Revenue Summary

The latest forecast is modestly changed from the prior edition. Since the December forecast was released, personal income tax return data have become available that indicate stronger taxable wage and salary growth for tax years 2023 and 2024 than was factored into the prior forecast. The result is an increase in the personal income tax forecast over the next few years. Otherwise, actual tax receipts are down relative to the previous forecast, resulting in slight decreases to the personal and corporate income tax forecasts for the current biennium.

The revenue picture for the current 2023-25 biennium has been revised downward $90.3 million compared to the December forecast. The General Fund appropriation level was increased during the December 2024 Special Session by $110.2 million. The projected ending balance now stands at $2.59 billion. The personal kicker is expected to total $1,726.6 million and will be returned to taxpayers as a credit on their 2025 tax return. The corporate kicker now stands at an expected $993.1 million and will be retained in the General Fund and spent on education next biennium.

Table R.1

2023-25 General Fund Forecast Summary

(Millions)	2023 COS Forecast	December 2025 Forecast	March 2025 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$21,019.7	$22,690.8	$22,570.0	-$120.8	$1,550.3
Corporate Income Tax	$2,228.9	$3,253.4	$3,222.1	-$31.4	$993.1
All Other Revenues	$2,011.3	$2,154.2	$2,216.2	$61.9	$204.9
Gross GF Revenues	$25,259.9	$28,098.5	$28,008.2	-$90.3	$2,748.3
Offsets, Transfers, and Actions[1]	-$437.0	-$497.8	-$496.8	$1.0	-$59.8
Beginning Balance	$7,493.5	$8,082.5	$8,082.5	$0.0	$589.0
Net Available Resources	**$32,316.4**	**$35,683.2**	**$35,593.9**	**-$89.3**	**$3,277.5**
Appropriations	$31,873.6	$32,897.2	$33,007.4	$110.2	$1,133.8
Ending Balance	**$442.8**	**$2,786.0**	**$2,586.5**	**-$199.5**	**$2,143.7**
Confidence Intervals					
67% Confidence	+/- **1.5%**		**$417.4**	**$27.59B to $28.43B**	
95% Confidence	+/- **3.0%**		**$834.8**	**$27.17B to $28.84B**	

1 Reflects personal and corporate tax transfers, Rainy Day Fund tranfer, and Dept of Ag transfer

For 2025-27, available General Fund resources, including a somewhat smaller beginning balance carried forward from the current biennium, are increased by $350.1 million to a total of $38.2 billion. The effects of the taxable income gains discussed above are compounded by a reduction in the kicker credit deducted from the personal income tax forecast. Note that the current available resource projection does not include an estimate of savings due to agencies not expending their full appropriations in the prior biennium. This adjustment will be factored into the next forecast.

Outside of the General Fund, the major revenue sources are the Corporate Activity Tax and Lottery. Corporate Activity Tax revenues have been revised downward $31.6 million for 2023-25 due entirely to slightly weaker receipts activity in recent months. Revenues are only slightly down in 2025-27, off $9.5 million from the prior forecast. Lottery earnings are reduced $19.8 million in the current biennium and $65.6 million in 2025-27. The sizable reduction next biennium includes a correction to the unclaimed prize calculation and milder growth expectations for video lottery earnings.

2023-25 General Fund Revenues

The forecast for the current biennium is reduced slightly compared to the December outlook. General Fund revenues are decreased $90.3 million, primarily due to a decline in personal income taxes. Corporate income taxes have also decreased relative to the prior forecast. All other revenue sources are increased $60.0 million. The estimated ending balance in the General Fund is now $2.59 billion.

Personal Income Tax

Final tax return data have become available for tax year 2023. In addition, initial tax return data are available for tax year 2024. Table R.2 presents the changes from the December forecast for the wages and salaries component, the retirement components, total taxable income and tax liability. As exhibited, taxable income and the associated tax liability grew considerably stronger across the two-year period than previously estimated. Due to the persistent nature of wage/salary and retirement income (i.e., that inordinately strong growth is not always followed by corrective weakness), this results in higher tax liability for some years to come. Note, however, that the income and liability components of the model are superceded by receipts estimates for which more robust data are available. For this reason, the increases in income and liability only translate to higher revenues in pure forecast years beginning with tax year 2025.

