REVENUE OUTLOOK

Revenue Summary

As the inflationary boom persists, all of Oregon's primary state revenue instruments continue to outperform pre-pandemic expectations. With the consensus of economic forecasters now expecting that there is more to come, the revenue outlook has been revised upward.

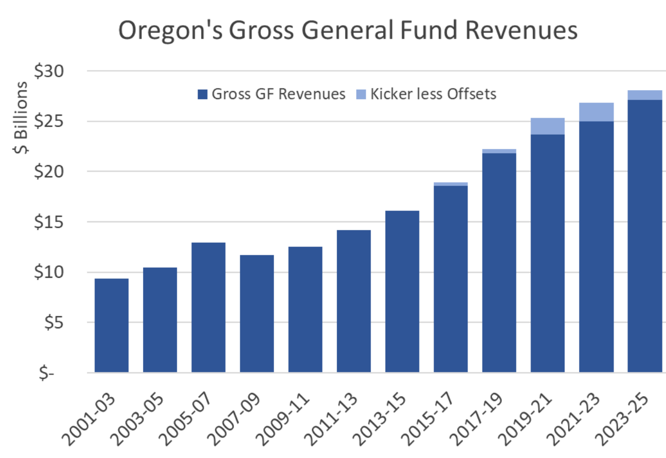
Some sources of inflation will no doubt let up in the near term as supply pressures ease. Like lumber prices last year, prices for products such as energy and used cars will drop when suppliers are able to respond. However, the broad wage pressure that is driving our revenue boom is increasingly believed to be here to stay due to the scarcity of workers.

Tight labor markets are putting a considerable amount of upward pressure on wages, which is reflected in withholdings of personal income taxes. Withholdings of personal income taxes mostly result from the wages and salaries of workers, but also include some retirement and bonus income. Personal income tax withholdings are growing at roughly double the rate seen during the last expansion.

Wage pressure is not the only reason that an inflationary environment leads to strong revenue gains. With demand so strong across the economy, businesses currently have a considerable amount of pricing power, and have been able to pass most of their cost increases along to consumers. As a result, profits and other taxable forms of business income have shrugged off the pandemic. In addition to the direct boost to tax collections, healthy business earnings are supporting equity markets and other forms of investment income. Although asset markets have weakened some to start the year, they have thus far been spared the sort of correction that we typically see accompany large job losses.

Inflation is also generating additional Corporate Activity Tax collections. Business sales are taxed by value, not by the quantity sold. As a result, tax liability has risen along with prices, and is expected to remain elevated until consumers are no longer willing or able to absorb price increases.

The recent revenue boom, together with an improving outlook for labor earnings, have led to a significant upward revision to the outlook for Oregon's General Fund revenues. Gross General Fund revenues have doubled since the Great Recession, and took a big step up after the pandemic hit. Revenue growth has continued, even as large kicker credits have been paid out. Although the baseline outlook calls for continued growth, overheating remains a real possibility. Inflationary booms of the sort we are experiencing today



traditionally do not end well, putting recent revenue gains at risk going forward.

Longer term, 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.

2021-23 General Fund Revenues

Gross General Fund revenues for the 2021-23 biennium are expected to reach $24,923 million. This represents an increase of $789 million from the December 2021 forecast, and an increase of $807 million relative to the Close of Session forecast. Personal and corporate income tax collections continue to set records. Among non-General Fund sources, revenues tied to consumer spending including lottery sales and the new Corporate Activity Tax are outstripping expectations as well.

