or the State Treasurer may enter into Financial Contracts on a parity with the Senior Lien Bonds or on parity with the Subordinate Lien Obligations subject to the provisions of the Master Declaration summarized under this heading.

The following will be conditions precedent to the use of any Financial Contract on a parity with the Senior Lien Bonds or on a parity with the Subordinate Lien Obligations under the Master Declaration:

(i) Opinion of Bond Counsel. The Department will obtain an opinion of Bond Counsel on the due authorization and execution of such Financial Contract, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Master Declaration or the applicable provisions of any Supplemental Declaration and will not adversely affect the excludability for federal income tax purposes of the interest on any outstanding Tax-Exempt Obligations.

(ii) Termination Payments. Any termination payments in connection with a Financial Contract entered on a parity with the Senior Lien Bonds or on a parity with the Subordinate Lien Obligations will be payable as Second Subordinate Lien Obligations and will not be payable on parity with the Senior Lien Bonds or on a parity with the Subordinate Lien Obligations.

(iii) Supplemental Declaration to Govern Financial Contracts. Prior to entering into a Financial Contract, the State will execute and deliver a Supplemental Declaration, which:

(1) creates and establishes a Financial Contract account or provides for some other way to account for the use of a Financial Contract within the Debt Service Account with respect to Senior Lien Bonds or within the Subordinate Lien Obligations Account with respect to Subordinate Lien Obligations;

(2) establishes general provisions for the retention of Pledged Revenues in amounts sufficient to make, when due, the payments under the Financial Contract; and

(3) sets forth such other matters as the Department deems necessary or desirable in connection with the management of Financial Contracts as are not clearly inconsistent with the provisions of the Master Declaration or any Supplemental Declaration.

Except as may be otherwise provided in the Supplemental Declaration establishing the Financial Contract Account, additional Supplemental Declarations may be delivered pursuant to the provisions under this heading in connection with any Financial Contract. Except as otherwise provided under this heading with respect to termination payments, Financial Contract Payments under Financial Contracts may be on parity with the Senior Lien Bonds or on parity with the Subordinate Lien Obligations as designated in a Supplemental Declaration.

No Acceleration

The Obligations are not subject to acceleration under any circumstances or for any reason. Notwithstanding the provisions of the Master Declaration summarized in the preceding sentence, nothing in the Master Declaration or any Supplemental Declaration will prohibit the Department from including in the Master Declaration or any Supplemental Declaration provisions for mandatory tender of any Series of Obligations at the direction of the Department, a Credit Provider or a Liquidity Provider.

FIFTEENTH SUPPLEMENTAL DECLARATION

The following is a summary of certain provisions of the Fifteenth Supplemental Declaration. This summary of the Fifteenth Supplemental Declaration does not purport to be complete or definitive and reference is made to the Fifteenth Supplemental Declaration for the complete terms thereof.

General

The Fifteenth Supplemental Declaration authorizes the issuance of the 2017 Bonds and sets forth the terms and conditions governing the issuance of the 2017 Bonds.

Security for the 2017 Bonds

The 2017 Bonds are secured by the Department's pledge of the Trust Estate, as described in the Master Declaration, on a parity with the Outstanding Senior Lien Bonds and any Additional Senior Lien Bonds issued pursuant to the Master Declaration.

Rebate Account, Deposit and Disbursements

Rebate Account. The Department may establish, designate appropriately and maintain, so long as any 2017 Bonds are Outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate 2017 Bonds Rebate Account (the "Rebate Account") within the Debt Service Account. The Department will make deposits as required by law from the Rebate Account. Any balance remaining in the Rebate Account after the Bond Declaration and such rebate obligation are discharged will be distributed to the Department.

Rebate Disbursements. Not later than sixty days after a Computation Date (as defined in the Tax Certificate), and every five years thereafter, the Department will pay to the United States ninety percent of the amount required to be on deposit in the Rebate Account. Not later than sixty days after the final retirement of the 2017 Bonds, the Department will direct the Paying Agent to pay to the United States one hundred percent of the balance remaining in the Rebate Account.

Moneys to be Held in Trust

All moneys required to be deposited with or paid to the Paying Agent for the account of any fund or account established under any provision of the Bond Declaration will be held by the Paying Agent in trust and applied in accordance with the provisions of the Bond Declaration and, except for moneys deposited with or paid to the Paying Agent for the redemption of the 2017 Bonds, notice of the redemption of which has been duly given and, except for moneys held in the Rebate Account, if any, will, while held by the Paying Agent, constitute part of the Trust Estate for the 2017 Bonds, are subject to the security interest created in the Fifteenth Supplemental Declaration and by the Bond Declaration and will not be subject to any lien or attachment by any creditor of the Department.