Table R.2

Income-Liability* in PIT Forecast: Change from December Forecast

		Dec fcst	March fcst	Change
Wages & Salaries	TY 2023	4.6%	6.4%	1.9%
	TY 2024	4.8%	6.7%	1.9%
Retirement	TY 2023	8.6%	6.9%	-1.7%
	TY 2024	5.1%	6.8%	1.7%
Total Income	TY 2023	3.8%	4.9%	1.2%
	TY 2024	7.1%	8.5%	1.3%
Liability	TY 2023	-0.9%	1.8%	2.7%
	TY 2024	9.5%	11.6%	2.1%

* Full-year filers only.

The forecast for 2023-25 is now $22.6 billion, decreased $120.8 million since the December forecast. Table B.8 presents tracking information for the first fiscal quarter of 2025. Personal income taxes finished $108.2 million below the prior forecast. Refunds, bostered by the sizeable kicker credit in effect for tax year 2023, exceeded expectations in November and December due to timing effects. As some of these refunds are applied as estimated payments to subsequent tax years, the projection for estimated payments also surpassed expectations.

Corporate Excise Tax

The corporate income tax forecast models collections by tax year on U.S. corporate profits adjusted for the size of the Oregon economy relative to the nation. The forecast for profits in the national economic forecast has been revised downward modestly since the December forecast. This results in subtle decreases in the corporate income tax forecast throughout the forecast horizon.

For the 2023-25 biennium, corporate income tax collections are projected to total $3.22 billion, down $31.4 million from the December forecast. As indicated in Table B.8 in the appendix, collections during the quarter ended December 31st were $57.9 million lower than expected. This weakness was observed entirely in reconciliation activity related to prior tax years. Note that over 90 percent of corporate income tax refunds are applied as estimated payments for subsequent tax years, and thus the error in refunds often translates into error in estimated payments.

Other Sources of Revenue

For the current biennium, all other sources of General Fund revenue are expected to account for eight percent of total revenues. All other General Fund revenues are expected to total $2.21 billion in 2023-25, a change of just $61.9 million from the prior forecast and $142.9 million from the Close of Session forecast.

The two largest contributors to the “other sources” category are Estate Taxes and Interest Earnings. Estate Taxes have grown significantly in recent years due to an aging population and nominal growth in asset values. For the current biennium, the forecast for Estate has increased $41.0 million to $703.5 million total for the biennium. The forecast for Liquor Apportionment is also revised upward, standing now at $348.5 million.

Extended General Fund Outlook

Table R.3 exhibits the long-run forecast for General Fund revenues through the 2031-33 biennium. The 2025-27 biennium is the primary focus with the legislature now in session. The co-chairs of Ways and Means will issue their budget framework soon after this revenue forecast is released. General Fund revenues for 2025-27 have been increased $550.7 million due to the taxable income considerations discussed above. Including changes to the beginning balance and the Rainy Day Fund transfer, the available resource level is increased by $350.1 million.

Table R.3 March 2025

General Fund Revenue Forecast Summary

Millions of Dollars, Current Law

Revenue Source	2023-25 Biennium	% *Chg*	2025-27 Biennium	% *Chg*	2027-29 Biennium	% *Chg*	2029-31 Biennium	% *Chg*	2031-33 Biennium	% *Chg*
Personal Income Taxes	22,570.0	*-12.1%*	30,825.2	*36.6%*	35,842.0	*16.3%*	39,853.5	*11.2%*	44,279.6	*11.1%*
Corporate Income Taxes	3,222.1	*2.1%*	3,407.0	*5.7%*	3,592.3	*5.4%*	3,811.9	*6.1%*	4,176.3	*9.6%*
All Others	2,216.2	*14.3%*	1,872.9	*-15.5%*	1,928.5	*3.0%*	2,026.7	*5.1%*	2,126.9	*4.9%*
Gross General Fund	28,008.2	*-9.0%*	36,105.1	*28.9%*	41,362.8	*14.6%*	45,692.1	*10.5%*	50,582.8	*10.7%*
Offsets and Transfers	*(232.1)*		*(204.0)*		*(212.6)*		*(192.9)*		*(181.2)*	
Net Revenue	27,776.1	*-9.2%*	35,901.1	*29.3%*	41,150.3	*14.6%*	45,499.1	*10.6%*	50,401.6	*10.8%*

Note that the large percentage changes between biennia are due to kicker credits affecting personal income tax collections. Beyond 2025-27, when these considerations are no longer in effect, growth reflects underlying economic assumptions characterized elsewhere in this document. The potential for error in the forecast increases substantially the further ahead we look.

