Revenue Outlook

Revenue Summary

This December forecast exhibits a significant upward correction to the General Fund forecast. The long string of consecutive positive revisions to the forecast necessitated a deep forensic analysis of the methodological underpinnings and assumptions driving prior forecasts. The fundamental finding was that major relationships in the Personal and Corporate Income Tax models, such as Capital Gains realizations and the U.S. equities forecast and corporate tax liability and U.S. Corporate Profits, had become disconnected. In addition, the manner in which the Personal Income Tax kicker was modeled resulted in potential confusion when looking at recent tax collection patterns. Correcting these flaws produces significant increases in available resources for the current and next biennium.

The revenue picture for the current 2023-25 biennium is improved by $947.0 million compared to the prior forecast. The total increase since the Close of Session forecast is $2,838.6. Increased revenues in the current biennium also increase the projected kickers. The personal kicker now stands at an expected $1,792.4 million that will be returned to taxpayers as a credit on their 2025 tax return. The corporate kicker now stands at an expected $1,024.5 million and will be retained in the General Fund and spent on education next biennium.

Table R.1

2023-25 General Fund Forecast Summary

(Millions)	2023 COS Forecast	Sep 2024 Forecast	Dec 2024 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$21,019.7	$21,889.4	$22,690.8	$801.4	$1,671.1
Corporate Income Tax	$2,228.9	$3,111.7	$3,253.4	$141.7	$1,024.5
All Other Revenues	$2,011.3	$2,150.4	$2,154.2	$3.9	$142.9
Gross GF Revenues	$25,259.9	$27,151.5	$28,098.5	$947.0	$2,838.6
Offsets, Transfers, and Actions[1]	-$437.0	-$496.1	-$497.8	-$1.7	-$60.8
Beginning Balance	$7,493.5	$8,082.5	$8,082.5	$0.0	$589.0
Net Available Resources	**$32,316.4**	**$34,737.8**	**$35,683.2**	**$945.4**	**$3,366.8**
Appropriations	$31,873.6	$32,897.2	$32,897.2	$0.0	$1,023.6
Ending Balance	**$442.8**	**$1,840.6**	**$2,786.0**	**$945.4**	**$2,343.2**
Confidence Intervals					
67% Confidence	+/- 3.2%		**$887.9**	**$27.21B to $28.99B**	
95% Confidence	+/- 6.3%		**$1,775.8**	**$26.32B to $29.87B**	

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

For 2025-27, available General Fund resources, which includes an increase in the beginning balance carried forward from the current biennium, are increased by $2.267 billion to a total of $37.8 billion. The full effects of the personal income tax revisions discussed previously are muted by the increase in the projected kicker credit factored into the 2025-27 revenue stream.

Outside of the General Fund, the major revenue sources are the Corporate Activity Tax and Lottery. Corporate Activity Tax revenues have been revised downward $5.9 million for 2023-25 due entirely to slightly weaker collections activity in recent months. The impact is amplified for 2025-27, where available resources are decreased $48.1 million. Conversely, Lottery earnings to the Economic Development Fund have been increased from the prior forecast by $37.1 million in the current biennium owing primarily to a transfer of administrative savings in the latest quarter. Next biennium's resources has been revised upward $72.3 million, including the increased beginning balance.

2023-25 General Fund Revenues

The December forecast marks a major revision from the prior forecast. General Fund revenues are increased $947.0 million, primarily due to personal income tax increases. Corporate income tax is also increased substantially from prior projections. All other revenue sources are little changed. The estimated ending balance in the General Fund is now $2.79 billion.

Personal Income Tax

For personal income taxes, tax year 2023 is coming into focus. Absent the $5.6 billion kicker credit, it is currently estimated that collections will grow 2.6% from the prior year when all is said and done. The previous forecast assumed a 4.0% decline. In addition, tax year 2024 is now expected to be exhibit much stronger growth than was previously expected. The net result is an approximately $1.0 billion per year increase in anticipated personal income tax receipts for tax years currently in progress. The impact of these changes is not uniform across the forecast horizon as the latest forecast is now tied more closely to the economic baseline and exhibits milder growth than previous projections.

