

Revenue Summary

While the economy is slowing down from the inflationary boom, state revenues continue to outpace expectations in recent months. In particular, both personal and corporate income taxes have come in noticeably higher than the previous forecast. Consumption-based revenues like lottery, the corporate activity tax, and recreational marijuana have more closely matched expectations.

Getting a handle of recent collections is challenging.

For personal income taxes, a full accounting of tax year 2023 is still outstanding until after the extension filing season this fall. As of today, the following patterns all appear to be true. The number of personal returns filed and processed at this point in the calendar is up three percent compared to last year. Such an increase far outpaces any migration or population growth estimates. Actual tax collections have exceeded forecast considerably, however actual tax collections are relatively low compared to the liability reported on the tax returns processed so far. Ultimately how these data reconcile will only be known after the extension filing season. The most likely paths are that there are fewer extension filers than in years past, the income reported on the extension filers' returns is less than expected, or extension filers will make larger payments than in years past. Each path likely has different implications for the future.

For corporate income taxes, the story is simple. Corporate profits continue to be at or near all-time highs. Previous forecasts expected the pandemic profit boom to end, which has yet to materialize. In recent months more publically traded companies have mentioned that consumers are stretched and their firms are more likely to hold back on price increases to drive volume. This could dampen corporate profits in the year or two ahead, possibly with small outright declines, but more likely in slower growth. All told the corporate excise and income tax outlook is raised considerably over the forecast horizon, even with a modest profits correction expected.

Available resources for the General Fund in the current 2023-25 biennium are raised by \$676 million (+2.0%) compared to the prior forecast. Two-thirds of this increase is due to tracking actual tax collections alone. One-third of the increase is due to a stronger revenue outlook through the remainder of the biennium. Increased revenues in the current biennium also increase the projected kickers. The personal kicker now stands at an expected \$987 million that will be returned to taxpayers in 2026. The corporate kicker now stands at an expected \$883 million and will be retained in the General Fund and spent on education next biennium.

Looking ahead to the 2025-27 biennium, available resources are revised lower by \$66 million compared to the previous forecast. Increases in corporate, estate, and interest earnings are not enough to fully offset the larger personal kicker being paid out. That said, when looking at the state budget and the combined resources of 2023-25 and 2025-27 the General Fund forecast is raised \$610 million.

Consumption-based tax collections for the corporate activity tax, the lottery, and recreational marijuana in the current 2023-25 biennium are lowered a combined \$27 million (-0.5%) compared to the prior forecast, and lowered a similar \$34 million (-0.6%) in the upcoming 2025-27 biennium.

2023-25 General Fund Revenues

Gross General Fund revenues for the 2023-25 biennium are expected to reach \$27.2 million. This represents an increase of \$676 million from the June 2024 forecast, and an increase of \$2.4 billion relative to the Close of Session forecast.

This overall increase is approximately half due to higher personal income taxes and half due to higher corporate income taxes. In percentage terms, the largest increases have been in corporate income tax collections, which continue to outstrip underlying corporate profits. Interest earnings have increased significantly as well.

2023-25 General Fund Forecast Summary					
(Millions)	2023 COS Forecast	June 2024 Forecast	September 2024 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	\$21,019.7	\$21,567.1	\$21,889.4	\$322.3	\$869.7
Corporate Income Tax	\$2,228.9	\$2,817.0	\$3,111.7	\$294.8	\$882.8
All Other Revenues	\$2,011.3	\$2,046.0	\$2,150.4	\$104.3	\$139.1
Gross GF Revenues	\$25,259.9	\$26,430.1	\$27,151.5	\$721.3	\$1,891.5
Offsets, Transfers, and Actions ¹	-\$437.0	-\$450.3	-\$496.1	-\$45.8	-\$59.1
Beginning Balance	\$7,493.5	\$8,082.5	\$8,082.5	\$0.0	\$589.0
Net Available Resources	\$32,316.4	\$34,062.3	\$34,737.8	\$675.5	\$2,421.4
Appropriations	\$31,873.6	\$32,897.2	\$32,897.2	\$0.0	\$1,023.6
Ending Balance	\$442.8	\$1,165.1	\$1,840.6	\$675.5	\$1,397.8
Confidence Intervals					
67% Confidence	+/- 4.4%		\$1,183.7	\$25.97B to \$28.34B	
95% Confidence	+/- 8.7%		\$2,367.3	\$24.78B to \$29.52B	

¹ Reflects personal and corporate tax transfers, and the Rainy Day Fund transfer

In addition to revenue changes, expected total available resources in the current 2023-25 biennium have increased compared to the Close of Session forecast as accountants closed the books on the previous 2021-23 budget period. Those changes were incorporated earlier in 2024, and remain unchanged when comparing this forecast to the previous forecast.

