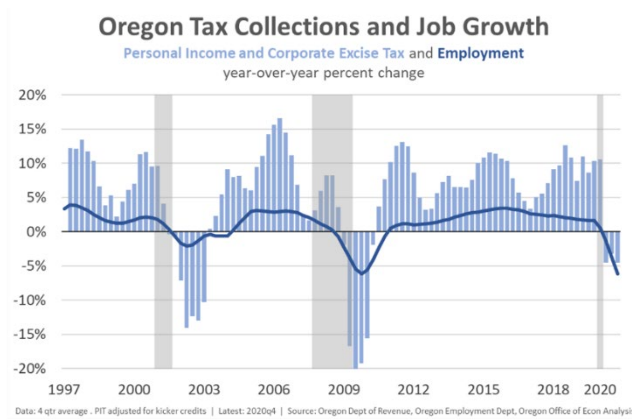
REVENUE OUTLOOK

Revenue Summary

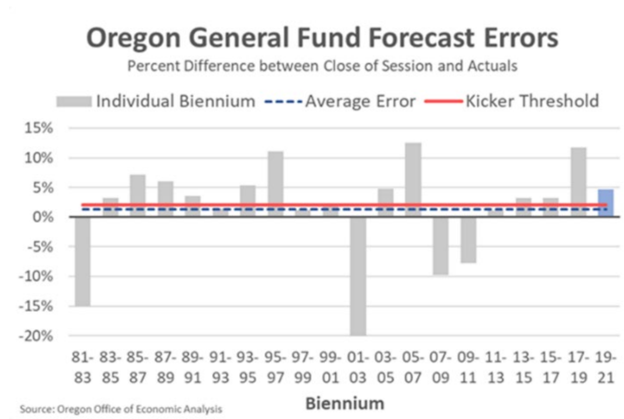
Despite Oregon's severe job losses and business woes, the General Fund revenue outlook has brightened considerably this year. Although many are suffering, aggregate income has risen sharply during the recession. As an income tax state, Oregon's primary revenue instruments have followed suit. With the near-term economic outlook looking solid, further gains can be expected as we close out the 2019-21 budget period.

Given the size of the shock to the labor market, Oregon's General Fund revenue outlook for the current biennium was revised downward by around $2 billion immediately following the onset of the COVID-19 pandemic. As of the March 2021 forecast, this hole has completely been filled, with the outlook now calling for a bit more revenue than was expected before the recession began.

Many factors are playing into the unexpectedly strong revenue collections, but two reasons stand out in particular. First, the unprecedented amount of federal aid has translated into around $1.5 billion in additional Oregon tax liability. Second, during recent recessions, we have lost a similar amount of revenue associated with sharp declines in investment and business income. This time around, asset markets like stocks and housing have continued to gain value, and corporate income has held steady.

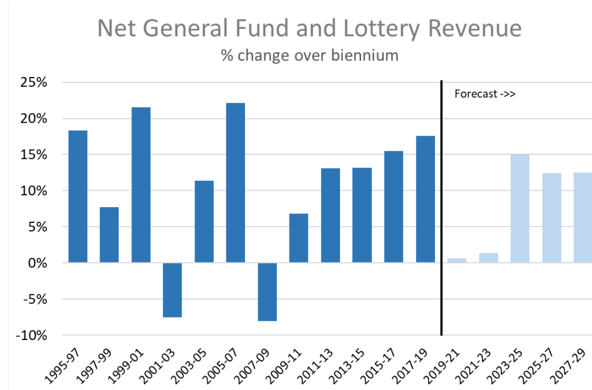


To date, revenue losses during the current recession pale in comparison with Oregon's recent experiences. With strong growth to begin 2021, income tax collections are now roughly the same as last year. During the most recent two recessions, revenues fell at double-digit rates. Oregon's employment has declined by 6% over the past year, matching the worst year of the Great Recession. However, unlike today, Oregon's income tax revenues were down 20% at that time.



Healthy revenue collections together with the strengthening economic outlook have put Oregon's unique kicker law back into play. Following a booming first half of the current biennium, Oregon's General Fund revenue outlook was inches away from the 2% kicker threshold when the COVID recession struck. After filling all of the recessionary hole, the March 2021 forecast calls for collections to exceed the threshold by $170 million (0.9%), resulting in a kicker credit of $571 million. However, this kicker credit is far from a sure thing. With one more tax season left in the biennium, much uncertainty remains. During peak tax season, the Department of Revenue has processed more than $170 million of tax payments in a single day. Given the variance seen during our 40-year forecasting record, there is currently a two-in-three chance that a kicker will be triggered when the biennium ends.