Corporate Activity Tax

Oregon's new corporate activity tax (CAT) went into effect January 2020. Revenues from this tax on business receipts are dedicated to education through the Fund for Student Success. The tax was designed to generate approximately $1 billion per year in new state resources, or $2 billion per biennium. These figures include both CAT revenues and the impact of the reduction in personal income tax rates which reduce state revenues, leaving a net revenue change of approximately $1 billion per year.

For the quarter ending December 31, 2024, net corporate activity tax receipts fell short of expectations by $36.9 million. This weakness was seen entirely in reconciliation for prior tax years and may have been due to timing issues regarding return processing and the distribution of refunds. Given that the economic forecast is little changed, the outlook for CAT revenues is also similar to the prior forecast. Anticipated revenues for the current biennium are down $31.6 million, while revenues have decreased $9.5 million for 2025-27. Including a change in the beginning balance, available resources for the 2025-27 biennium are down $59.1 million to total $3.2 billion.

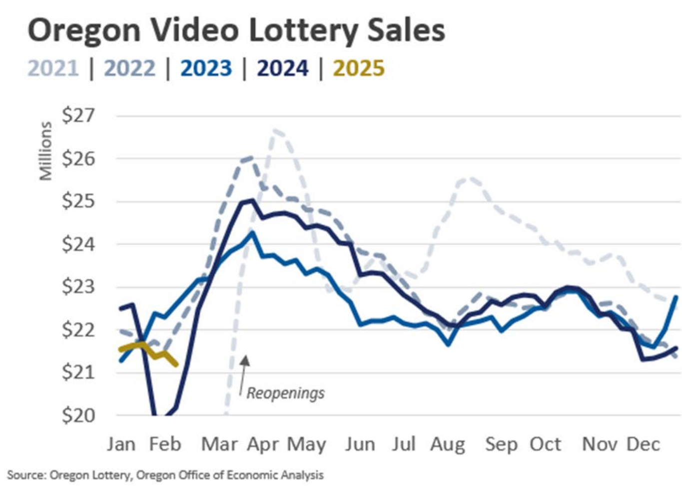
Table B.12 in Appendix B summarizes the 10-year forecast and the allocation of resources, while Table B.13 presents a more detailed quarterly breakdown of the forecast. The personal income tax reductions are built into the General Fund forecasts shown in Tables B.1 and B.2.

Lottery Forecast

The March lottery forecast has been revised downward from the December outlook, reflecting a reduction in overall resources. An issue regarding the calculation of unclaimed prizes has been rectified in the March forecast, resulting in an approximately $30 million reduction in earning for future biennia. In addition, Video Lottery sales have underperformed expectations, also contributing to a decrease in projected transfers. For the current 2023-25 biennium, total resources are lowered by $20 million, with future biennia seeing a more significant decrease of $65-75 million.

Traditional lottery revenues have seen the largest downward revision, impacted heavily by the unclaimed prize issue, with resources now expected to decline by $11.0 million (-5.0%) in 2023-25 and $38.1 million (-17%) in 2025-27. Future outlooks for 2027-29, 2029-31, and 2031-33 are also reduced by 16-17%. While Scratch-It sales have increased following the introduction of a $30 ticket, the overall transfer rate is being lowered due to the lower profit margin on higher-priced tickets. Video lottery resources are lowered by $15.7 million (-1.0%) in 2023-25 and $5.9 million (-0.3%) in 2025-27. Forecasts for 2027-29, 2029-31, and 2031-33 are also revised downward by 1-1.5%.