Personal Income Tax

Getting a handle of tax year 2023 is challenging, even with the vast majority of the personal income tax returns filed and processed. One key reason why is the extension filing season is still to come this fall. Only then can a final accounting of last year's liability and tax collections be better understood. And this filing season has proven to be a bit more difficult to analyze as returns are processed.

Part of the difficulty is that the total number of returns filed and processed at this point in the calendar has increased 3 percent compared to a year ago. Given the slowdown and even population declines statewide in recent years, this growth in filers is clearly much stronger than expected. Looking at the filing patterns, it does appear that this past filing season was a bit faster than usual. The final change in filers is likely less than 3 percent, however the total number of returns is still unknown until the extension season is complete.

Further complicating the current data is that while the total amount of collections, and the total number of filers to date has outpaced previous forecasts, the amount of collections received is still relatively low compared to the expected liability. After the extension filing season it is likely that this balance between tax liability and actual tax collections will improve and be closer to the averages seen in recent years. The challenge is whether liability will be smaller than forecast (due to fewer returns, or the income reported on those returns is less than expected) or collections increase (extension filers making larger than expected payment this fall) is unknown. A good case can be made for either possibility, and the true may lay somewhere inbetween.

It will be important to analyze the full year's worth of data to help improve the forecast moving forward.

As discussed in the economic section of this report, Oregon's labor market appears to be strengthening in recent months. Withholdings have picked up. However, the much of the initial acceleration in withholding earlier this year appears to be related to the \$1.3 billion Powerball jackpot being won in the state.

That said, even removing our office's estimate of that impact, withholdings have perked up and are running at around 6 percent today on a year-over-year basis.

Such growth is more in line with the typical rate seen in past economic expansions in the state. It also matches the fastest growth seen since the pandemic reopenings. To be sure, this pick up could prove fleeting with the underlying trend of slower gains remaining intact, however it could also be an indication that Oregon is moving out of the pandemic lull and back toward the typical expansion pattern.

Additionally, while the one-time jackpot win may not be tied to underlying economic activity, it does increase recent tax collections.

Longer-term, the outlook is driven by both the overall income forecast, and the effective tax rate. In the past decade, the effective tax rate in Oregon has increased both due to policies like the passage of Measure 66 back in 2010, and due to rising incomes. Today, more taxpayers and their now higher incomes are subject to the higher marginal tax rates. This general pattern, commonly referred to as bracket creep, is expected to continue in the years ahead.

However, each year is different and there can be year-to-year fluctuations around an underlying trend. Identifying these changes, which are in part based upon the composition of the types of income earned by Oregonians is key to the outlook. For example,

Oregon Withholding

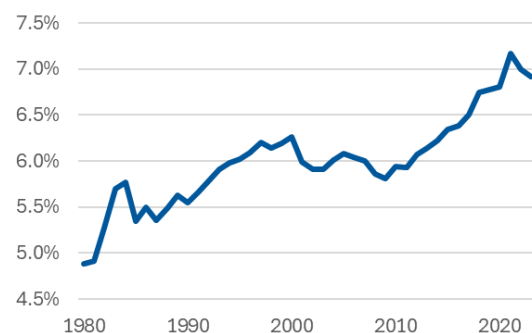
90 Day Sum of Collections: Year-over-Year Change | Moving Average



Latest Data: Aug 16, 2024 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis

Effective Tax Rate

Total liability (all filers) as a share of income (full-year filers)



the effective tax rate increased noticeably in tax year 2021, the record-setting capital gains year. As the composition of income has moved back toward pre-pandemic patterns, meaning a larger wage and smaller non-wage share, the effective tax rate has receded in the past couple of years.

Corporate Excise Tax

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

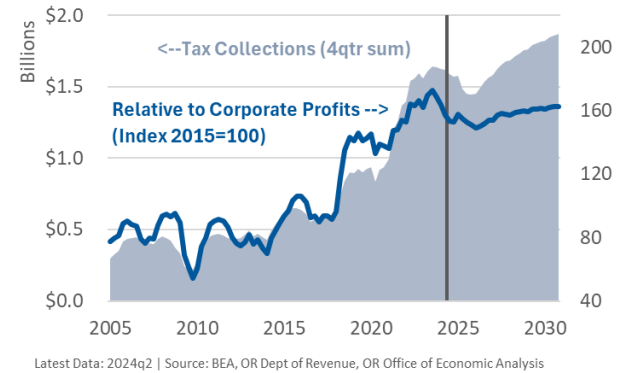
The source of this growth is difficult to pin down since corporate return data has only recently been released for tax year 2021. Since then, corporate collections have risen by one third.

