Revenue Outlook

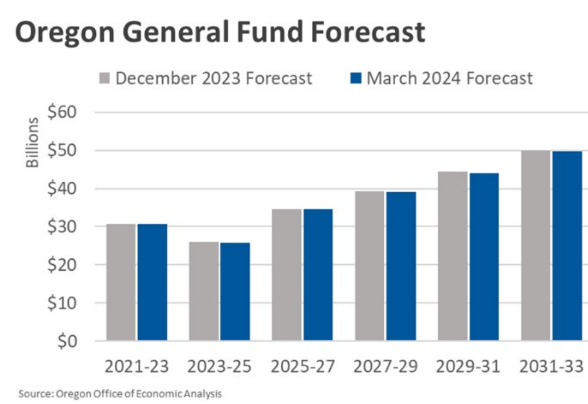
Revenue Summary

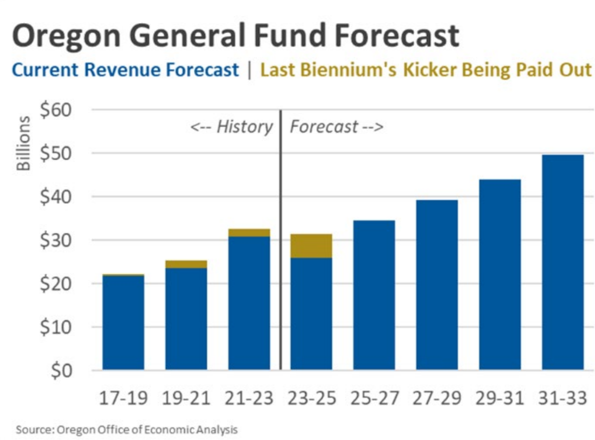
Oregon's state revenue outlook remains stable heading into the personal income tax filing season. The underlying economic outlook is relatively unchanged, and collections are tracking closely to expectations. As a result, overall revisions to the December 2023 forecast are small.

Although overall revenue collections are matching expectations, there have been some notable surprises. The most significant of which is the persistence of the six-year boom in Oregon's traditional corporate income and excise taxes. Tax collections have far outstripped growth in underlying corporate profits. The longer the surge in collections persists, the more likely it becomes that tax reforms enacted at the federal and state levels have permanently increased Oregon's corporate tax base, and that the step up in collections will remain with us going forward.

In addition to the surprising corporate income tax collections, forecasts for estate and liquor taxes have seen large revisions relative to the December 2023 outlook. Estate taxes have always been extremely volatile from month to month, but large outliers are clearly becoming more commonplace. As a result, the revenue outlook has been revised upward significantly. Offsetting this change, the outlook for liquor taxes has been revised downward as record sales during the pandemic appear to have plateaued.

The modest reduction in expected population and job gains reflected in the underlying economic outlook filters through to a somewhat weaker long-term forecast for personal income taxes. That said, these changes do not change the general nature of the revenue forecast, with the largest reduction in expected General Fund resources amounting to less than one percent of revenue in the 2029-31 budget period.





Even excluding the payment of the kicker credit, General Fund revenues were expected to be relatively unchanged when compared to the 2021-23 budget period. The unprecedented revenue boom seen during tax year 2021 is behind us, with collections expected to revert back to their long-term trends. Traditional gains in General Fund collections are expected to resume in the 2025-27 biennium and beyond.

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

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

2023-25 General Fund Revenues

Gross General Fund revenues for the 2023-25 biennium are expected to reach $25.9 million. This represents an increase of $76 million from the December 2023 forecast, and an increase of $635 million relative to the Close of Session forecast. The vast majority of the increase can be attributed to collections of corporate income taxes, which continue to outstrip underllying corporate profits. Expected total available resources in the current 2023-25 biennium have been increased by $559 million after accounting for unspent appropriations during the 2021-23 budget period.

