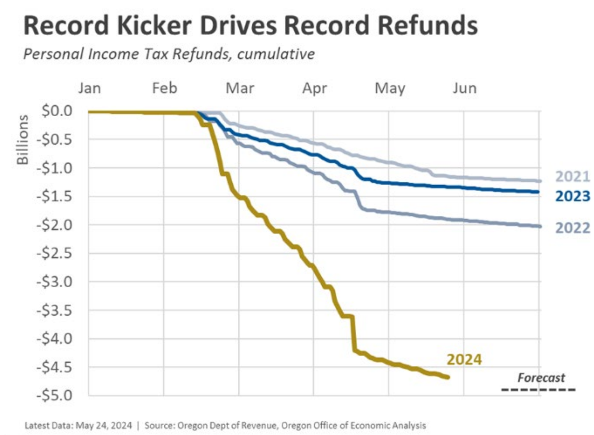
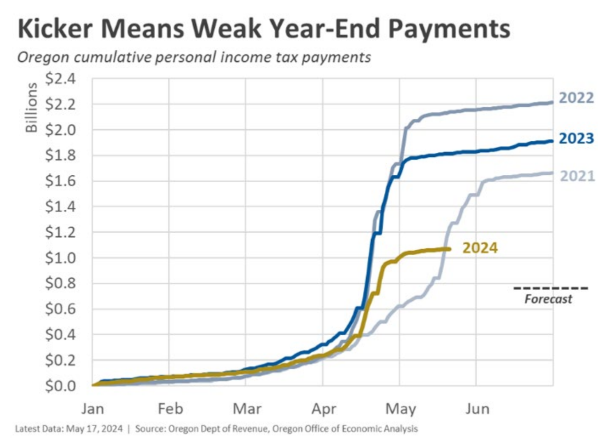
Revenue Outlook

Revenue Summary



Processing of April personal income tax payments is nearly complete, with overall collections coming in somewhat above expectiations. The record kicker credit resulted in refund payments of around $5 billion, closely matching the expectations embedded in the March 2024 forecast.

Although personal income tax refunds have matched expectations, year-end payments have been larger than what was assumed in the March forecast. While the record kicker credit has resulted in a sharp drop in payments, the decline was not as severe as was expected. That said, it is likely that collections will weaken further in the fall when high-income filers complete their returns and reconcile the payments that they made in April.

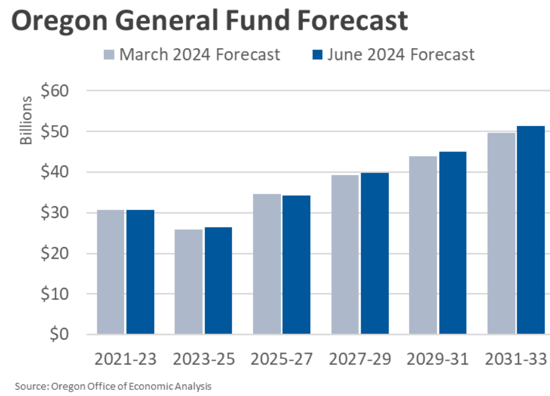


Continued strength in labor and equity markets is supporting healthy personal income tax collections. In addition to personal income taxes, corporate tax collections remain strong as well. Although the growth in traditional corporate income and excise taxes has stalled in recent months, overall collections remain extremely large from an historical perspective.

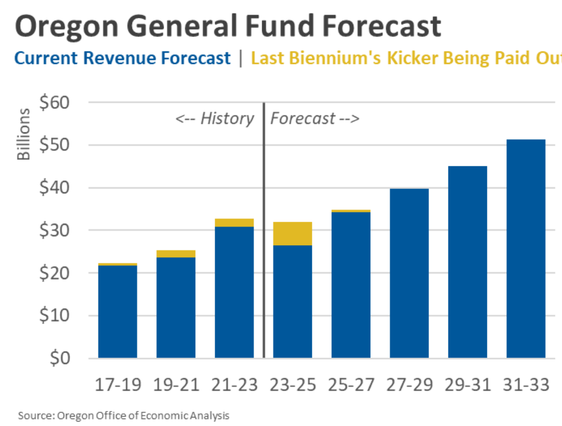
While Oregon's overall revenue picture remains rosy, there are a few signs of weakness. In particular, the April tax filing season exposed a decline in taxable retirement income during 2023. Although a decline in taxable IRA dispersments was to be expected after many taxpayers cashed in assets in recent years, weakenss in taxable pensions is more difficult to explain.

Over the past decade, Oregon has increased its dependence on consumption-based taxes. In addition to the new Corporate Activity Tax, levies on a wide range of products and services have been implemented in recent years. It was expected that many of these consumption-based taxes would be boosted during the personal income tax filing season as a result of the large refunds generated by the kicker credit. This has been the case in the past, particularly for lottery sales. However, there is little evidence to date that suggests Oregonians have increased their spending significantly as a result of this year's refund checks.

The overall revenue outlook has been increased modestly relatve to the March 2024 forecast. Personal and corporate income tax collections are tracking somewhat above expectations. Longer term, the outlook for income growth has been revised upwards by around one percentage point.



Despite these small revisions, their will not be significant revneue gains during the current biennium. Even excluding the payment of the kicker credit, General Fund revenues were expected to be relatively unchanged when compared to the 2021-23 budget period. The unprecedented revenue boom seen during tax year 2021 is behind us, with collections expected to revert back to their long-term trends. Traditional gains in General Fund collections are expected to resume in the 2025-27 biennium and beyond.



The primary downside risk facing the near-term revenue forecast is the uncertain future of the nationwide economic expansion. Should high interest rates, federal policy woes or economic weakness among our trading partners derail the U.S. economy, the expected growth in Oregon's tax collections will not come to pass.

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

2023-25 General Fund Revenues

Gross General Fund revenues for the 2023-25 biennium are expected to reach $26.4 million. This represents an increase of $534 million from the March 2024 forecast, and an increase of $1.2 billion relative to the Close of Session forecast.