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. While state policies such as switching to market-based sourcing may be a factor, when comparing Oregon’s revenue trends with other states, Oregon right in the middle of the pack in recent years. The larger changes, and trends in traditional corporate taxes at the state level appears to be national in scope.

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).

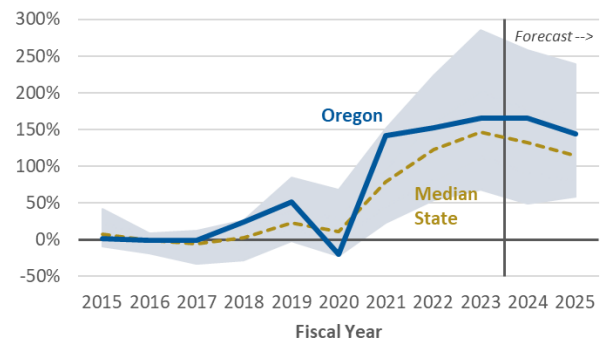
Looking forward, the risks to the traditional corporate tax forecast are balanced. In recent months more publically traded companies have mentioned that consumers are stretched and their firms are more likely to hold back on price increases to drive volume. This could dampen corporate profits in the year or two ahead, possibility with small outright declines, but more likely in slower growth. All told the corporate excise and income tax outlook is raised considerably over the forecast horizon, even with a modest profits correction expected.

Oregon Corporate Excise & Income Tax



Corporate Income Tax

Percent change from FY2015-2017 average



Other Sources of Revenue

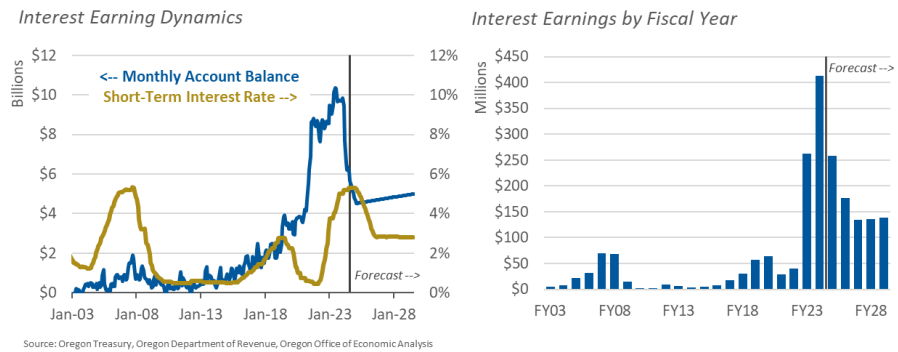
Non-personal and non-corporate revenues in the General Fund usually account for approximately six or seven percent of the total. In the current 2023-25 biennium they account for 7.9 percent (largely driven by the record personal income tax kicker being paid out which reduces overall General Fund revenues.) The largest such source are estate taxes, followed by interest earnings, liquor revenues, judicial revenues, and insurance taxes.

Relative to the previous forecast, these other revenue sources are raised \$104.0 million (5.1%) in the current 2023-25 biennium. This overall change is the net result of increases in estate taxes, interest earnings, and liquor apportionment being partially offset by decreases in insurance, judicial, and Secretary of State revenues.

The outlook for interest earnings is raised due to both continued high fund balances, and high interest rates.

Estate tax collections are also increased in both the current 2023-25 biennium and in future years due to improved outlooks for asset prices. In recent biennia, the strong estate tax collections are largely driven by a small number of very highly valued estates.

Oregon General Fund Interest Earnings



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 Source	2023-25	%	2025-27	%	2027-29	%	2029-31	%	2031-33	%
	Biennium	Chg	Biennium	Chg	Biennium	Chg	Biennium	Chg	Biennium	Chg
Personal Income Taxes	21,889.4	-14.8%	29,280.8	33.8%	34,895.0	19.2%	39,620.5	13.5%	45,173.9	14.0%
Corporate Income Taxes	3,111.7	-1.4%	3,120.7	0.3%	3,507.1	12.4%	3,750.7	6.9%	4,031.0	7.5%
All Others	2,150.4	10.9%	1,826.4	-15.1%	1,882.5	3.1%	1,977.3	5.0%	2,089.6	5.7%
Gross General Fund	27,151.5	-11.8%	34,227.9	26.1%	40,284.5	17.7%	45,348.5	12.6%	51,294.5	13.1%
Offsets and Transfers	(231.4)		(193.0)		(214.6)		(193.5)		(174.5)	
Net Revenue	26,920.1	-12.0%	34,034.9	26.4%	40,069.9	17.7%	45,155.1	12.7%	51,120.1	13.2%

Aging and State Revenues

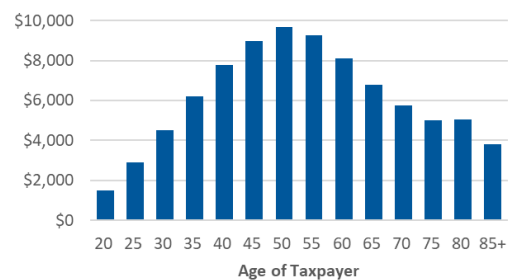
Oregon's population is gradually aging. This trend mirrors national patterns but is particularly pronounced in the state. As the Baby Boomer generation began to reach retirement age in larger numbers in the mid-2010s, the impact on the labor market has been significant. Retirements create substantial 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 percent lower. The average tax bill for Oregonians 85 years and older is 60 percent lower than those in the prime-working, and peak-earning years.

