REVENUE OUTLOOK

Revenue Summary

The baseline economic outlook now calls for a mild recession. This is hard to see in the topline outlook for state revenues, as the forecast for available resources remains roughly unchanged in the near term. The recession is expected to be mild, and personal income is expected to remain stable despite job losses. Underlying personal income is not only the primary driver of Oregon's dominant personal income tax, but also a wide range of consumption-based taxes including the corporate activity tax and lottery sales.

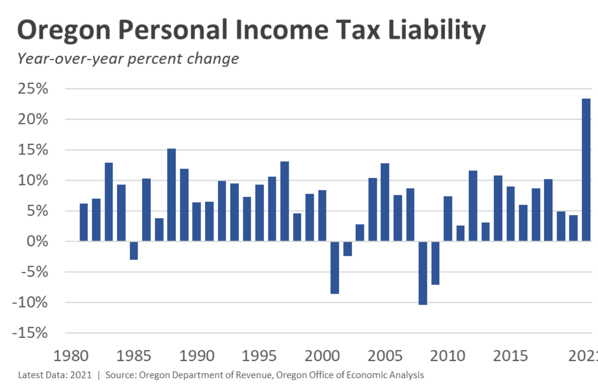
In terms of job losses, the baseline scenario looks identical to the recession of 1991. The 1991 cycle was unique in that it did not result in a pronounced downturn in state revenues, only a couple of relatively flat years of available resources.

Unlike what was seen during the 1991 cycle, revenues are expected to drop going forward with or without a recession. Expected revenues for the 2023-25 biennium are expected to be around $3 billion lower than they were this biennium as profits and investment income return to earth and a record kicker credit is paid out. That said, it is surprising that the recession call did not make this expected decline noticeably worse.

Even if the economic expansion persists, General Fund revenues are due for a hangover in 2023-25. Recent gains in reported taxable income have been driven by taxpayer behavior as well as by underlying economic growth. Investment and business income are not always realized for tax purposes at the same time as they are earned in the market. Last year was a great time to cash in assets, with equity prices and business valuations high, and potential federal tax increases on the horizon. Corporations and other businesses also had a strong incentive to recognize as much income and as few costs as they could last year.

Given that a significant amount of 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 puts Oregon's revenues at risk of the sharp declines experienced after asset market corrections in 2001 and 2007. With recession on the horizon, profits and gains could soon turn into losses, and a smaller share of filers could be subject to the top rate. Recent revenue growth has been more pronounced than during any other period on record. During tax year 2021, personal income tax liability grew at almost double the pace of that was seen during the peaks of the housing and technology booms. Hopefully, the upcoming hangover in revenue growth will not be as pronounced.



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 $3.7 billion, which will be credited to taxpayers when they file their returns in Spring 2024. The projected corporate kicker is $1.3 billion, which will be retained for K-12 educational spending.

2021-23 General Fund Revenues

Gross General Fund revenues for the 2021-23 biennium are expected to reach $28,298 million. This represents an increase of $421 million from the September 2022 forecast, and an increase of $4,973 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, the Corporate Activity Tax and estate taxes are healthy as well.

Table R.1

2021-23 General Fund Forecast Summary

(Millions)	2021 COS Forecast	September 2022 Forecast	December 2022 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$20,628.1	$23,828.2	$23,945.5	$117.2	$3,317.4
Corporate Income Tax	$1,344.0	$2,448.6	$2,648.0	$199.4	$1,304.0
All Other Revenues	$1,353.5	$1,600.6	$1,704.7	$104.1	$351.2
Gross GF Revenues	$23,325.5	$27,877.4	$28,298.1	$420.7	$4,972.6
Offsets, Transfers, and Actions[1]	-$417.6	-$477.0	-$468.0	$9.0	-$50.4
Beginning Balance	$3,025.6	$4,082.5	$4,082.5	$0.0	$1,056.9
Net Available Resources	**$26,008.4**	**$31,571.9**	**$32,001.6**	**$429.7**	**$5,993.2**
Appropriations	$25,446.0	$27,861.0	$27,861.0	$0.0	$2,415.0
Ending Balance	**$562.4**	**$3,710.9**	**$4,140.6**	**$429.7**	**$3,578.2**
Confidence Intervals					
67% Confidence	**+/- 3.9%**		**$1,106.9**	**$27.19B to $29.41B**	
95% Confidence	**+/- 7.8%**		**$2,213.8**	**$26.08B to $30.51B**	

