Revenue Outlook

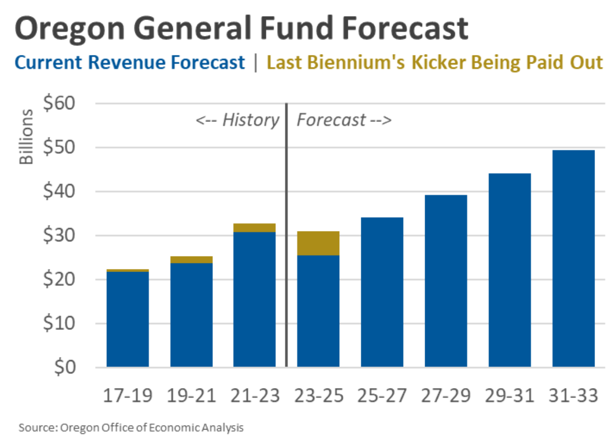
*** This forecast was reissued and corrected on November 20th, 2023. The previous forecast overstated Insurance Taxes in the General Fund. All other revenues remain unchanged from the original release. ***

Revenue Summary

Oregon's state revenue outlook appears to have stabilized. Aside from persistently strong corporate income taxes, collections in recent months have tracked closely with the September forecast. In particular, personal income tax collections have finally started to weaken.

General Fund revenue collections are expected to decline significantly in the months ahead as corporate profits and business income return to trend, and a record personal income tax kicker credit is issued. Although the revenue outlook appears on track for now, Oregon has yet to go through its first personal income tax filing season of the biennium, so considerable uncertainty remains.

Even excluding the payment of the kicker credit, General Fund revenues were expected to be relatively unchanged when compared to the 2023-25 budget period. The revenue boom seen during tax year 2021 is unlikely to be repeated, 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.



One major factor supporting the strong tax collections to date has been the current inflationary environment and related wage pressures. The vast majority of Oregon's taxes are not adjusted to inflation and rise along with prices. With demand outstripping supply, businesses and consumers have been paying premiums for their needs. This has translated into a wide range of taxable business and labor income, which has moved many filers into higher tax brackets. The new Corporate Activity Tax, Vehicle Privilege Tax, alcohol, and tobacco taxes have risen with inflation as well. With inflation now cooling, revenue gains will face additional downward pressure.

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 $25,819 million. This represents an increase of $156 million from the September 2023 forecast, and an increase of $559 million relative to the Close of Session forecast. Most of the increase can be attributed to collections of corporate income taxes, which continue to outstrip underlying profit earnings. Total available resources in the current 2023-25 biennium are increased $218 million after accounting for the removal of a previously expected estate tax transfer to the PERS unfunded liability.