Although the additional revenue called for in the March 2021 outlook is a welcome sight, budget writers still face a challenging environment this session. Although personal income taxes have continued to grow this biennium, many other revenue sources such as Lottery sales have not. While better than past recessions, overall revenue growth remains quite modest from an historical perspective. With both federal aid and asset booms expected to expire, revenue growth will remain modest during the 2021-23 budget period. Should this baseline outlook come to pass, state resources will have remained roughly unchanged for three consecutive budgets. This growth is not sufficient to keep up with rising need for, and the cost of, providing public services.



2019-21 General Fund Revenues

Gross General Fund revenues for the 2019-21 biennium are expected to reach $22,011 million. This represents an increase of $747 million from the December 2020 forecast, and an increase of $990 million relative to the Close of Session forecast. Most major General Fund revenue sources have outperformed expectations in recent months. Among non-General Fund sources, lottery sales have been lower than expected due to COVID-related closures, but are now recovering rapidly as vendors come back online.

Table R.1

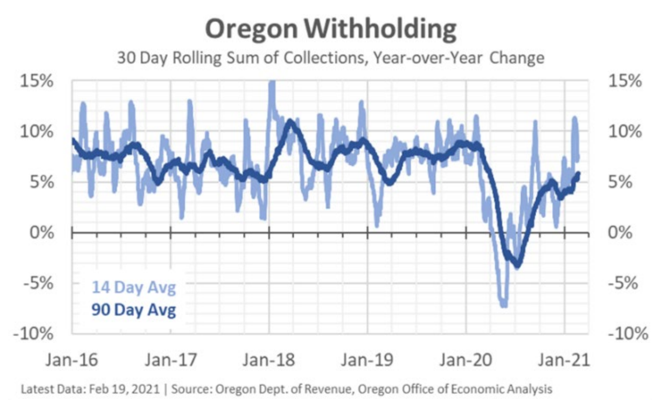
2019-21 General Fund Forecast Summary

(Millions)	2019 COS Forecast	December 2020 Forecast	March 2021 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$18,283.5	$18,182.1	$18,680.0	$497.9	$396.5
Corporate Income Tax	$1,190.8	$1,384.3	$1,610.5	$226.2	$419.7
All Other Revenues	$1,546.1	$1,697.4	$1,720.1	$22.7	$174.0
Gross GF Revenues	$21,020.4	$21,263.8	$22,010.6	$746.8	$990.2
Offsets and Transfers	-$203.5	-$96.0	-$99.4	-$3.3	$104.1
Administrative Actions[1]	-$21.5	-$21.5	-$21.5	$0.0	$0.0
Legislative Actions	-$199.5	-$198.3	-$198.3	$0.0	$1.1
Net Available Resources	**$22,914.4**	**$23,657.3**	**$24,400.8**	**$743.5**	**$1,486.4**
Confidence Intervals					
67% Confidence	+/- **1.9%**		**$423.5**	**$21.59B to $22.43B**	
95% Confidence	+/- **3.8%**		**$847.0**	**$21.16B to $22.86B**	

1 Reflects cost of cashflow management actions, exclusive of internal borrowing.

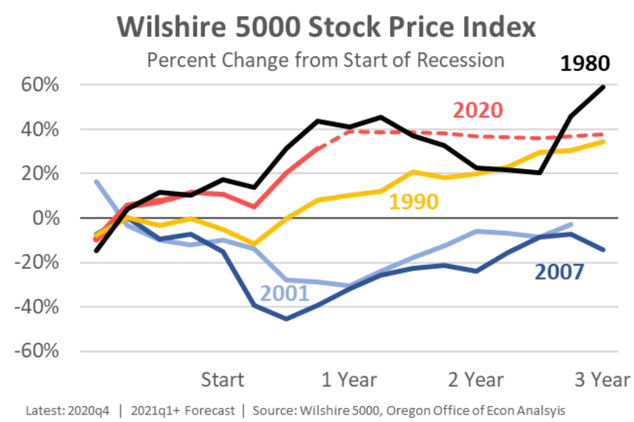
Personal Income Tax

Personal income tax collections have outstripped expectations since the December 2020 forecast. After taking an initial dip when the pandemic arrived, withholdings of personal income taxes are back to posting healthy growth rates. Most withholdings are related to labor and retirement income, making their performance somewhat surprising given Oregon has lost 160,000 jobs. The fact that job losses have disproportionately impacted low-wage workers has played a part in muting the overall drag on withholdings. The helicopter drop of federal aid is clearly playing a role as well. If the next round of aid that is moving through Congress comes as expected, Oregon will have paid out $12 billion in unemployment insurance over less than two years. Unemployment insurance benefits are taxable, and recipients are offered the option of withholding income taxes when they



apply. Federal Payroll Protection Program loans are also supporting withholdings. Although forgiven PPP loans themselves are not taxable, paying worker salaries with the borrowed funds is the primary reason loans are forgiven.