Oregon Average Income Tax by Age

2021 Full-year returns



Source: Oregon Department of Revenue, Oregon Office of Economic Analysis

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. A summary of actions taken during the 2023 Legislative Session can be found in Appendix B Table B.3. For a detailed treatment of the components of the 2023 Legislatively Enacted Budget, see:

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

Although based on current law, many of the tax policies that impact the revenue forecast are not set in stone. In particular, sunset dates for many large tax credits have been scheduled. As credits are allowed to disappear, considerable support is lent to the revenue outlook in the outer years of the forecast. To the extent that tax credits are extended and not allowed to expire when their sunset dates arrive, the outlook for revenue growth will be reduced. The current forecast relies on estimates taken from the Oregon Department of Revenue's 2023-25 Tax Expenditure Report³ together with more timely updates produced by the Legislative Revenue Office.

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.

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 13) include a Boom/Bust cycle with a recession beginning in 2025, and an optimistic outlook where population and migration rebound as they have in past cycles.

In a Boom/Bust scenario, the revenue impact will be felt in both the current 2023-25 biennium and the next 2025-27 biennium. Looking at the current 2023-25 biennium, in the pessimistic scenario, General Fund revenues in Oregon would be \$514 million 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 \$42 million lower than the baseline, while Lottery is expected to be \$5 million lower.

² <https://www.oregonlegislature.gov/lfo/Documents/2023-25%20Legislatively%20Adopted%20Budget%20-%20General%20Fund%20and%20Lottery%20Funds%20Summary.pdf>

³ <https://www.oregon.gov/DOR/programs/gov-research/Pages/research-tax-expenditure.aspx>

In 2025-27, the Corporate Activity Tax would be \$134 million lower than the baseline, while Lottery would be \$51 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 \$365 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 \$41 million above the baseline in 2023-25 and \$177 million in 2031-33. Lottery revenues would be \$1 million above the baseline in 2023-25 and increase to \$77 million above the baseline in 2031-33.

Alternative Scenarios **September 2024**

Changes relative to the baseline (\$ millions)

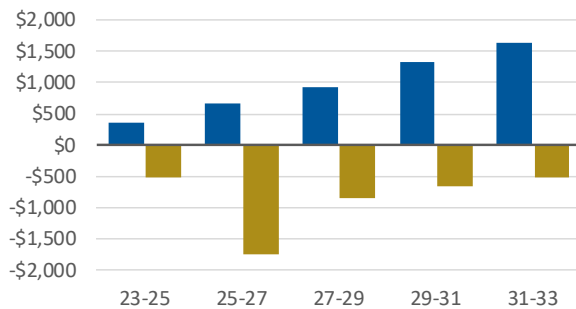
General Fund					
	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	\$365	\$680	\$926	\$1,328	\$1,629
Pessimistic	-\$514	-\$1,743	-\$834	-\$645	-\$524

Corporate Activity Tax					
	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	\$41	\$66	\$117	\$155	\$177
Pessimistic	-\$42	-\$134	-\$114	-\$106	-\$94

Lottery					
	2023-25	2025-27	2027-29	2029-31	2031-33
Optimistic	\$1	\$16	\$46	\$66	\$77
Pessimistic	-\$5	-\$51	-\$39	-\$32	-\$25

General Fund Revenues

Change from baseline (\$ millions) for the **Pessimistic Boom/Bust**, and **Optimistic Population Rebound**



Source: Oregon Office of Economic Analysis

Corporate Activity Tax

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

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

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

Corporate Activity Tax Statistics						
Annual percent change	History			Forecast		
	2021	2022	2023	2024	2025	2026
Gross Domestic Product	9.4%	7.9%	6.4%	4.0%	5.0%	5.4%
Personal Income	9.4%	0.7%	4.7%	4.5%	6.2%	6.1%
Consumer Spending	13.0%	9.0%	4.9%	5.0%	5.2%	5.0%
Commercial Activity ¹	11.8%	8.4%	-1.4%			
Liability ¹	14.0%	9.8%	-1.1%			
Tax Elasticity	1.19	1.17	0.80			
Collections	14.1%	10.0%	4.7%	5.0%	5.7%	6.0%

1 Matched, Full-year returns only, latest observation
Source: BEA, Oregon Dept of Revenue, Oregon Office of Economic Analysis

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

Note that this first look at matched tax returns for the 2023 tax year are a small portion of all firms, approximately 14 percent of expected overall liability. These firms are, essentially, businesses with their fiscal years being the same as the calendar year and did not file an extension. This first look indicates that CAT liability is down year-over-year, while the economic measures show the economy, income, and spending all growing more like five percent. Our office will closely monitor tax returns as they are processed in the year ahead.