Table R.1

2021-23 General Fund Forecast Summary

(Millions)	2021 COS Forecast	December 2021 Forecast	March 2022 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$20,628.1	$21,159.1	$21,388.0	$228.9	$760.0
Corporate Income Tax	$1,344.0	$1,594.2	$1,977.8	$383.5	$633.8
All Other Revenues	$1,353.5	$1,380.7	$1,557.7	$177.0	$204.2
Gross GF Revenues	$23,325.5	$24,134.1	$24,923.5	$789.5	$1,598.0
Offsets, Transfers, and Actions[1]	-$417.6	-$427.0	-$441.1	-$14.1	-$23.5
Beginning Balance	$3,025.6	$3,704.3	$4,082.5	$378.2	$1,056.9
Net Available Resources	**$26,008.4**	**$27,486.3**	**$28,639.8**	**$1,153.5**	**$2,631.4**
Appropriations	$25,446.0	$25,446.0	$25,620.2	$174.2	$174.2
Ending Balance	**$562.4**	**$2,040.3**	**$3,019.6**	**$979.3**	**$2,457.2**
Confidence Intervals					
67% Confidence	**+/- 6.5%**		**$1,625.0**	**$23.30B to $26.55B**	
95% Confidence	**+/- 13.0%**		**$3,250.0**	**$21.67B to $28.17B**	

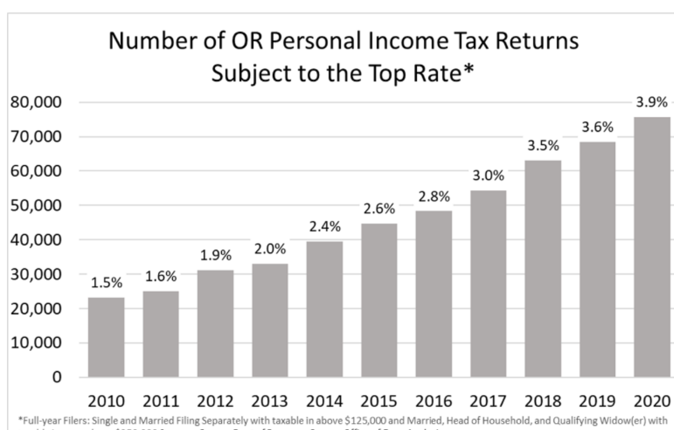
1 Reflects personal and corporate tax transfers, cost of cashflow management actions (TANS), and Rainy Day Fund tranfer

Personal Income Tax

Oregon's regional economy is far more volatile than that of most states, given strong migration trends and dependence upon manufacturing and resource industries. General Fund tax revenues are even more volatile than is the underlying economy, due to the prominence of personal and corporate income taxes. Oregon's revenue system has diversified a lot in recent years with a shift toward consumption-based taxes, but most of these sources are not deposited into the General Fund.

Tax reforms enacted during the Great Recession that increased the top tax rate have added additional volatility to personal income tax collections. When income growth is strong, more taxpayers are taxed at the top rate, giving an additional boost to collections.

However, this dynamic is reversed during a downturn, leading to revenue losses in excess of income losses. In particular, a correction in asset markets would lead to a large reduction in the number of filers subject to the top rate. Currently, over one-third of income taxes come from top-rate filers.



Every 100 basis point change in Oregon's average tax rate translates to roughly $130 million in additional revenues. As such, if the average tax rate matched what we saw in 2015, annual revenues would be around $1 billion lower.

This volatility is apparent in recent collections of personal income taxes and other General Fund sources. According to the March forecast, the outlook for the current biennium is now 4.4% higher than the Close of Session forecast, slightly above the kicker threshold. With two tax filing seasons left in the biennium, much uncertainty remains. However, if the current outlook holds, a kicker of $964 million would be paid out when taxes are filed in 2024.

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 continue to set new records. 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 even before the recession began. The subtraction for taxes paid under Oregon's new Corporate Activity Tax is reducing traditional liability, as is the subtraction for expenditures funded by forgiven Payroll Protection Program loans. Even so, collections have doubled over the past two budget periods.

The current inflationary environment is one factor supporting corporate tax collections. With underlying demand so strong, businesses have largely been able to pass cost increases along to their customers. Profits and earnings have skyrocketed.

While some of this increase likely reflects a permanent increase in the tax base, a significant amount of the growth is expected to be temporary. As with business and investment income on personal tax returns, corporate taxpayers pulled some income forward in 2020 and 2021 in advance of possible federal tax legislation. Also, a relatively small number of large corporations in industries that benefited from the nature of the pandemic have had an outsized impact on recent revenue collections. This suggests that recent gains are not sustainable, however, no signs of weakness are emerging.