Much of the increase can be attributed to collections of corporate income taxes, which continue to outstrip underllying corporate profits. Interest earnings have increased

2023-25 General Fund Forecast Summary

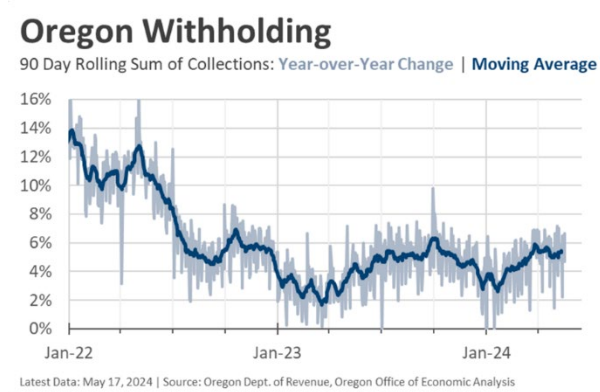
(Millions)	2023 COS Forecast	March 2024 Forecast	June 2024 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$21,019.7	$21,180.1	$21,567.1	$387.0	$547.4
Corporate Income Tax	$2,228.9	$2,762.1	$2,817.0	$54.9	$588.0
All Other Revenues	$2,011.3	$1,953.1	$2,046.0	$93.0	$34.7
Gross GF Revenues	$25,259.9	$25,895.2	$26,430.1	$534.9	$1,170.2
Offsets, Transfers, and Actions[1]	-$437.0	-$447.8	-$450.3	-$2.5	-$13.3
Beginning Balance	$7,493.5	$8,082.5	$8,082.5	$0.0	$589.0
Net Available Resources	**$32,316.4**	**$33,529.9**	**$34,062.3**	**$532.4**	**$1,745.9**
Appropriations	$31,873.6	$31,873.6	$32,897.2	$1,023.6	$1,023.6
Ending Balance	**$442.8**	**$1,656.3**	**$1,165.1**	**-$491.2**	**$722.3**
Confidence Intervals					
67% Confidence	+/- 6.8%		$1,785.1	$24.65B to $28.22B	
95% Confidence	+/- 13.5%		$3,570.3	$22.86B to $30.00B	

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

significantly as well. In addition to revenue changes, expected total available resources in the current 2023-25 biennium have been increased by $559 million after accounting for unspent appropriations during the 2021-23 budget period.

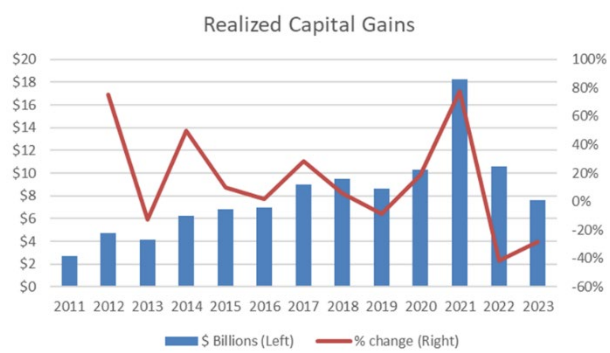
Personal Income Tax

Growth in personal income tax collections have outstripped expectations somewhat in recent months. Withholdings have accellerated despite a softening labor market. Although there are other factors that drive withholdings of personal income taxes (e.g. retirement income, bonuses, and stock options), they are mostly driven by wages and salaries. With taxable retirement income growing slowly as well, it is likely that growth in personal income tax withholding will slow in the months ahead.



In additon to taxable labor income, personal income tax collections have also been boosted by healthy nonwage sources of income. In particular, the continued strength of a wide rage of investment forms of income are supporting tax revenues. Taxable capital gains have fallen sharply since reaching record levels during the 2021 tax year, but contiune to outstrip expectations as a result of persitent strength in equity markets and other investment returns.

As a result of the growth in personal income taxes and other General Fund revenues, it is now expected that non-corporate General Fund revenues will end the biennium 2.5% above the Close of Session forecast. Should this be the case, a kicker credit of $582 million will be generated for the 2025-27 biennium. However, there is still the April 2025 tax season yet to come, leaving a future kicker credit a fifty-fifty propositon at this point.



Corporate Excise Tax

Oregon's traditional corporate income and excise tax collections have continued to outstrip expectations, and are growing faster than underlying corporate profits. Collections have nearly tripled over the past 3 biennia.

The source of this growth is difficult to pin down since corporate return data has only recently been released for tax year 2021. Since then, corporate collections have risen by one third.

However, given the timing of major tax reforms in 2017 (Federal TCJA, Oregon SB28) it is likely that some of the growth reflects a permanent increase in Oregon's corporate tax base. In particular, early data suggest that the switch to market-based sourcing in Oregon has driven additonal collections.

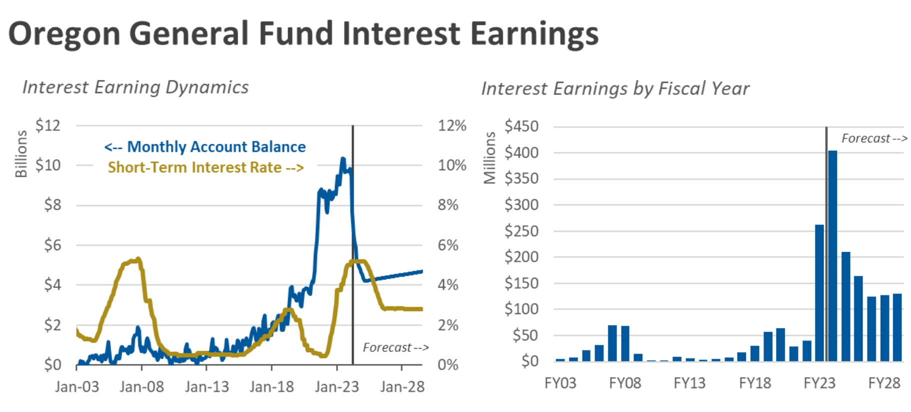
Tax liability for Tax Year 2021 grew by $210 million (20%), with about 75% of that coming from taxpayers that reported over $5 million in taxable income, largely from an increase in the number in that group. Most of this growth came from multi-state corporations. From 2020 to 2021, the industries with the largest growth were holding companies (up about $64 million), Manufacturing ($47 million), and Retail/Wholesale ($57 million together).