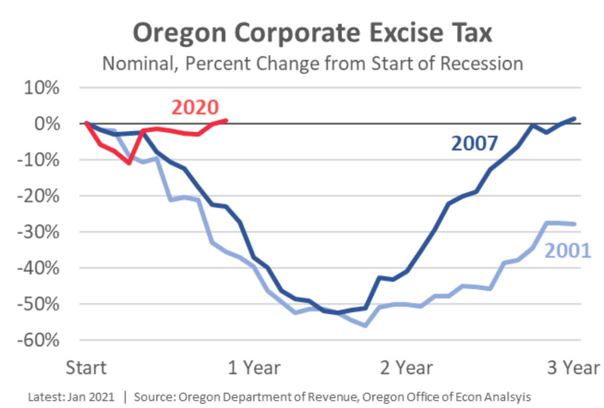
Going forward, the performance of asset market prices and business income will be key to whether the impact on personal income tax revenues remains mild. The nature and size of losses in business income will become clearer after personal income tax returns are filed this year. A wide range of businesses (S-corps, partnerships, sole proprietorships, etc.) pay taxes through personal tax returns. Firms in many of the industries most impacted by COVID and public health restrictions belong in this category, with the vast majority filing taxes as pass through entities. Encouragingly, quarterly estimated tax payments have held up well to date.



Along with business and rental income, taxable investment income also can collapse during recessions. Last time, Oregon lost well over $1 billion in revenue related to such nonwage sources of personal income. While it is hard to shake the memories from the past two recessions when stock market crashes led taxable dividends and capital gains to evaporate, not all recessions bring with them major market crashes. Prior to 2001 it was not the norm for nonwage income to play such a large role in overall revenue growth, and income tax-dependent states did not exhibit the same kind of wild revenue swings that we have become accustomed to since. Asset markets likely still need to price in the damage done to key industries during the current recession, but with luck this could turn out to be a gradual process.

Corporate Excise Tax

Corporate excise tax collections have yet to weaken at all. After a temporary drop at the beginning of the recession, corporate tax collections immediately bounced back and remain near their record highs. This stands in stark contrast to the last two recessions when corporate tax collections were cut in half.



The strong performance of corporate taxes is particularly surprising given that they were expected to come back down to earth before the recession began. Corporate collections are now double what they were just a few years ago. While some of this increase likely reflects a permanent increase in the tax base, a significant amount of the growth was expected to be temporary, including the realization of repatriated foreign income associated with federal tax reforms. The subtraction for taxes paid under Oregon's new Corporate Activity Tax was also expected to reduce collections.

Given that large swings in profitability are the norm, considerable downside risk remains for the 2021-23 budget period. A decline of the magnitude seen during the past two recessions would reduce corporate collections by $450 million per year today.

Other Sources of Revenue

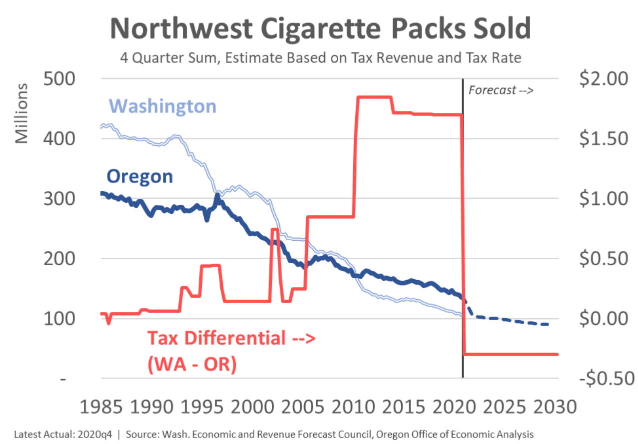
Non-personal and non-corporate revenues in the General Fund usually account for approximately 7 percent of the total. The two largest such sources are the Oregon Liquor Control Commission and estate taxes.

Combined all of these other sources of revenue have been revised up by $22.7 million (+1.3%) relative to the previous forecast for 2019-21. They are raised $2.8 million (+0.2%) in 2021-23 and $5.5 million (+0.4%) in 2023-25.

Overall upward revisions to insurance and estate taxes and interest earnings are partially offset by declines in judicial revenues which continue to be impacted by a socially distanced court system, and policy decisions that do not send delinquent accounts to collections during the pandemic.

While first incorporated last forecast, the impact from the passage of Measure 108 at the ballot box last year raises the total amount of tobacco tax revenue the state collects. However, given the expected decline in the total number of packs sold, the General Fund portion of the cigarette taxes will likewise decline in the years ahead.