Table R.1

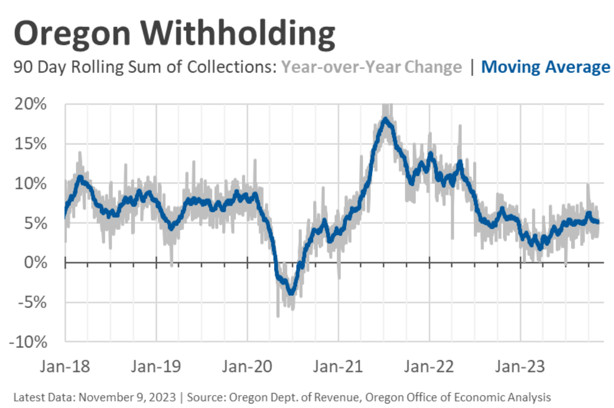
2023-25 General Fund Forecast Summary

(Millions)	2023 COS Forecast	September 2023 Forecast	December 2023 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$21,019.7	$21,063.6	$21,164.6	$101.0	$144.9
Corporate Income Tax	$2,228.9	$2,549.9	$2,647.2	$97.3	$418.3
All Other Revenues	$2,011.3	$2,049.5	$2,007.3	-$42.2	-$4.0
Gross GF Revenues	$25,259.9	$25,663.0	$25,819.1	$156.1	$559.2
Offsets, Transfers, and Actions[1]	-$437.0	-$545.6	-$483.9	$61.6	-$46.9
Beginning Balance	$7,493.5	$7,636.2	$7,636.2	$0.0	$142.8
Net Available Resources	**$32,316.4**	**$32,753.7**	**$32,971.4**	**$217.8**	**$655.0**
Appropriations	$31,873.6	NA	$31,873.6	NA	$0.0
Ending Balance	**$442.8**	**NA**	**$1,097.8**	**NA**	**$655.0**
Confidence Intervals					
67% Confidence	+/- 7.5%		$1,947.7	$23.87B to $27.77B	
95% Confidence	+/- 15.1%		$3,895.5	$21.92B to $29.71B	

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

Personal Income Tax

Personal income tax collections have slowed as expected in recent months, but remain healthy due to continued gains in withholdings. Withholdings are growing at an annual rate of around 5%, in range with what is typically seen when Oregon's economy is expanding. Although there are other factors involved (e.g. retirement income, bonuses, and stock options), withholdings are mostly driven by wages and salaries. As such, Oregon's healthy labor market continues to support tax collections.



As always, the most difficult components of personal income taxes to predict are nonwage forms of income such as capital gains. Unlike labor income, taxpayers have flexibility over when they realize investment and business income for tax purposes. After setting records during 2022, these sources of income have returned to trend. In particular, realized capital gains declined by nearly 50% this tax season, closely matching expectations. These declines have an outsized impact on tax collections given that most are claimed by high-income households. The drag on revenues will persist in going forward due to smaller estimated tax payments as well as losses carried forward into future tax years.

Personal income tax collections will fall further as we head into the 2024 tax season due to the record kicker credit being issued. Given that taxpayers are aware of the significant size of the credit, estimated personal income tax payments will be very small at the end of the year and into the first quarter of 2024. In the first months of 2024 large refunds will be issued, followed by relatively small year-end payments as April 15 approaches. After the extension filing season in the fall, the kicker will be largely paid out, and personal income taxes are expected to revert to trend.

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. The current inflationary environment is one factor supporting recent corporate tax collections. With underlying demand so strong, businesses have largely been able to pass cost increases along to their customers. Profits and earnings have skyrocketed. Even so, growth in corporate tax payments has been far faster than has growth in underlying business income. Tax collections remain inflated across a broad range of industires.

Corporate profits have been expected to slow for some time, but have yet to do so. Recent months have shown further unexpected gains. As demand cools, firms are expected to lose their pricing power. When combined with higher labor costs, margins are likely to narrow significantly. Sharp declines in business taxes collected by some of Oregon's local governments suggest that weaker collections at the state level may finally arrive soon.

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 newly started 2023-25 biennium they account for nearly eight 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.

*** Correction on November 20th, 2023 ***

Relative to the previous forecast, these other revenue sources are lowered a corrected $42.2 million (-2.1%) compared with the previous publication of an increase $75.5 million (+3.7%). This correction is based on an update to Insurance Taxes at the Department of Consumer and Business Services (DCBS).

In the previous publication, DCBS believed their increases in refunds would lead to an increase in retaliatory taxes. However in doing further analysis, DCBS corrected the forecast as the refunds would lead to a *decrease* in taxes. In updating the forecast for this change our office found an additional issue on our end. Back in the 2019 legislative session, there was legislation passed that impacted Insurance Taxes. These revenue impacts were being accounted for separately in the forecast. However, as those impacts are now showing up in the actual tax collections, they no longer need to be accounted for separately. As DCBS folded these impacts directly into their forecast for the first time this forecast round, our office did not also remove these separate adjustments in our tracking file. The bottom line is the previous forecast overstated Insurance Taxes by $117.7 million compared with this corrected version. And comparing the September 2023 forecast to this corrected December 2023 forecast sees Insurance Taxes reduced $50.7 million.