Other Sources of Revenue

Non-personal and non-corporate revenues in the General Fund usually account for approximately six or seven percent of the total. In the current 2023-25 biennium they account for 7.5 percent (largely driven by the record personal income tax kicker being paid out which reduces overall General Fund revenues.) The largest such source are estate taxes, followed by interest earnings, liquor revenues, judicial revenues, and insurance taxes.

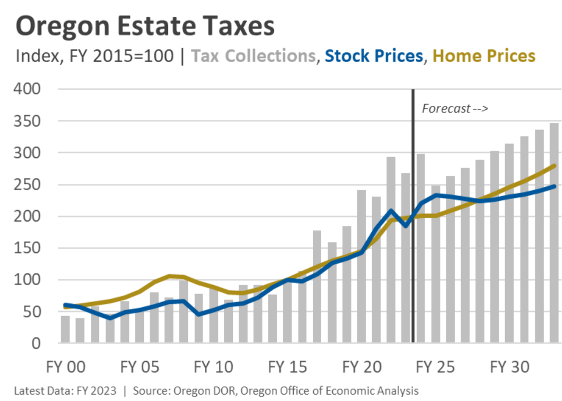
Relative to the previous forecast, these other revenue sources are raised $93.0 million (4.8%) in the current 2023-25 biennium. This overall change is the net result of increases in estate taxes and interest earnings being partially offset by decreases in insurance, judicial, and Secretary of State revenues. Additionally, per SB 1501 (2024), a previously scheduled $40 million transfer from the Public Employee Benefit Board to the General Fund was repealed, lowering revenues by the same amount.

The outlook for interest earnings is raised considerably due to both continued high fund balances, but primarily due to the change in interest rate expectations as the Federal Reserve has yet to cut rates due to ongoing high inflation. Higher balances, and higher interest rates for a longer period of time increase the interest earnings outlook by $107.7 million in the current 2023-25 biennium compared to the previous forecast, followed by upward revisions of approximately $71.1 million in 2025-27, and by $35-40 million in subsequent biennia.



Public sector interest earnings are now substantial. Last year, fiscal year 2023, Oregon saw $263 million in interest earnings, which is more than the state received in the previous 10 years combined. The forecast for interest earnings in the current Fiscal Year 2024 are expected to total $404 million. Expectations are fund balances will decline in the year ahead, closer to their pre-pandemic levels, and eventually interest rates will be lower. To the extent these assumptions, and the exact timing differ from expectations, the state's interest earnings will differ from this forecast.

Estate tax collections are also increased noticeably – $23.5 million (+4.0%) – in the current 2023-25 biennium due to recent months of collections continuing to come in above forecast. The longer-term outlook is essentially unchanged in part due to the stock market forecast being raised, while the home price forecast is lowered. In recent biennia, the strong estate tax collections are largely driven by a small number of very highly valued estates.



Extended General Fund Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2031-33 biennium. Users should note that the potential for error in the forecast increases substantially the further ahead we look.

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

Table R.2

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

Revenue Source	Forecast 2023-25 Biennium	% Chg	Forecast 2025-27 Biennium	% Chg	Forecast 2027-29 Biennium	% Chg	Forecast 2029-31 Biennium	% Chg	Forecast 2031-33 Biennium	% Chg
Personal Income Taxes	21,567.1	-16.0%	29,591.3	37.2%	34,718.1	17.3%	39,524.8	13.8%	45,375.7	14.8%
Corporate Income Taxes	2,817.0	-10.8%	2,961.2	5.1%	3,292.2	11.2%	3,584.0	8.9%	3,957.8	10.4%
All Others	2,046.0	5.5%	1,761.4	-13.9%	1,811.1	2.8%	1,900.4	4.9%	1,986.8	4.5%
Gross General Fund	26,430.1	-14.1%	34,313.9	29.8%	39,821.5	16.1%	45,009.2	13.0%	51,320.3	14.0%
Offsets and Transfers	*(205.4)*		*(213.0)*		*(231.5)*		*(212.3)*		*(55.0)*	
Net Revenue	26,224.7	-14.3%	34,100.9	30.0%	39,589.9	16.1%	44,796.9	13.2%	51,265.2	14.4%

Tax Law Assumptions

The revenue forecast is based on existing law, including measures and actions signed into law during the 2023 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 2023 Legislative Session can be found in Appendix B Table B.3. For a detailed treatment of the components of the 2023 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2023-25 Budget Summary[2]

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 2023-25 Tax Expenditure Report3 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.

The near-term outlook is particularly uncertain right now. The probability of the soft landing, no recession baseline scenario is rising but the odds of a recession in coming years remains uncomfortably high. Our office's economic alternative scenarios (see page 9) include a Boom/Bust cycle with a recession beginning in early 2025, and an optimistic outlook where population and migration rebound as they have in past cycles.

In a Boom/Bust scenario, the revenue impact will be felt in both the current 2023-25 biennium and the next 2025-27 biennium. Looking at the current 2023-25 biennium, in the pessimistic scenario, General Fund revenues in Oregon would be $438 million lower than in the baseline. Revenues in 2025-27 would be recovering, and growing sequentially, but still $1.8 billion below the current baseline outlook.

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 in 2023-25, the Corporate Activity Tax would be $48 million

[2] https://www.oregonlegislature.gov/lfo/Documents/2023-25%20Legislatively%20Adopted%20Budget%20-%20General%20Fund%20and%20Lottery%20Funds%20Summary.pdf
[3] https://www.oregon.gov/DOR/programs/gov-research/Pages/research-tax-expenditure.aspx

lower than the baseline, while Lottery is expected to be $1 million higher, in part due to the boom before the bust, and delayed timing in sales versus transfers.