Of note is Oregon's cigarette taxes at $3.33 per pack are now higher than Washington's at $3.03 per pack, leaving to the side the impact of Washington's retail sales tax. Historically the border tax effect between the states has been very real. The relative price changes when each state adjusts tax policy have driven short-term tobacco sales trends in each state as well. If historical patterns hold, expectations are that sales in Oregon will drop noticeably this year, while they will likely hold steady, or at least decline more slowly in Washington. With such a large change in the taxes going into effect in January, time will tell the exact impact on consumer behavior in each state.



Measure 108 also increased other tobacco taxes by increasing the maximum tax levied on cigars from $0.50 to $1.00 each, and established a new tax on inhalant delivery devices (e-cigarettes). See Table B.6 in the appendix for the full breakdown of tobacco related revenues.

Extended General Fund Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2027-29 biennium. Users should note that the potential for error in the forecast increases substantially the further ahead we look.

Revenue growth in Oregon and other states will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes and general sales taxes will become less effective, and revenue growth will fail to match the pace seen in the past.

Table R.2

General Fund Revenue Forecast Summary (Millions of Dollars, Current Law)

Revenue Source	Forecast 2017-19 Biennium	% Chg	Forecast 2019-21 Biennium	% Chg	Forecast 2021-23 Biennium	% Chg	Forecast 2023-25 Biennium	% Chg	Forecast 2025-27 Biennium	% Chg	Forecast 2027-29 Biennium	% Chg
Personal Income Taxes	18,823.3	17.2%	18,680.0	-0.8%	19,797.0	6.0%	22,854.1	15.4%	25,597.1	12.0%	28,911.3	12.9%
Corporate Income Taxes	1,752.7	44.8%	1,610.5	-8.1%	1,242.6	-22.8%	1,464.3	17.8%	1,777.7	21.4%	1,932.2	8.7%
All Others	1,339.3	3.9%	1,720.1	28.4%	1,317.1	-23.4%	1,353.0	2.7%	1,455.4	7.6%	1,575.6	8.3%
Gross General Fund	21,915.3	18.1%	22,010.6	0.4%	22,356.7	1.6%	25,671.4	14.8%	28,830.2	12.3%	32,419.2	12.4%
Offsets and Transfers	*(129.5)*		*(99.4)*		*(138.4)*		*(90.5)*		*(71.0)*		*(78.4)*	
Net Revenue	21,785.8	17.6%	21,911.2	0.6%	22,218.3	1.4%	25,580.9	15.1%	28,759.2	12.4%	32,340.7	12.5%

Tax Law Assumptions

The revenue forecast is based on existing law, including measures and actions signed into law during the 2019 Oregon Legislative Session. OEA makes routine adjustments to the forecast to account for legislative and other actions not factored into the personal and corporate income tax models. These adjustments can include expected kicker refunds, when applicable, as well as any tax law changes not yet present in the historical data. A summary of actions taken during the 2019 Legislative Session can be found in Appendix B Table B.3. For a detailed treatment of the components of the 2019 Legislatively Enacted Budget, see:

LFO 2019-21 Budget Summary and LFO 2019-21 Special Session Budget Update

Although based on current law, many of the tax policies that impact the revenue forecast are not set in stone. In particular, sunset dates for many large tax credits have been scheduled. As credits are allowed to disappear, considerable support is lent to the revenue outlook in the outer years of the forecast. To the extent that tax credits are extended and not allowed to expire when their sunset dates arrive, the outlook for revenue growth will be reduced. The current forecast relies on estimates taken from the Oregon Department of Revenue's 2019-21 Tax Expenditure Report together with more timely updates produced by the Legislative Revenue Office.

General Fund Alternative Scenarios

The latest revenue forecast for the current biennium represents the most probable outcome given available information. OEA feels that it is important that anyone using this forecast for decision-making purposes recognize the potential for actual revenues to depart significantly from this projection.

Table R.2b shows the revenue implications of the two alternative economic scenarios described on page 13. If the recovery were to take a step back next year as called for in the pessimistic scenario, revenues in the 2021-23 biennium would be reduced by $1.5 billion. If the recovery gets up to speed quickly as called for in the optimistic scenario, revenues in the 2021-23 biennium would be increased by $550 million.