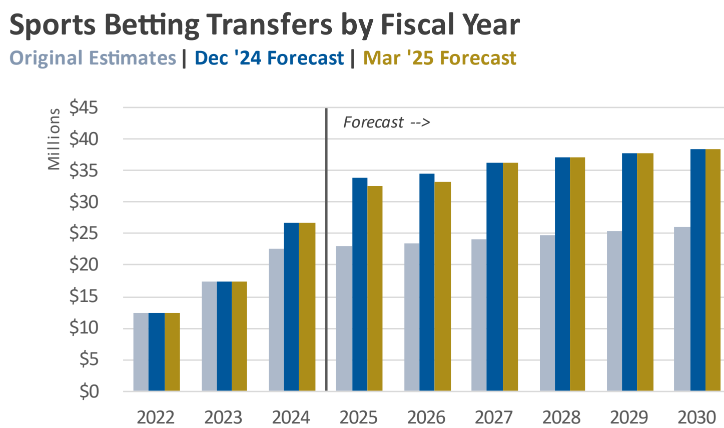
Video Lottery



Following the rapid growth during the pandemic reopening phase, video lottery sales have stabilized, with current growth rates somewhat below earlier projections. Despite the recent $5.6 billion personal income tax kicker paid out to Oregonians, no significant boost in video lottery sales was observed. Although sales in this segment continue to grow, the overall forecast is more conservative, reflecting current spending patterns and behaviors.

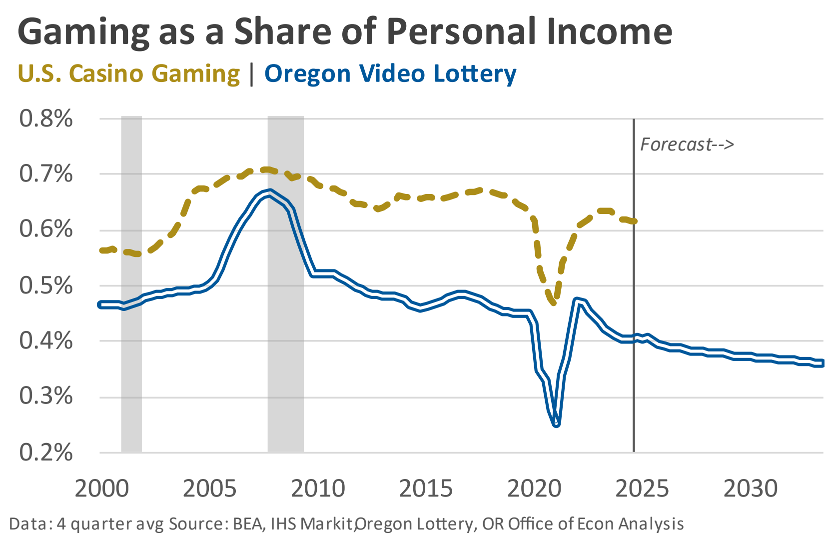
Sports Betting

The sports betting forecast remains largely in line with December's outlook, with revenues continuing to exceed early projections. While the forecast itself has not changed significantly, sports betting appears to exhibit less seasonality than previously anticipated. The steady revenue flow may be due to players engaging in a broader variety of events across staggered sports seasons, leading to more consistent betting activity throughout the year. This pattern suggests that sports betting is maturing in Oregon as player preferences diversify, contributing to stable, year-round revenue.



Longer-Term Outlook

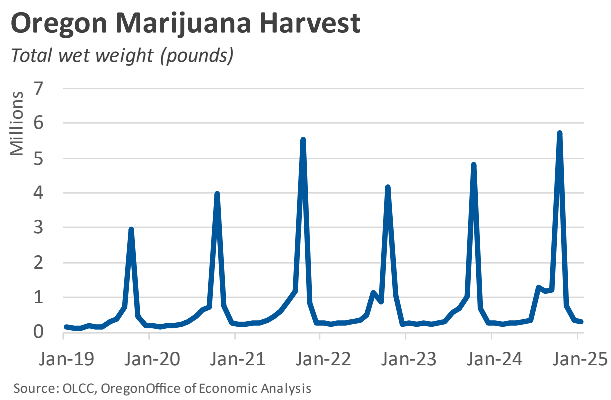
Lottery revenues continue to be closely linked to consumer behavior, household budgets and evolving entertainment preferences. Current trends point toward increased competition for entertainment dollars, shifting gaming preferences, and generational changes in gaming habits. The March forecast projects continued growth in lottery resources but at a pace slightly slower than Oregon's overall personal income growth, resulting in a marginally smaller share of the consumer spending pie over time.