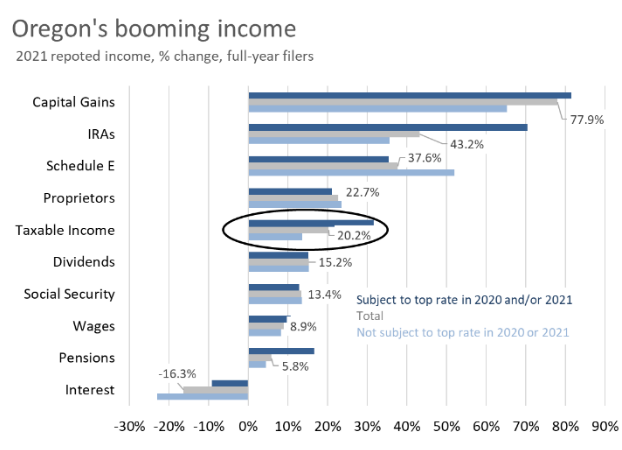
1 Reflects personal and corporate tax transfers, cost of cashflow management actions (TANS), and Rainy Day Fund tranfer

Personal Income Tax

Growth in withholdings of personal income taxes has slowed in recent weeks but remains healthy. Although there are other factors involved (e.g. retirement income, bonuses, and stock options), withholdings are mostly driven by wages and salaries. As such, slower growth could be welcome news, given that the labor market needs to cool down. However, other broad measures of wage growth have yet to show any weakness to date.

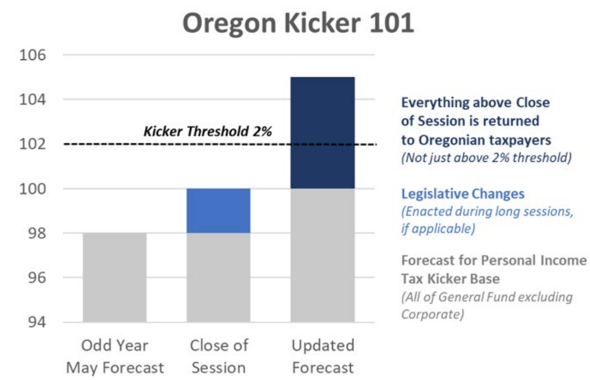
Although growth in taxable labor income has been very strong, much of the 2022 flood of personal income tax collections can be traced to nonwage forms of income. With the fall extension filing season now over, the extent of this income growth has become clear. Gains in nonwage taxable income have been 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. With additional tax return data, we now know that capital gains grew by more than $8 billion in 2021. This growth is made more remarkable given it came off a record $10 billion in gains during 2020.



According to the September forecast, the outlook for the personal income tax kicker base is now significantly (16.7%) higher than the Close of Session forecast. If the current outlook holds, a kicker of $3.7 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 income and 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 without an economic downturn. 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 yet to show any weakness growing at an average of 14% per year over the past decade.

The current inflationary environment is one factor supporting recent 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. The forecast calls for corporate taxes to soon return to their pre-pandemic levels. However, no signs of weakness have emerged to date.

Although there is a very long way to go, a $1.3 billion 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.

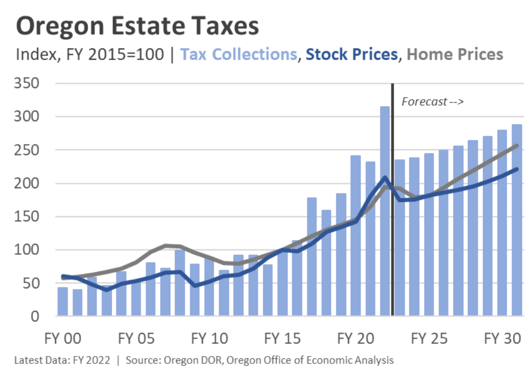
Other Sources of Revenue

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 by $104 million (+6.2%) and in the upcoming 2023-25 biennium by $106 million (+6.6%). These changes are almost entirely driven by higher interest earnings and an upwardly revised liquor forecast. On net, all other non-personal and non-corporate revenues in the General Fund are revised lower by $5.7 million in 2021-23 and by $8.0 million in 2023-25.