Table R.1

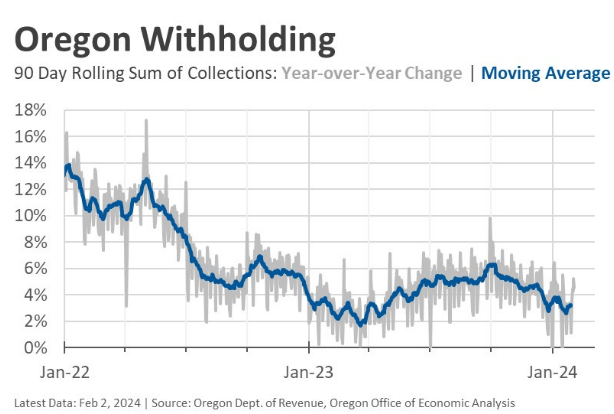
2023-25 General Fund Forecast Summary

(Millions)	2023 COS Forecast	December 2023 Forecast	March 2024 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$21,019.7	$21,164.6	$21,180.1	$15.5	$160.4
Corporate Income Tax	$2,228.9	$2,647.2	$2,762.1	$114.9	$533.1
All Other Revenues	$2,011.3	$2,007.3	$1,953.1	-$54.3	-$58.2
Gross GF Revenues	$25,259.9	$25,819.1	$25,895.2	$76.1	$635.3
Offsets, Transfers, and Actions[1]	-$437.0	-$483.9	-$447.8	$36.1	-$10.8
Beginning Balance	$7,493.5	$7,636.2	$8,082.5	$446.3	$589.0
Net Available Resources	**$32,316.4**	**$32,971.4**	**$33,529.9**	**$558.5**	**$1,213.5**
Appropriations	$31,873.6	$31,873.6	$31,873.6	$0.0	$0.0
Ending Balance	**$442.8**	**$1,097.8**	**$1,656.3**	**$558.5**	**$1,213.5**
Confidence Intervals					
67% Confidence	+/- 6.7%		$1,739.9	$24.16B to $27.64B	
95% Confidence	+/- 13.4%		$3,479.8	$22.42B to $29.38B	

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

Personal Income Tax

Growth in withholdings of personal income taxes have slowed in recent months, consistent with a softening labor market Although there are other factors that drive withholdings of personal income taxes (e.g. retirement income, bonuses, and stock options), they are mostly driven by wages and salaries.



Although a cooling labor market makes an economic soft landing more likely, slow withholdings do cause concern. The majority of the time, withholding growth rates of 2% to 3% are only seen when Oregon is heading into, or coming out of, a recession.

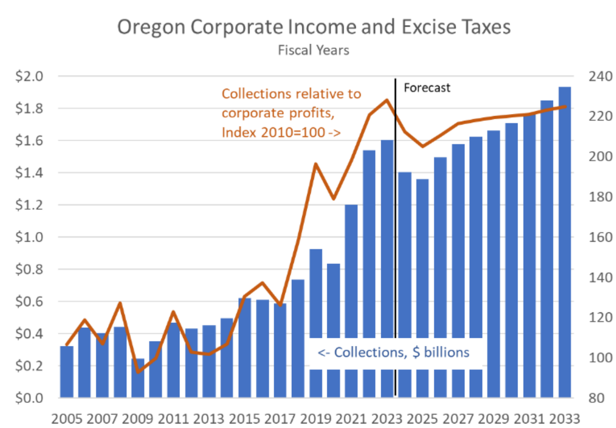
Since the December 2023 forecast was released, Portland State University and the Census Bureau have released their 2023 mid-year population estimates. Although both estimates differ, each suggest that Oregon's population growth remains stalled. As a result, the baseline outlook for population and job gains has been lowered, putting downward pressure on expected income tax collections throughout the forecast horizon. However, in the current biennium, the weaker outlook for labor-related tax collections is offset by the surprising performance of investment income during 2023. In particular, the 25% growth seen in equity prices far outstripped the modest gains built into the personal income tax forecast.

Personal income tax collections will fall 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 are down sharply at the beginning of the year. 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. Collections have nearly tripled over the past 3 biennia.

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



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

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

Other Sources of Revenue

Non-personal and non-corporate revenues in the General Fund usually account for approximately six or seven percent of the total. In the current 2023-25 biennium they account for 7.5 percent (largely driven by the record personal income tax kicker being paid out which reduces overall General Fund revenues.)

The largest such source are estate taxes, followed by interest earnings, liquor revenues, judicial revenues, and insurance taxes.

Relative to the previous forecast, these other revenue sources are lowered $54.3 million (-2.7%). This overall change is the net result of increases in estate taxes and interest earnings being offset by decreases in liquor earnings, judicial revenues, and tobacco taxes.