In 2025-27, the Corporate Activity Tax would be $135 million lower than the baseline, while Lottery would be $52 million. Over time the economy and state revenues would make up the recessionary lost ground and nearly converge with the baseline outlook. However, recessions tend to leave scars, and the Boom/Bust scenario never fully regains all of the lost ground economically or in terms of state revenues.

In the Optimistic Scenario of a normal rebound in migration patterns, Oregon's economy and state revenues would fundamentally be on a stronger growth trajectory. In the current 2023-25 biennium, General Fund revenues would be $27 million above the baseline, while the increases build to $1.6 billion in the 2031-33 biennium. The Corporate Activity Tax follows a similar pattern where revenues would be $43 million above the baseline in 2023-25 and $178 million in 2031-33. Lottery revenues would be $2 million above the baseline in 2023-25 and increase to $78 million above the baseline in 2031-33.

Alternative Scenarios **June 2024**

Changes relative to the baseline ($ millions)

General Fund

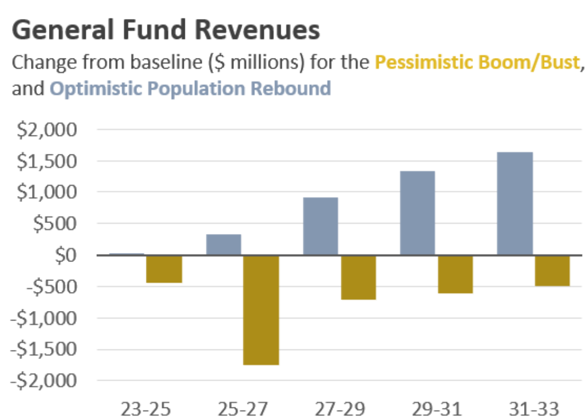
	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$27	$335	$921	$1,338	$1,642
Pessimistic	-$438	-$1,754	-$705	-$617	-$498

Corporate Activity Tax

	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$43	$71	$122	$156	$178
Pessimistic	-$48	-$135	-$113	-$104	-$92

Lottery

	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$2	$19	$49	$68	$78
Pessimistic	$1	-$52	-$38	-$31	-$24



Source: Oregon Office of Economic Analysis

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.

According to the June 2024 outlook, the corporate activity tax is expected to generate around $2.8 billion during the current 2023-25 biennium. Strong consumer spending and the inflationary environment have both played roles in the large amount of collections.

Given the lack of historical experience, the outlook for the corporate activity tax remains uncertain. However, since the CAT is a tax on consumption, collections will prove to be less volatile than Oregon's dominant income taxes over time. The baseline outlook for tax liability is currently based on expected output growth across various industries as well as growth in consumer spending.

Corporate Activity Tax Statistics

Annual percent change

	History			*Forecast*		
	2021	**2022**	**2023**	**2024**	**2025**	**2026**
Gross Domestic Product	9.4%	7.9%	6.4%	3.3%	4.6%	5.2%
Personal Income	9.4%	0.7%	4.8%	5.3%	5.7%	5.9%
Consumer Spending	13.0%	9.0%	5.0%	6.0%	4.7%	5.1%
Commercial Activity[1]	11.8%	8.4%	-1.0%			
Liability[1]	14.0%	9.8%	-0.8%			
Tax Elasticity	1.19	1.17	0.76			
Collections	**13.9%**	**10.4%**	**4.8%**	**5.7%**	**5.2%**	**5.7%**

1 Matched, Full-year returns only, latest observation

Source: BEA, Oregon Dept of Revenue, Oregon Office of Economic Analysis

So far, CAT tax collections have outpaced such measures of underlying economic activity. However it is too soon to know the exact reason. Among the possibilities include whether the actual taxable base is growing quicker than the economy, the economic data will be revised higher, there could ultimately be some reconciliation by taxpayers coming in the form of large refunds, increased tax awareness and compliance is an impact, or some combination of all of the above.

Note that this first look at matched tax returns for the 2023 tax year are a small portion of all firms, approximately 10 percent of expected overall liability. These firms are, essentially, businesses with their fiscal years being the same as the calendar year, and did not file an extension. This first look indicates that CAT liability is down year-over-year, while the economic measures show the economy, income, and spending all growing more like five percent. Our office will closely monitor tax returns as they are processed in the year ahead.

The outlook for CAT collections is further complicated by lags in filing and the processing of tax returns. Only earlier this year was return data for the 2021 tax year made available. Also, the pattern of collections changed drastically in 2021, with firms being allowed to file returns based on their own fiscal years rather than on a uniform April filing deadline. In addition, as a new tax, the number of CAT filers continues to grow as more firms are made aware of their liability. The evolving pattern of CAT collections, including larger than expected refunds, or rather refunds being processed and issued later than a year ago, combine to drive a decrease in the expected revenues relative to the March 2024 forecast.

An additional factor impacting the CAT forecast is another year of industry level state GDP data from the U.S. Bureau of Economic Analysis. This new data combined with the economic outlook changes the expected growth trajectory of CAT revenues as well.

All told, the CAT revenue forecast raised $4.6 million (+0.2%) in the current 2023-25 biennium, however it is is lowered slightly, by 1-3% each biennium compared with the previous March 2024 forecast over the forecast horizon.

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.