The forecast for 2023-25 is now $21.89 billion, increased $801.4 million since the September forecast. Table B.8 presents tracking information for the first fiscal quarter of 2025. Personal income taxes finished $81.8 million above the prior forecast. Withholding and estimated payments both exceeded expectations and are consistent with the raised expectation for the tax year as a whole. In terms of reconciliation on tax year 2023, refunds came in higher than expected. This could be the result of the incentive to file earlier due to the significant kicker credit.

Corporate Excise Tax

The corporate income tax forecast models collections by tax year on U.S. corporate profits adjusted for the size of the Oregon economy relative to the nation. Previous forecasts assumed that corporate profits would experience a significant correction in the immediate future even as this assumption failed to materialize quarter after quarter. This forecast reconnects the forecast to the U.S. corporate forecast provided by our national forecast provider, Standard and Poors, additionally informed by input from the office's advisory bodies. This update causes a level shift upward throughout the forecast horizon.

For the 2023-25 biennium, corporate income tax collections are projected to total $3.25 billion, up $141.7 million from the September forecast. As indicated in Table B.8 in the appendix, collections during the quarter ended September 30th were $15.3 million higher than expected. This was entirely due to reconciliation related to tax year 2023.

Other Sources of Revenue

While there are a variety of other sources of revenue in the General Fund, in aggregate they account for only 8% of the total. In addition, non-income tax sources have historically been rather stable compared to their income tax counterparts. All other General Fund revenues are expected to total $2.15 billion in 2023-25, a change of just $3.9 million from the prior forecast and $142.9 million from the Close of Session forecast.

The two largest contributors to the "other sources" category are Estate Taxes and Interest Earnings. Estate Taxes have grown significantly in recent years due to an aging population and nominal growth in asset values. For the current biennium, the forecast for Estate Taxes is currently $662.5 million and is 23% above the Close of Session forecast. Interest Earnings have also magnified dramatically as cash balances statewide have ballooned and interest rates have risen. The current projection for 2023-25 is $658.6 million, which is 39% above the original forecast upon which the legislatively adopted budget was based.

Extended General Fund Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2031-33 biennium. Of particular interest now is the 2025-27 revenue picture. Budget development is in full swing as the Governor's Recommended Budget will be released around December 1st. General Fund revenues for 2025-27 have been increased $1.3 billion due to methodological changes described earlier.

Table R.2 December 2024

General Fund Revenue Forecast Summary

Millions of Dollars, Current Law

Revenue Source	2023-25 Biennium	% *Chg*	2025-27 Biennium	% *Chg*	2027-29 Biennium	% *Chg*	2029-31 Biennium	% *Chg*	2031-33 Biennium	% *Chg*
Personal Income Taxes	22,690.8	*-11.7%*	30,287.9	*33.5%*	35,825.7	*18.3%*	40,021.7	*11.7%*	44,600.7	*11.4%*
Corporate Income Taxes	3,209.2	*1.7%*	3,439.8	*7.2%*	3,577.4	*4.0%*	3,786.5	*5.8%*	4,117.3	*8.7%*
All Others	2,154.2	*11.1%*	1,840.5	*-14.6%*	1,895.8	*3.0%*	1,978.9	*4.4%*	2,086.0	*5.4%*
Gross General Fund	28,054.2	*-8.9%*	35,568.1	*26.8%*	41,298.9	*16.1%*	45,787.1	*10.9%*	50,804.0	*11.0%*
Offsets and Transfers	*(233.1)*		*(211.1)*		*(220.3)*		*(199.6)*		*(187.4)*	
Net Revenue	27,821.2	*-9.1%*	35,357.0	*27.1%*	41,078.6	*16.2%*	45,587.5	*11.0%*	50,616.6	*11.0%*

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

Corporate Activity Tax

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

Due to the significant lag in the availability of tax return data (tax year 2021 is the latest available), CAT collections are modeled by tax year on Gross State Product, the best aggregate economic indicator for which data are universally available. Tax year 2023 is nearing completion from a collections standpoint while tax year 2024 is just starting to take shape. From either perspective, collections are a tad weaker than they appeared previously. In addition, a methodological change is tying long-run collections growth more closely to the overall economic outlook. The overall result is a lower forecast throughout the forecast horizon.

