Revenue Outlook

Revenue Summary

The summer is historically a light season for revenue news. Except for second quarter estimated payments for the major tax programs (Personal Tax, Corporate Income and Activity Tax) and normal month-to-month variation in withholding, the dog days rarely see significant movements in the General Fund forecast. For this 2026 Q3 iteration, the major story is withholding. Whereas the prior forecast assumed withholding would grow at a 4.5% clip for tax year 2026, that rate now looks closer to 6%. With withholding averaging a billion dollars a month, such a revision adds up fast. In addition, withholding has exceeded the prior forecast by over $100 million in the three months since the last release. With the Federal Reserve now likely to cut rates in 2027, a higher withholding base elevates the entirety of the forecast horizon - at least for Personal Income Tax. Corporate Income and Activity Tax are experiencing soft patches; however, it is unclear whether this is an anomaly with refunds and their application towards future liability or real economic weakness. Prevailing indicators would hedge towards the former explanation. This is elaborated

Table R.1

2025-27 General Fund Forecast Summary

(Millions)	2025 COS Forecast	June 2026 Forecast	September 2026 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$30,247.1	$30,119.8	$30,257.6	$137.8	$10.6
Corporate Income Tax	$3,430.5	$3,587.8	$3,491.8	-$96.0	$61.3
All Other Revenues	$2,082.2	$2,205.5	$2,204.2	-$1.2	$122.1
Gross GF Revenues	$35,759.8	$35,913.1	$35,953.7	$40.6	$193.9
Offsets, Transfers, and Actions[1]	-$206.9	-$221.2	-$206.4	$14.7	$0.5
Beginning Balance	$2,243.1	$2,165.8	$2,165.8	$0.0	-$77.2
Net Available Resources	**$37,795.9**	**$37,857.7**	**$37,913.1**	**$55.4**	**$117.2**
Appropriations	$37,323.1	$37,513.1	$37,513.1	$0.0	$190.0
Ending Balance	**$472.8**	**$344.6**	**$400.0**	**$55.4**	**-$72.8**
Confidence Intervals					
67% Confidence	**+/- 2.2%**		**$791.0**	**$35.16B to $36.75B**	
95% Confidence	**+/- 4.4%**		**$1,582.0**	**$34.37B to $37.54B**	

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

in more detail below. Overall, the forecast is only marginally changed with a mix of ups and downs, indicative of economic inflection points.

Table R.1 presents the forecast for the current biennium by displaying revenues, appropriations, and the expected balance at biennium's end. General Fund revenues have increased $55 million from the prior forecast, driven primarily by the increase in personal income taxes elucidated elsewhere. Corporate Income Tax's $96 million downward adjustment offsets this increase. The rise in projected revenues elevates the ending balance estimate to $400 million with ten months remaining in the biennium.

Non-Corporate revenues, which determine the personal income tax kicker surplus (if any), are $526 below the kicker threshold. This is due to the impact of federal House Resolution 1, which dampened expected revenues relative to the Close-of-Session forecast. Corporate Income Taxes are a marginal $7 million below the kicker threshold. The net impact of HR1 and subsequent and related Oregon legislative tax law changes are estimated to have reduced Corporate Taxes by $191 million. Thus, without these changes, the Corporate Income Tax forecast would be well above the kicker threshold.

Except for the two major income tax streams, all other revenues are virtually unchanged from the prior forecast. Only Interest Earnings accruing to the General Fund have increased significantly, up $27 million. Estate Taxes have seen an off year in tax year 2025, possibly a consequence of randomly lower value estates appearing in the data to date. The forecast for Estate Taxes decreased $30 million. Liquor Apportionment is lower by $8 million as sales reflect ongoing consumption patterns. Cigarette and Tobacco Taxes continue to exhibit softness, edging down a combined $4 million from the Q2 forecast. It should be noted that fiscal year 2026 ended on June 30. Biennial forecast values and forecast-to-forecast comparisons include associated accounting adjustments.