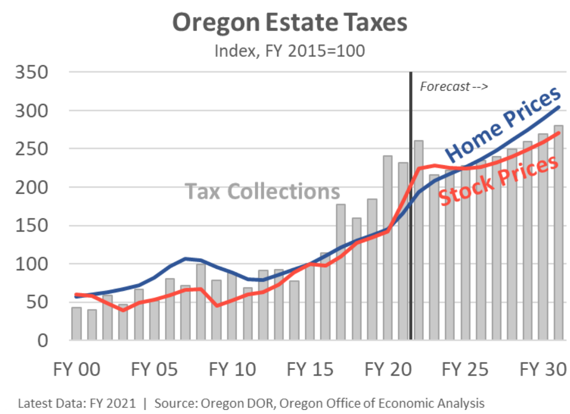
Although there is a very long way to go, a $634 million kicker is currently estimated for the next biennium. According to statute, this would lead to additional funding for K-12 education during the 2023-25 budget period.

Other Sources of Revenue

Non-personal and non-corporate revenues in the General Fund usually account for approximately 6 or 7 percent of the total. The largest such source are estate taxes, followed by liquor revenues, and judicial revenues.

Relative to the previous forecast, the current outlook for these revenues in 2021-23 is raised considerably by $177.0 million (+12.8%). The vast majority of these increases can be tied to two things: a timing delay in one-time transfers from last biennium, and a continued boom in estate tax collections.

The single largest source of the increase to these revenues come from One-Time Transfers, which were increased by $94.4 million. These revenues largely reflect transfers that were supposed to have been made in the previous 2019-21 biennium but did not get actually transferred into the General Fund until the current biennium. This timing delay does not impact future biennia given the one-time nature of the transfers.



The second largest increase (+$71.5 million) is from estate taxes. Collections in October were the second largest month on record and collections in November were the eighth largest on record. Given the continued strength in actual collections, and growing wealth more broadly in the economy, the outlook for estate taxes is raised over the extended forecast horizon. While the underlying trends of a growing and aging population combined with rising asset values means the state should see estate taxes grow in the years ahead, this outlook is not without risks. One risk is that a small number of very large estates can move the total collections significantly in any given year. Oregon has seen this happen in recent years, even if the underlying trend is upward.

Total tobacco revenues are increased by a larger $26 million however all of the increase is outside of the General Fund. The General Fund portions of cigarettes (+$0.3 million) and other tobacco products (-$0.8 million) essentially offset. However inhalant delivery revenues, a new tax in 2021, continue to come in significantly above initial expectations. Over the first year of the tax, actual collections have been three times as large as expected. As a result, the entire forecast is revised significantly higher taking into account the higher baseline of sales. The current 2021-23 forecast is raised $26.4 million, while the outer biennia are likely increased $25-27 million each. These increases are essentially double initial expectations, and therefore if current sales and tax collections continue, there remains upside risk to the outlook. The tax is still relatively new. Our office will continue to monitor these revenues and quarterly tax returns filed by Oregon businesses and adjust the forecast as we learn more. See Table B.6 in Appendix B for the full details on tobacco revenue distributions.

Additional changes in Interest Earnings (+$5 million), Insurance Taxes (+$4.9 million), and Securities Fees (+$1.6 million) account for the remaining changes this to biennium to General Fund revenues.

Extended General Fund Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2029-31 biennium. Users should note that the potential for error in the forecast increases substantially the further ahead we look.