Anticipated revenues for the current biennium are down $5.9 million, while revenues have decreased $40.1 million for 2025-27. Including a change in the beginning balance, available resources for 2025-27 are down $48 million to total $3,280.1 million.

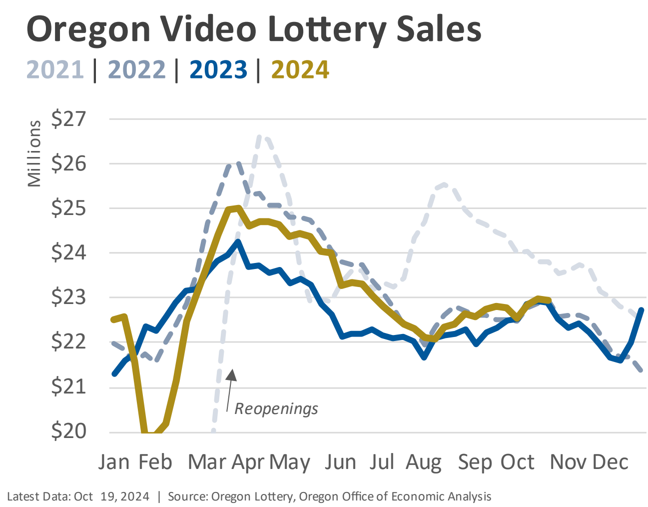
Table B.12 in Appendix B summarizes the 10-year forecast and the allocation of resources, while Table B.13 presents a more detailed quarterly breakdown of the forecast. The personal income tax reductions are built into the General Fund forecasts shown in Tables B.1 and B.2.

Lottery Forecast

The December lottery forecast has been raised slightly from the September outlook, reflecting an upward adjustment in overall resources. For the current 2023-25 biennium, total resources are increased by $37 million, while resources in future biennia are raised by approximately $20-40 million. These adjustments vary across lottery categories: video lottery forecasts are lowered slightly, traditional lottery sales have risen, and sports betting remains largely unchanged.

Specifically, video lottery resources are lowered by $15.7 million (-1.0%) in 2023-25 and $5.9 million (-0.3%) in 2025-27. Forecasts for 2027-29, 2029-31, and 2031-33 are also revised downward by 1-1.5%. The introduction of a $30 Scratch-It ticket has boosted traditional lottery sales, although there may be a potential reduction in transfer rates due to a narrower profit margin on higher-priced tickets.