2025-27 General Fund Revenues

The General Fund forecast for the third quarter of 2026 has only modestly increased, up $55 million from the second quarter. As noted above, this mixed and modest change is reflective of the summer cycle wherein less revenue and revenue data transpire. With a little more than ten months remaining in the biennium, potential error for this forecast remains significant: (1) the Fall extension filing season remains for tax year 2025, which is less consequential than the spring season but still can result in significant changes; and (2) reconciliation for tax year 2026 – tax filing season in the Spring of 2027 – is projected to net nearly $700 million in payments above refunds. Historically, tax filing seasons have resulted in the largest changes in the forecast. Not only do actual receipts impact the forecast directly, but the resulting change in the tax base affects the forecast throughout the forecast horizon.

Personal Income Tax

For 2025-27, the personal income tax forecast has increased $138 million. As noted above and described in detail in the following paragraph, burgeoning withholding receipts are the primary cause of the increase. In fact, as noted in Table B.8, withholding exceeded the Q2 forecast for May-July by $111 million. Offsetting errors in estimated and other payments and refunds resulted in a net forecast error of $27.9 million.

Elevated withholding levels have two consequences on the forecast, one real and one temporal. If withholding increases are viewed as signals of changing economic fortunes, these signals will cause changes in the income forecast (wages & salaries, pensions, etc.) and drive higher revenue projections throughout the forecast horizon. However, even if the increases are viewed as temporal shifts and commensurate increases in refunds occur, withholding bumps are immediate and refunds transact over ensuing years and even across biennia. The net result is an increase to the forecast in either case. The current Q3 forecast exhibits a little of both mechanisms. Due to there being only ten months remaining in the 2025-27 biennium, the current change is only a fraction of the increase realized in future biennia.

Corporate Income Tax

The outlook for corporate income taxes remains clouded by the impacts of House Resolution 1 and variation in refund processing timing that make historical trends less reliable. However, tracking shows that revenues are currently $167 million below the Q2 forecast. This negative signal is partially counteracted by positive economic indicators, namely an increase in the national corporate profits forecast. Sustained elevated inflation also results in higher nominal corporate profits, which in turn increases tax revenues. A balanced approach between economic and revenue indicators has resulted in a modest decrease of $96 million from the prior forecast for the 2025-27 biennium.

At the time of the Q2 forecast, the Department of Revenue had significantly more corporate tax refunds to review than when compared to the same period in the previous year. Because refunds are typically applied forward as estimated payments at a high rate, the expectation was that estimated payments would increase substantially when the refunds were issued. While most of those delayed refunds have been processed, data showed that they were applied forward at a rate below the historical average. The resulting weakness in estimated payments was a large contributor to revenue falling short of the Q2 forecast. The delayed refunds are associated with tax year 2024 and applied forward to tax year 2025, a year where corporations may be expecting lowered tax liability due to House Resolution 1. Because corporations are not required to file on a calendar year basis, the strength of tax year 2025 and the impact of House Resolution 1 will not come into clarity for several more quarters.

All Other Revenue

As noted above, the forecast outside of the two income tax streams is virtually unchanged from the previous forecast. Interest Earnings have increased significantly due to a revision to interest rate expectations. Most of the other elements, including Estate Taxes, Cigarette and Tobacco Taxes, and Liquor Apportionment, exhibit decreases. The Central Service Charge line, which should be known going into the biennium, was errantly coded at a gross level rather than the General Fund share. This correction resulted in a negative $4.5 million adjustment.

Extended General Fund Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2033-35 biennium. The 2025-27 legislatively adopted budget is now being executed by agencies. The Office of Economic Analysis will release three more forecast updates and a final accounting for the current biennium's revenue picture. As such, the potential for the revenue figures presented here to fluctuate for any number of administrative and exogenous reasons is still significant.