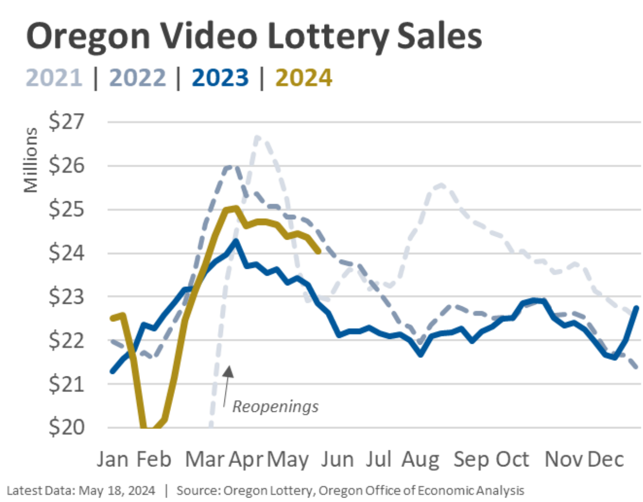
Lottery Forecast

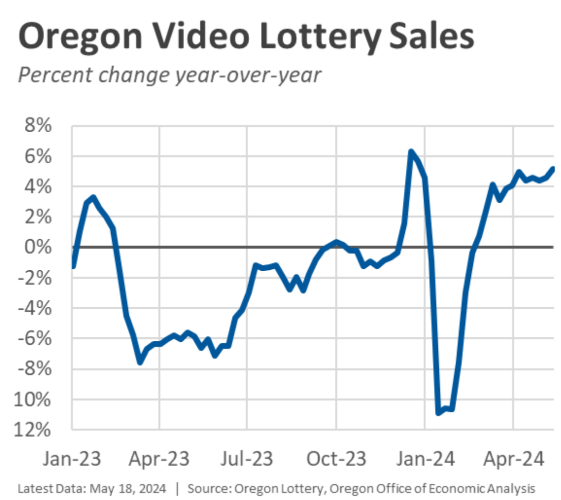
Overall, total lottery resources are lowered slightly in the current 2023-25 biennium, and over the forecast horizon. In keeping with recent sales trends, this relatively small net change is the result of increases to the traditional and sports betting outlooks, combined with a lowered video sales forecast.

Specifically, lottery resources are lowered $0.5 million (-0.0%) in 2023-25, lowered $8.3 million (-0.4%) in 2025-27, and lowered between $5-13 million in each of the subsequent biennia.

Video Lottery

In the big picture, lottery revenues surged during the reopening phase of the pandemic, and then declined as consumers had more entertainment options and felt more comfortable venturing farther afield. However since the pandemic boom, and partial bust, sales stabilized and are now growing. The downward adjustments to the video outlook have not been about declining sales, but rather slightly slower growth than assumed in previous outlooks.





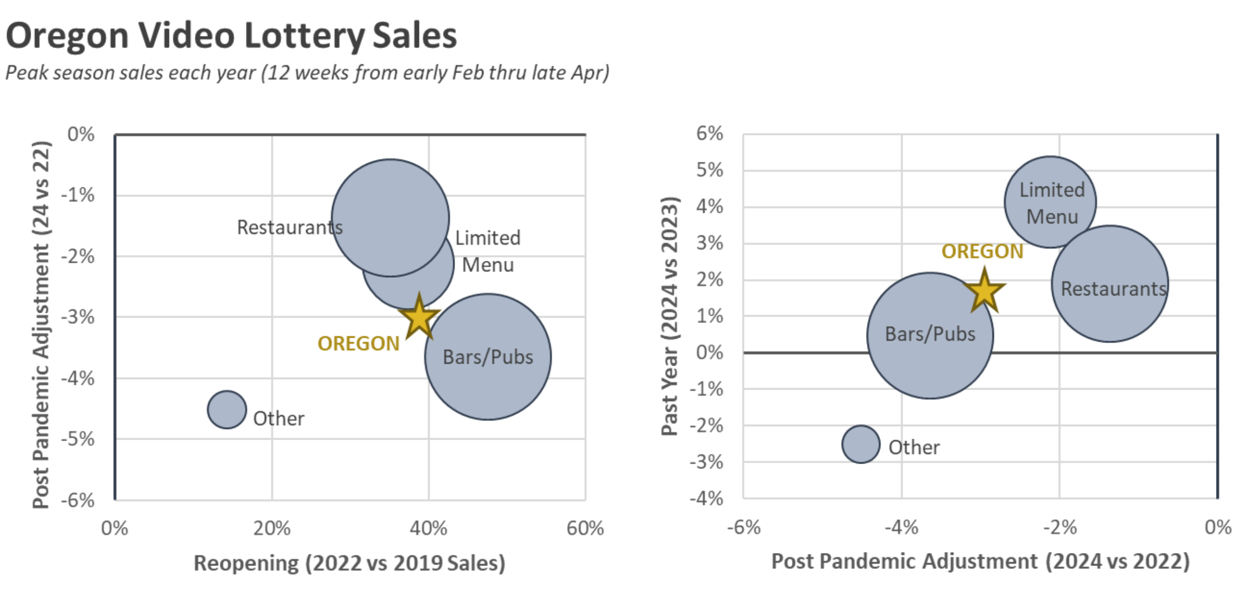
As discussed in more depth in past forecasts, the expected impact of the $5.6 billion personal income tax kicker being paid out to Oregonians did not show up in meaningfully larger video sales. Our office built in a modest increase to the sales forecast during the income tax filing season, in keeping with video lottery sales as a share of disposable income.

Now, sales are up year-over-year, running around 5 percent higher. However the forecast expected somewhat stronger sales than that. It is an open question to what extent Oregonians did or did not change their entertainment spending in light of the kicker. Some may have needed to pay down debt, deal with inflation and higher prices on necessities, or simply saved the money for a later date. However, to the extent there is the expected kicker impact in the recent sales data, it could indicate that the underlying sales trends are weaker than our office currently believes. Time will tell.

To analyze these trends further, our office monitors gaming revenues in other states, and across regions and retailer types in Oregon. Nationally, gaming trends have been relatively steady in the past year or two. Looking at 2024q1 on a year-over-year basis, Oregon's growth is slightly below the U.S. overall, but that includes the ice storm impact. Adjusting for that (and not knowing whether severe weather impacted other markets at some point), pushes Oregon video lottery sales to being slightly above the U.S. overall. Not all states have reported April receipts as of publication date, and Oregon's strong sales start to May will not be able to be compared with other jurisdictions for another few weeks at least.

Within Oregon, the largest reopening booms occurred in more rural areas like in central and eastern Oregon, and along the coast. The weakest reopening bounce occurred in the Portland region. In terms of the post-pandemic normalization, the largest declines occurred in southern Oregon and along the coast, while the smallest are in central Oregon and the Willamette Valley.