These changes are reflected in Table B.1 for current 2023-25 General Fund revenues, Table B.2 for General Fund Revenues by Fiscal Year, and have minor impacts on reserve funds as discussed on page 36, and shown in Table B.10.

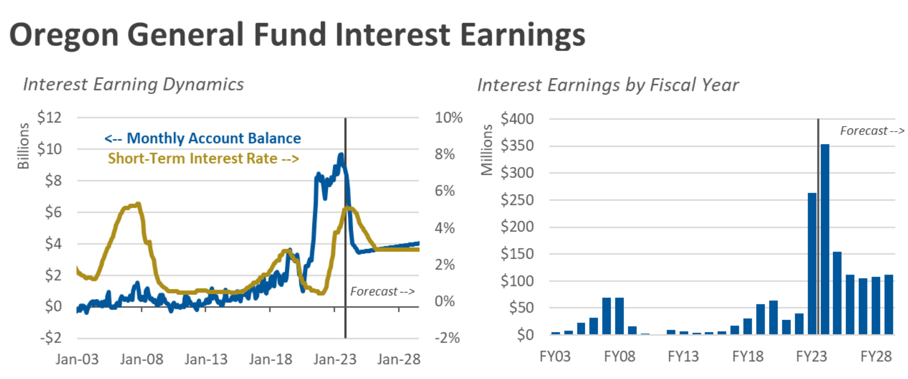
*** End correction ***

Estate tax collections have tracked slightly above forecast in recent months and the outlook for the current biennium is raised $2 million. Note that the previously expected estate tax transfer to PERS has been removed from the forecast. This does not impact current tax collections or any potential kicker calculation, but does increase available resources by $60.5 million.

Overall, tobacco taxes are lowered in the current biennium. Cigarette revenues have tracked slightly lower so far this biennium, resulting in a $0.4 million reduction to the General Fund forecast, but an additional $1.7 million reduction to other programs outside the General Fund that receive cigarette funds. For now, the longer-term cigarette sales forecast remains unchanged. Other Tobacco Products on the other hand are lowered both in the current biennium and in the long-term outlook as sales are trending downward in recent years faster than previously assumed. The General Fund outlook is lowered $1.4 million in the current 2023-25, and then by increases sequentially up to $4.4 million in FY2033. OTP revenues for non-General Fund programs are lowered by similar amounts. Finally, while outside of the General Fund, inhalant delivery taxes have come in noticeably above forecast in recent months (+$1.8 million), but the long-term outlook remains unchanged given it is too soon to tell whether this represents a fundamental increase in the sales outlook, or more of a one-time occurrence given the forecast was expecting current sales to more closely track sales trends in the past year.

The outlook for interest earnings is raised $8.2 million in the current 2023-25 biennium compared to the previous forecast, followed by upward revisions of $4.4 million in 2025-27 and then slight reductions of around $2.5 million in the outer biennia.

The combination of high fund balances today – the result of the inflationary economic boom outpacing forecast expectations – and high interest rates, means public sector interest earnings are now substantial. In the just completed Fiscal Year 2023, Oregon saw $262.5 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 $352.8 million.



The outlook for interest earnings is uncertain given potential timing issues. Today, fund balances are more than $6 billion higher than back in 2019. Next spring the record kicker will be returned to taxpayers, which is expected to reduce the balances from today's high-water mark. To the extent the timing of the kicker credits being paid out differ from expectations, or that short-term interest rates shift with broader changes in the financial markets of Fed policy, then the state's interest earnings will differ from this forecast.

