REVENUE OUTLOOK

Revenue Summary

The 2022 personal income tax filing season has been shocking. Despite a record kicker credit being claimed, payments rose sharply on the year. This growth stands out given that last year was itself a very strong year for income tax collections.

The surge in income tax collections was not unique to Oregon, with all states that depend upon income taxes seeing collections outstrip projections. However, as is usually the case, Oregon’s revenue gains during the boom were relatively pronounced. Tax season payments will come in more than $1.2 billion (70%) larger than last year. The typical state has seen around half this rate of growth.

Across states, high-income tax filers have accounted for much of the growth in personal income tax revenues. A wide range of investment and business income sources are booming. Notably, realizations of capital gains have increased by at least 70% on the year.

While economic growth remains strong, the large gains in reported taxable income have more to do with taxpayer behavior than they do the underlying economy. Investment and business income are not always realized for tax purposes at the same time as they are earned in the market. Late 2021 was a great time to cash in assets, with equity prices and business valuations high, and potential federal tax increases on the horizon. As a result, income reported on tax returns grew at more than double the rate of economic measures of income in 2021.

Given that revenue growth has been driven by nonwage sources of income, most of the recent surge in payments will likely prove to be temporary. After so much income was pulled into tax years 2020 and 2021, less will be realized in the near term. This taxpayer behavior also puts Oregon’s revenues at risk of the sharp declines experienced after asset market corrections in 2001 and 2007. With recessionary risks rising, profits and gains could soon turn into losses, and a smaller share of filers could be subject to the top rate. An analysis of a boom/bust scenario appears later in this chapter.

Along with large personal income tax collections, corporate and estate tax collections continue to set records as well. As a result, General Fund resources have continued to expand in recent years despite large kicker credits being issued. This growth is expected to pause in the near term, as nonwage forms of income return to earth and gains in the labor market slow.

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3 After adjusting for kicker credits
The bottom line is that the unexpected revenue growth seen this year has left us with unprecedented balances this biennium, followed by a record kicker in 2023-25. The projected personal kicker is $3.0 billion, which will be credited to taxpayers when they file their returns in Spring 2024. The projected corporate kicker is $931 million, and will be retained for educational spending. Even so, if balances are not spent, net resources for the 2023-25 biennium will have increased by $427 million relative to the March 2022 forecast.

2021-23 General Fund Revenues

Gross General Fund revenues for the 2021-23 biennium are expected to reach $27,276 million. This represents a whopping increase of $2,353 million from the March 2022 forecast, and an increase of $3,951 million relative to the Close of Session forecast. Personal and corporate income tax collections and estate taxes continue to set records. Among non-General Fund sources, lottery sales continue to outstrip expectations.

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.

Although growth in taxable labor income has been very strong, much of the 2022 flood of personal income tax collections can be traced to nonwage forms of income. Gains in nonwage taxable income have been very broad based. Passthrough business and rental income, dividends, capital gains and IRA withdrawals have all seen rapid growth.

While broad based, growth in nonwage tax liability has been paced by capital gains. The March 2022 forecast called for a $2 billion (16%) increase in capital gains for tax year 2021. This was somewhat slower than the underlying growth in equity and housing markets given the late stage of the cycle. We now know that gains grew by at least $7 billion.
Oregon has experience with booming capital gains. In both the technology and housing booms, personal income tax collections grew rapidly as filers cashed in assets. At the end of each of these cycles, capital gains became depressed quickly. After the housing bust, realizations of capital gains dropped from $10 billion to $2 billion virtually overnight.

Until this year, the current cycle for capital gains looked much like our experience of the technology boom. Now, it looks like the technology and housing booms stacked together.

This volatility is apparent in recent collections of personal income taxes and other General Fund sources. According to the May forecast, the outlook for the personal income tax kicker base is now significantly (13.8%) higher than the Close of Session forecast. If the current outlook holds, a kicker of $3.0 billion would be paid out when taxes are filed in 2024.