Note that the large percentage changes between biennia are due to kicker credits affecting personal income tax collections. Beyond 2027-29, when these considerations are no longer in effect, growth reflects underlying economic assumptions characterized elsewhere in this document. Forecast error increases the further out one gets into the future.

Table R.2

General Fund Revenue Forecast Summary September 2026

Millions of Dollars, Current Law

Revenue Source	2025-27 Biennium	% Chg	2027-29 Biennium	% Chg	2029-31 Biennium	% Chg	2031-33 Biennium	% Chg	2033-35 Biennium	% Chg
Personal Income Taxes	30,257.6	*36.5%*	36,463.0	*20.5%*	41,019.6	*12.5%*	45,885.2	*11.9%*	51,451.0	*12.1%*
Corporate Income Taxes	3,491.8	*10.8%*	3,901.1	*11.7%*	4,168.2	*6.8%*	4,487.9	*7.7%*	4,893.4	*9.0%*
All Others	2,204.2	*-4.3%*	2,292.8	*4.0%*	2,767.0	*20.7%*	3,164.8	*14.4%*	3,641.1	*15.0%*
Gross General Fund	35,953.7	*30.2%*	42,656.9	*18.6%*	47,954.8	*12.4%*	53,537.9	*11.6%*	59,985.5	*12.0%*
Offsets and Transfers	*(206.4)*		*(297.6)*		*(293.4)*		*(288.5)*		*(309.8)*	
Net Revenue	35,747.2	*30.5%*	42,359.3	*18.5%*	47,661.4	*12.5%*	53,249.4	*11.7%*	59,675.6	*12.1%*

Corporate Activity Tax

Oregon's 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 at the outset. 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.

Corporate Activity Tax estimated payments are exhibiting signs of softness in tax year 2026. For the three-month period ending July 31, payments fell short of the prior forecast by $63 million. While payments are still increasing on a year-over-year basis, the growth rate is well below current estimates of economic activity in the state. Recent weakness is owed primarily to the rate at which refunds are being applied as subsequent year's estimated payments. While this rate can exhibit significant month-to-month volatility, the recent pattern is well below historical averages. With indicators of economic activity, such as state output, exhibiting signs of strength, this pattern is viewed as a temporary data anomaly rather than a systemic or structural issue.

Sizeable downward revisions regarding tax receipts for years currently in progress have significant consequences for 2025-27 revenue projections. The forecast has decreased by $95 million to $2.96 billion. Relative to the Close-of-Session forecast, expected revenues are now $88 million lower. The projected ending balance in the Fund for Student Success is $81 million. With focus shifting to the 2027-29 biennium, the forecast for next biennium is $26 million below the prior forecast and now stands at $3.4 billion.

Detailed forecast data are presented in Tables B.12 and B.13 in the Appendix. The personal income tax reductions are built into the General Fund forecasts shown in Tables B.1 and B.2.

Lottery Earnings Forecast

As presented in table R.3, this lottery revenue forecast is marginally increased from the prior forecast. The revision is divided between windfalls in the Powerball and Megamillions jackpot games and stronger-than-anticipated earnings in Video gaming. Total earnings projected for transfer to the Economic Development Fund in 2025-27 have increased $3.7 million to $1.8 billion. Compared to the original Close-of-Session forecast on which the current Legislatively Adopted Budget was based, the forecast is still down $36 million.

Table R.3

Lottery Earnings Forecast: 2026 Q3

	2025-27		2027-29		2029-31		2031-33		2033-35	
(millions)	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change
Traditional Games	$200.0	$1.7	$164.6	$0.1	$168.8	$0.2	$174.1	$0.5	$181.1	$0.8
Video Lottery	1,561.0	2.1	1,676.0	3.3	1,789.1	3.5	1,916.0	3.8	2,067.6	4.0
Sports Betting	86.3	-0.1	88.5	0.1	92.6	0.7	95.5	0.0	97.6	-1.4
Administrative Actions	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Earnings	1,849.2	3.7	1,929.1	3.5	2,050.6	4.4	2,185.6	4.2	2,346.3	3.5
Bien/Bien %change	-0.1%		4.3%		6.3%		6.6%		7.4%	