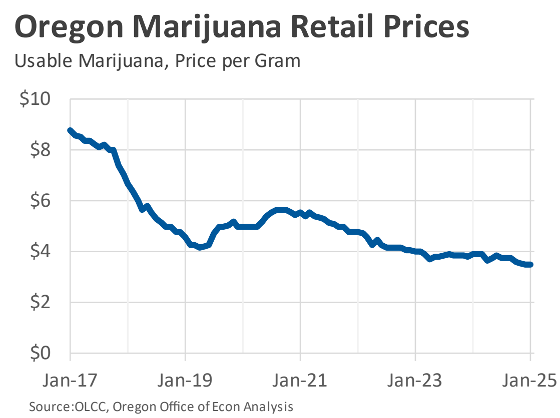


The full extended outlook for lottery earnings can be found in Table B.9 in Appendix B.

Recreational Marijuana Forecast

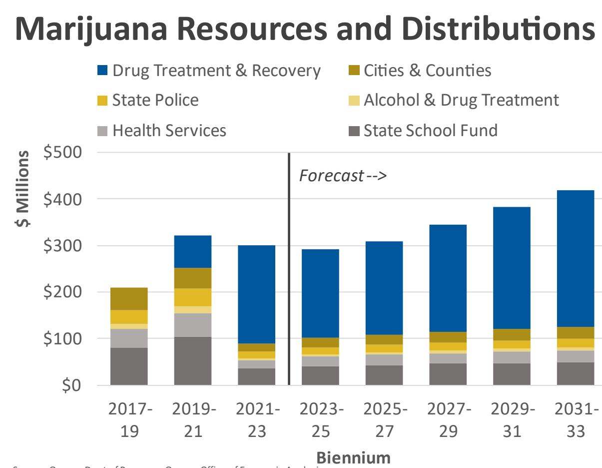
The March marijuana forecast is mostly unchanged from the December outlook, with only slight downward adjustments. In the current 2023-25 biennium, resources are lowered by $1.7 million (-0.6%), while the 2025-27 forecast is reduced by $0.3 million (-0.1%). The outlook for the outer biennia is also slightly lower, with reductions ranging from $0.9 million to $1.7 million, or about 0.3%.





Last year's harvest was notably strong, with a record-breaking yield in October of over 5.7 million pounds. The large harvest continues to contribute to low prices, which are expected to remain stable at these lower levels. With ongoing oversupply and low prices, underlying revenue growth will depend more on increases in the number of consumers and the quantity consumed per user, rather than any broader economic or income growth factors. Consequently, marijuana sales are projected to occupy a smaller share of consumer income in the future, even as overall sales and tax revenues gradually increase.

As previously noted, Oregon does not currently tax medical marijuana; however, this tax exemption is set to expire at the end of 2027, with medical marijuana taxation scheduled to begin in 2028. Although this exemption could be extended by the Legislature, the current forecast assumes medical marijuana will be taxed per current law. The forecasted revenue from medical marijuana taxation is adjusted to align with the revised recreational forecast, correcting the previous overestimation of medical tax revenue.



In total, the forecast changes for recreational marijuana are minor. The March forecast assumes steady growth in the number of users and quantities purchased, and while marijuana tax collections are still expected to rise, the pace of growth has been scaled back given persistent low prices and an increasingly mature market.

Psilocybin Forecast

Ballot Measure 109 (2020) legalized psilocybin, including a 15% retail sales tax on the psilocybin products used. This sales tax does not apply to the overall cost of a session which can be hundreds or thousands of dollars. The vast majority of the overall cost goes to cover operational expenses for the service center and the facilitator’s time and expertise.