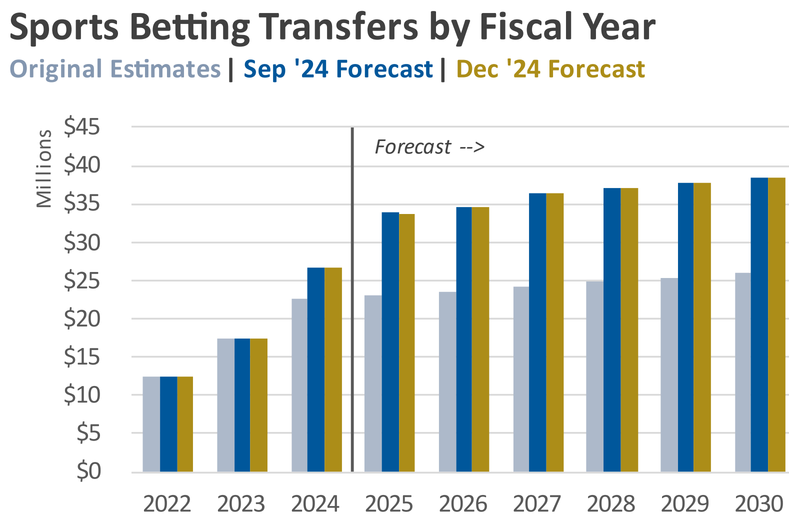
Video Lottery



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

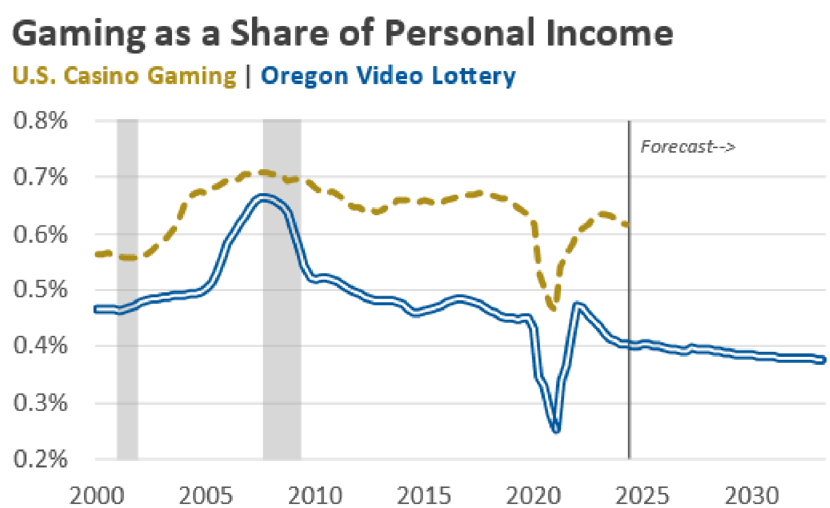
Sports Betting

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



Longer-Term Outlook

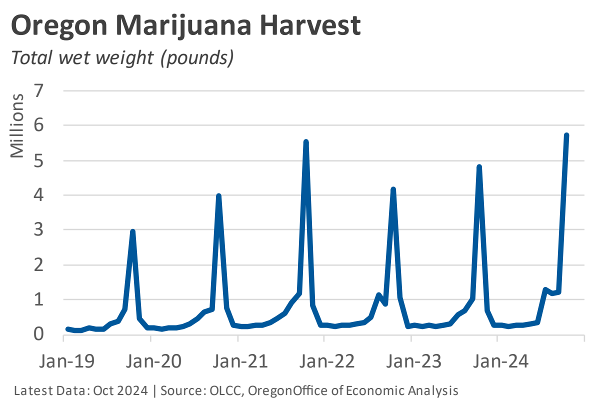
Lottery revenues continue to be closely linked to consumer behavior, household budgets and evolving entertainment preferences. Current trends point toward increased competition for entertainment dollars, shifting gaming preferences, and generational changes in gaming habits. The December forecast projects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

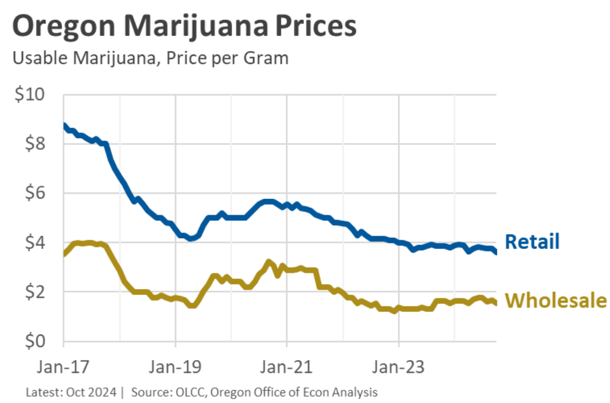


The full extended outlook for lottery earnings can be found in Table B.9 in Appendix B.

Recreational Marijuana Forecast

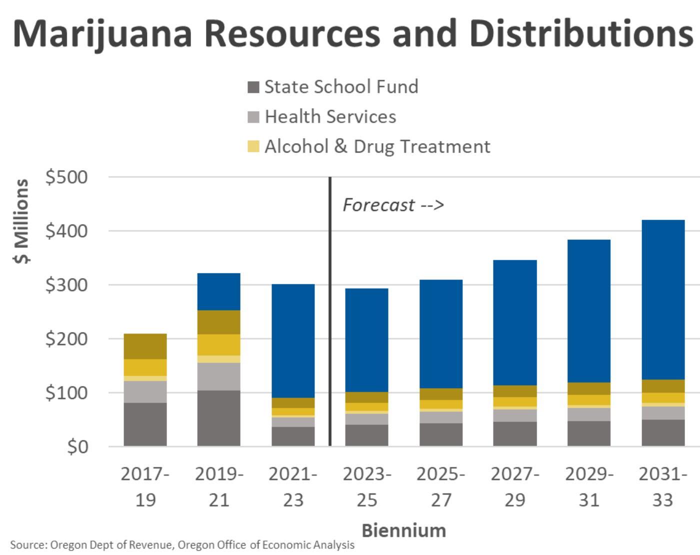
The December marijuana forecast is largely unchanged from September. Recent sales and tax collections remain stable, closely tracking prior projections, with slight adjustments based on current data. In the current 2023-25 biennium, resources are raised by $0.3 million (+0.1%), and 2025-27 sees a modest increase of $0.7 million (+0.2%). Similarly, the outer biennia forecasts are raised by approximately $0.9 to $1.1 million each, representing an increase of about 0.3%.