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	21,164.6	-17.6%	29,929.3	41.4%	34,231.7	14.4%	39,066.9	14.1%	44,103.2	12.9%
Corporate Income Taxes	2,647.2	-16.1%	2,860.8	8.1%	3,115.5	8.9%	3,340.7	7.2%	3,663.2	9.7%
All Others	2,007.3	3.5%	1,762.9	-12.2%	1,843.3	4.6%	1,961.8	6.4%	2,097.9	6.9%
Gross General Fund	25,819.1	-16.1%	34,553.0	33.8%	39,190.5	13.4%	44,369.5	13.2%	49,864.2	12.4%
Offsets and Transfers	*(212.6)*		*(223.7)*		*(241.4)*		*(221.0)*		*(55.0)*	
Net Revenue	25,606.5	-16.3%	34,329.4	34.1%	38,949.1	13.5%	44,148.5	13.3%	49,809.2	12.8%

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[7]

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

Although based on current law, many of the tax policies that impact the revenue forecast are not set in stone. In particular, sunset dates for many large tax credits have been scheduled. As credits are allowed to disappear, considerable support is lent to the revenue outlook in the outer years of the forecast. To the extent that tax credits are extended and not allowed to expire when their sunset dates arrive, the outlook for revenue growth will be reduced. The current forecast relies on estimates taken from the Oregon Department of Revenue's 2023-25 Tax Expenditure Report[8] 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 scenario (see page 21) is a Boom/Bust cycle with a recession beginning in the second half of 2024. This does mean 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 $1.3 billion lower than in the baseline. Revenues in 2025-27 would be recovering, and growing sequentially, but still $1.9 billion below the current baseline outlook.

Boom/Bust Alternative Scenario

	$ Millions from Baseline				
	23-25	25-27	27-29	29-31	31-33
General Fund Total	**-1,297**	**-1,894**	**-784**	**-222**	**-125**

Other Revenues	$ Millions from Baseline				
	23-25	25-27	27-29	29-31	31-33
Lottery	-24	-59	-49	-34	-19
Corporate Activity Tax	-80	-162	-157	-180	-209
Marijuana Tax	-4	-11	-9	-7	-4
Total	**-108**	**-232**	**-215**	**-221**	**-232**

	$ Millions from Baseline				
	23-25	25-27	27-29	29-31	31-33
Total Sum	**-1,405**	**-2,125**	**-999**	**-443**	**-357**

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 $80 million lower than the baseline, while Lottery is expected to be $24 million lower, and Marijuana revenues $4 million lower.

In 2025-27, the Corporate Activity Tax would be $162 million lower than the baseline, while Lottery would be $59 million, and Marijuana $11 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.

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

Corporate Activity Tax

The 2019 Legislature enacted the corporate activity tax (CAT)[9], a new tax on gross receipts that went into effect January 2020. While taxpayers were required to file on a calendar year basis for tax year 2020, a law change allowed taxpayers to switch to a fiscal year basis beginning with tax year 2021. A full snapshot of 2021 tax returns is due to be available by the end of the year. Estimated payments for the 2023 tax year are coming in below expectations. This has resulted in a modest decline in the forecast throughout the forecast horizon. Available resources for the current biennium are down $11.3 million, while the projected ending balance in the Fund for Student Success had dropped by $23.4 million due to a revision in the distribution to the State School Fund.

These revenues are dedicated to spending on education. The legislation also included personal income tax rate reductions, reducing General Fund revenues. The net impact of HB 3427 was designed to generate approximately $1 billion per year in new state resources, or $2 billion per biennium.

In terms the macroeconomic effects of a major new tax, the Office of Economic Analysis starts with the Legislative Revenue Office's (LRO) impact statement and any Oregon Tax Incidence Model (OTIM) results LRO found. At the top line, OTIM results find minimal macroeconomic impacts across Oregon due to the new tax. Personal income, employment, population, investment and the like are less than one-tenth of a percent different under the new tax relative to the baseline. The model results also show that price levels (inflation) will increase above the baseline as some of the CAT is pushed forward onto consumers. Of course, these top line, statewide numbers mask the varying experiences that individual firms and different industries will experience. There are likely to be some businesses or sectors that experience large impacts from the CAT, or where pyramiding increases prices to a larger degree, while other businesses or sectors see relatively few impacts.