As a reminder, the threshold for the kicker calculation is if revenues over the entire biennium are more than 2 percent above the Close of Session forecast made prior to the start of the biennium. If they are, the entire amount of revenues above the Close of Session – including the first 2 percent – are returned to taxpayers the following year.

**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 more than 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 not all of the recent gains are sustainable. However, no signs of weakness are emerging.

Although there is a very long way to go, a $931 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 lowered $3.0 million (-0.2%). This modest change in aggregate masks larger changes when examining individual revenue streams.

The largest increase (+$28.9 million) is from estate taxes. 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 $22 million however nearly all of the increase is outside of the General Fund. The General Fund portions of cigarettes (+$0.6 million) and other tobacco products (-$0.6 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 $13.8 million, while the outer biennia are likely increased $16-17 million each. These increases are more than double initial expectations, and therefore if current sales and tax collections continue, there remains a bit more 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.

Offsetting these increases are declines in Insurance Taxes (-$9.0 million) due in part to lower-than-expected retaliatory tax impacts, and in judicial related revenues from State Court Fees (-$14.4 million) and the Criminal Fine Account (-$10.4 million).

Smaller adjustments to Securities Fees (+$0.8 million) and Miscellaneous Revenues (+$1.0 million) round out the rest the General Fund revenue changes for this biennium.
**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**

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Forecast 2021-23</th>
<th>Forecast 2023-25</th>
<th>Forecast 2025-27</th>
<th>Forecast 2027-29</th>
<th>Forecast 2029-31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Biennium</td>
<td>%</td>
<td>Biennium</td>
<td>%</td>
<td>Biennium</td>
</tr>
<tr>
<td>Personal Income Taxes</td>
<td>23,460.8</td>
<td>17.3%</td>
<td>22,838.4</td>
<td>-2.7%</td>
<td>28,777.9</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>2,275.0</td>
<td>11.4%</td>
<td>1,762.6</td>
<td>-22.5%</td>
<td>2,117.3</td>
</tr>
<tr>
<td>All Others</td>
<td>1,629.6</td>
<td>-3.1%</td>
<td>1,497.1</td>
<td>-8.1%</td>
<td>1,579.6</td>
</tr>
<tr>
<td>Gross General Fund</td>
<td>27,365.4</td>
<td>15.3%</td>
<td>26,098.1</td>
<td>-4.6%</td>
<td>32,474.8</td>
</tr>
<tr>
<td>Offsets and Transfers</td>
<td>-222.9</td>
<td></td>
<td>-141.8</td>
<td></td>
<td>-89.9</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>27,142.5</td>
<td>14.9%</td>
<td>25,956.2</td>
<td>-4.4%</td>
<td>32,384.9</td>
</tr>
</tbody>
</table>

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](https://www.oregonlegislature.gov/lfo/Documents/2021-1 LAB Summary 2021-23.pdf)

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](https://www.oregon.gov/DOR/programs/gov-research/Pages/research-tax-expenditure.aspx) 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.

Table R.2b shows the revenue implications of the Boom/Bust economic scenario described on page 14. In this scenario, revenues continue to boom this biennium, resulting in an even larger projected kicker. The ensuing 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.

Corporate Activity Tax

The 2019 Legislature enacted the corporate activity tax (CAT)\(^6\), a new tax on gross receipts that went into effect January 2020. Collections related to the 2020 tax year are essentially complete, while tax returns for the 2021 tax year are just now being processed. This would normally provide a reasonable baseline from which to project future collections. However, while taxpayers were required to file on a calendar year basis for tax year 2020, a law change allowed taxpayers to switch to a fiscal year basis beginning with tax year 2021. Due to a technical issue related to this change, the forecast for the current biennium has been revised upward by $53.6 million. Otherwise, collections related to both the 2021 and 2022 tax years have come in somewhat lower than expected, resulting in a modest downward revision to the forecast 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 of 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 $49.2 million (+2.8%) compared to the previous forecast. 2021-23 revenues are now $133.7 million (+8.1%) above Close of Session estimates. Longer-term forecasts are adjusted higher in keeping with a stronger economic and sales outlook. Revenues for each biennium from 2023-25 through 2029-31 are increased by about $30-40 million or just under 2 percent.