TABLE R2b — **March 2021**

Alternative Cyclical Revenue Forecast ($ millions)

	2017-19 BN		2019-21 BN		2021-23 BN		2023-25 BN		2025-27 BN	
Baseline Case	**FY '18**	**FY '19**	**FY '20**	**FY '21**	**FY '22**	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**
Personal Income										
Level	208.8	220.3	233.9	248.6	244.6	256.4	267.8	283.7	298.6	314.2
% change	*6.7%*	*5.5%*	*6.2%*	*6.3%*	*-1.6%*	*4.8%*	*4.4%*	*5.9%*	*5.3%*	*5.2%*
Taxes										
Personal Income	8,872	9,909	8,458	10,222	9,544	10,253	11,062	11,792	12,432	13,165
Corporate Excise & Income	739	927	835	775	611	631	697	767	855	922
Other General Fund	633	706	639	1,081	648	670	666	687	714	741
Total General Fund	10,244	11,542	9,932	12,079	10,802	11,554	12,425	13,247	14,002	14,828
% change	*4.3%*	*12.7%*	*-13.9%*	*21.6%*	*-10.6%*	*7.0%*	*7.5%*	*6.6%*	*5.7%*	*5.9%*
Optimistic Case	**FY '18**	**FY '19**	**FY '20**	**FY '21**	**FY '22**	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**
Personal Income										
Level	208.8	221.4	235.3	250.8	247.7	259.3	271.9	289.6	306.6	324.3
% change	*6.7%*	*6.0%*	*6.3%*	*6.6%*	*-1.2%*	*4.7%*	*4.9%*	*6.5%*	*5.9%*	*5.8%*
Taxes										
Personal Income	8,872	9,909	8,458	10,524	9,817	10,484	11,320	12,093	12,821	13,647
Deviation from baseline	*0*	*0*	*0*	*302*	*273*	*231*	*257*	*301*	*389*	*482*
Corporate Excise & Income	739	927	835	798	629	646	713	787	882	956
Deviation from baseline	*0*	*0*	*0*	*23*	*18*	*14*	*16*	*20*	*27*	*34*
Other General Fund	633	706	639	1,091	656	677	676	701	733	765
Total General Fund	10,244	11,542	9,932	12,413	11,101	11,807	12,709	13,581	14,436	15,368
% change	*4.3%*	*12.7%*	*-13.9%*	*25.0%*	*-10.6%*	*6.4%*	*7.6%*	*6.9%*	*6.3%*	*6.5%*
Deviation from baseline	*0*	*0*	*0*	*334*	*299*	*252*	*284*	*335*	*434*	*540*
Biennial Deviation		*0*		*334*		*551*		*619*		*974*
Pessimistic Case	**FY '18**	**FY '19**	**FY '20**	**FY '21**	**FY '22**	**FY '23**	**FY '24**	**FY '25**	**FY '26**	**FY '27**
Personal Income										
Level	208.8	219.1	231.6	241.0	232.9	241.5	249.4	266.1	281.3	295.7
% change	*6.7%*	*4.9%*	*5.7%*	*4.1%*	*-3.3%*	*3.7%*	*3.3%*	*6.7%*	*5.7%*	*5.1%*
Taxes										
Personal Income	8,872	9,909	8,458	9,709	8,945	9,552	10,225	11,011	11,660	12,336
Deviation from baseline	*0*	*0*	*0*	*-513*	*-598*	*-701*	*-837*	*-781*	*-772*	*-829*
Corporate Excise & Income	739	927	835	736	573	588	644	717	802	864
Deviation from baseline	*0*	*0*	*0*	*-39*	*-38*	*-43*	*-53*	*-51*	*-53*	*-58*
Other General Fund	633	706	639	1,048	617	631	620	645	673	697
Total General Fund	10,244	11,542	9,932	11,493	10,135	10,771	11,490	12,372	13,135	13,897
% change	*4.3%*	*12.7%*	*-13.9%*	*15.7%*	*-11.8%*	*6.3%*	*6.7%*	*7.7%*	*6.2%*	*5.8%*
Deviation from baseline	*0*	*0*	*0*	*-585*	*-668*	*-783*	*-935*	*-875*	*-867*	*-931*
Biennial Deviation		*0*		*-585*		*-1,451*		*-1,810*		*-1,798*

Corporate Activity Tax

HB 3427 (2019) created a new state revenue source by implementing a corporate activity tax (CAT) that went into effect January 2020. Projected gross revenues equal $1.64 billion for 2019-21 and $2.29 billion in 2021-23, up modestly from the previous forecast. The revision is due to higher-than-anticipated collections for the fourth quarterly estimated payment, which was due on January 31st.

These revenues are dedicated to spending on education. The legislation also included personal income tax rate reductions, reducing General Fund revenues. The net impact of HB 3427 was designed to generate approximately $1 billion per year in new state resources, or $2 billion per biennium.