The biggest change is a large increase in interest earnings, both in the current biennium and moving forward. Interest earnings are raised $90 million in the current 2021-23 biennium and $85 million in 2023-25. These increases are to the combination of high fund balances, and rising interest rates in keeping with the Fed's higher or longer policy. Today, fund balances total around $8 billion, or four times their pre-pandemic size. These balances have yet to taper off and have held steady for the past year. To date it remains an accounting challenge to full decompose the sources of these balances. Our office will continue to work with our counterparts in DAS and the Treasury to get a better handle on the sources of these monies, and any expectation on when they may decline back toward their historical range. As such the risks to the outlook are balanced. Funds may remain larger or interest rates higher than anticipated, however if funds are spent down quicker than expected, interest earnings will follow suit.

The second large increase is an upward revision to the liquor revenue forecast, produced by OLCC and not our office. Sales have been tracking above forecast and the strength in sales is expected to continue over the forecast horizon. One additional upside risk to the outlook is the continuation of the bottle surcharge for the 2023-25 biennium is expected to be discussed by the OLCC Commission in future meetings. Should a continuation of the surcharge be approved, available revenues will be revised higher for 2023-25 in a future forecast.



One final source of revenue of note are estate taxes. These tax collections have outstripped expectations considerably in recent years. The underlying forecast had yet to catch up to the new reality of booming valuations and wealth. The current forecast for estate taxes is essentially unchanged from last quarter. Given the baseline forecast now includes a recession with declines in the stock market and home prices, an unchanged estate tax forecast is effectively an upward revision to the outlook. Our office believes such an outlook now better incorporates recent trends and patterns of collections. The risks are the larger declines in asset markets would negatively affect revenues moving forward, and, as always, a small number of very large estates can move the total collections significantly in any given year.

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	23,945.5	19.7%	21,540.1	-10.0%	28,551.2	32.5%	32,913.0	15.3%	37,349.2	13.5%
Corporate Income Taxes	2,648.0	29.7%	1,955.9	-26.1%	2,118.9	8.3%	2,271.5	7.2%	2,584.9	13.8%
All Others	1,793.7	6.7%	1,649.8	-8.0%	1,593.9	-3.4%	1,686.9	5.8%	1,788.2	6.0%
Gross General Fund	28,387.1	19.6%	25,145.7	-11.4%	32,264.1	28.3%	36,871.4	14.3%	41,722.4	13.2%
Offsets and Transfers	*(247.3)*		*(128.2)*		*(103.9)*		*(92.5)*		*(105.3)*	
Net Revenue	28,139.8	19.2%	25,017.4	-11.1%	32,160.2	28.6%	36,778.9	14.4%	41,617.1	13.2%

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[9]

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[10] together with more timely updates produced by the Legislative Revenue Office.

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

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.

The near-term outlook is particularly uncertain right now. Odds are a mild recession in the upcoming 2023-25 biennium is more likely than not. However there remain other plausible paths the economy may take in the years ahead. As discussed in the economic section on page 13, the optimistic scenario for the economy is it avoids a recession but still experiences slower growth. The pessimistic scenario is that a moderate recession is needed to bring inflation back down to the Federal Reserve's target.

Alternative Scenarios - December 2022

Changes relative to the baseline ($ millions)

General Fund	2021-23	2023-25	2025-27	2027-29	2029-31
Optimistic	$138	$917	$823	$649	$725
Pessimistic	-$82	-$2,438	-$1,711	-$1,116	-$211

Corporate Activity Tax	2021-23	2023-25	2025-27	2027-29	2029-31
Optimistic	$14	$108	$86	$67	$74
Pessimistic	$1	-$202	-$178	-$64	-$11

Source: Oregon Office of Economic Analysis

Looking at the upcoming 2023-25 biennium, in the optimistic scenario, General Fund revenues in Oregon would be $917 million higher than in the baseline. In the pessimistic scenario, General Fund revenues in Oregon would be $2.4 billion lower than in the baseline.

Changes would also be seen outside of the General Fund among Oregon's consumption-based revenues as well. Such taxes are generally less volatile than income taxes and help to stabilize Oregon's overall revenue base. Specifically, the state's Corporate Activity Tax next biennium would be $108 million higher in the optimistic scenario and $202 million lower in the pessimistic scenario. Lottery resources would be $18 million higher in the optimistic scenario, or $27 million lower in the pessimistic scenario.

Corporate Activity Tax

The 2019 Legislature enacted the corporate activity tax (CAT)[11], 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 continue to be 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. Thus a complete picture of the 2021 tax year will not be available until well into 2023. For the December forecast, tax liability estimates for tax years 2021 and 2022 have been increased based on current receipts. The remainder of the forecast has been revised downward consistent with the deteriorating economic outlook. For the 2023-25 biennium, a $6.4 million increase in the beginning balance provides a modest offset to a $62.0 million decrease in revenues, resulting in $55.6 million less in available resources.