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

Lottery Forecast

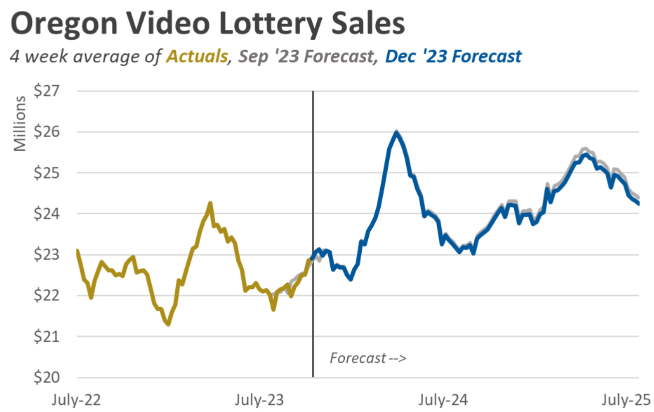
Overall, lottery resources are up $8.1 million (+0.4%) in the current 2023-25 biennium, while being downwardly revised in the outer biennia by 0.3 or 0.4 percent (-$5 to -$10 million) relative to the previous forecast. The downward revision still incorporates underlying growth in Lottery sales, albeit slower than previously forecasted, in keeping with the modest downward revision to the personal income and consumer spending outlook.

In the current 2023-25 biennium, available Lottery resources now projected to be $17.6 million (+1.0%) above the Close of Session forecast, on which the legislatively adopted budget was built. The current outlook is a mix on continued strength in traditional lottery products, due in large part to ongoing large

[9] 0122 (oregonlegislature.gov)

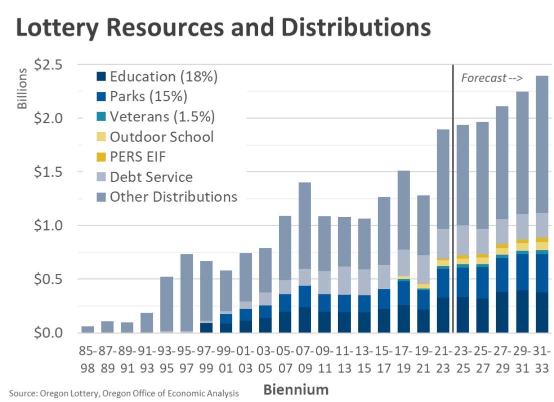
multistate jackpot games, in addition to sports betting a bit above forecast, while video lottery sales are slightly below forecast in recent months.

Looking forward, the Lottery outlook calls for record video lottery sales in the coming months in part due to the ongoing strength in the economy, and in addition to the record $5.6 billion Oregon personal income tax kicker being paid out next tax filing season. Oregonians will spend some portion of the kicker on discretionary purchases be they going out to eat, on exercise equipment, on vacations, on gaming, or any other number of possibilities. The forecast continues to assume the normal share of personal income is spent on video lottery. As such, the historically large kicker presents both upside and downside risks to the near-term forecast. Should Oregonians choose to spend more of their disposable income gains on gaming, Lottery sales are likely to be above the baseline outlook, on the other hand should inflation take its toll on household budgets, or should Oregonians choose to disproportionately spend their kicker credits on other items, then sales may be below the baseline.



Risks to the Outlook

Risks to the outlook abound and vary depending upon the timeframe. In the very near-term, risks lie primarily to the upside. Consumer spending overall remains robust and sales could outstrip the expectations of an economic soft landing. Conversely, should inflation begin to take a toll on households, discretionary purchases may be cut back, similar to what appears to have happened in recent months.



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

Over the long term a few sets of risks stand out. Our office expects increased competition for household entertainment dollars, increased competition within the gaming industry, and potentially shifts in generational preferences and tastes when it comes to gaming.

As discussed in depth in the March 2023 forecast, the structural impact of aging has been fully absorbed and has minimal impact moving forward as the Millennials are now entering their peak lottery years. 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. This outlook has been revised up some, so the relative decline is smaller than in previous forecasts due to the updated player demographic work.