In terms the macroeconomic effects of a major new tax, the Office of Economic Analysis starts with the Legislative Revenue Office's (LRO) impact statement and any Oregon Tax Incidence Model (OTIM) results LRO found. At the top line, OTIM results find minimal macroeconomic impacts across Oregon due to the new tax. Personal income, employment, population, investment and the like are less than one-tenth of a percent different under the new tax relative to the baseline. The model results also show that price levels (inflation) will increase above the baseline as some of the CAT is pushed forward onto consumers. Of course these top line, statewide numbers mask the varying experiences that individual firms and different industries will experience.

There are likely to be some businesses or sectors that experience large impacts from the CAT, or where pyramiding increases prices to a larger degree, while other businesses or sectors see relatively few impacts.

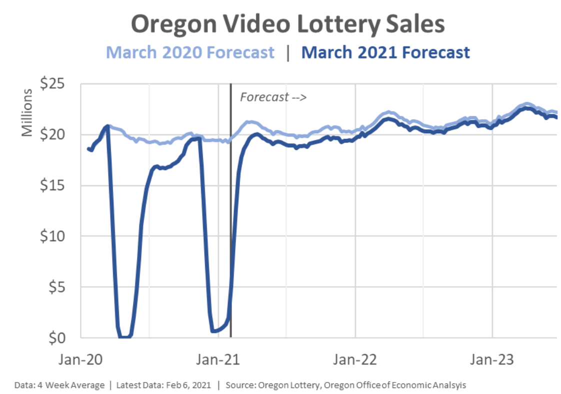
Table B.12 in Appendix B has details on 10 year forecast and the allocation of resources, while the personal income tax reductions are built into the General Fund forecasts shown in Tables B.1 and B.2.

Lottery Earnings

Lottery transfers in the current 2019-21 biennium are revised lower, but the overall outlook has brightened. The more restrictive health measures that went into effect in November were not incorporated into the previous outlook due to the timing. What was potentially a brief, two week period of restrictions essentially turned into a two or three month period where bars and restaurants were takeout only in the vast majority of the state due to the surging virus and dark winter. When such restrictions are in place, video lottery terminals are turned off.

The end result is available resources in 2019-21 are lowered by $100.8 million (-7.4%) and are $272.6 (-17.8%) below the Close of Session forecast upon which the budget was built back in 2019.

That said, the lottery outlook for future biennia are all raised compared to the December forecast. This increase amount to an additional $45.6 million in 2021-23 and $46.3 million in 2023-25. The vast majority of the pandemic's impact is essentially gone from the outlook for future biennia. In fact revenues in 2021-23 are now expected to be 3 percent lower than pre-pandemic expectations, while 2023-25 just 2 percent lower.



The main reasons for the relatively strong outlook are the fact that incomes are up and consumers are ready to unleash pent-up demand. Lottery has already experienced this once during the pandemic. After reopening throughout last summer, video lottery sales rebounded strongly. Ultimately by last fall, video lottery sales were up when compared with year ago figures.

Today the same patterns are already underway. A few major counties in the state remain restricted – namely Jackson, Lane, and Marion – but as of earlier this week, 80% of video lottery retailers were open and reporting revenues. Importantly for video lottery, the Portland region is open. Overall, video lottery sales last week were only 7-8% below year ago figures, where were still pre-pandemic and thus quite strong.

Risks to the current outlook are balanced but in an asymmetrical way. To the upside, pent-up demand may be stronger than anticipated. The baseline does allow for just a bit of relative weakness in the coming month or two. Additionally the upcoming disbursement of recovery rebates from the expectant federal relief bill will also arrive at the time when the video lottery terminals will be turned on across the state. The previous two disbursements occurred when the vast majority were turned off due to health restrictions.

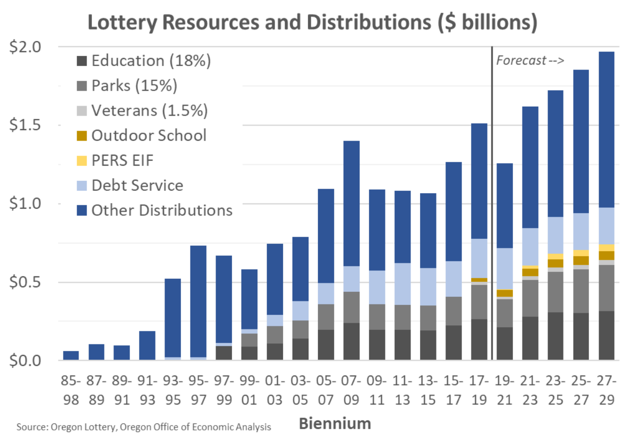
To the downside, there is always the possibility the pandemic will worsen due to a resurgent virus. In the event this does happen and health measures are reinstated, video lottery sales will drop overnight, leading to large revenue declines. Such a scenario could be statewide, or could be more regional due to hot spots or flare ups in cases in particular counties.