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.

[11] 0122 (oregonlegislature.gov)

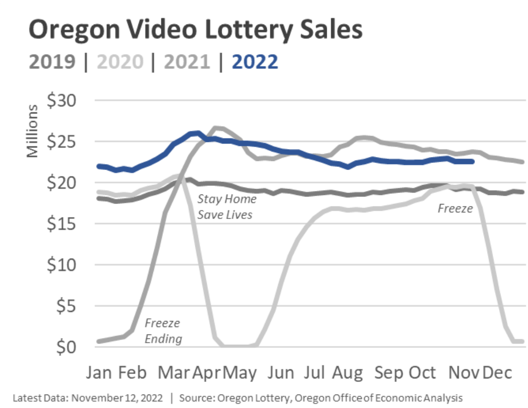
In terms the macroeconomic effects of a major new tax, the Office of Economic Analysis starts with the Legislative Revenue Office's (LRO) impact statement and any Oregon Tax Incidence Model (OTIM) results LRO found. At the top line, OTIM results find minimal macroeconomic impacts across Oregon due to 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

Lottery sales and revenues continue to be strong. There are no apparent impacts of high inflation or high gas prices slowing spending on discretionary items.

Video lottery sales are down slightly from last year's pandemic reopening highs, but have settled into a level that is consistently around 20 percent above 2019 sales. Both video and traditional sales have outstripped the forecast in recent months. The record-setting Powerball jackpot is only partially reflected in this forecast as the highest sales figures were too recent to be fully incorporated. All told, Lottery resources for the current 2021-23 biennium are raised another $10.1 million (+0.6%) compared to the previous forecast.

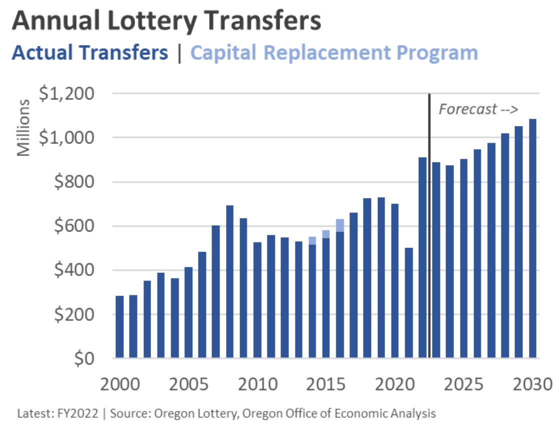


Looking forward, the pending recession will impact Lottery sales and available resources. However, given the mild recession is expected to have relatively small impacts on jobs, income, and spending the downward adjustments to the Lottery forecast are minimal. Resources in the upcoming 2023-25 biennium are revised lower by $16.7 million, or 0.9 percent. Instead of large declines, the end result for Lottery is essentially a four year period of flat sales. While such an outcome could create management challenges due to revenues not increasing while costs do, it is a far cry from the aftermath following the Global Financial Crisis and smoking ban which took essentially 8 years to regain the lost ground.

Over the full forecast horizon the Lottery outlook is lowered as well, keeping in line with the downgraded economic forecast. Resources are lowered $9.9 million (-0.5%) in 2025-27, $13.8 million (-0.7%) in 2027-29, and $14.7 million (-0.7%) in 2029-31 relative to the previous forecast.

Risks to the outlook abound and vary depending upon the timeframe. In the very near-term, risks lie primarily to the upside. Consumer spending remains robust and sales may continue to outstrip expectations between today and when the pending recession comes. Conversely, should inflation begin to take a toll on households, discretionary purchases may be cut back.

Over the medium term, in particular the upcoming 2023-25 biennium, risks are balanced. Sales may outpace expectations, or the economy may skirt a recession entirely. Or sales may decline by a larger amount than anticipated in a mild recession. Looking back historically, Lottery held up well in both the 1990 and 2001 recessions. However Oregon also did not have line games back then, which makes comparing historical periods more challenging to today. To the extent that player behavior for line games differs than overall consumer spending, discretionary spending, or even gaming in a broad sense, sales could under- or overperform as a result.



Over the long term a few sets of risks stand out. 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.

