

II. REVENUE FORECAST

A. 2007-09 General Fund Revenues

The forecast for General Fund revenues for 2009-11 is \$13,393.1 million. This represents a decrease of \$43.5 million from the September 2009 forecast. The forecast for the 2009-11 biennium is now \$182.6 below the Close of Session forecast. Nearly half of the decrease for the December forecast is associated with lower expectations for interest earnings over the last year and a half of the biennium. These lower interest earnings also work to lower the state's costs associated with borrowing for cash flow purposes. The net result is that the expected ending balance has decreased by \$15.5 million. Personal and corporate income taxes were changed only slightly as adjustments were made to fully account for the flow of receipts from 2008 income. Both revenue streams have tracked close to the September forecast, leading to only minor changes in the current forecast. Total available resources amount to \$13,377.4 million, resulting a projected ending balance of \$79.2 million. Table B.1 in Appendix B presents detailed revenue information for the 2009-11 biennium.

The latest revenue forecast for the current biennium represents the most probable outcome given available information. OEA 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. Tables R.1 present the December forecast for the 2009-11 biennium, including guidelines for budgetary purposes. Section D discusses explicit risks that might cause actual revenues to differ substantially from the forecast.

2009-11 General Fund Forecast Summary						
(Millions)	2009 COS Forecast	September 2009 Forecast	December 2009 Forecast	Change from Prior Forecast	Change from COS Forecast	
Structural Revenues						
Personal Income Tax	\$11,545.7	\$11,413.8	\$11,403.6	-\$10.2	-\$142.1	
Corporate Income Tax	\$831.6	\$831.6	\$822.4	-\$9.2	-\$9.2	
All Other Revenues	\$1,198.4	\$1,191.2	\$1,167.0	-\$24.2	-\$31.4	
Gross GF Revenues	\$13,575.7	\$13,436.6	\$13,393.1	-\$43.5	-\$182.6	
Administrative Actions ¹	-\$43.7	-\$43.7	-\$15.7	\$28.0	\$28.0	
Legislative Actions	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Net Available Resources	\$13,532.0	\$13,392.9	\$13,377.4	-\$15.5	-\$154.6	
Confidence Intervals						
67% Confidence	+/- 7.3%		\$977.7	\$12.42B to \$14.37B		
95% Confidence	+/- 14.6%		\$1,955.4	\$11.44B to \$15.35B		

¹ Reflects cost of cashflow management actions, exclusive of internal borrowing.

Appendix Table B.8 compares the past quarter receipts with what was forecasted, as well as with what happened a year prior. *It is critical to note that the December forecast contains expected receipts from the tax measures passed in the 2009 Legislative Session and subsequently referred to voters.*

Personal Income Tax

Personal income tax collections totaled \$1,235.8 million for the first quarter of fiscal year 2010, \$35.9 million below the latest forecast. It should be noted that preliminary figures for October came in higher than expected, more than offsetting this forecast deviation. For the first quarter of the fiscal year, withholding receipts of \$1,092.8 million were \$12.1 million below the September forecast. The state received \$176.1 million in estimated payments equal to \$5.9 million above forecast. Compared to the year-ago level, estimated payments were down 33.4 percent.

Final payments exceeded forecast by \$7.1 million, while refunds were \$36.9 million more than expected. Though the first fiscal quarter is a relatively less important quarter than most with respect to variations in tax receipts, total personal income taxes did decline by 12 percent over last year's figures.

The forecast for total personal income tax receipts during the current biennium was decreased \$10.2 million from the September forecast. This reflects an adjustment for the flow of taxes into the state from tax year liabilities. It is important to note that this change represents a change of only 0.09 percent from September.

Corporate Income Tax

Corporate income taxes equaled \$70.9 million for the first quarter of fiscal year 2010, roughly \$2 million higher than expected in the September forecast. On a year-over-year basis, corporate receipts were down 26.1 percent. Table B.8 in Appendix B presents a comparison of actual and projected corporate income tax revenues for the first quarter of fiscal year 2010.

Following expectations that corporate profits will be severely limited in the near future, the forecast for corporate tax collections was decreased significantly over the past year. Over the last several months, the expectation for corporate income taxes, particularly in the near-term, has not materially changed. However, a similar adjustment to the one that was made for personal income taxes relating to the flow of tax receipts resulted in a small \$9.2 million reduction in the forecast for corporate income taxes during the 2009-11 biennium.