Table R.2

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

Revenue Source	Forecast 2021-23 Biennium	% Chg	Forecast 2023-25 Biennium	% Chg	Forecast 2025-27 Biennium	% Chg	Forecast 2027-29 Biennium	% Chg	Forecast 2029-31 Biennium	% Chg
Personal Income Taxes	21,388.0	6.9%	24,931.3	16.6%	28,709.2	15.2%	32,534.8	13.3%	36,636.4	12.6%
Corporate Income Taxes	1,977.8	-3.1%	1,665.5	-15.8%	1,987.4	19.3%	2,220.6	11.7%	2,528.8	13.9%
All Others	1,632.6	-2.9%	1,476.5	-9.6%	1,562.8	5.8%	1,664.6	6.5%	1,761.1	5.8%
Gross General Fund	24,998.4	5.4%	28,073.3	12.3%	32,259.3	14.9%	36,420.0	12.9%	40,926.3	12.4%
Offsets and Transfers	*(198.9)*		*(121.5)*		*(69.3)*		*(82.7)*		*(92.4)*	
Net Revenue	24,799.5	5.0%	27,951.8	12.7%	32,190.1	15.2%	36,337.3	12.9%	40,833.9	12.4%

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.

Tax Law Assumptions

The revenue forecast is based on existing law, including measures and actions signed into law during the 2021 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 2021 Legislative Session can be found in Appendix B Table B.3. For a detailed treatment of the components of the 2021 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2021-23 Budget Summary[13]

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 2021-23 Tax Expenditure Report[14] 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. Our office 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.

[13] https://www.oregonlegislature.gov/lfo/Documents/2021-1 LAB Summary 2021-23.pdf
[14] https://www.oregon.gov/DOR/programs/gov-research/Pages/research-tax-expenditure.aspx

Table R.2b shows the revenue implications of the Boom/Bust economic scenario described on page 15. In this scenario, revenues continue to boom this biennium, resulting in a larger projected kicker. The ensuring recession after the Federal Reserve hikes interest rates to head off inflation takes a toll on state resources. Revenues in both 2023-25 and 2025-27 are considerably below the baseline outlook. Declines would also be seen among Lottery sales and the Corporate Activity Tax revenues as well as consumers spend less during recessions.

Table R.2b: General Fund Forecast (March 2022) - Boom/Bust Scenario

Personal Income Tax	**2021-23**	**2023-25**	**2025-27**	**2027-29**	**2029-31**
Baseline	$21,347.0	$24,892.1	$28,709.2	$32,534.8	$36,636.4
BoomBust	$21,971.3	$24,358.1	$28,532.5	$33,316.7	$37,820.7
Difference	*$624.3*	*-$533.9*	*-$176.6*	*$782.0*	*$1,184.3*
Corporate Income Tax	**2021-23**	**2023-25**	**2025-27**	**2027-29**	**2029-31**
Baseline	$1,894.9	$1,583.2	$1,918.1	$2,137.9	$2,436.4
BoomBust	$1,929.2	$1,533.9	$1,886.7	$2,167.0	$2,489.6
Difference	*$34.4*	*-$49.4*	*-$31.4*	*$29.0*	*$53.2*
Other General Fund	**2021-23**	**2023-25**	**2025-27**	**2027-29**	**2029-31**
Baseline	$1,632.6	$1,476.5	$1,562.8	$1,664.6	$1,761.1
BoomBust	$1,662.8	$1,430.0	$1,537.3	$1,687.3	$1,799.7
Difference	*$30.2*	*-$46.5*	*-$25.5*	*$22.7*	*$38.5*
Total General Fund	**2021-23**	**2023-25**	**2025-27**	**2027-29**	**2029-31**
Baseline	$24,874.4	$27,951.8	$32,190.1	$36,337.3	$40,833.9
BoomBust	$25,563.3	$27,322.0	$31,956.5	$37,171.0	$42,110.0
Difference	*$688.9*	*-$629.8*	*-$233.5*	*$833.7*	*$1,276.1*

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. Collections related to the 2020 tax year are now expected to total approximately $997.8 million, which is somewhat lower than projected at the December forecast due to ongoing refund activity related to the 2020 tax year. The projection for tax liability for the 2021 tax year has also declined somewhat. As a result, the forecast for revenues in the 2021-23 biennium have declined by $5.3 million. Due to a modest improvement in the outlook for incomes in the near term, the forecast for CAT revenues is elevated somewhat throughout the remainder of the forecast horizon.