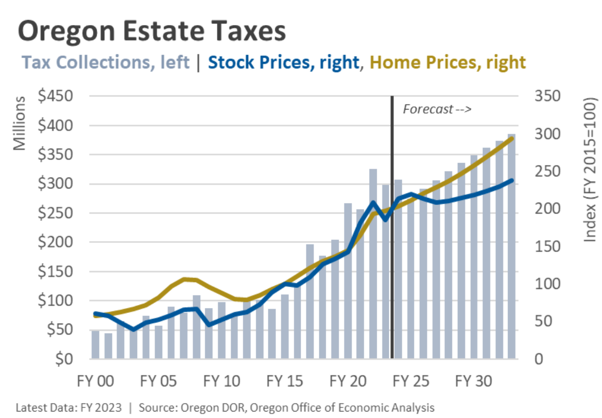
The liquor forecast is lowered significantly over the forecast horizon. Liquor sales boomed during the pandemic. So far this biennium topline sales have been fairly steady and are not showing continued growth like previous forecasts had built in. The updated outlook from OLCC adjusts to steady sales in the near-term, followed by longer-term growth. Compared to the December 2023 forecast, total liquor revenues in the current 2023-25 biennium are lowered by $132 million. This change reduces the General Fund outlook by $75 million, with the remainder impacting the other recipients of liquor revenues (see Table B.7 in Appendix B for more details.) OLCC will continue to monitor and analyze sales trends, and adjust the forecast accordingly moving forward.

Judicial revenues are also lowered sizably over the forecast horizon. In 2023-25 State Court Fees are lowered $10.7 million, while the Criminal Fine Account revenues are lowered $11.3 million. There are similar sized reductions to future biennia as well. These changes are in large part due to weaker revenues in the past year, indicating less of a rebound in court-related activity post pandemic than had been assumed in previous forecasts.

All types of tobacco – cigarettes, other tobacco products, and inhalant delivery devices – are tracking low in the most recent quarter. When combined with updated outlooks for consumer spending on tobacco, alongside usage rates, tobacco taxes are lowered over the forecast horizon. In 2023-25, cigarette revenues are lowered $15.1 million (-6.6%) overall, of which there is a $2.8 million reduction in the General Fund. Other tobacco products are lowered $3.1 million (-2.9%) overall, of which there is a $1.7 million reduction in the General Fund. Additionally, while outside of the General Fund, inhalant delivery revenues are lowered $0.7 million (-1.1%) due to tracking, while no long-run changes are made to the forecast. One potential issue for the revenue forecast is whether or not local (county) flavored tobacco bans go into effect or not. Such bans are not currently factored into the outlook as the issue is currently being debated in the courts.

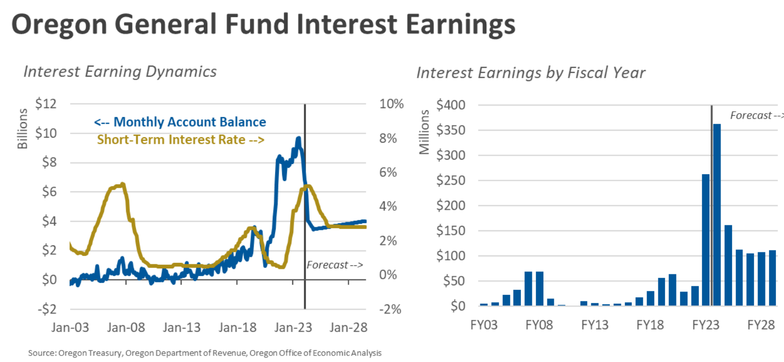
These larger revenue decreases are partially offset by increases to estate taxes and interest earnings.

Estate tax collections are significantly -- $35 million (+6.2%) – in the current 2023-25 biennium in large part due actual collections in November being the second largest month on record. However, due to stronger outlooks for home prices and asset markets, the longer term outlook is raised as well. In recent biennia, the strong estate tax collections are largely



driven by a small number of very highly valued estates.