Non-income Tax Sources of Revenue

All other revenues will total \$1,173 million for the biennium, a decrease of \$18.2 million from the prior forecast. The primary source of this decrease was a \$19 million decrease in the expectations for interest income, due to both expected low interest rates and unusually low fund balances. Other significant changes essentially offset each other with the greatest increase coming from estate taxes and the largest decrease coming from liquor apportionment funds.

B. Extended General Fund Revenue Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2013-15 biennium. Total structural General Fund revenues will increase 15.3 percent to \$15,448.3 million in 2011-13. This represents a \$7.8 million decrease relative to the September forecast. Personal income tax growth of 18 percent will raise collections to \$13,454 million. The full realization of the corporate income tax changes passed during the 2009 legislative session will push corporate income tax collections up 28.7 percent to \$1,058.4 million. All other revenues will reach \$936 million.

General Fund revenues will total \$17,998.4 million in 2013-15, an increase of 16.5 percent from the prior period, and a minute \$5.4 million above the September forecast. The growth is fueled primarily by a 17.9 percent increase in personal income tax collections to \$15,863.5 million. Corporate income taxes will reach \$1,152.2 million, while all other revenues will total \$982.7 million. It should be noted that the long-term outlook was stable relative to the September forecast for General Fund revenue, due to virtually no change in expectations of the level of recovery coming out of the current recession. Table B.2 in Appendix presents a more detailed look at the long-term General Fund revenue forecast.

Table R.2

General Fund Revenue Forecast Summary (Millions of Dollars, Current Law)

Revenue Source	Forecast 2005-07		Forecast 2007-09		Forecast 2009-11		Forecast 2011-13		Forecast 2013-15	
	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg
Personal Income Taxes	11,040.3	22.8%	10,090.6	-8.6%	11,403.6	13.0%	13,454.0	18.0%	15,863.5	17.9%
Corporate Income Taxes	844.1	31.7%	684.5	-18.9%	822.4	20.2%	1,058.4	28.7%	1,152.2	8.9%
All Others	857.6	6.4%	953.8	11.2%	1,167.0	22.4%	936.0	-19.8%	982.7	5.0%
Total General Fund	12,742.0	22.1%	11,728.9	-8.0%	13,393.1	14.2%	15,448.3	15.3%	17,998.4	16.5%
<i>Kicker Distributions</i>	-		1,084.2		-		-		-	
Total Revenue	12,742.0	22.1%	12,813.1	0.6%	13,393.1	4.5%	15,448.3	15.3%	17,998.4	16.5%

Other taxes include General Fund portions of the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax. Commercial Fish Licenses & Fees and Pari-mutual Receipts are included in Other Revenues

C. Tax Law Assumptions

The revenue forecast is based on existing law, including actions signed into law during the 2009 Oregon Legislative Session and indirect impacts resulting from recent federal legislation. 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 these items can be found in Appendix B Table B.3.

A rough rule of thumb for personal income tax is that nearly all collections activity on a given tax year occurs between the start of the tax year and June of the following year. Modest payment and refund activity continues for years thereafter, but with only a marginal net impact on revenues. Therefore, when interpreting the timing of personal income tax impacts presented in Appendix B Table B.3, this 18-month window is suitable for all but the most technical purposes.

Corporate income tax is more difficult in that corporations do not have a standardized tax year. A corporate tax year is signified by the calendar year in which the corporation's fiscal year begins. The rule of thumb is that the majority of corporate collections on a given tax year will be received in the State fiscal year that begins July 1 of that year, i.e. the corporate tax impact specified in Appendix B Table B.3 for tax year 2007 will be realized primarily in state fiscal year 2007-08. Contact the Office of Economic Analysis at (503) 378-3455 with questions regarding tax law impacts.

In addition, Appendix B Table B.3A summarizes revenue changes associated with actions taken during the 2009 Legislative Session. The totals presented in the table were added to the forecast for structural revenue growth in order to arrive at the total revenue numbers presented in this document.

D. Forecast Risks

The revenue forecast presented herein constitutes a guideline for budgetary purposes. Variation above or below this forecast is to be expected, although OEA strives to minimize the magnitude of this variation by investigating new data resources and methodological approaches, as well as regularly consulting with experts from the economics, financial, and accounting communities.

The following are major factors that could cause actual revenues to deviate from this forecast by a significant degree:

- *Measures 66 & 67.* In the near-term, the single greatest risk to the forecast lies in the referenda to be voted on in January. This forecast includes estimates provided by the Legislative Revenue Office for the amount of revenue expected to be raised through the personal and corporate income tax changes enacted by the 2009 Legislature and signed by the Governor. Should the measures fail, it will result in a direct reduction of General Fund revenue of \$733 million for the 2009-11 biennium relative to the December forecast.
- *Magnitude and Effectiveness of Federal Government Policy.* Throughout the last year, the federal government has increased their role in injecting stimulus into the economy at unprecedented levels. To the extent that impacts of these, or any new, policies deviate from expectation pose a risk to a variety of Oregon's revenue streams.