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.

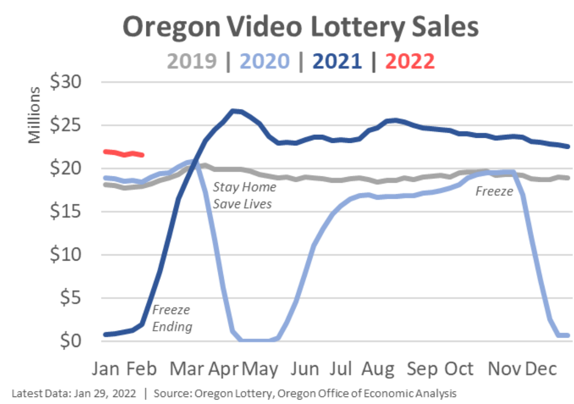
In terms the macroeconomic effects of a major new tax, the Office of Economic Analysis starts with the Legislative Revenue Office's (LRO) impact statement and any Oregon Tax Incidence Model (OTIM) results LRO found. At the top line, OTIM results find minimal macroeconomic impacts across Oregon due to 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 summarizes the 10-year forecast and the allocation of resources, while Table B.13 presents a more detailed quarterly breakdown of the forecast. The personal income tax reductions are built into the General Fund forecasts shown in Tables B.1 and B.2.

Lottery Earnings

The upshot is lottery revenues for the current 2021-23 biennium are raised $13.5 million (+0.8%) compared to the previous forecast. 2021-23 revenues are now $84.4 million (+5.1%) above Close of Session estimates. Longer-term forecasts are adjusted ever so slightly higher due to the economic outlook and recent sales patterns. Revenues for each biennium from 2023-25 through 2029-31 are increased by about $3 million or 0.2 percent.

The composition of the forecast changes is a bit different in that the sales outlook for traditional products is increased by a larger amount than for video. Video lottery sales continue to be strong, but have tracked the forecast very closely in recent months. Sales continue to set records for this time of year, but have slowed as expected since last summer. The 2021-23 outlook for video is increased $5.6 million (+0.4%) due to the improved income and spending forecast, but these video changes represent less than half of the overall forecast change.



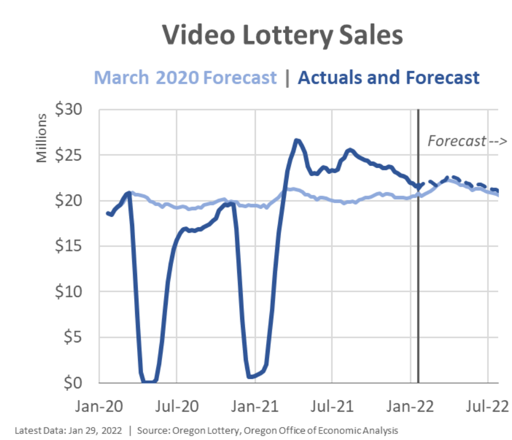
Traditional lottery games have also seen very strong sales in recent months, leading to an upward revision of $7.0 million (+4.4%) in the 2021-23 forecast. About half of these improvements can be tied to very large runups and strong sales in the jackpot games. Continued strength in scratch ticket sales accounts for most of the remained of the upward revision, and for the bulk of the increases in traditional revenues in future biennia.

The third major revenue component of the Lottery outlook is Scoreboard, or the state's sports betting program. Scoreboard is now a bit more than two years in the market, although those two years have been heavily disrupted by the pandemic, with delayed or canceled sporting events and the like. Even as sales (handle) have come in below initial projections, win (or profits or transfers) have not.

As a result, at least for now the underlying forecast for transfers remains unchanged. Strong growth is expected this year and next as the ramp up period for a new, legal product is ongoing. Additionally, the game is also currently transitioning vendors as it moves to the Draft Kings platform.