Nearly all of the forecast changes are a result of stronger video lottery sales and expectations. Traditional lottery products and Sports Betting are largely matching expectations.

Video lottery sales boomed above expectations this spring. Now, sales are down just a bit from last year’s record-setting peak season. However the forecast was for a larger year-over-year decline. The reason was twofold.

First, a year ago the economy was just reopening again. Consumers had built up a tremendous amount of excess savings in the first year of the pandemic, and gaming and other forms of entertainment had been restricted. There was a tremendous amount of pent-up demand, and the ability to spend to satiate that demand. That dynamic is gone today, although household finances remain robust overall.

Second, the economy is fully open today. The number of employed Oregonians increased by more than 100,000 in the past year. And workers have returned to the office a bit more. This means that even as incomes are up, free time is harder to come by. Plus as other forms of entertainment are now open, there is increased competition for both consumers time and wallets. Expectations were that a bit less of each would be spent playing video lottery.

Even as these forces are at play today, sales have outstripped expectations in recent months. Given both the higher level of sales, and a somewhat stronger income and spending outlook, the overall video lottery forecast is raised nearly 2 percent over the forecast horizon.

**Forecast Risks are Balanced**

To the upside, the stronger-than-expected sales continue. The stronger personal income outlook, and expected strong consumer spending on recreation services more broadly supports a higher level of gaming even in an inflationary environment. Historically the types of goods and services that
perform best in inflationary times are those seeing slower product price increases. Oregon Lottery’s inflation is essentially 0% as the game odds remain unchanged as do the minimum bets and dollar price of the games. Nationally, gaming expenditures as a share of disposable personal income are not quite fully recovered. It is possible the slowing income growth will bring this into better alignment. However, a further increase in gaming expenditures would do the same.

To the downside, inflationary pressures may eventually crimp discretionary purchases. Plus a part of today’s strong sales are a function of increased savings, federal aid, working from home and the like. As the underlying dynamics of the economy shift now that it is in mid-cycle, gaming expenditures could slow more than expected. Additionally, should consumers shift their entertainment spending back into other categories like vacations, movies, or going out to eat to a greater degree, it may leave less room for gaming. And finally, with the pandemic turning endemic, there is the possibility at some point in the future the economy shuts down again to slow the spread of a particularly contagious or deadly mutation of the virus.

Regional Video Lottery Sales

One way to examine the impact of these macroeconomic forces on video lottery sales is at the regional level. Rural Oregon outperformed the rest of the state economically in 2020. The increases in total personal income in 2020 were about the strongest in the nation. The federal aid was distributed in straight dollar amounts, which means in regional economies with lower wages and lower household incomes, the federal aid represented a larger percentage increase. Plus Rural Oregon was less impacted by remote work and lack of business travel. Video lottery sales rebounded first, and the strongest since the economy reopened.

The Portland region, on the other hand, has lagged economically. The impact of fewer commuters into the urban core as they work from home, and the lack of business travel has weighed on the local economy, as it has nationwide in large metro areas. Personal income growth in the Portland region was above the averages seen in other major metro areas, but weaker than in other parts of Oregon. Importantly, video lottery sales have fully recovered; they have never been higher. However these trends in the Portland region – downtown Portland in particular – are weaker than in the suburbs and rest of the state.

While these macroeconomic impacts can reasonably explain the first year, or year and half of the pandemic, they perform less well over the past 6-9 months. During this time, Rural Oregon’s economic growth has slowed.
Rural employment still is seeing stronger trends over the entire cycle, but job has been slow in the past year. The federal aid, which was such a large boost to incomes, is now gone. Personal income in 2022 in Rural Oregon is likely to be negative for this reason. And yet, video lottery sales are still the strongest in Rural Oregon than anywhere else in the state.