The outlook for interest earnings is raised $11.6 million in the current 2023-25 biennium compared to the previous forecast, followed by upward revisions of approximately $1 million in subsequent 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 $357.0 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. This tax season 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 or 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	21,180.1	-17.5%	29,818.4	40.8%	34,057.8	14.2%	38,513.1	13.1%	43,827.3	13.8%
Corporate Income Taxes	2,762.1	-12.5%	3,072.1	11.2%	3,286.5	7.0%	3,477.0	5.8%	3,779.8	8.7%
All Others	1,953.0	0.7%	1,727.0	-11.6%	1,823.9	5.6%	1,926.6	5.6%	2,018.6	4.8%
Gross General Fund	25,895.2	-15.9%	34,617.4	33.7%	39,168.2	13.1%	43,916.7	12.1%	49,625.7	13.0%
Offsets and Transfers	*(202.9)*		*(216.3)*		*(231.3)*		*(208.5)*		*(55.0)*	
Net Revenue	25,692.3	-16.0%	34,401.1	33.9%	38,936.9	13.2%	43,708.2	12.3%	49,570.6	13.4%

Tax Law Assumptions

The revenue forecast is based on existing law, including measures and actions signed into law during the 2023 Oregon Legislative Session. OEA makes routine adjustments to the forecast to account for legislative and other actions not factored into the personal and corporate income tax models. These adjustments can include expected kicker refunds, when applicable, as well as any tax law changes not yet present in the historical data. A summary of actions taken during the 2023 Legislative Session can be found in Appendix B Table B.3. For a detailed treatment of the components of the 2023 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2023-25 Budget Summary[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 Report5 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-

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

making purposes recognize the potential for actual revenues to depart significantly from this projection.

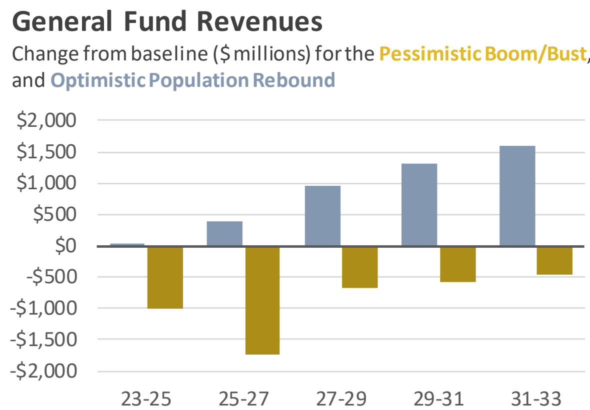
The near-term outlook is particularly uncertain right now. The probability of the soft landing, no recession baseline scenario is rising but the odds of a recession in coming years remains uncomfortably high. Our office's economic alternative scenarios (see page 7) include a Boom/Bust cycle with a recession beginning in the second half of 2024, and an optimistic outlook where population and migration rebound as they have in past cycles.

Alternative Scenarios — March 2024

Changes relative to the baseline ($ millions)

General Fund	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$42	$395	$954	$1,323	$1,600
Pessimistic	-$1,003	-$1,726	-$674	-$580	-$457

Corporate Activity Tax	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	$44	$77	$128	$161	$184
Pessimistic	-$59	-$132	-$112	-$103	-$91



Source: Oregon Office of Economic Analysis

In a Boom/Bust scenario, the revenue impact will be felt in both the current 2023-25 biennium and the next 2025-27 biennium. Looking at the current 2023-25 biennium, in the pessimistic scenario, General Fund revenues in Oregon would be $1.0 billion lower than in the baseline. Revenues in 2025-27 would be recovering, and growing sequentially, but still $1.7 billion below the current baseline outlook.

Changes would also be seen outside of the General Fund among Oregon's consumption-based revenues as well. Such taxes are generally less volatile than income taxes and help to stabilize Oregon's overall revenue base. Specifically in 2023-25, the Corporate Activity Tax would be $59 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.

In the Optimistic Scenario of a normal rebound in migration patterns, Oregon's economy and state revenues would fundamentally be on a stronger growth trajectory. In the current 2023-25 biennium, General Fund revenues would be $42 million above the baseline, while the increases build to $1.6 billion in the 2031-33 biennium. The Corporate Activity Tax follows a similar pattern where revenues would be $44 million above the baseline in 2023-25 and $184 million in 2031-33.

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.