There is one technical change made in the Scoreboard transfers forecast which shifts the timing of collections. Scoreboard transfers are occurring twice a year, or every other quarter. This means the effective flow of state resources is shifted back, leading to slight declines when comparing the current forecast to the previous outlook, even as the underlying sales forecast remains unchanged.

Overall the biggest risk to the lottery outlook this biennium are video sales. The forecast expects continued normalization in the months ahead for at least three key reasons. First, given the limited, available information it is more likely that the current level of sales is existing players gaming more, than it is an underlying increase in the number of Oregonians playing. Second, following this is the likely fading impact of both federal aid on incomes, and pent-up demand from shutdowns that are now nearly one and two years old. Spending will become

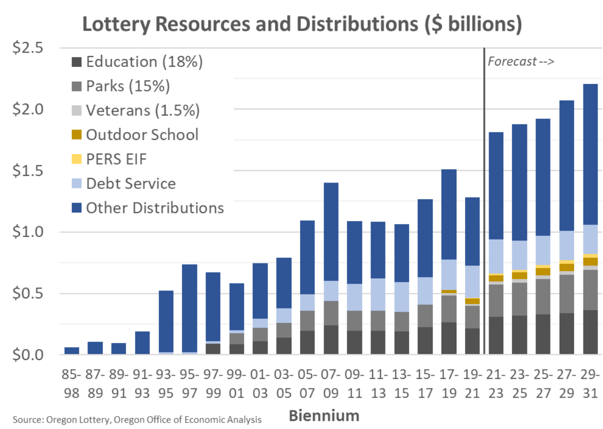


increasingly reliant on current incomes moving forward. Third, there will be increased competition for entertainment dollars as Oregonians go on vacations, to sporting events, movie theaters and the like in greater numbers moving forward.

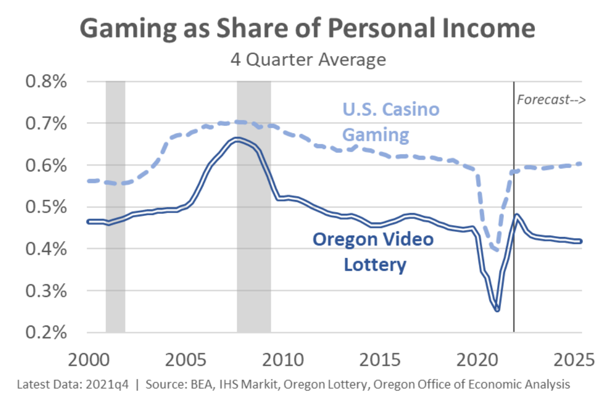
Big picture changes, like permanently higher sales due to behavioral shifts will take time to fully realize. This is especially true today given the unprecedented public health and economic times we find ourselves in. Furthermore, the ultimate impact of unprecedented federal policy is also not fully understood today. Our office will continue to analyze gaming trends here in Oregon and across the country, and to what extent there are permanent shifts once the economy, and society more broadly return to something more approaching the pre-pandemic normal.

Finally, one additional risk to the outlook is the potential for increased gaming competition within Oregon. Specifically a new gaming facility in Grants Pass in southern Oregon would result in lower video lottery sales in the region. For example, a study from ECONorthwest[15] found that the impact of facility could be a $13 million reduction in video lottery sales. One broader issue raised is the potential for other such gaming facilities at the other three horse betting tracks in the state. No final decisions have been made yet, and therefore no impact is built into the outlook.

Lottery Outlook and Distributions



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. Last decade consumers remained cautious with their disposable income until late in the cycle. Increases in spending on gaming had largely matched income growth. In an inflationary boom, how will consumers respond in terms of their discretionary purchases, particularly on products like Lottery that are not increasing in cost.



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.