Application of Provisions of the Master Declaration

All of the provisions of the Master Declaration to the extent not inconsistent with the Fifteenth Supplemental Declaration are incorporated in the Fifteenth Supplemental Declaration and made a part thereof. Notwithstanding any provision of the Fifteenth Supplemental Declaration, all of the provisions of the Master Declaration remain in effect and are enforceable by the Paying Agent and the holders of any Obligations issued under the Master Declaration as provided by the terms thereof. To the extent not otherwise expressly provided in the Fifteenth Supplemental Declaration, the 2017 Bonds will be of such terms, conditions and provisions, will be issued upon and subject to such terms and conditions, and will be entitled to such rights and benefits, all as provided by the applicable terms, conditions and provisions of the Master Declaration.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

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September __, 2017

State Treasurer of the State of Oregon
Oregon Department of Transportation
Salem, Oregon

$______________
State of Oregon
Department of Transportation
Highway User Tax Revenue Refunding Bonds
Senior Lien Bonds
Series 2017C
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the State of Oregon (the "State"), acting by and through the State Treasurer (the "State Treasurer"), at the request of the Oregon Department of Transportation (the "Department") in connection with the issuance of $___________ aggregate principal amount of State of Oregon Department of Transportation Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C (the "Bonds"). The Bonds are issued pursuant to the provisions of Article IX, Section 3a of the Oregon Constitution, Oregon Revised Statutes ("ORS") 367.605 to 367.665, as amended, inclusive, ORS Chapter 286A, as amended, inclusive, Chapter 3, Oregon Laws 2002 (First Special Session), Chapter 618, Oregon Laws 2003, Chapter 865, Oregon Laws 2009, Chapter 30, Oregon Laws 2010, Chapter 11, Oregon Laws 2013, Chapter 344, Oregon Laws 2015 and Chapter 38, Oregon Laws 2016 (collectively, the "Act"), and the Conformed Amended and Restated Master Highway User Tax Revenue Bond Declaration dated as of June 1, 2006 and conformed as of November 1, 2010 (the "Master Declaration"), as amended and supplemented, including by the Fifteenth Supplement to the Amended and Restated Master Highway User Tax Revenue Bond Declaration dated as of September 1, 2017 (the "Fifteenth Supplemental Declaration" and together with the Master Declaration and all prior supplements and amendments, including the Fourteenth Supplemental Declaration, collectively, the "Bond Declaration") executed and delivered by the Department and approved by the State Treasurer. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Declaration.

In such connection, we have reviewed the Bond Declaration, the Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the Department on behalf of the State, certificates of the State Treasurer, the Department and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State and the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Declaration and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Declaration and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public bodies in the State of Oregon. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Bond Declaration or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special obligations of the State.

2. The Bond Declaration has been duly authorized, executed and delivered by the Department as approved by the State Treasurer and constitutes the valid and binding obligation of the State.

3. The Bonds do not constitute a general obligation of the State and are payable solely from the Trust Estate on a parity of lien with the Outstanding Senior Lien Bonds and any Additional Senior Lien Bonds.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Oregon personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

$____________
STATE OF OREGON
DEPARTMENT OF TRANSPORTATION
HIGHWAY USER TAX REVENUE REFUNDING BONDS
SENIOR LIEN BONDS
SERIES 2017C

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the State of Oregon, acting by and through its State Treasurer (the "State"), at the request of its Department of Transportation (the "Department") (collectively, the "Issuer"), in connection with the issuance of $___________ aggregate principal amount of State of Oregon Department of Transportation Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C (the "Bonds"). The Bonds are being issued pursuant to the provisions of Article IX, Section 3a of the Oregon Constitution, Oregon Revised Statutes ("ORS") 367.605 to 367.665, as amended, inclusive, ORS Chapter 286A, as amended, inclusive, Chapter 3, Oregon Laws 2002 (First Special Session), Chapter 618, Oregon Laws 2003, Chapter 865, Oregon Laws 2009, Chapter 30, Oregon Laws 2010, Chapter 11, Oregon Laws 2013, Chapter 344, Oregon Laws 2015 and Chapter 38, Oregon Laws 2016 (collectively, the "Act"), and the Conformed Amended and Restated Master Highway User Tax Revenue Bond Declaration dated as of June 1, 2006 and conformed as of November 1, 2010 (the "Master Declaration"), as amended and supplemented, including by the Fifteenth Supplement to the Amended and Restated Master Highway User Tax Revenue Bond Declaration dated as of September 1, 2017 (the "Fifteenth Supplemental Declaration" and together with the Master Declaration and all prior supplements and amendments, including the Fifteenth Supplemental Declaration, the "Bond Declaration") executed and delivered by the Department and approved by the State Treasurer. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and to assist the Participating Underwriters in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Declaration, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Business Day” means any day that is not a Saturday, Sunday, legal holiday or a day on which the offices of banks in Oregon or New York are authorized or required by law or executive order to remain closed and which shall not be a day on which the New York Stock Exchange or The Depository Trust Company, New York, New York is closed.

“Dissemination Agent” shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

“Official Statement” means the Official Statement, dated August __, 2017, prepared and distributed in connection with the initial sale of the Bonds.

“Participating Underwriters” shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. <u>Provision of Annual Reports</u>.