The outlook for CAT collections is further complicated by lags in filing and the processing of tax returns. Only earlier this year was return data for the 2021 tax year made available. Also, the pattern of collections changed drastically in 2021, with firms being allowed to file returns based on their own fiscal years rather than on a uniform April filing deadline. In addition, as a new tax, the number of CAT filers continues to grow as more firms are made aware of their liability.

All told, the CAT outlook is lowered \$24.6 million (-0.9%) in the current 2023-25 biennium compared to the previous forecast. The outlook in future biennia are essentially unchanged, ranging from a \$6.8 million reduction in 2025-27 (-0.2%) to a \$1.6 million increase in 2019-31 (+0.0%). The stable outlook is in line with the stable underlying economic forecast.

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

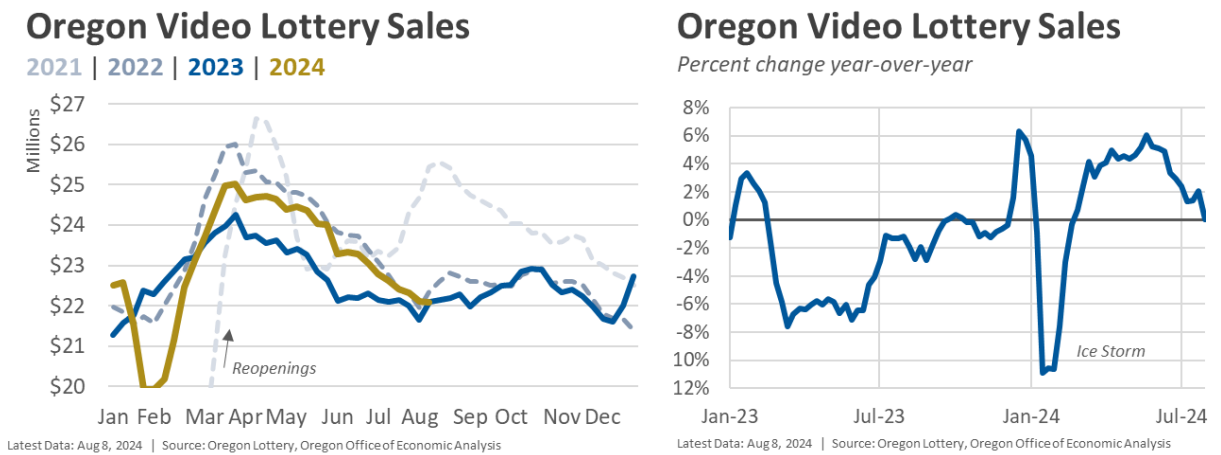
Lottery Forecast

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

Specifically, lottery resources are lowered \$0.6 million (-0.0%) in 2023-25 and lowered \$15.2 million (-0.8%) in 2025-27. The outlook in both 2027-29 and 2029-31 are approximately half a percent, while 2031-33 is raised a few tenths of a percent, when compared to the prior forecast.

Video Lottery

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



As discussed in more depth in past forecasts, the expected impact of the \$5.6 billion personal income tax kicker being paid out to Oregonians did not show up in meaningfully larger video sales. Our office built in a modest increase to the sales forecast during the income tax filing season, in keeping with video lottery sales as a share of disposable income. It is an open question to what extent Oregonians did or did not change their entertainment spending in light of the kicker. Some may have needed to pay down debt, deal with inflation and higher prices on necessities, or simply saved the money for a later date. However, to the extent there is the expected kicker impact in the recent sales data, it could indicate that the underlying sales trends are weaker than our office currently believes. Time will tell.

The severe winter storm in January of this year led to a sharp drop in video sales as strong winds and ice accumulation kept Oregonians sheltering in their homes, with 200,000 losing power. Sales bounced back after conditions improved, and year-over-year sales were up between 2% and 6% for the first half of the year before gradually declining over the summer to match the levels observed in 2022 and 2023. Overall, Oregon is experiencing relatively strong sales and these changes are in line with casino revenues across the United States.