The industry has been growing and has now been operating legally for more than a year. The current forecast remains a work in progress; however, it is now based on that first full year of data as opposed to pure assumptions. Even so, expectations are the industry is still in its ramp-up period. The number of businesses, facilitators, and customers are all expected to grow in the years ahead. As more data becomes available, our office will adjust the outlook accordingly.

The average product price reported is approximately $40, however there is a wide range of values around that average. The average price is in line with previous conversations our office has had with multiple service centers in Oregon in recent years. And while not a low price, the cost of the product is relatively small compared to the overall cost of a session. For fiscal year 2024, which ran from July 2023 to June 2024, the sales tax revenue amounted to less than $100,000.

For now, the revenue forecast is tied to a multiyear ramp up period of stronger growth based on the patterns seen in Oregon for recreational marijuana and sports betting. After the ramp up, growth is expected to slow something closer to growth in the population which is a proxy for the user base until better information is available.

Oregon Psilocybin Retail Sales Tax Revenue

Mar-25

	Biennium				
	2023-25	2025-27	2027-29	2029-31	2031-33
No. of Session	34,000	56,000	65,000	69,000	73,000
Avg Product Price	$40	$42	$44	$45	$47
Total Sales	$1,376,000	$2,355,000	$2,843,000	$3,140,000	$3,456,000
Taxes	$206,000	$353,000	$426,000	$471,000	$518,000

Lastly, it is important to note that the sales tax applies only to the purchase price of the psilocybin product itself. As such, service centers may charge customers the traditional retail price that includes a markup over wholesale costs which largely relates to production, testing, and distribution costs. Service centers may choose to sell the products at cost. And while they are not supposed to do this, they may charge customers a minimal product cost that is below their own cost. The potential benefit of doing so would be to increase revenues and profits for service centers and facilitators as less of the overall session price would be sent to pay taxes. To date, these data indicate this last possibility is not happening, or at least not enough to notice in industrywide information. However, as with all other sales taxes, revenue is driven by both the number of transactions and the price per transaction.

Revenue 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. For the economic assumptions these scenarios are based on, see page 14.

The Office of Economic Analysis is characterizing two alternative scenarios to the baseline forecast: an optimistic scenario and a recessionary scenario. The display below presents the revenue differentials between these two alternatives and the baseline. With only four months remaining in the current biennium, the potential for revenues to deviate from the baseline owes primarily to the unpredictability of the April tax season.

Alternative Scenarios **March 2025**

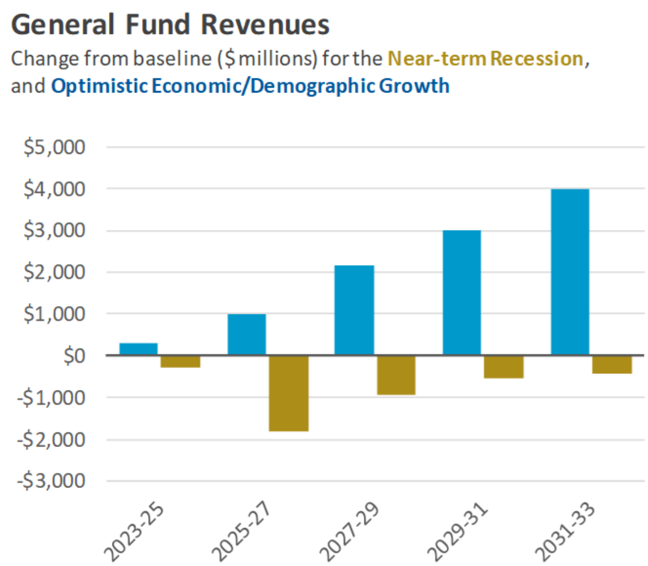
Changes relative to the baseline ($ millions)

General Fund	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$303	$991	$2,162	$3,019	$3,985
Pessimistic	-$275	-$1,819	-$935	-$547	-$430

Corporate Activity Tax	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$36	$95	$146	$183	$205
Pessimistic	-$27	-$203	-$117	-$80	-$40

Lottery	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$26	$66	$95	$115	$126
Pessimistic	-$20	-$99	-$75	-$49	-$21