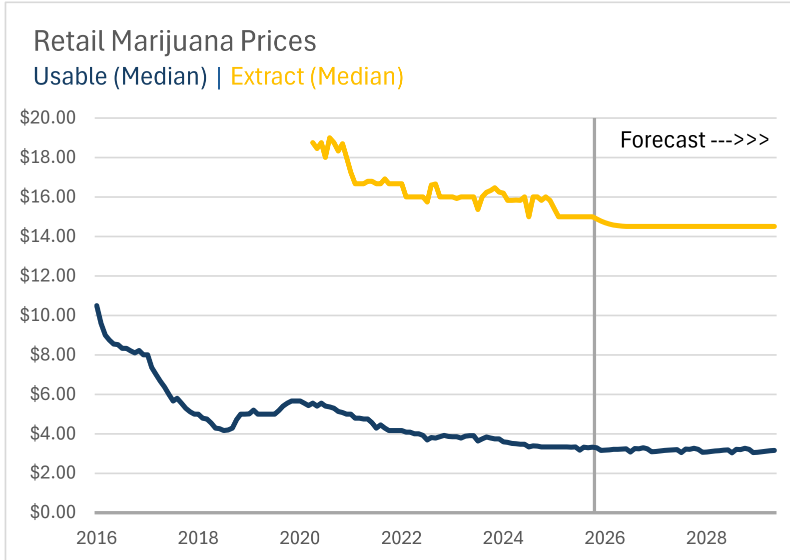
Video lottery sales rose 1.5% in fiscal year 2026 following a 1.9% decline in the prior year. Much of this turnaround occurred during the Spring 2026 tax filing season - when refunds fueled by federal tax cuts and a $1.4 billion Oregon kicker credit appear to have boosted sales. The Oregon Lottery is also replacing older, underperforming terminals with newer Sierra models, which is having a discernible impact, as well. The growth expectation built into the forecast has not changed, although a constant rate applied to an upwardly revised base does result in modestly higher sales projections throughout the forecast horizon.

With the Governor's Recommended Budget due to be published near year's end, focus is shifting to the 2027-29 biennium. The forecast for 2027-29 is also modestly increased, by $3.5 million to $2.1 billion. The forecast is 4.3% above the 2025-27 level, primarily reflecting anticipated growth in Video sales. The ban on courier sales of lottery products overseas, effective January 2026, softens the growth somewhat.

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

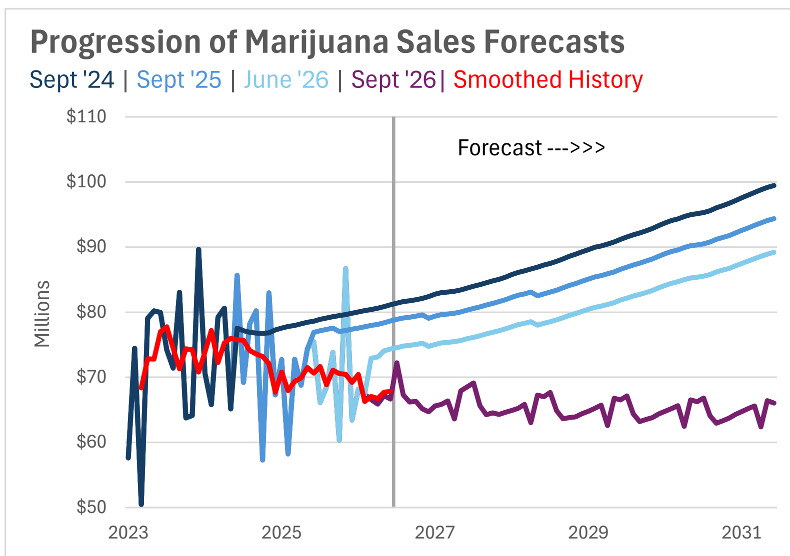
Recreational Marijuana Forecast

Chart R.1:



Prior marijuana revenue forecasts have exhibited moderate growth profiles even as revenues declined over six successive quarters. Following substantive conversation with members of the industry and analysts, the outlook for revenues needed a significant revision to account for strong ongoing production and consequent price declines. Chart R.2 presents these issues graphically, including the pronounced shift from the prior forecast (May 2026) to this 2026 Q3 outlook. Chart R.1 illustrates how prices for usable marijuana and extract have declined, as well as projections for how the rates of change are expected to slow over the next year or two. Given stable consumption trends, this results in revenues leveling off towards the end of next biennium.

Chart R.2:

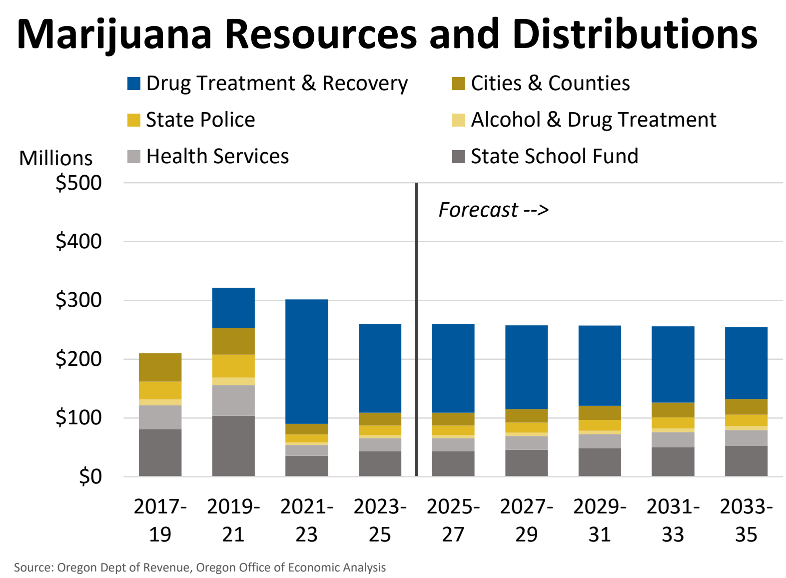


The consequence of this significant change in the outlook is a major decrease in projected revenues, with the impact increasing as time progresses into the future. For the current biennium, projected revenues have decreased $14.1 million to $261.7 million. As all other allocations are fixed in law, the decline is realized in a lower allocation to the Drug Treatment Fund. For the 2027-29 biennium, revenues are $51.5 million below the prior forecast. Chart R.3 presents the allocations from marijuana revenues graphically.

Marijuana remains classified as a Schedule I drug, preventing business owners from accessing traditional banking services and disallowing common business tax deductions. In December

2025, a presidential executive order directed the Attorney General to expedite the process or rescheduling marijuana to Schedule III. If finalized, the shift to Schedule III would relax restrictions and could improve access to banking and tax deductions for the industry — though the rulemaking process is ongoing.

Chart R.3:



Oregon does not currently tax medical marijuana; however, this exemption is set to expire at the end of 2027. Although this exemption could be extended by the Legislature, the current forecast assumes medical marijuana will be taxed per current law.

Table B.11 in Appendix B presents detailed revenue and allocation information for current and future biennia.

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. Most 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 nearly three years. The current forecast remains a work in progress; however, it is now based on the first three years of data, as opposed to pure assumptions. Even so, expectations are that the industry is still in its ramp-up period. The number of businesses, facilitators and customers is expected to grow in the years ahead. As more data becomes available, this office will adjust its outlook accordingly.

The average product price reported is approximately $42. However, there is a wide range of values around that average. The average price is in line with previous conversations OEA 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.