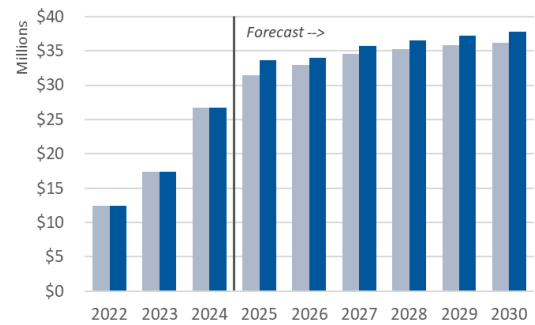
Sports Betting

Sports betting revenues continue to come in above forecast. The overall outlook is raised as a result. In 2023-25 revenues are increased \$2.4 million, in 2025-27 revenues are increased \$3.3 million, and subsequent biennia are raised about \$4 million each.

These changes are due to both stronger growth assumptions about the number of players, and their bets, but also about the profitability of sports better. Higher profitability includes both the win or margin from the bets themselves (likely in part due to players placing more parlay bets), and from a transfer rate view in terms of Lottery’s administrative costs relative to revenues. Both the margin, and transfer rate assumptions have been raised relative to previous forecasts but remain at the low end of historical values to date.

Sports Betting Transfers by Fiscal Year

Jun '24 Forecast | Sep '24 Forecast



Latest Actual: FY2024 | Source: Oregon Lottery, Oregon Office of Economic Analysis

As sports betting matures in Oregon, it is likely these margin and transfer rates will settle around a steady trend, even as monthly and quarterly variance remains. Should recent patterns hold, there is upside risk to the sports betting forecast, however, should player behavior change such that the margin goes down, that is downside risk to the sports betting outlook. Recent research from BYU indicates that increased spending on sports betting is not being pulled from households’ entertainment budget, but rather from their savings and investment budgets, an effect that is particularly prominent among financially constrained households.⁴

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.

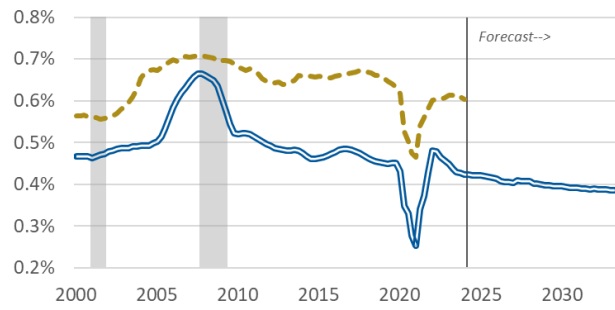
For much of last decade, consumers remained cautious with their disposable income. Increases in spending on gaming largely matched income growth at best. In fact, from 2010 to 2019, Oregon video lottery sales grew at a 3.7 percent annual pace, while Oregon personal income increased at a 5.3 percent annual 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.

⁴ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4881086

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).

Gaming as a Share of Personal Income

U.S. Casino Gaming | Oregon Video Lottery

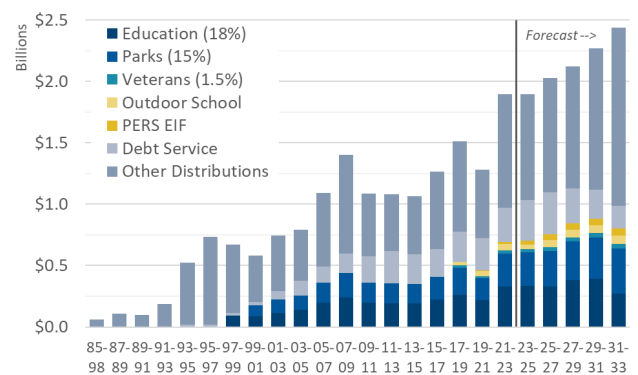


Data: 4 quarter avg | Latest: 2024q2 | Source: BEA, IHS Markit, Oregon Lottery, OR Office of Econ Analysis

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 are 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.

Lottery Resources and Distributions



Source: Oregon Lottery, Oregon Office of Economic Analysis

The September 2024 forecast is not qualitatively different than previous outlooks. These same broad trends are apparent today as they were last quarter.

For more information on player demographics and the impact of the aging population, see the March 2023⁵ forecast.