However, longer run upside risks remain as well. While it is true that spending on video lottery grew slightly slower than income and spending last decade, that had reversed earlier in the pandemic. Some of the strong sales since reopening are due to pent-up demand, strong household finances, and the fact that other entertainment options were either not available initially (concerts, spectator sports) or possibly less desirable due to the virus (long distance travel, movie theaters). Even so, the relative strength in video sales could point toward some more permanent and not just pandemic or temporary changes in player behavior.

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

Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[10] (ORDF) and the Education Stability Fund[11] (ESF). This section updates balances and recalculates the outlook for these funds based on the December revenue forecast.

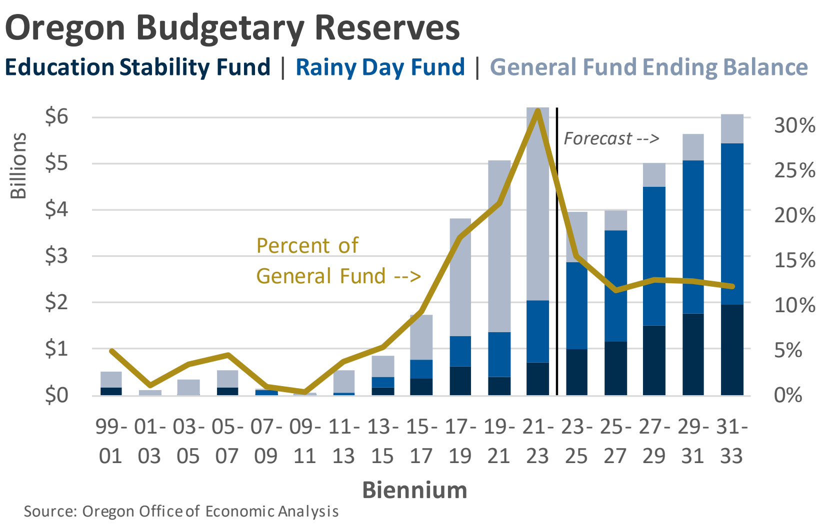
As of this forecast the two reserve funds currently total a combined $2.1 billion. At the end of the current 2023-25 biennium, they will total $2.9 billion, which is equal to 11.1 percent of current revenues. Including the corrected $1.1 billion ending balance in the General Fund, the total effective reserves at the end of the current 2023-25 biennium are projected to be $4.0 billion, or 15.9 percent of current revenues.

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 $271.3 million will be made in early 2024 after the accountants closed the books on last biennium. Additionally, a $91.6 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.

[10] The ORDF is funded from ending balances each biennium, up to one percent of appropriations. The Legislature can deposit additional funds, as it did in first populating the ORDF with surplus corporate income tax revenues from the 2005-07 biennium. The ORDF also retains interest earnings. Withdrawals from the ORDF require one of three triggers, including a decline in employment, a projected budgetary shortfall, or declaration of a state of emergency, plus a three-fifths vote 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.

[11] [11] 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.

Looking ahead to the 2025-27 biennium, the ORDF is no longer projected to hit its cap of 7.5 percent of revenues early in calendar year 2026. This is a change from recent quarterly forecasts where the cap was expected to be reached prior to the ending balance transfer occurring. In the current forecast the ORDF will be at 7.37 percent of the previous biennium's revenue at the time of the expected transfer. That leaves a $34 million difference between 7.37 and 7.5 percent. As the forecast and actual revenues and interest earnings change over the next couple of years, the ORDF may or may not reach that cap. Our office will adjust the outlook accordingly. Should the cap be reached, then the ending balance transfer would not occur, and those revenues would be retained in the General Fund to be appropriated by policymakers. Today, the ORDF is not expected to reach its cap and not make the ending balance transfer until FY2030, and then again in FY2032.