Oregon Psilocybin Retail Sales Tax Revenue

Sep-26

Biennium	2023-25	2025-27	2027-29	2029-31	2031-33	2033-35
No. of Session	28,000	34,500	38,000	38,000	38,000	38,000
Avg Product Price	$40	$42	$44	$45	$47	$49
Total Sales	$1,130,000	$1,451,000	$1,662,000	$1,729,000	$1,799,000	$1,871,000
Taxes	$169,000	$218,000	$249,000	$259,000	$270,000	$281,000

Note: Detailed entries may not add to totals due to rounding.

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 and historical data. After the ramp up, growth is expected to slow down to something closer to growth in the population, which is a proxy for the user base until better information is available.

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 largely relating 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

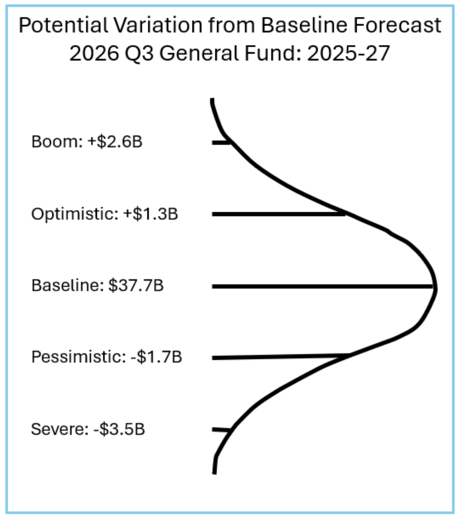
Given the degree of uncertainty present at the release of this forecast, the Office of Economic Analysis has analyzed historical forecast outcomes and revenue performance to produce a range of scenarios that could manifest throughout the forecast horizon. The four alternatives to the baseline (two upside and two downside) equate to approximately one and two standard deviations in either direction. The table below presents the five scenarios along with the probabilities that each is likely to occur.

Table R.4

General Fund Revenue* Scenarios

(millions)		2025-27	2027-29	2029-31	2031-33	2033-35
Boom (3%)	Revenues	$40,236.1	$45,788.7	$51,466.5	$57,745.4	$64,790.4
	Growth	*21.6%*	*13.8%*	*12.4%*	*12.2%*	*12.2%*
Optimistic (15%)	Revenues	$38,955.2	$44,136.3	$49,476.7	$55,364.5	$62,229.7
	Growth	*17.7%*	*13.3%*	*12.1%*	*11.9%*	*12.4%*
Baseline (64%)	Revenues	$37,674.3	$42,656.9	$47,954.8	$53,537.9	$59,985.5
	Growth	*13.9%*	*13.2%*	*12.4%*	*11.6%*	*12.0%*
Pessimistic (16%)	Revenues	$35,941.3	$40,398.0	$45,892.1	$51,215.6	$57,463.9
	Growth	*8.6%*	*12.4%*	*13.6%*	*11.6%*	*12.2%*
Severe (2%)	Revenues	$34,208.2	$38,210.6	$44,247.9	$49,513.4	$55,504.5
	Growth	*3.4%*	*11.7%*	*15.8%*	*11.9%*	*12.1%*

* Adjusted for kicker credits.