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

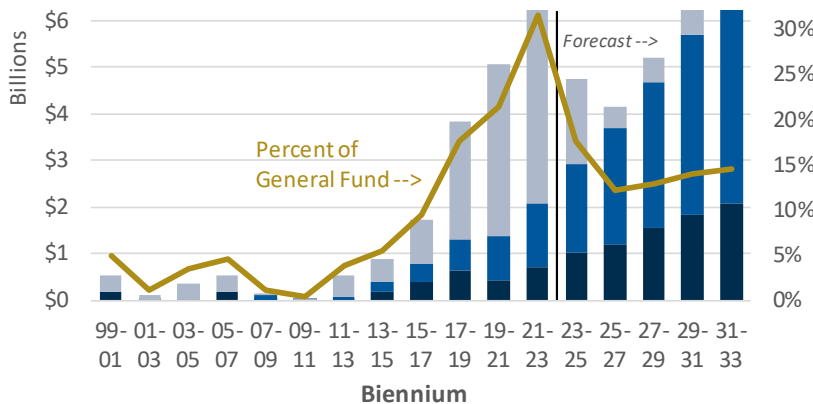
⁵ <https://digital.osl.state.or.us/islandora/object/osl%3A1007538/datastream/OBJ/view>

Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund⁶ (ORDF) and the Education Stability Fund⁷ (ESF). As of this forecast the two reserve funds currently total a combined \$2.6 billion at the end of July 2024. At the end of the current 2023-25 biennium, they will total \$2.9 billion, which is equal to 11.0 percent of current revenues. Including the projected General Fund ending balance of \$1.8 billion, the total effective reserves at the end of the current 2023-25 biennium are projected to be \$4.7 billion, or 17.6 percent of current revenues.

Oregon Budgetary Reserves

Education Stability Fund | Rainy Day Fund | General Fund Ending Balance



Source: Oregon Office of Economic Analysis

Effective Reserves (\$ millions)

	Current Jul-24	End of 2023-25
ESF	\$900	\$1,007
RDF	\$1,692	\$1,899
Reserves	\$2,592	\$2,906
Ending Balance	\$1,841	\$1,841
Total	\$4,433	\$4,747
% of GF	16.5%	17.6%

The ORDF typically receives two deposits each biennium. One is related to the General Fund ending balance from the previous biennium, and the other relates to the increased corporate taxes from Measure 67. After the accounts closed the books on last biennium, a deposit of \$264.7 million was made in early 2024. The corporate-related transfer is expected to be \$126.8 million, and to occur 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, or 6.2 percent of previous biennium's revenue. The ORDF is not expected to reach its 12.5 percent cap at any point over our office's 10-year forecast horizon.

The ESF receives quarterly deposits based on Lottery proceeds. In the current 2023-25 biennium, the ESF is expected to receive \$298.5 million in deposits. 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 fiscal year 2027, when the deposits will then accrue to the Capital Matching Account.

⁶ The ORDF is funded from ending balances each biennium, up to one percent of appropriations. The Legislature can deposit additional funds, as it did in first populating the ORDF with surplus corporate income tax revenues from the 2005-07 biennium. The ORDF also retains interest earnings. Withdrawals from the ORDF require one of three triggers, including a decline in employment, a projected budgetary shortfall, or declaration of a state of emergency, plus a simple majority vote of the Legislature. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question. Fund balances are capped at 7.5 percent of General Fund revenues in the prior biennium.

⁷ 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.

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 10.8 percent of current revenues. At the close of 2025-27 the combined balance will be \$3.7 billion, or 10.9 percent of revenues. Such levels of reserve balances are larger than Oregon has been able to accumulate in past cycles and should help stabilize the budget when the next recession hits.

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

Recreational Marijuana Forecast

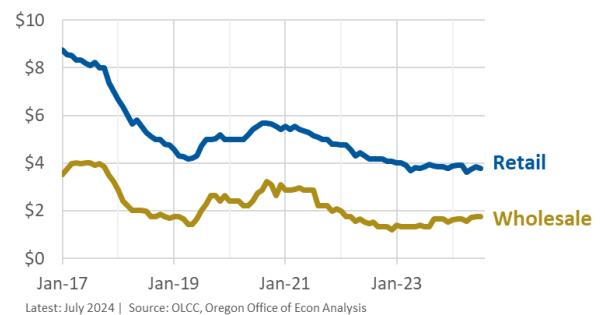
Sales and tax collections in recent months are stable and have closely tracked forecast. However, the overall trajectory for marijuana revenues in Oregon has been lowered significantly compared to the previous forecast. The primary reason for the reduced growth in the outlook relates to not only low prices, but also an increased harvest so far this year, likely leading to ongoing low prices in the future. Until supply and demand are in better balance, pricing power is likely to remain elusive. Underlying growth in revenues will be closely tied to growth in the number of consumers, or the quantity consumed per user, rather than broader economic and income growth. The forecast now calls for marijuana sales to be declining share of income in the years ahead, due to prices. Total sales, and revenues will grow, but at a slower pace than the underlying economy and Oregonian consumer spending.