However, longer run upside risks remain as well. While it is true that spending on video lottery grew slightly slower than income and spending last decade, that has reversed in the past year. Some of the strong sales since reopening are due to pent-up demand, strong household finances, and the fact that other entertainment options were either not available initially (concerts, spectator sports) or possibly less desirable due to the virus (long distance travel, movie theaters). Even so, the ongoing strength in video sales this year likely points toward some more permanent and not just pandemic or temporary changes in player behavior. The post-pandemic baseline level of play and/or sales could simply be higher, and not yet fully reflected in the current forecast. For example, if sales were to hold steady as a share of income, that would add $100-200 million to the forecast in future biennia.

Additionally, there is the possibility of another capital replacement program in the years ahead to upgrade and replace video lottery terminals across the state. The pandemic and health-related shutdowns reduced video lottery sales by approximately $400 million, of which only around half has been regained by the exceptionally strong sales since reopening. This large impact on the Lottery budget has made ongoing replacements more difficult. The average age of the terminals in the market has risen. Given the clear impacts on sales from the VLT replacements last decade, another large effort to upgrade in the years ahead would be expected to raise the forecast as well.

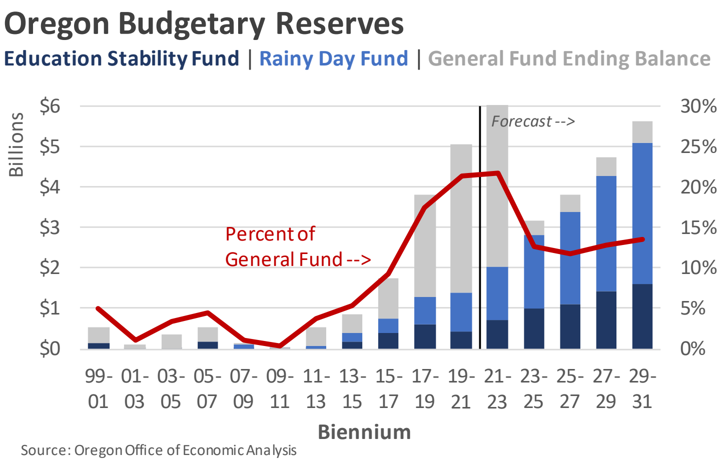
In the months ahead our office will continue to work with our colleagues at the Oregon Lottery, the CFO's office, the Legislative Revenue Office, and the Legislative Fiscal Office. Plans are to dig deeper into recent demographic data from the Lottery's player study and incorporate that with our office's population forecast to get a better sense of the potential demographic or generational changes. Additionally, discussions surrounding the potential for VLT replacements and the expected impact on sales will continue. Any changes related to these topics, and an update on the overall economic outlook will be incorporated into the next forecast, set to be released in early February 2023.

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[12] (ORDF) and the Education Stability Fund[13] (ESF). This section updates balances and recalculates the outlook for these funds based on the December revenue forecast.

As of this forecast the two reserve funds currently total a combined $1.8 billion. At the end of the current 2021-23 biennium, they will total $2.0 billion, which is equal to 7.2% of current revenues. Including the currently projected $4.1 billion ending balance in the General Fund, the total effective reserves at the end of the current 2021-23 biennium are projected to be $6.2 billion, or 21.8% of current revenues.



Effective Reserves ($ millions)

	Current Oct-22	*End of 2021-23*
ESF	$600	$706
RDF	$1,194	$1,334
Reserves	$1,794	$2,040
Ending Balance	$4,141	$4,141
Total	**$5,935**	**$6,181**
% of GF	20.9%	21.8%

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 early 2022 after the accountants closed the books on last biennium. Additionally a $107.8 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 $79.6 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,

[12] 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.

[13] 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.

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 $291.4 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 $705.8 million. The ESF is not projected to hit its cap of 5% of revenues until FY2026, 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 7.2 percent of current revenues. At the close of 2023-25 the combined balance will be $2.8 billion, or 11.2 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.

With a pending recession in the upcoming 2023-25 biennium, the state is expected to meet the trigger for withdrawals should policymakers choose to. In advance of the 2023-25 biennium, the trigger most likely to be met would be if the last quarterly forecast in the current biennium (to be released in May 2023) show General Fund revenues in the upcoming 2023-25 biennium are at least 3 percent lower than the current 2021-23 biennium's appropriations. Right now the 2023-25 revenue forecast is 10 percent lower than current appropriations. That decline is due to paying out the record kicker which reduces revenues and not a fundamental decrease due to the recession. Even so, conditions are likely to be met that trigger potential withdrawals should policymakers so choose.