On a more modest scale, downside risks to the lottery outlook include consumers choosing to allocate their entertainment dollars elsewhere as the economy reopens. This could be on going out to eat with friends, on vacations, to sporting events, or even trips to gaming destinations like Las Vegas. The end result of any of these possibilities is that even as incomes and spending are rising, the amount spent on Oregon Lottery games may not rise as quickly.

Lottery Outlook and Distributions

Big picture issues to watch include broader national trends in gaming markets, demographic preferences for recreational activities, and to what extent consumers decrease the share of their incomes spent on gaming. Up until the past couple of years, consumers had remained cautious with their disposable income. Increases in spending on gaming had largely matched income growth.

Over the long run our office expects increased competition for household entertainment dollars, increased competition within the gaming industry, and potentially shifts in generational preferences and tastes when it comes to gaming. As such, our outlook for video lottery sales is continued growth, however at a rate that is slightly slower than overall personal income growth. Lottery sales will continue to increase as Oregon's population and economy grows, however video lottery sales will likely be a slightly smaller slice of the overall pie.



The full extended outlook for lottery earnings can be found in Table B.9 in Appendix B.

Budgetary Reserves

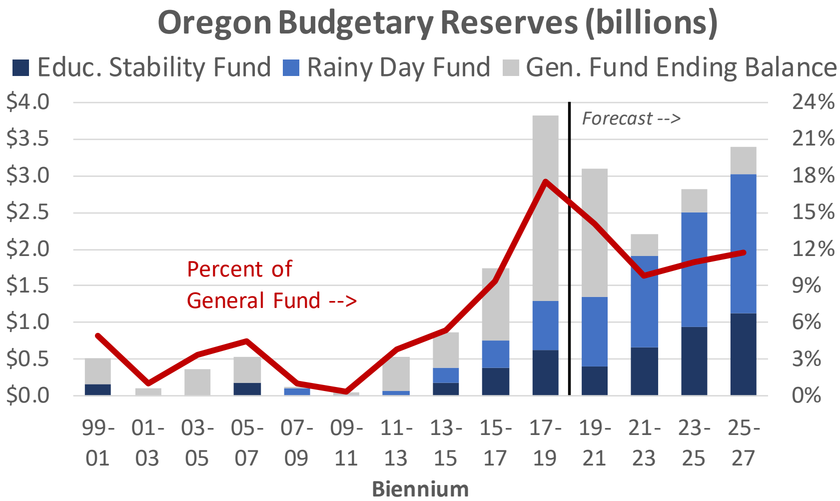
The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[2] (ORDF) and the Education Stability Fund[3] (ESF). This section updates balances and recalculates the outlook for these funds based on the March revenue forecast.

As of this forecast the two reserve funds currently total a combined $1.66 billion. At the end of the current 2019-21 biennium, they will total $1.36 billion. The reduction is due to the $400 million withdrawal from the Education Stability Fund that the Legislature passed as part of the budget rebalancing during the second special

[2] The ORDF is funded from ending balances each biennium, up to one percent of appropriations. The Legislature can deposit additional funds, as it did in first populating the ORDF with surplus corporate income tax revenues from the 2005-07 biennium. The ORDF also retains interest earnings. Withdrawals from the ORDF require one of three triggers, including a decline in employment, a projected budgetary shortfall, or declaration of a state of emergency, plus a three-fifths vote. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question. Fund balances are capped at 7.5 percent of General Fund revenues in the prior biennium.

[3] The ESF gained its current reserve structure and mechanics via constitutional amendment in 2002. The ESF receives 18 percent of lottery earnings, deposited on a quarterly basis – 10% of which are deposited in the Oregon Growth sub-account. The ESF does not retain interest earnings. The ESF has similar triggers as the ORDF, but does not have the two-thirds cap on withdrawals. The ESF balance is capped at five percent of General Fund revenues collected in the prior biennium.

session of 2020 (HB 4303). Including the currently projected $1.74 billion ending balance in the General Fund, the total effective reserves at the end of this biennium are $3.09 billion.



Source: Oregon Office of Economic Analysis

Effective Reserves ($ millions)

	Dec 2020	*End 2019-21*
ESF	$771	$411
RDF	$885	$946
Reserves	$1,656	$1,357
Ending Balance	$1,737	$1,737
Total	**$3,393**	**$3,094**
% of GF	15.4%	14.1%

The forecast for the ORDF includes two deposits for this biennium relating to the General Fund ending balance from the previous biennium (2017-19). A deposit of $198.3 million was made in early 2020 after the accountants closed the books. Additionally a $59.0 million deposit relating to the increased corporate taxes from Measure 67 is expected at the end of the biennium. This exact transfer amount is subject to some revision as corporate filings are processed, however the transfer itself will occur. At the end of 2019-21 the ORDF will total $946.2 million.