Conversely, Oregon’s metropolitan economies are accelerating. The secondary metros have now overtaken Rural Oregon in terms of employment. And the Portland region’s gains have been the strongest as it plays catch-up. Strong labor income growth in urban economies is offsetting the fading federal aid. And yet, video lottery sales are not playing catch-up like the underlying economy is. In particular, video lottery in the Portland area does not appear to be making up any ground on the secondary metros or rural parts of the state.

One reason for this is that macroeconomic impacts are not everything. They provide the base, or ability for consumers to spend money, but individual behavior matters as well. One possible indicator of individual behavior is households’ willingness to go out to eat during a pandemic. According to the latest OpenTable dining data, the number of seated diners at Portland restaurants that use the OpenTable software is still nearly 40 percent what it was in 2019. The number of seated diners in restaurants outside of the Portland area are estimated to be 14 percent above what it was in 2019.

This is an imperfect measure of actual consumer behavior. However to the extent such data is indicative of household behavior and willingness to venture out to participate in indoor activities near other people during a pandemic, then the regional video lottery sales data does make sense.

Oregon Lottery player surveys conducted in recent years tend to show that video lottery players are more middle-aged, more middle- and high-income, and more Portland-centric than the overall population. Looking forward, all three of these factors would point toward stronger economic gains, and therefore the ability for households to spend on gaming activities should they choose.

**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.*

**Budgetary Reserves**

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund\(^7\) (ORDF) and the Education Stability Fund\(^8\) (ESF). This section updates balances and recalculates the outlook for these funds based on the June revenue forecast.

As of this forecast the two reserve funds currently total a combined $1.7 billion. At the end of the current 2021-23 biennium, they will total $2.0 billion, which is equal to 7.3% of current revenues. Including the currently projected $3.1 billion ending balance in the General Fund, the total effective reserves at the end of the current 2021-23 biennium are projected to be $5.1 billion, or 19% of current revenues.

![Effective Reserves ($ millions)](source: Oregon Office of Economic Analysis)

<table>
<thead>
<tr>
<th>Effective Reserves ($ millions)</th>
<th>Current</th>
<th>End</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESF</strong></td>
<td>$526</td>
<td>$703</td>
</tr>
<tr>
<td><strong>RDF</strong></td>
<td>$1,187</td>
<td>$1,300</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>$1,713</td>
<td>$2,003</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$3,122</td>
<td>$3,122</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,835</td>
<td>$5,125</td>
</tr>
<tr>
<td><strong>% of GF</strong></td>
<td>17.7%</td>
<td>18.7%</td>
</tr>
</tbody>
</table>

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 was made in recent months after the

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7 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.

8 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.
accountants closed the books on last biennium. Additionally a $83.5 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 $1.3 billion.

Looking ahead to the 2023-25 biennium, the ORDF is expected to receive two transfers as well. This includes a projected $278.6 million related to the General Fund ending balance from 2021-23, and $93.3 million related to the increase in corporate taxes. The ORDF is projected to hit its cap of 7.5% of revenues in FY2027. At that time, should the forecast prove accurate, the increase in corporate revenues from M67 would be retained in the General Fund and not transferred to the ORDF.

The ESF will receive an expected $288.7 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 $703.1 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 $2.0 billion at the close of the 2021-23 biennium, or 7 percent of current revenues. At the close of 2023-25 the combined balance will be $2.76 billion, or 11 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 $4.3 million (-1.3%) below 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 largely 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 OLCC data, retail prices for both usable marijuana, and extracts and concentrates had been falling since last summer, but have taken another step down in the
last couple of months. These price declines may in part be due to the record marijuana harvest last fall, which was up about 40 percent compared to the year prior. 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.

\[ \text{See Table B.11 in Appendix B for a full breakdown of revenues and associated distributions to recipient programs.} \]