Another reserve fund trigger – two consecutive quarters of employment declines – is expected be met during the 2023-25 biennium, just not before the biennium starts. The other triggers may or may not be met. If revenues come in below forecast next biennium, that could trigger a potential withdrawal. And for the ESF only, not the ORDF, a Governor's declaration of emergency could also trigger a potential withdrawal.

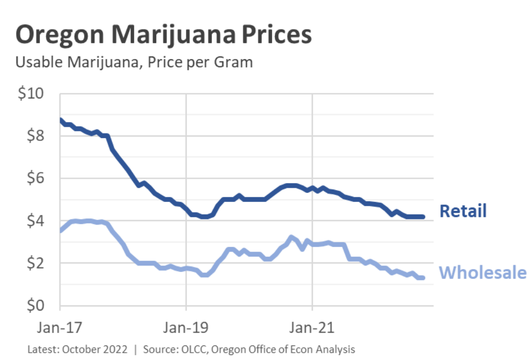
Finally, these are the technical considerations for using the reserve funds in the upcoming 2023-25 biennium. Ultimately policymakers will decide whether to use the funds or not. Regardless of the trigger(s) met, the Legislature would need a three-fifths vote in each chamber to approve a reserve fund withdrawal.

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

Recreational Marijuana Tax Collections

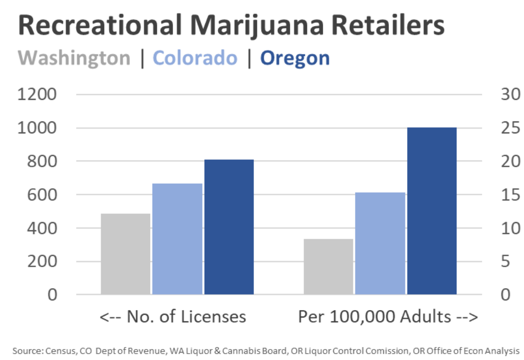
The recreational marijuana forecast is lowered due to the pending recession, downgraded economic outlook in addition to ongoing price declines which impact tax collections even if the underlying volume of sales and consumption remain more steady.

Resources in the current 2021-23 biennium are lowered $14.4 million (-3.8%). Resources are lowered $11.6 million (-3.4%) in the upcoming 2023-25 biennium. The out biennia are lowered a smaller $4-9 million (-0.8 to 2.5%).



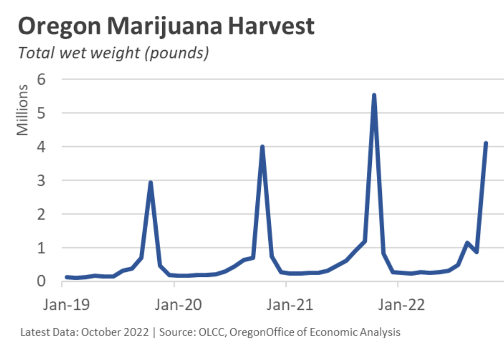
The key to the near-term remains prices which continue to decline in the wholesale market, while beginning to stabilize in the retail market at record lows. Given Oregon levies its marijuana tax as a percentage of the sales price, lower prices result in lower tax collections all things equal.

The underlying reason for the low prices is an oversaturated market where production (harvest) outpaces consumer demand, and there are more retailers per capita than in most other states, leading to increased competition. Oregon has more retailers than Colorado or Washington, which are both states with larger populations.



Now, this is great news for consumers who can enjoy widely available products at low prices. This is bad news for firms trying to operate a profitable business. One challenge there is even as businesses do leave the market, to date there has always been another willing to step in and take their place.

Given the saturation and pricing issues from a firm perspective, it would make sense that there would be a supply side response. In a new, preliminary development that supply side response may be happening. Year to date, the marijuana harvest is down 18 percent compared to last year. Right now it is unknown to what extent this could be weather- or crop-related compared to a fundamental decrease in production. However, a reduction in supply should eventually lead to better pricing power for firms.



Given these are new developments, the October harvest data was just released the other day, our office is not yet making any fundamental changes to the outlook based on industry conditions or pricing. Our office will reconvene with our advisors to discuss the outlook in the coming months and make any necessary changes to the forecast at that time.

For now, the overall forecast has been downgraded due to the pending recession and recent tracking due to the low prices. Even so, the outlook calls for increases in marijuana sales and tax collections in the years ahead, primarily due to the state's growing population and incomes. Our office does not have a further increase in marijuana usage rates built into the outlook. Marijuana sales are expected to be a steady share of household budgets.

See Table B.11 in Appendix B for a full breakdown of revenues and associated distributions to recipient programs.