The forecast for the ESF calls for $191.2 million in deposits during the 2019-21 biennium based on the current Lottery forecast, a decrease relative to the previous forecast due to the surging virus and resulting restrictive health measures. To date $169 million has been transferred, meaning the remaining $22 million will be subject to economic and revenue forecast changes over the remainder of the biennium.

As part of the budget rebalancing during the second special session, the Legislature voted to withdrawal $400 million from the ESF in 2021. At the end of the current 2019-21 biennium, the ESF balance is expected to be $410.8 million. Even with the scheduled withdrawal, the ESF is still forecasted to reach its cap of 5% of the previous biennium's General Fund revenues in FY2027. Once the cap it reached, transfers accrue to the Capital Matching Account.

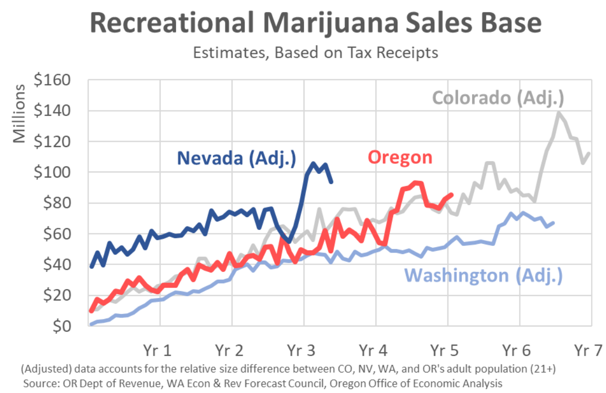
Together, the ORDF and ESF are projected to have a combined balance of $1.36 billion at the close of the 2019-21 biennium, or 6.2 percent of current revenues. Such levels of reserve balances are still relatively bigger than Oregon has been able to accumulate in past cycles.

B.10 in Appendix B provides more details for Oregon's budgetary reserves.

Recreational Marijuana Tax Collections

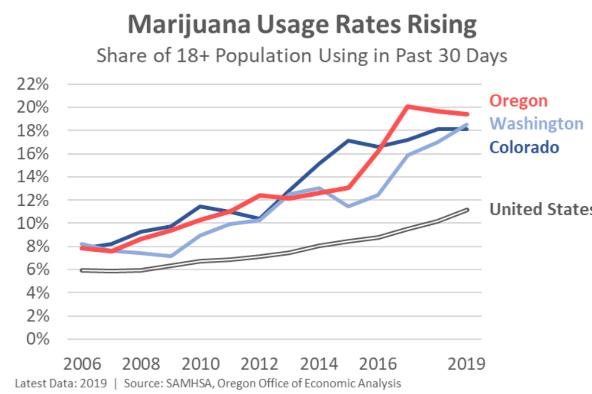
In general, the outlook called for sales to slow some over the coming year. Part of the large increase in sales since the pandemic began was likely due to increased stressors in everyday life and the fact other forms of relaxation and entertainment were limited. Additionally personal incomes are higher today than they were pre-pandemic thanks to the federal aid. As the economy reopens and people convene for happy hours and the like, recreational marijuana sales would mellow. That continues to be the baseline forecast.

In recent months, however, sales tapered more than expected. Noticeable declines in the fourth quarter were also seen in Colorado, while sales cooled to a lesser degree in Nevada and Washington.



The bottom line result is the revenue forecast is lowered by $5.3 million (-1.8%) compared to the previous outlook. While not a large reduction, and revenues are still $63 million (+28%) above the Close of Session outlook, this is the first time our office has revised down the outlook due to tracking since the December 2017 forecast.

A few months of lower sales has not altered the longer-term outlook, especially as sales perked up to start the year. Encouragingly, the latest OLCC research report on supply and demand[4] finds that the market is reaching a new equilibrium or at least coming more in balance. While harvests (supply) is increasing, the rise in consumer demand has been even larger in the past couple of years. This increase in demand is in part a function of more Oregonians using marijuana but also existing users consuming more product.



Interestingly, the OLCC report documents changes seen within the industry. Essentially, growers and producers are shifting more product into edibles, concentrates and the like, due to longer shelf lives than flower. This does mean there are occasional shortages of flower products, even as overall supply remains strong.

See Table B.11 in Appendix B for a full breakdown of distributions for recreational marijuana tax collections. Note that these distributions are based on current law.

[4] https://www.oregon.gov/olcc/Docs/Legislative_docs/2021-Supply-and-Demand-Report.pdf