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

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



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

Psilocybin Forecast

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

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

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

Looking forward, the number of sessions, and products sold is expected to increase. The exact rate of growth is unknown. Our office is monitoring the quarterly tax returns and looking forward to the updated OHA dashboard that will include more information on the number of sessions and customers that is expected to launch in Spring 2025. Our office will adjust the forecast accordingly as we learn more.

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

Oregon Psilocybin Retail Sales Tax Revenue

Dec-24

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

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

Revenue Alternative Scenarios

The latest revenue forecast for the current biennium represents the most probable outcome given available information. Our office feels that it is important that anyone using this forecast for decision-making purposes recognize the potential for actual revenues to depart significantly from this projection. For the economic assumptions these scenarios are based on, see page 15.

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

The optimistic scenario assumes that the U.S. and Oregon economies perform somewhat better than assumed in the baseline. While not particularly contingent on higher population growth and net in-migration, this is one aspect that could result in significantly higher revenues in the long run. Oregon has experienced periods where employment growth has exceeded population growth, necessarily

Alternative Scenarios — December 2024

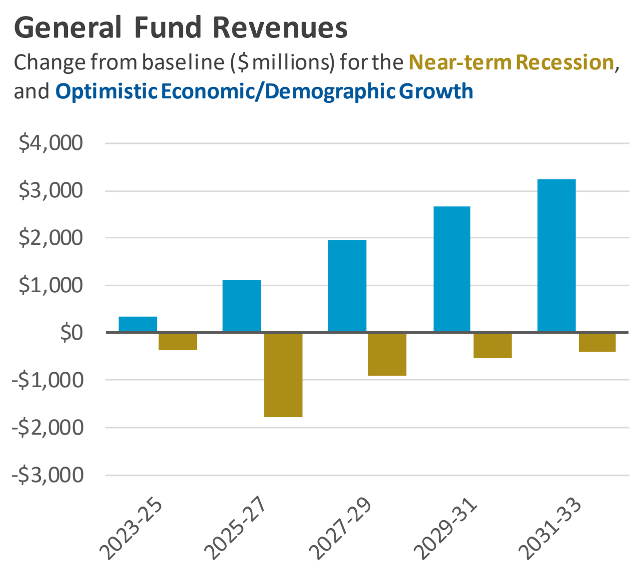
Changes relative to the baseline ($ millions)

General Fund	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$357	$1,129	$1,947	$2,675	$3,231
Pessimistic	-$371	-$1,771	-$917	-$529	-$411

Corporate Activity Tax	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$36	$95	$145	$182	$204
Pessimistic	-$27	-$201	-$118	-$89	-$58

Lottery	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$26	$66	$97	$118	$129
Pessimistic	-$20	-$101	-$79	-$65	-$49

Source: Oregon Office of Economic Analysis

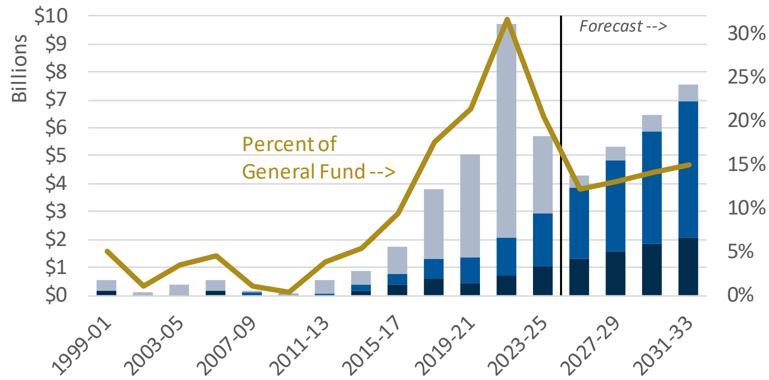


driven by changes in the labor force participation rate. In addition, a major component of the variation in past General Fund growth has owed to equity and profits gains and can be attributed in part to increase productivity. Thus, the optimistic scenario can be viewed as the potential for any or all of these factors to manifest throughout the forecast horizon.