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

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

The outlook for CAT collections is further complicated by lags in filing and the processing of tax returns. Only in January of this year was return data for the 2021 tax year made available. Also, the pattern of collections changed drastically in 2021, with firms being allowed to file returns based on their own fiscal years rather than on a uniform April filing deadline. In addition, as a new tax, the number of CAT filers continues to grow as more firms are made aware of their liability.
The evolving pattern of CAT collections combined with a larger estimated beginning balance have combined to drive an increase in expected revenues relative to the December 2023 forecast.

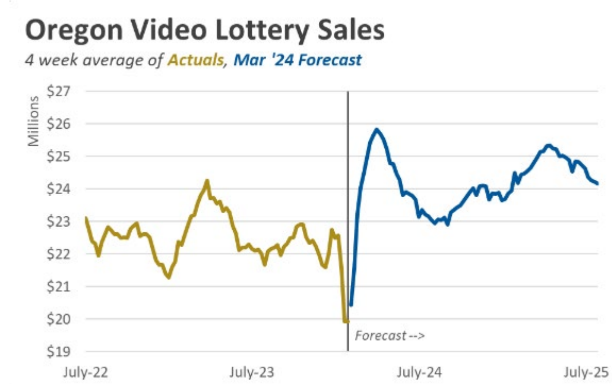
In the December 2023 forecast, expected CAT revenues were revised downward due to a steep decline in advanced tax payments. As additional data has become available, it has become clear that this decline was driven by an evolving pattern of payments rather than by a fundamental drop in underlying tax liability. In recent months, advanced tax payments have been replaced by filers applying the refunds that they are owed to future tax years. As a result, for the current 2023-25 budget period, the outlook for CAT collections has been increased by $43.4 million. The revenue forecast for future tax years have been revised upwards as well.

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

Lottery Forecast

Overall, total lottery resources are lowered by slightly in the current 2023-25 biennium, and increased in the future biennia relative to the previous forecast.

Near-term there are four changes to the 2023-25 forecast. The forecasts for both traditional lottery and sports betting are increased due to both stronger sales than forecasted, and an improved outlook. These increases are more than offset by a downward adjustment to the video lottery forecast.



In particular the recent ice storms, like previous extreme weather events, resulted in very low levels of sales as Oregonians were sheltering at home and getting out less. While not a long-run issue, or change in player behavior, a couple weeks of low sales does impact the revenue forecast. That said, sales were a bit below forecast in November as well, even as December sales met forecast.

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 this tax filing season. Oregonians will spend some portion of the kicker on discretionary purchases be it 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.

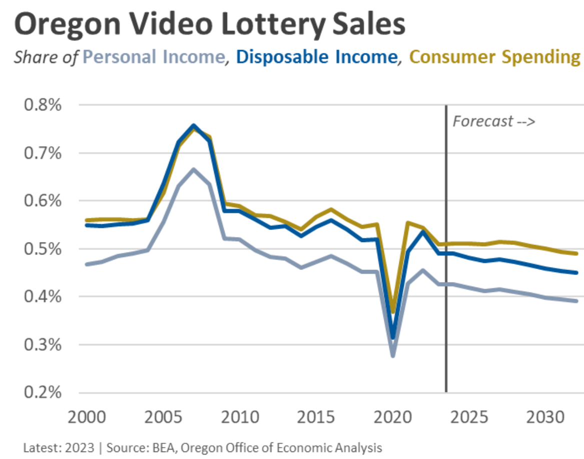
On net, between traditional, video, and sports betting, Lottery *revenues* for 2023-25 are lowered $7.1 million relative to the December 2023 forecast. However this reduction is nearly offset by reversions in the Economic Development Fund, which is where Lottery transfers go before being distributed to recipient programs, as accountants closed the books on the previous 2021-23 biennium. There were $5.7 million Lottery (EDF) reversions, meaning the net change to 2023-25 available resource is a reduction of $1.4 million.