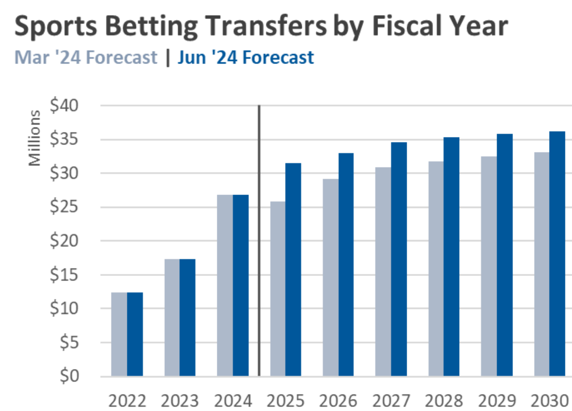
In terms of video lottery sales by major retailer type, the following bubble charts highlight the boom/bust patterns. The chart on the left compares sales during the reopening high in 2022 to the pre-COVID sales in 2019 on the horizontal axis. The biggest rebound or boom was seen in bars and pubs, with limited menu retailers and restaurants not far behind. On the vertical axis is the post-pandemic adjustment, or the change from 2022 to current, 2024 sales as of late April. Here you can see that bars and pubs saw the largest correction, while restaurants the smallest.



Switching to the graph on the right, the 2 year post-pandemic adjustment is now flipped to the horizontal axis, and the year-over-year change from 2023 to 2024 is on the vertical axis. This shows that the strongest sales in recent months have been among the limited menu retailers, then among restaurants, and finally among bars and pubs. At this level, these patterns likely point toward some kicker impact in sales, and with restaurants not lagging behind noticeably, the impact of the higher cost of going out to eat does not appear to be a significant factor in video lottery sales, meaning less crowding out by other types of related spending in recent years.

Sports Betting

Sports betting revenues continue to come in above forecast. The overall outlook is raised as a result. In 2023-25 revenues are increased $5.6 million, in 2025-27 revenues are increased $7.5 million, and subsequent biennia are raised $6-7 million each.



The majority of these changes compared to the previous forecast are due to the profitability of sports betting. Higher profitability includes both the win or margin from the bets themselves (likely in part due to players placing more parlay bets), and from a transfer rate view in terms of Lottery's administrative costs relative to revenues. Both the margin, and transfer rate assumptions have been raised relative to previous forecasts, but remain at the low end of historical values to date. As sports betting matures in Oregon, it is likely these margin and transfer rates will settle around a steady trend, even as monthly and quarterly variance remains. Should recent patterns hold, there is upside risk to the sports betting forecast, however should player behavior change such that the margin goes down, that is downside risk to the sports betting outlook.

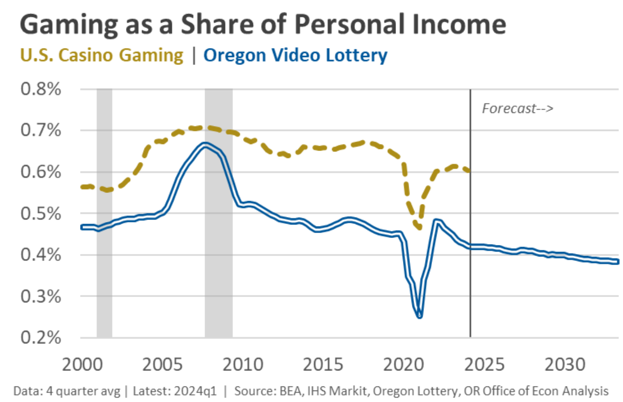
Longer-Term Outlook

At a base level, forecasting Lottery revenues comes down to the number of players and their household budgets. Those are relatively straightforward, and Lottery trends generally follow the overall economy even if it is not a one to one relationship. However, Lottery revenues really are about consumer preferences for entertainment, and how they spend their disposable income. Do Oregonians choose to go out to eat more, or on vacations, or to sporting events, or even to destination-based gaming at tribal casinos or on trips to Las Vegas and the like?

As such, the big picture issues our offices monitors include the broader national trends in gaming markets, demographic preferences for recreational activities, and to what extent consumers increase the share of their incomes spent on gaming.

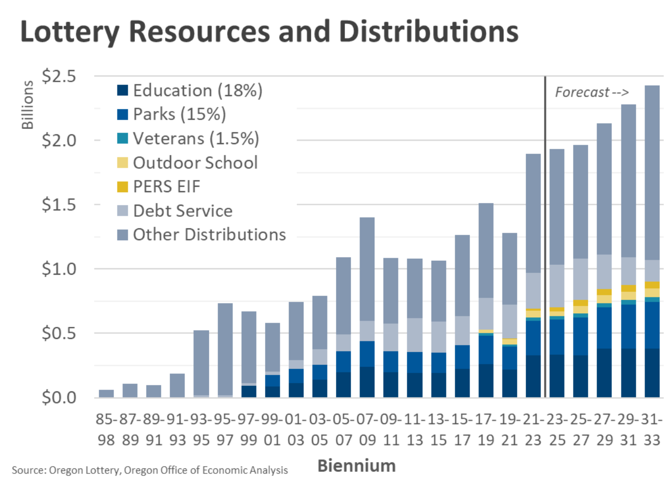
For much of last decade, consumers remained cautious with their disposable income. Increases in spending on gaming largely matched income growth at best. In fact, from 2010 to 2019, Oregon video lottery sales grew at a 3.7 percent annual pace, while Oregon personal income increased at a 5.3 percent annual pace. Lottery sales as a share of overall Oregonian consumer spending declined. This slow erosion is also seen in terms of the number of video lottery retailers, and Lottery revenues as a share of the state's All Funds budget.

Trends in gaming during the pandemic differed significantly for a period of time. When bars and restaurants were takeout only, video lottery terminals were turned off as to not have Oregonians indoors when a deadly, contagious virus was spreading. Once the health restrictions were lifted, sales returned in full-force, and significantly outstripped expectations. These sales also outpaced current income games. Some of the strong sales since reopening were 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).