The recession scenario is based on the historic tendency for the U.S. economy to recede periodically due to accumulated imbalances or other exogenous factors. A survey of private economists currently estimates the probability of recession in the next twelve months at 25%. The revenue change profile exhibited in the table above is based on previous recessions and the Office of Economic Analysis' current expectations for the likely severity and timing of a recession. Specifically, General Fund revenues would be expected to deviate 6.9% from the baseline in 2025-27 as a relatively modest recession occurs sometime during the first fiscal year. Corporate Activity Tax and Lottery would experience lighter losses due to being associated with consumer spending, a phenomenon less sensitive to economic variation than income.

Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[2] (ORDF) and the Education Stability Fund[3] (ESF). As of this forecast the two reserve funds currently total a combined $2.6 billion at the end of October 2024. At the end of the current 2023-25 biennium, they will total $2.9 billion, which is equal to 10.0% of current revenues. Including the projected General Fund ending balance of $2.8 billion, the total effective reserves at the end of the current 2023-25 biennium are projected to be $5.7 billion, or 20.5% of current revenues.



Source: Oregon Office of Economic Analysis

Effective Reserves ($ millions)

	Current Dec-24	*End of 2023-25*	*2025-27 Est.*
ESF	$900	1,007.4	1,282.1
RDF	$1,708	$1,908	$2,554
Reserves	$2,607	$2,915	$3,837
Ending Balance	$2,786	$2,786	$500
Total	**$5,393**	**$5,701**	**$4,337**
% of GF	19.4%	20.5%	12.3%

As noted above, the current probability of an economic downturn is estimated at 25%. The worst decline in General Fund revenues relative to the Close-of-Session forecast in the last 50 years was 15.3% during the 2001-03 biennium associated with the tech industry boom-bust. The final column of the table above presents the projected balances in the ORDF, ESF and a hypothetical budgetary ending balance based on historic legislatively adopted balances. Total available reserves under this scenario would amount to 12.3% of General Fund revenues. It is quite likely that Oregon's reserves are adequate to weather a potential downturn given that a mild to moderate recession is the most likely scenario.

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

[2] The ORDF is funded from ending balances each biennium, up to 1% of appropriations. The Legislature can deposit additional funds, as it did in first populating the ORDF with surplus corporate income tax revenues from the 2005-07 biennium. The ORDF also retains interest earnings. Withdrawals from the ORDF require one of three triggers, including a decline in employment, a projected budgetary shortfall, or declaration of a state of emergency, plus a simple majority vote of the Legislature. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question. Fund balances are capped at 7.5% of General Fund revenues in the prior biennium.

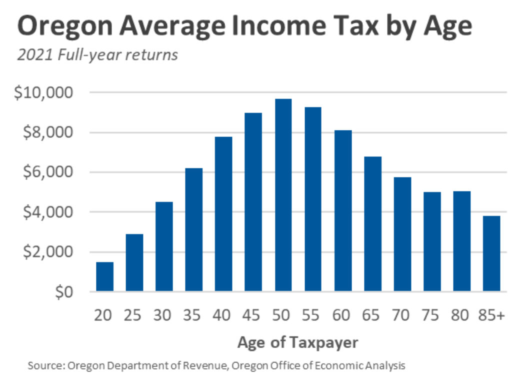
[3] [3] The ESF gained its current reserve structure and mechanics via constitutional amendment in 2002. The ESF receives 18% of lottery earnings, deposited on a quarterly basis – 10% of which are deposited in the Oregon Growth sub-account. The ESF does not retain interest earnings. The ESF has similar triggers as the ORDF but does not have the two-thirds cap on withdrawals. The ESF balance is capped at 5% of General Fund revenues collected in the prior biennium.

Aging and State Revenues

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

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

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



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

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

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

Tax Law Assumptions

The revenue forecast is 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. For a detailed treatment of the components of the 2023 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2023-25 Budget Summary[4]

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

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