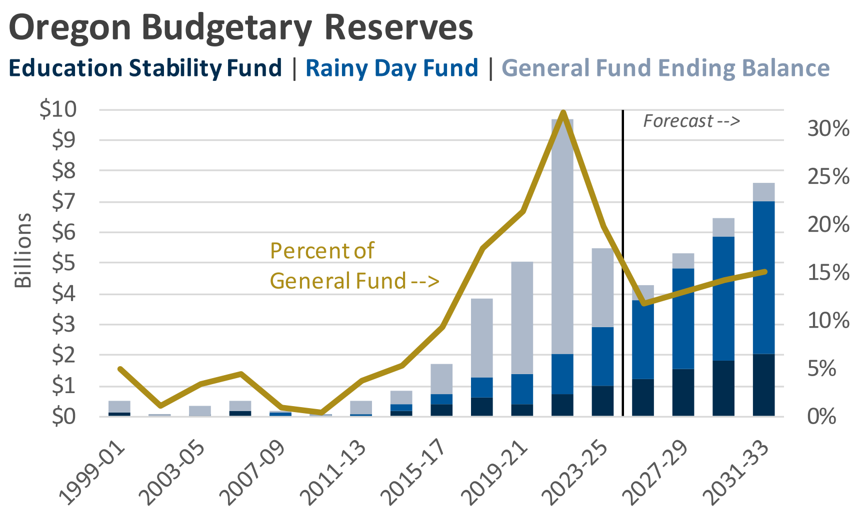
Source: Oregon Office of Economic Analysis



The optimistic scenario assumes that the U.S. and Oregon economies perform somewhat better than assumed in the baseline. The baseline scenario exhibits growth rates roughly 1.5 to 2.0 percentage points slower than historical norms. This owes both to slower population growth and lackluster expectations for equity markets and business performance over the next ten years. The optimistic scenario corresponds to more normal growth regardless of the source.

The recession scenario is based on the historic tendency for the U.S. economy to recede periodically due to accumulated imbalances or other exogenous factors. Our office currently puts the probability of recession in the next twelve months at 20%. The revenue change profile exhibited in the table above is based on previous recessions and the Office of Economic Analysis' current expectations for the likely severity and timing of a recession. Specifically, General Fund revenues would be expected to deviate 6.9% from the baseline in 2025-27 as a relatively modest recession occurs sometime during the first fiscal year. Corporate Activity Tax and Lottery would experience lighter losses due to being associated with consumer spending, a phenomenon less sensitive to economic variation than income.

Budgetary Reserves



Source: Oregon Office of Economic Analysis

Effective Reserves ($ millions)

	End of 2023-25	*Estimated 2025-27*
ESF	$1,010	$1,242
RDF	$1,906	$2,539
Reserves	**$2,916**	**$3,782**
% of GF	10.5%	10.5%
Ending Balance	$2,587	$500
Total	**$5,503**	**$4,282**
% of GF	19.8%	11.9%

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[1] (ORDF) and the Education Stability Fund[2] (ESF). At the end of the current 2023-25 biennium, the two funds are expected to total $2.9 billion, which is equal to 10.5% of current revenues. Including the projected General Fund ending balance of $2.59 billion, the total effective reserves at the end of the current 2023-25 biennium are projected to be $5.5 billion, or 19.8% of current revenues.

As noted above, the current probability of an economic downturn is estimated at 20%. In the last 50 years, the worst decline in General Fund revenues relative to the Close-of-Session forecast was 15.3% during the 2001-03 biennium associated with the tech industry boom-bust. The final column of the table above presents the projected balances in the ORDF, ESF and a hypothetical budgetary ending balance based on historic legislatively adopted balances. Total available reserves under this scenario would amount to 11.9% of General Fund revenues. It is quite likely that Oregon's reserves are adequate to weather a potential downturn given that a mild to moderate recession is the most likely pessimistic scenario.

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

[1] The ORDF is funded from ending balances each biennium, up to 1% 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 simple majority vote of the Legislature. 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% of General Fund revenues in the prior biennium.