Since reopening, it has been an open question to what extent some of those relatively strong sales were part of a more permanent change in player behavior, or were just temporary, pandemic era changes. Over the past year or two it has become increasingly clear that the pandemic sales were more of a temporary change as sales have come off their peak and not kept up with income gains. Today, video lottery sales as a share of personal income is at its lowest point in decades.

Looking forward, 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 June 2024 forecast is not qualitatively different than previous outlooks. These same broad trends are apparent today as they were last quarter.

For more information on player demographics and the impact of the aging population, see the March 2023[4] forecast.

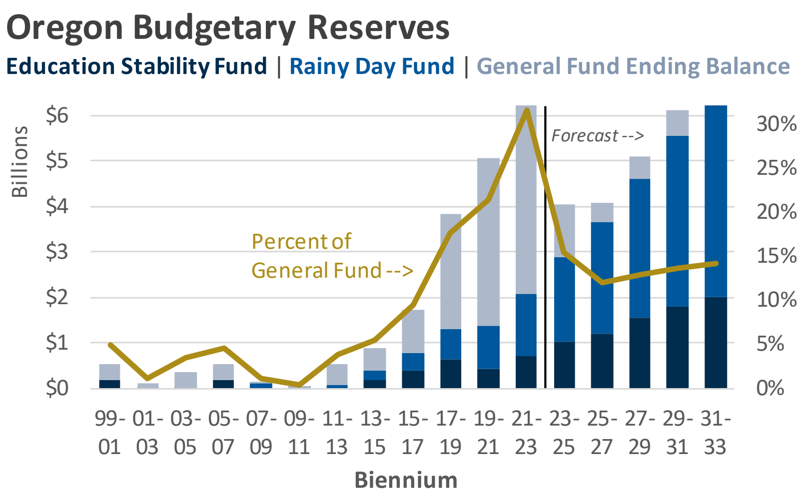
The full extended outlook for lottery earnings can be found in Table B.9 in Appendix B.

[4] https://digital.osl.state.or.us/islandora/object/osl%3A1007538/datastream/OBJ/view

Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[5] (ORDF) and the Education Stability Fund[6] (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 $2.5 billion. At the end of the current 2023-25 biennium, they will total $2.9 billion, which is equal to 11.0 percent of current revenues. Including the projected General Fund ending balance of $1.2 billion, the total effective reserves at the end of the current 2023-25 biennium are projected to be $4.0 billion, or 15.4 percent of current revenues.



Source: Oregon Office of Economic Analysis

Effective Reserves ($ millions)

	Current Apr-24	*End of 2023-25*
ESF	$825	$1,007
RDF	$1,671	$1,872
Reserves	$2,495	$2,879
Ending Balance	$1,165	$1,165
Total	**$3,660**	**$4,044**
% of GF	14.0%	15.4%

The forecast for the ORDF includes two deposits for this biennium relating to the General Fund ending balance from the previous biennium (2021-23). A deposit of $264.7 million was made in early 2024 after the accountants closed the books on last biennium. Additionally, a $100.9 million deposit relating to the increased corporate taxes from Measure 67 is expected at the end of the biennium in June 2025. This exact transfer amount is subject to some revision as corporate filings are processed, however the transfer itself will occur. At the end of 2023-25 the ORDF will total $1.9 billion.

In the most recent legislative session, the ORDF's cap was increased from the previous 7.5 percent to 12.5 percent. The ORDF is not expected to reach its new cap at any point over our office's 10 year

[5] 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 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 percent of General Fund revenues in the prior biennium.

[6] [6] 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.

forecast horizon. Rough estimates indicate the state may reach the new cap in the 2050s, but forecasts so far into the future are best thought of as rough guides at best.

The ESF will receive an expected $298.6 million in deposits in the current 2023-25 biennium based on the current lottery forecast. At the end of current 2023-25 biennium the ESF will stand at $1.0 billion. The ESF is projected to hit its cap of 5 percent of revenues early in calendar year 2026, when the deposits will then accrue to the Capital Matching Account.

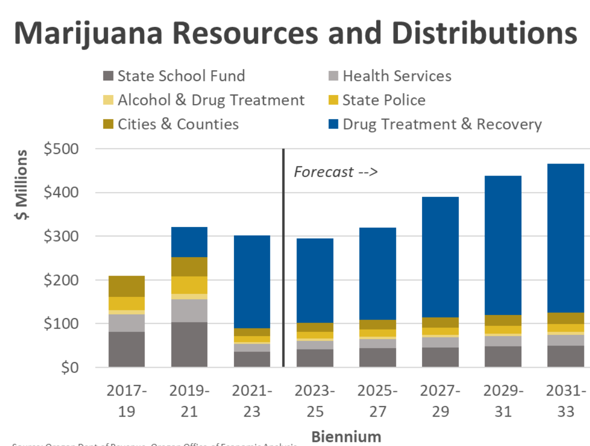
Together, the ORDF and ESF are projected to have a combined balance of $2.9 billion at the close of the 2023-25 biennium, or 11.0 percent of current revenues. At the close of 2025-27 the combined balance will be $3.7 billion, or 10.7 percent of revenues. Such levels of reserve balances are larger than 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 Forecast

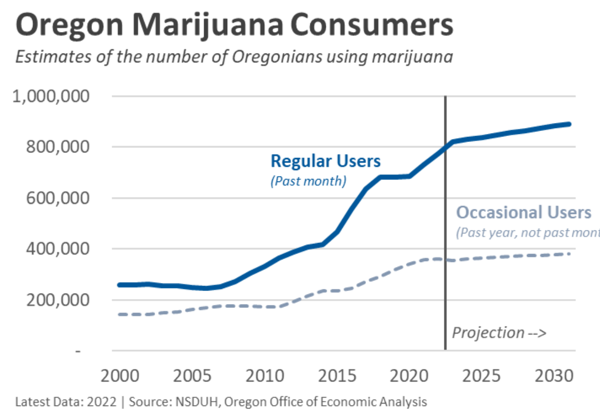
Sales and tax collections in recent months are stable and have closely tracked forecast. However, the overall trajectory for recreational marijuana revenues in Oregon has been lowered significantly compared to the previous forecast. The primary reasons include updated consumer base forecasts, and prices remaining at or near record lows. The impacts start small but grow over time. Revenues in 2023-25 are actually raised $1.6 million (+0.5%) due to recent sales, but then 2025-27 is lowered $10.6 million (-3%), 2027-29 is lowered $26.6 million (-6%), 2029-31 is lowered $46.2 million (-10%) and 2031-33 is lowered $68.5 million (-13%).

