TRIMET REVENUE FORECAST

April 2006

Reporting Period: 2003-2009

Submitted to:

TRIMET

4012 S.E. 17th Avenue
Portland, Oregon 97202

Submitted by:

ECONorthwest
888 S.W. Fifth Avenue, Suite 1460
Portland, Oregon 97204
(503) 222-6060

FOREWORD

In this report, ECONorthwest presents a forecast of TriMet's future revenues through the fourth quarter of 2009. We also present a forecast of the economic variables that are important determinants of TriMet's revenues and expenses. We show our current forecast, by quarter, for the following variables:

- TriMet's payroll tax revenues from private employers and local governments, and self-employed individuals
- In-lieu-of-tax payments from the State of Oregon
- Employment (by preserved selected industry groups) in TriMet's service district
- Local macroeconomic indicators, including the Consumer Price Index, employment, and population.

ECONorthwest believes that the data and methodology used in providing this revenue forecast provide a fair, objective, and accurate estimate of the future path of TriMet payroll tax revenues. ECONorthwest has used all appropriate professional standards of care in developing this forecast. In using this estimate to support the issuance of debt or other securities, TriMet understands that ECONorthwest provides this forecast in our role as consultant to TriMet, and that ECONorthwest is not offering a fairness opinion regarding securities backed by TriMet revenues. TriMet understands that ECONorthwest is not providing investment banking services and that ECONorthwest will be held harmless against assertions to the contrary. The forecast we provide here should not be relied upon exclusively by investors, underwriters or others concerned with the marketability or value of securities issued by TriMet.

To prepare the forecast, we used an econometric model of the metropolitan economy developed by ECONorthwest. The model is the same formulation as introduced in the April 2004 report of our traditional Vector Autoregression Model. This type of model has demonstrated significantly improved forecasting performance over older, structural models. Our model relies on forecasts from our own version of the models originally developed by Dr. Ray Fair of Yale University and Dr. Christopher Sims of UC San Diego. We also report selected data from an econometric model of the Oregon economy operated by the State of Oregon, and data from the Oregon Employment Department.

Readers should note that this report continues the use of the NAICS industry classification system first used in the April 2003 report. This methodology creates synthetic aggregate categories for the Portland metro area that are consistently defined across both SIC and NAICS classification schemes. Nonetheless, total employment is by far the largest driver for the forecast and is considered more reliable than the industry level detail.

Lastly, the forecast model incorporates the increased payroll and self-employment tax rates authorized by the legislature in house bill 3183, and approved by the TriMet Board of Directors. The tax rates are scheduled to be phased-in over the ten year period from 2005 to 2014.

TABLE OF CONTENTS

I. SUMMARY

The economy has progressed as expected, but changes are afoot. In our October report, we noted that the combined effects of high energy prices and two hurricanes would be enough to slow, but not stop, economic growth. The economy did in fact slow down. After rising at an annual rate of 3.6 percent rate for four quarters, the national gross domestic product ("GDP") grew at an annual rate of only 1.7 percent in the fourth quarter of 2005—the weakest performance in two and a half years. While we look for a very strong 4.5 to 5.0 percent rebound, GDP growth should gradually moderate as we move into the later portion of the recovery cycle and rising long-term interest rates finally take hold to quell residential construction.

The impact of rising long-term interest rates would be particularly hard on Portland because so much of the recent growth in employment is either directly or indirectly tied to residential building activity. We forecast continuing modest growth in long-term rates, causing construction employment to grow more slowly in 2007, and ultimately to fall slightly. The local economy will follow because so much of the region's construction money has been spent on endogenous needs (housing, restaurants, schools, stores, and hospitals) rather than on exogenous needs (such as factories and offices) that would produce long-term establishments for productive work.

The forecast for TriMet revenues from the payroll tax, self-employment tax, and state in-lieu contributions, shows consistent growth rates in the 8 to 10 percent range through 2009. The sum of these revenues in fiscal year 2006 is expected to reach 183.3 million. This total represents a 10.6 percent growth rate and an upward revision of 2.0 percent from our October report. In general, the forecast has been bumped upward due to our national inflation forecast that shifted the peak in inflation to 2007 rather than 2006.