[15] https://cdn.kobi5.com/wp-content/uploads/2021/10/Historical-Horse-Race-Impacts-FINAL-Sept-17-2021-.pdf?x47684

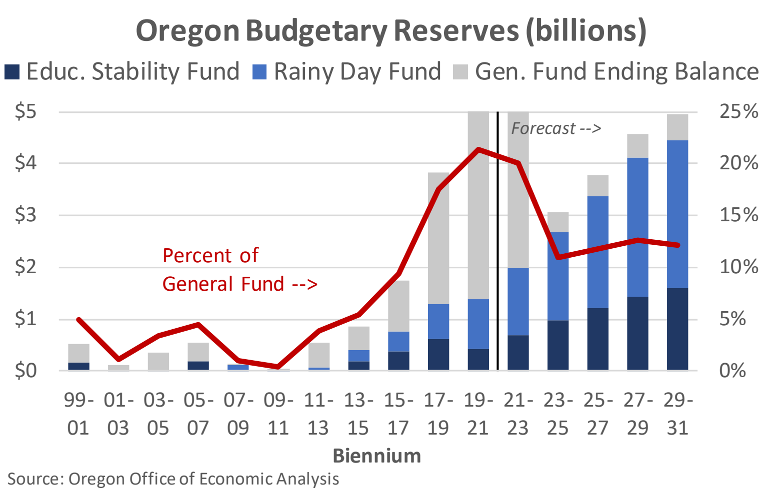
Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[16] (ORDF) and the Education Stability Fund[17] (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 $1.45 billion. At the end of the current 2021-23 biennium, they will total $1.98 billion. Including the currently projected $3.02 billion ending balance in the General Fund, the total effective reserves at the end of the current 2021-23 biennium are projected to be $5.0 billion, or 20% of current revenues.

The forecast for the ORDF includes two deposits for this biennium relating to the General Fund ending balance from the previous biennium (2019-21). A deposit of $220.7 million is expected to be made in the next couple of months after the accountants close the books. Additionally a $82.9 million deposit relating to the increased corporate taxes from Measure 67 is expected at the end of the biennium in June 2023. This exact transfer amount is subject to some revision as corporate filings are processed, however the transfer itself will occur. At the end of 2021-23 the ORDF will total $1.29 billion.

Looking ahead to the 2023-25 biennium, the ORDF is expected to receive two transfers as well. This includes a projected $256.2 million related to the General Fund ending balance from 2021-23, and $82.3 million related to the increase in corporate taxes. The ORDF is not projected to hit its cap of 7.5% of revenues until FY2029.



Effective Reserves ($ millions)

	Current Jan-22	*End 2021-23*
ESF	$489	$696
RDF	$965	$1,288
Reserves	$1,454	$1,983
Ending Balance	$3,020	$3,020
Total	**$4,474**	**$5,003**
% of GF	18.8%	20.0%

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[16] 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.

[17] 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.

The ESF will receive an expected $281.2 million in deposits in the current 2021-23 biennium based on the current lottery forecast. At the end of current 2021-23 biennium the ESF will stand at $695.6 million. The ESF is not projected to hit its cap of 5% of revenues until FY2027, when the deposits will then accrue to the Capital Matching Account.

Together, the ORDF and ESF are projected to have a combined balance of $1.98 billion at the close of the 2021-23 biennium, or 8.0 percent of current revenues. At the close of 2023-25 the combined balance will be $2.67 billion, or 9.6 percent of revenues. Such levels of reserve balances are larger than Oregon has been able to accumulate in past cycles, and should help stabilize the budget when the next recession hits.

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

Recreational Marijuana Tax Collections

Marijuana sales continue to track the forecast closely. No fundamental changes are made to the outlook, other than updating for the most recent few months of sales and transfers, which are $0.1 million (+0.03%) above the previous forecast.

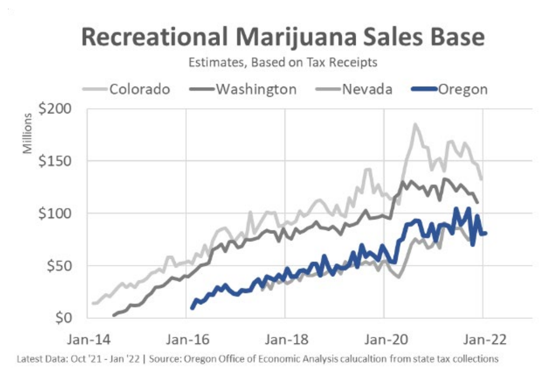
The baseline outlook has called for sales to slow as the pandemic improves and Oregonians continue to return to their pre-COVID lives. That included workers returning to the office a bit more, and other entertainment options opening up and being frequented to a greater degree. With increased competition for people's time and wallet, a bit less would be spent on marijuana, or so the thinking went.