Longer-Term Outlook

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

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

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



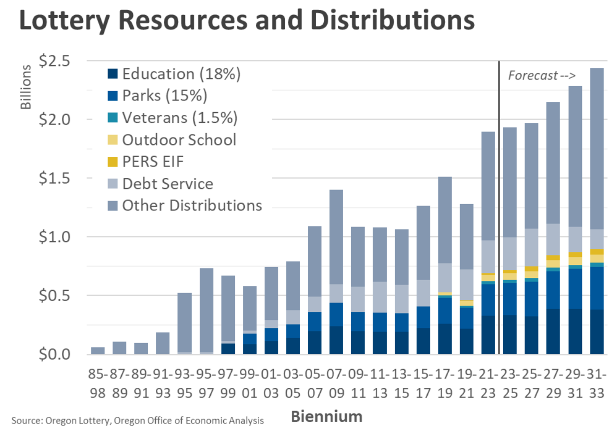
Trends in gaming during the pandemic differed significantly for a period of time. When bars and restaurants were takeout only, video lottery terminals were turned off as to not have Oregonians indoors when a deadly, contagious virus was spreading. Once the health restrictions were lifted, sales returned in full-force, and significantly outstripped expectations. These sales also outpaced current income games. Some of the strong sales since reopening were due to pent-up demand, strong household finances, and the fact that other entertainment options were either not available initially (concerts, spectator sports) or possibly less desirable due to the virus (long distance travel, movie theaters).

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

Looking forward, our office expects increased competition for household entertainment dollars, increased competition within the gaming industry, and potentially shifts in generational preferences and tastes when it comes to gaming. As such, our outlook for video lottery sales is continued growth, however at a rate that is slightly slower than overall personal income growth. Lottery sales will continue to increase as Oregon's population and economy grows, however video lottery sales will likely be a slightly smaller slice of the overall pie.

The March 2024 forecast is not qualitatively different than previous outlooks. These same broad trends are apparent today as they were last quarter. However, updated player demographic information, alongside new modeling raises the long-term outlook slightly in future biennia. In 2025-27 the forecast change is +$8.2 million, in 2027-29 it is +$35.1 million, in 2029-31 it is +$35.7, and in 2031-33 it is +$46.1 million.

For more information on player demographics and the impact of the aging population, see the March 2023[6] forecast.



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[7] (ORDF) and the Education Stability Fund[8] (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 $2.2 billion. At the end of the current 2023-25 biennium, they will total $2.9 billion, which is equal to 11.2 percent of current revenues. Including the projected General Fund ending balance of $1.7 billion, the total effective reserves at the end of the current 2023-25 biennium are projected to be $4.5 billion, or 17.6 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 $264.7 million will be made in early 2024 after the accountants closed the books on last biennium. Additionally, a $98.9 million deposit relating to the increased corporate taxes from Measure 67 is expected at the end of the biennium in June 2025. This exact transfer amount is subject to some revision as corporate filings are processed, however the transfer itself will occur. At the end of 2023-25 the ORDF will total $1.9 billion.

---

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

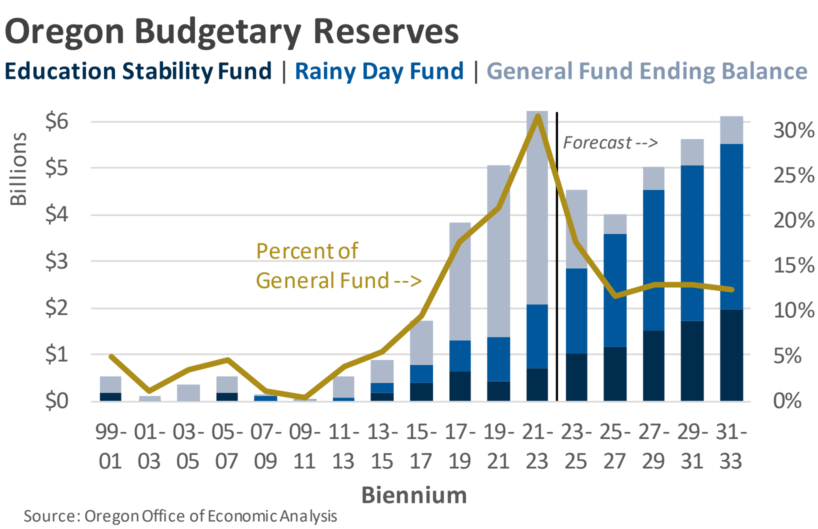
[7] The ORDF is funded from ending balances each biennium, up to one percent of appropriations. The Legislature can deposit additional funds, as it did in first populating the ORDF with surplus corporate income tax revenues from the 2005-07 biennium. The ORDF also retains interest earnings. Withdrawals 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.