Effective Reserves ($ millions)

	Current Oct-23	*End of 2023-25*
ESF	$750	$1,008
RDF	$1,368	$1,856
Reserves	$2,118	$2,864
Ending Balance	$1,098	$1,098
Total	**$3,216**	**$3,962**
% of GF	12.6%	15.5%

The ESF will receive an expected $299.8 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 11.1 percent of current revenues. At the close of 2025-27 the combined balance will be $3.6 billion, or 10.4 percent of revenues. Such levels of reserve balances are larger than Oregon has been able to accumulate in past cycles, and should help stabilize the budget when the next recession hits.

With a potential recession this biennium, the state would expected to meet the trigger for withdrawals should the recession come and should policymakers choose to access reserves. In particular the reserve fund trigger of two consecutive quarters of employment declines would be expected to be met based on our office's alternative scenario of a moderate recession. The other triggers may or may not be met. If revenues come in below forecast this biennium, that could trigger a potential withdrawal. And for the ESF only, not the ORDF, a Governor's declaration of emergency could also trigger a potential withdrawal.

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

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

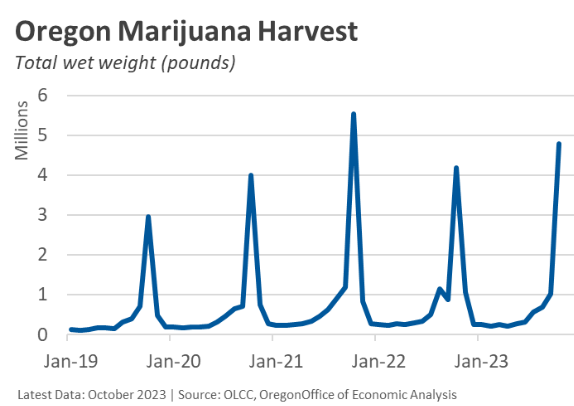
Recreational Marijuana Forecast

Available resources in the current 2023-25 biennium are raised $4.0 million (+1.3%) relative to the previous forecast. Recent months of sales and tax collections have closely tracked forecast, however the upward revision is due to the most recent quarterly transfer coming in larger than forecast. These quarterly transfers are made after tax returns are processed. This increase could be in part more timely tax filings by businesses, potentially faster processing, or some reconciliation in terms of firms catching up on delinquent taxes owed. This is the first quarter in more than a year where the actual quarterly transfer came in above forecast. As sales are matched forecast more closely, the fact transfers were below expectations was largely due to increased delinquencies. Our office will continue to work with the Department of Revenue to learn more about the nature of recent collections, delinquencies, and transfers.

Over the forecast horizon, the marijuana forecast is lowered approximately 0.5 percent in keeping with the slightly downward personal income and consumer spending outlook.

Current Market Conditions

Through the first nine months of the year, the marijuana harvest was nine percent lower than a year ago, and 15 percent lower than the record crop back in 2021. As the market appeared to be adjusting, prices were stabilizing. That changed with the large October outdoor harvest which is 15 percent larger than last October. That is enough to bring the entire year to date harvest in 2023 higher than last year through October. As such, oversupply will continue to be the major near-term driving force in the market.



Given these market conditions of oversupply, firm saturation, and stable consumer demand, low prices make it difficult for businesses to be profitable. Additionally, they impact tax collections as well given Oregon levies its recreational marijuana tax based on the price of the products, plus the potential for delinquent taxes owed.

Looking forward, the low-hanging fruit for consumer demand growth is behind us. Marijuana usage rates are steady in recent years, after increase considerably in the past decade. Note that the latest annual usage data will be released prior to the next forecast. Our office will include the new numbers at that time. Additionally, many former black market consumers have converted to the legal market, and those that remain may be harder to switch. And underlying population growth has slowed during the pandemic, with only a modest rebound expected in the outlook.

In a Zero Migration scenario, Oregon's marijuana user base would be 9.5 percent lower than the baseline in 2033. Such a relative decline is larger than the overall population losses given that 20- and 30-somethings not only move at higher rates, but also have higher marijuana usage rates.

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. The first quarterly tax returns were recently due. As more returns and data become available in the quarters ahead, 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