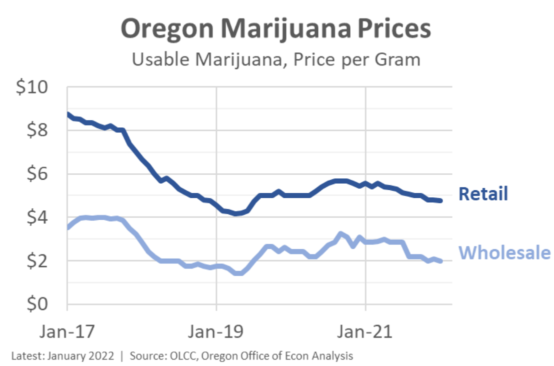
In recent months sales have slowed as expected, both here in Oregon and in other recreational marijuana states like Colorado and Washington.

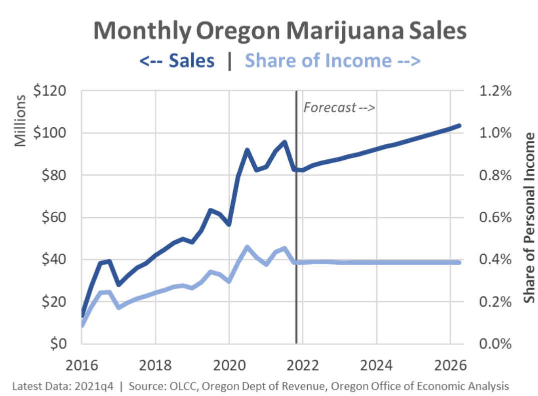
However, prices are another key factor impacting sales and tax collections. Oregon levies marijuana taxes as a flat rate on the overall sales price. So if consumers are buying the same volume of product but prices increase, then so do taxes.

According to the latest OLCC data, retail prices for both usable marijuana, and extracts and concentrates have fallen 5-10 percent since the summer. These price declines may in part be due to another record marijuana harvest this fall, which was up about 40 percent compared to a year earlier. Regardless of the exact reason, the decline in prices is impacting overall tax revenues even if consumers are not diverting more of their entertainment budget to other options.

Over the medium- and long-term, sales are expected to increase as Oregon's population, income, and spending grow. However at this point our office does not have a further

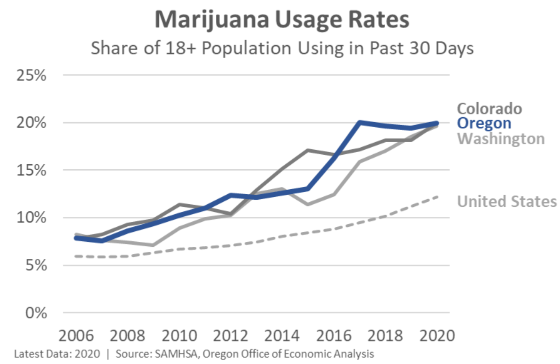






increase in marijuana usage rates built into the outlook. Marijuana sales are expected to remain a steady share of income and spending.

As such, the risks lie primarily to the upside should usage and broader social acceptance continue to increase in the years ahead. The latest National Survey on Drug Use and Health shows that the share of Oregonians using marijuana in the past month – a commonly used metric to define frequent or regular users – continues to hold steady at about 20 percent of the adult population. Oregon ranks 3rd highest in the nation trailing Vermont and Colorado, while Washington ranks just behind in 4th.



See Table B.11 in Appendix B for a full breakdown of revenues, including the newly added medical marijuana revenue, and associated distributions to recipient programs.