[8] 8 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 not projected to hit its cap of 7.5 percent of revenues early in calendar year 2026. Back in the September 2023 forecast it was expected to hit the cap in 2026, but in the December 2023 forecast, and in the current March 2024 forecast, the cap is not expected to be reached. In the current forecast, the ORDF will be at 7.36 of the previous biennium's revenues at the time of the expected transfer. That leaves a $36 million difference between 7.36 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.

The ESF will receive an expected $298.7 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 11.2 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.



Effective Reserves ($ millions)

	Current Jan-24	*End of 2023-25*
ESF	$790	$1,007
RDF	$1,386	$1,859
Reserves	$2,175	$2,867
Ending Balance	$1,656	$1,656
Total	**$3,832**	**$4,523**
% of GF	14.9%	17.6%

Even with a higher probability of the economic soft landing, and a lower probability of recession today, should a boom/bust cycle occur, the state would be expected to meet the trigger for withdrawals at that time. 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.

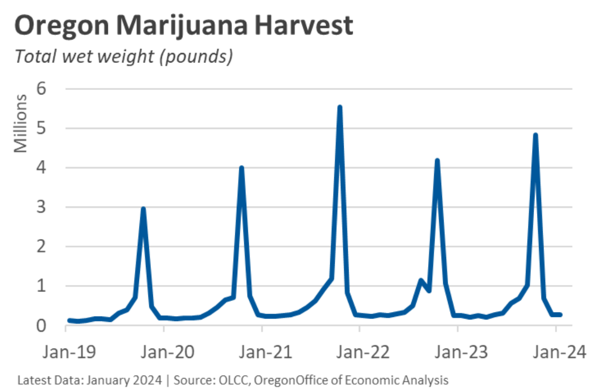
Finally, these are the technical considerations for using the reserve funds. Ultimately policymakers will decide whether to use the funds or not. Regardless of the trigger(s) met, the Legislature would need a three-fifths vote in each chamber to approve an ESF reserve fund withdrawal and a simple majority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

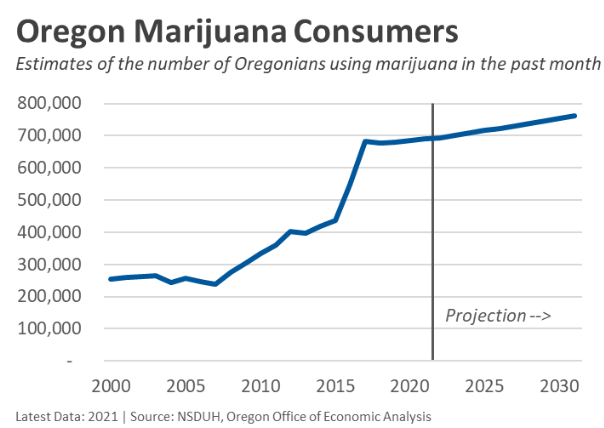
Available resources in the current 2023-25 biennium are lowered $7 million (-2.2%) relative to the previous forecast. Future biennia are all lowered by $6-9 million as well, for a 1.5 to 2% reduction when compared to the December 2023 forecast.

The basis for the lower forecast is the combination of sales coming in slightly below expectations, and ongoing weak prices. Encouragingly from an industry perspective, on a price-adjusted basis, usable marijuana sales are increasing again indicating the volumes sold is picking up following the pandemic boom and mini-bust.



However, not so encouraging from an industry perspective remains the large harvest last year that will keep downward pressure on prices in the year(s) ahead.

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 increasing 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, along with an update to our estimates of the number of marijuana consumers in Oregon based on those usage rates.

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. Given the age profile of marijuana users and our office's demographic forecast, our office's projection for the number of marijuana consumers in the state is expected to increase slightly faster than the overall population in the decade ahead. Total population is forecasted to increase 0.6 percent per year, while the marijuana consumer base is projected to increase 1.0 percent per year. While that growth will result in more sales, and more tax collections, faster gains will only be seen once industry pricing power returns.

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

Psilocybin Forecast

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

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

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

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

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

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

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

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

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

Oregon Psilocybin Retail Sales Tax Revenue

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