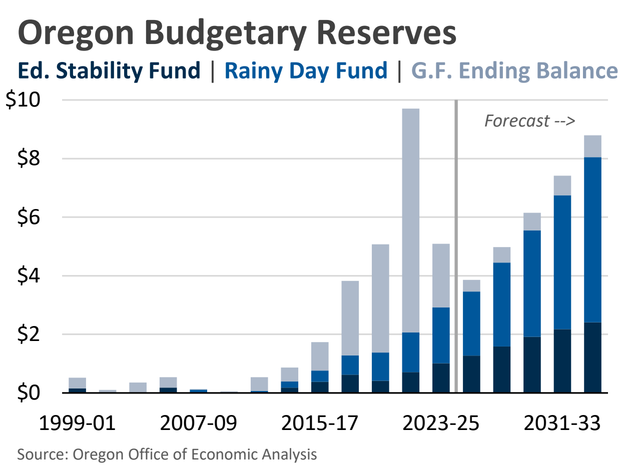


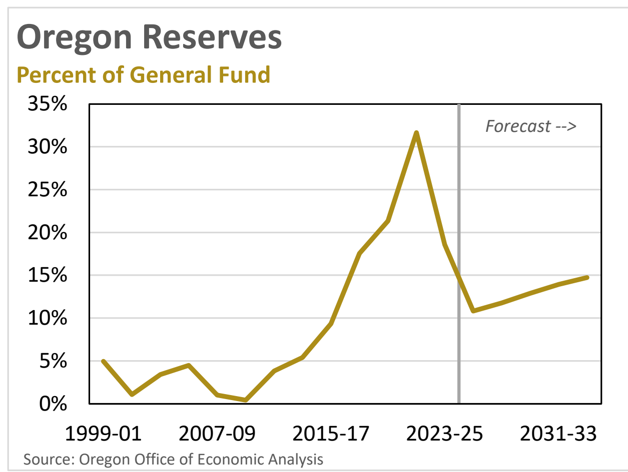
The first deviations are +3.4/-4.6% removed and are the traditional "optimistic" and "pessimistic" scenarios presented in past publications. The magnitudes of the deviations are diminishing as the biennium progresses, and baseline conditions continue to manifest. This leaves less time for the impact of the alternative paths to be realized. It should be noted that the two scenarios are not symmetric in terms of fiscal impact. On the positive side, the optimistic scenario coincides with improved demographic and economic factors that are assumed to persist well into the future. The pessimistic scenario corresponds to a mild to moderate recession lasting two to three quarters followed by a healthy rebound in economic activity. The former outcome results in a boost to the General Fund of $1.3 billion, while the latter produces a $1.7 billion deficit.

The second pair of scenarios ("Boom" and "Severe") are +6.8/-9.2% removed from the baseline. The boom scenario has had a few historical precedents in the last 50 years. These outlier biennia are generally followed by somewhat slower growth in the following biennium. The severe downside scenario mimics the Great Recession of 2008 in terms of both the deviation from the close-of-session forecast and the long-term impact on revenues. The boom results in a revenue gain of $2.6 billion, while the severe recession costs the General Fund $3.5 billion in 2025-27.

Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[1] (ORDF) and the Education Stability Fund[2] (ESF). The current projection for the balance of the Education Stability Fund at the end of 2025-27 is $1,271 million, while the balance in the Rainy Day Fund is expected to equal $2,192 million. The total balance of $3,463 million would be 9.7% of the current General Fund forecast. It should be noted that Senate Bill 960 canceled the transfer of the lesser of 1% of the prior biennium's appropriation level or ending balance, which would have occurred early in 2026. House Bill 3920 diverted 20% of the interest earnings due to the Rainy Day Fund to other accounts. These legislative actions are reflected in the figures below.





As noted above, the current probability of an economic downturn is estimated at 18%. In the last 50 years, the worst decline in General Fund revenues relative to the Close-of-Session forecast was 15.6% during the 2001-03 biennium, which was associated with the tech industry boom-bust. The graphics above present the projected balances in the Oregon Rainy Day Fund and the Education Stability Fund under the baseline economic scenario. Total available reserves under this scenario would amount to 9.7% of General Fund revenues. It is quite likely that Oregon's reserves are adequate to weather a mild to medium downturn.

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. 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 12.5% of General Fund revenues in the prior biennium.

[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 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.

Tax Law Assumptions

The revenue forecast is tied to current state law. After each 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 outcome for federal law.

For a detailed treatment of the components of the 2025 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2025-27 Budget Summary[3]

[3] https://www.oregonlegislature.gov/lfo/Documents/2025-2%20LAB%20Summary%202025-27.pdf