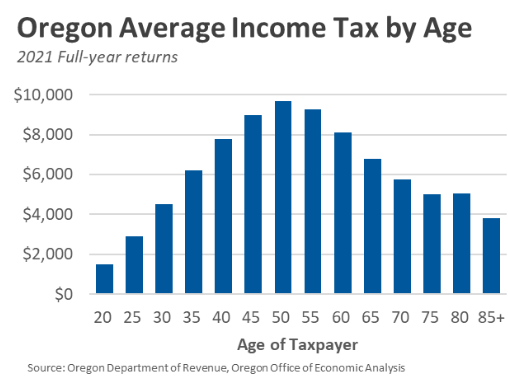
[2] [2] The ESF gained its current reserve structure and mechanics via constitutional amendment in 2002. The ESF receives 18% of lottery earnings, deposited on a quarterly basis – 10% of which are deposited in the Oregon Growth sub-account. The ESF does not retain interest earnings. The ESF has similar triggers as the ORDF but does not have the two-thirds cap on withdrawals. The ESF balance is capped at 5% of General Fund revenues collected in the prior biennium.

Aging and State Revenues

Oregon's population is gradually aging. This trend mirrors national patterns but is particularly pronounced in the state. As the Baby Boomer generation began to reach retirement age in larger numbers in the mid-2010s, the impact on the labor market has been significant. Retirements create substantial challenges for businesses. It is a daunting task to replace seasoned workers who have decades of valuable experience and institutional knowledge.

The revenue implications of these demographic changes are for slower growth in the decades ahead as traditional state tax instruments like personal income and general sales taxes become less effective.

Transitions into retirement often result in a fixed, or reduced income. The composition of income also changes with a larger reliance on Social Security as opposed to wages or business income. As a result, taxable income declines more than total income for older households. Relative to taxpayers in their 40s and 50s, the average personal income tax paid by 70-somethings in Oregon is 40% lower. The average tax bill for Oregonians 85 years and older is 60% lower than those in the prime-working, and peak-earning years.



Similar to income, overall spending declines with age. Lifestyle changes and adjustments in financial priorities also shift the nature of spending. Expenditures on big-ticket durable goods, such as cars, computers, and furniture, typically see a notable decline with age. Spending on essentials such as food and housing exhibits a more stable pattern, while spending on healthcare and cash contributions, such as donations to charity or financial support for family members, generally increases with age.

Oregon's Corporate Activity Tax has a broader tax base than a traditional retail sales tax, in large part because it includes services. As such, the CAT is likely to be less affected than most states when it comes to the compositional shift in spending. However, Oregon will still be impacted by the relative slowing in overall spending in the years ahead.

Estate taxes are one traditional type of public revenues that are likely to see stronger gains with a larger, older cohort in the years ahead. This is due to the combination of rising nominal asset prices over time and the underlying demographic changes. Oregonians (and Americans) tend to age in place. People generally wait until they are in their 80s or older to move into residential care facilities. The aging impact of this won't be felt for another decade. This means the bigger increases in medical expenses and the impacts of downsizing/moving into a nursing homes on the housing market are still to come.

Tax Law Assumptions

The revenue forecast is tied to current state law. After every legislative session, OEA incorporates adjustments to the revenue forecast produced by the Legislative Revenue Office. As each year passes and the effects of law become evident in the data, adjustments are phased out. However, many tax laws have sunsets, or end dates, built into them. These demarcations must be maintained such that the impact of extending the laws can be newly incorporated in turn.

Complication arises when considering the effects of federal law on Oregon revenues. Due to the assumptions built into these national forecasts and how national data enter the revenue models, it would be logistically difficult to maintain a current federal law revenue forecast. In addition, federal laws often have imminent sunsets and are frequently extended. Adhering to a current federal law forecast would result in large and unnecessary annual revisions. For this reason, the revenue forecast assumes the most reasonable outcomes for federal law.

For a detailed treatment of the components of the 2023 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2023-25 Budget Summary[3]

[3] https://www.oregonlegislature.gov/lfo/Documents/2023-25%20Legislatively%20Adopted%20Budget%20-%20General%20Fund%20and%20Lottery%20Funds%20Summary.pdf