Note that the forecast still calls for growth in the number of users, amounts purchased, and price increases. Marijuana tax collections are expected to increase. However the size and pace of these increases have been reduced from previous forecasts' assumptions.

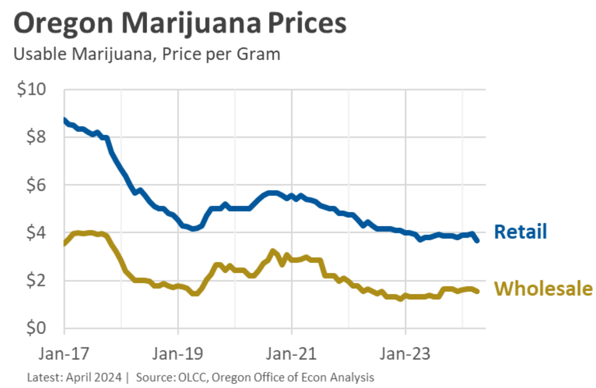


One major driver of the lower forecast trajectory is the recently released National Survey on Drug Use and Health (NSDUH) data. For Oregon it showed a large increase in the number of regular, monthly users of marijuana. This followed a couple of years where the survey results showed essentially no increase after the initial post-legalization bump. Granted, survey data, particularly for still-illegal products at the federal level need to be taken with a grain of salt. There can be year-to-year noise, and/or the sample in the survey may not truly be representative of the overall population. It is also highly likely that the large increase in the most recent data is part of a smoother trend than the actual yearly data indicate.

However, the combination of the large increase in Oregon marijuana consumers, be it in a single year or smoothed over a few years, coupled with overall steady sales in the market and stable, low prices, does make one rethink the forecast. In particular, if the consumer base has been growing, but the overall sales have not, then maybe there is less fundamental growth left to go in the years ahead. The market may be more mature than previously expected.



Additionally, marijuana prices in Oregon remain at or near historic lows. Eventually, the market is likely to reach a better balance between supply and demand, but that day appears far off given the current oversaturation in terms of the harvest levels, and number of firms. With slower price increases in the years ahead, this has a direct impact on the revenue outlook given Oregon levies its recreational marijuana tax based on the sales price, and not the quantity consumed.



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

Psilocybin Forecast

Ballot Measure 109 which voters passed in 2020 and legalized psilocybin, tasked our office with the revenue forecasting responsibilities. The current forecast remains unchanged from last quarter, however there is a large likelihood the revenue forecast will be revised lower, possibly significantly so, in the near future. While there has always been the expectation that a new program would ramp up over time as businesses get set up, consumers try it, and broader social acceptance and usage rises. Even so, through the first six months of the biennium, actual tax collections are minimal. As more data and quarterly tax returns become available, our office will adjust the outlook accordingly.

After speaking with other state agencies and private businesses entering the psilocybin industry there are a few important items to note up front.

First, the overall cost of a session to a customer is expected to be in the hundreds, and even thousands of dollar range. Second, the state’s 15 percent retail sales tax which was part of BM109 only applies to the product itself and not the overall cost of the session. Third, by all accounts the cost of the product is relatively small compared to the overall cost of a session, where the vast majority of the revenue will go to cover the operational costs of the service center and facilitator.

This newly legal industry is just getting started. The Oregon Health Authority has recently issued some of the first licenses in the state. Once the industry is up and running, OHA will gather data, including the number of sessions, product prices and the like. Unfortunately for now there is no data and our office's initial forecasts are based entirely on assumptions. Those assumptions are as follows.

OHA estimates they will license 28 service centers in the first year. Assuming 20 customers per day, the equivalent of one large class, all year long results in 204,000 individual customers or session over the course of the first year. Some service center centers will accommodate many more customers while others may focus on smaller, more in-depth sessions. Anecdotal information to date indicates the first couple of service centers are serving just a handful of customers per week currently.

As uncertain as those projections are, the average product price assumption is even more so. Service centers may charge customers whatever price they want to for the actual product. There are two main ways to think through these possibilities, and for now our office is taking a middle ground approach.

On one hand, service centers may charge customers the traditional retail price that includes a markup over wholesale cost which largely relates to production, testing, and distribution costs. Whether the sales tax piece would be an additional charge on top of the session costs overall, or already factored that price is unknown. Tax revenues are estimated to be $1-2 million per year under these scenarios.

On the other hand, service center may charge customers a minimal product cost of $1 or $10, even if that is below their wholesale or acquisition costs. The benefit to 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. This is more likely to be the case if the sales tax is folded into the total session price initially and not an add-on fee when the customer pays. Tax revenues are estimated to be tens of thousands or hundreds of thousands of dollars a year under these scenarios.

For now, given the uncertainty of a newly legal industry our office is taking a middle ground approach and assuming a $10 average product price per session. The state is likely to receive a bit more than $600,000 in the current 2023-25 biennium based on the assumptions discussed above. We know that business practices will vary and time will tell what ultimately becomes the industry standard. Our office will continue to update these estimates as we learn more. Expectations are by this fall there will be useful data to help guide these estimates and they will not be made entirely upon assumptions.

Oregon Psilocybin Retail Sales Tax Revenue

Average	Biennial Revenue (millions)			
Product Price	2023-25	2025-27	2027-29	2029-31
$1	$0.062	$0.064	$0.067	$0.068
$10	$0.618	$0.643	$0.666	$0.679
$25	$1.545	$1.608	$1.664	$1.698
$50	$3.091	$3.215	$3.329	$3.396