Additionally, the outer biennia forecasts are lowered to a greater extent due to a previous oversight by our office. Currently Oregon does not tax medical marijuana. However this tax exemption sunsets at the end of 2027, and medical marijuana taxation is set to begin in 2028. Our office does a current law forecast, so even if the Legislature were to extend the tax break in the years ahead, that is not the current law. As such, the long-term revenue forecast has always had increased revenues from taxing medical in the outlook.

The issue is that the revenue assumed in previous forecasts for taxing medical starting in 2028 was a fixed number based on previous research and estimates. As our office has lowered the long-term recreational outlook due to slower growth in consumers, and lower prices, the medical amount was not lowered in a similar manner. The end result is a larger forecast change this quarter as it really plays catch up for the past oversight. Our office regrets this error. This issue is now corrected in our forecast. In the future, as the recreational marijuana forecast evolves over time due to price changes, the medical outlook will as well.

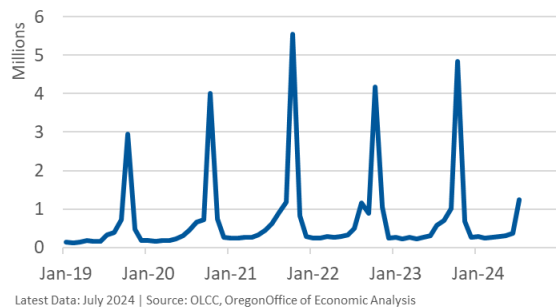
Oregon Marijuana Prices

Usable Marijuana, Price per Gram



Oregon Marijuana Harvest

Total wet weight (pounds)



All told, the revenue forecast changes start small and grow over time. Revenues in 2023-25 are lowered by \$1.5 million (-0.5%), but then 2025-27 is lowered \$11.8 million (-4%), while the outer biennia are lowered \$45-55 million each, which is 10-13 percent. These larger revisions are approximately 44 percent due to the medical marijuana changes, and 66 percent due to the underlying recreational outlook.

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

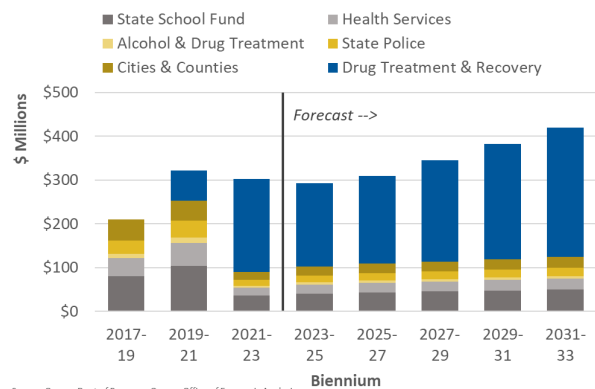
One major driver of the lower forecast trajectory in the past year is the latest National Survey on Drug Use and Health (NSDUH) data. For Oregon the survey shows there already has been a large increase in the number of regular, monthly users of marijuana. This followed a couple of years where the survey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

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

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

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

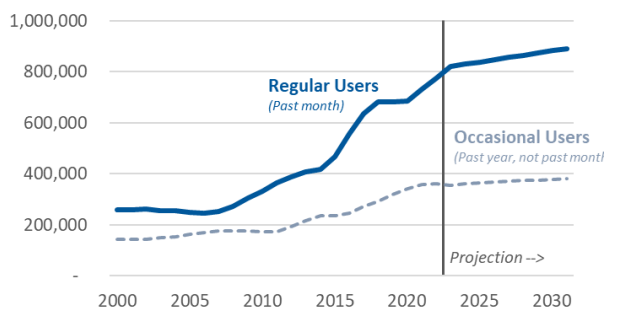
Marijuana Resources and Distributions



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

Oregon Marijuana Consumers

Estimates of the number of Oregonians using marijuana



Latest Data: 2022 | Source: NSDUH, Oregon Office of Economic Analysis

Psilocybin Forecast

Ballot Measure 109 (2020) legalized psilocybin, including a 15 percent 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.

As of this forecast, the Oregon Health Authority has issued 672 worker permits, and licensed 356 facilitators, 31 service centers, 13 manufacturers, and one testing lab. Based on data collected by OHA, and data reported on quarterly tax returns filed with the Department of Revenue, there have been 12-14,000 psilocybin products sold in Oregon to date. This does not necessarily mean there have been that number of overall sessions, as some consumers may take more than one dose during a session.

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

Sep-24

	Biennium				
	2023-25	2025-27	2027-29	2029-31	2031-33
No. of Session	33,000	54,000	63,000	67,000	71,000
Avg Product Price	\$40	\$42	\$44	\$45	\$47
Total Sales	\$1,335,000	\$2,271,000	\$2,755,000	\$3,049,000	\$3,361,000
Taxes	\$200,000	\$341,000	\$413,000	\$457,000	\$504,000

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.