(a) The Issuer shall not later than nine (9) months after the end of the Department’s preceding fiscal year, commencing with the report for the Department’s fiscal year ending June 30, 2017, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the Department’s Annual Financial Report may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if the Department’s Annual Financial Report is not available by that date. If the Issuer’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference historical unaudited financial information of the Department of the type contained in the Department's Annual Financial Report, included in the Official Statement as Appendix B, which includes unaudited financial information and which is prepared in accordance with generally accepted accounting principles as established by the Government Accounting Standards Board as in effect from time to time. If the Department's final Annual Financial Report is not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the Department's unaudited financial statements included in the Annual Financial Report included in the final Official Statement, and the Department's final Annual Financial Report shall be provided to the MSRB in the same manner as the Annual Report when it becomes available.

Any or all of the items of the Annual Report may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been made available to the public on the MSRB's website. The Issuer shall clearly identify each such other document so included by reference. The Issuer may modify the format in which this information is presented in the Issuer's discretion, if the Issuer determines that the modified format is consistent with the Rule and the purposes of this Disclosure Certificate.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(1) Principal and interest payment delinquencies;

(2) Unscheduled draws on debt service reserves reflecting financial difficulties;

(3) Unscheduled draws on credit enhancements reflecting financial difficulties;

(4) Substitution of credit or liquidity providers, or their failure to perform;

(5) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(6) Tender offers;

(7) Defeasances;

(8) Rating changes; or

(9) Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(1) Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(2) Modifications to rights of Bond holders;

(3) Optional, unscheduled or contingent Bond calls;

(4) Release, substitution, or sale of property securing repayment of the Bonds;

(5) Non-payment related defaults;

(6) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the Issuer determines would be material under applicable federal securities laws, the Issuer shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Declaration.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in a filing with the MSRB.

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Issuer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Enforceability and Remedies. The Issuer agrees that this Disclosure Certificate is intended to be for the benefit of Holders and Beneficial Owners of the Bonds and shall be enforceable by or on behalf of any such Holder and Beneficial Owner; provided that, the right of any Beneficial Owner to challenge the adequacy of the information furnished hereunder shall be limited to an action by or on behalf of Beneficial Owners representing at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds. Any failure by the Issuer to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under the Bond Declaration. This Disclosure Certificate confers no rights on any person or entity other than the Issuer, holders of the Bonds, and any Dissemination Agent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, any Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Choice of Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of Oregon, provided that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Disclosure Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

[SIGNATURE PAGE FOLLOWS]

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Date: September __, 2017.

STATE OF OREGON, acting by and through its State Treasurer

By: ___________________________________
Laura Lockwood-McCall
Director, Debt Management Division
Office of the State Treasurer

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION

By: ___________________________________
Tracy D. Wroblewski
Chief Financial Officer

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Oregon, acting by and through its State Treasurer and its Department of Transportation (collectively, the "Issuer")
Name of Bond Issue:	$_____________ State of Oregon Department of Transportation Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C
Date of Issuance:	September __, 2017

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Issuer, dated the Date of Issuance. The Issuer anticipates that the Annual Report will be filed by _____________.

Dated:_______________

STATE OF OREGON, acting by and through its State Treasurer

By: [to be signed only if filed]
Laura Lockwood-McCall
Director, Debt Management Division
Office of the State Treasurer

STATE OF OREGON
DEPARTMENT OF TRANSPORTATION

By: [to be signed only if filed]
Authorized Representative

APPENDIX G

DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2017C Senior Lien Bonds. The 2017C Senior Lien Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each series of the 2017C Senior Lien Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2017C Senior Lien Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017C Senior Lien Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 Senior Lien Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2017C Senior Lien Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2017C Senior Lien Bonds, except in the event that use of the book-entry system for the 2017C Senior Lien Bonds is discontinued.

To facilitate subsequent transfers, all 2017C Senior Lien Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2017C Senior Lien Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017C Senior Lien Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017C Senior Lien Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2017C Senior Lien Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017C Senior Lien Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents relating to the 2017C Senior Lien Bonds. For example, Beneficial Owners of 2017C Senior Lien Bonds may wish to ascertain that the nominee holding the 2017C Senior Lien Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2017C Senior Lien Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2017C Senior Lien Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2017C Senior Lien Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2017C Senior Lien Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, the State or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2017C Senior Lien Bonds at any time by giving reasonable notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

To the extent permitted by law, the State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NONE OF THE STATE, THE DEPARTMENT OR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES OR BENEFICIAL OWNERS WITH RESPECT TO DTC'S RECORD KEEPING, PAYMENTS BY DTC OR PARTICIPANTS, NOTICES TO BE DELIVERED BY DTC, OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2017C SENIOR LIEN BONDS.

So long as Cede & Co. is the registered owner of the 2017C Senior Lien Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2017C Senior Lien Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2017C Senior Lien Bonds. When reference is made to any action, which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given the State or the Fiscal Agent shall send them to DTC only.

For every transfer and exchange of the 2017C Senior Lien Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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State of Oregon Department of Transportation • Highway User Tax Revenue Refunding Bonds Senior Lien Bonds, Series 2017C

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