- *Personal income tax is expected to account for nearly ninety percent of General Fund revenues.* The income tax forecast is based on OEA's outlook regarding general economic conditions. To the extent that actual economic performance departs from this outlook, particularly with respect to factors that influence more volatile forms of non-wage income, so too will the personal income tax, and thus the General Fund forecast. Oregon has become increasingly dependent on high-income earners for personal income tax collections. These earners often have the most volatile income levels from one year to the next. As such, small deviations from expectation in general economic performance can yield large changes in the collection of personal income taxes.
- *Capital gains and business-related income are highly volatile.* Capital gains income exceeded 10 percent of income for the first time in the 2007 tax year. This exposure contributes to the volatility in personal income taxes because the financial decisions on the part of a relatively few individuals can have a significant impact on the aggregate levels. The concentration of gains at the high end of the income distribution exacerbates the inherent volatility in this source of income.
- *The timing and nature of an economic recovery.* Historically, economic recoveries would suggest that there will be significant increases in income tax revenue beginning in either FY 2011 or FY 2012. This forecast assumes that the vast majority of any recovery would occur in the 2011-13 biennium. However, should the recovery come earlier, or be significantly weaker than previous upturns, the forecast errors could be significant.
- *Unexpected changes in the impact of tax expenditures.* Tax expenditures such as credits and deductions reduce tax revenue. In some cases, estimates of the usage and tax impact vary widely, thus making it difficult to know the amount of tax reduction. Increased usage of such provisions would reduce revenues relative to this forecast.

E. Lottery Earnings Forecast

Table R.3 presents a summary of lottery earnings and distribution for the 2009-11 biennium. Projected lottery earnings will total \$1,081.2 million, a decrease of \$13.5 million from the prior forecast. Weakness in video lottery earnings over the summer has extended the dramatic decline in lottery sales, with weekly video lottery sales down more than 20 percent on a year-over-year basis. Including the beginning balance and other earnings, total available resources equal \$1,083.8 million.

Table R.3

2009-11 Lottery Fund Forecast Summary

	September 2009 Forecast	December 2009 Forecast	Changes from: September 2009 Forecast
Transfers of Lottery Earnings			
Traditional Games	\$116.2	\$125.5	\$9.3
Video Lottery	\$973.5	\$950.4	-\$23.1
Administrative Savings	\$5.1	\$5.4	\$0.3
Total Transfers	\$1,094.8	\$1,081.2	-\$13.5
Economic Development Fund			
Beginning Balance	\$1.4	\$1.4	\$0.0
Transfers from Lottery	\$1,094.8	\$1,081.2	-\$13.5
Other earnings ¹	\$2.5	\$1.2	-\$1.3
Total Available Resources	\$1,098.6	\$1,083.8	-\$14.8
Distributions			
Dedicated Distributions ²	\$643.5	\$637.8	-\$5.7
Other Legislatively Adopted Allocations	\$473.5	\$473.5	\$0.0
Total Distributions	\$1,117.0	\$1,111.3	-\$5.7
Ending Balance	-\$18.4	-\$27.6	-\$9.2

Footnotes:

1. Includes interest earnings and reversions.

2. Includes the Education Stability Fund (18%), the Parks and Natural Resources Fund (15%), and Debt Service. See Table B.9 for more information.

After adjusting for programs that receive a strict percentage of lottery transfers, the current forecast for the ending balance in the Economic Development Fund is a negative \$27.6 million.

The extended outlook for lottery earnings can be found in Table B.9 in Appendix B. It is critical to note that the earnings reflected in Table B.9 include a transfer rate pertaining to video lottery of 65.2 percent as opposed to the 62.4 percent rate. The Lottery has applied this transfer rate on sales since July 1, 2009. Following a decline of 18.5 percent for 2009-11 over 2007-09 figures, lottery earnings are expected to rise a modest 9.1 percent to \$1,179.7 million for the 2011-13 biennium. In addition to the expected impact of the smoking restrictions and slow economic growth, the weak growth for 2009-11 is the result of an absence of significant administrative savings for the biennium, compared with \$102.7 million in the 2007-09 biennium. Not including any administrative savings that may accrue during the biennium, total available resources for 2011-13 will amount to \$1,185.7 million. For the 2013-15 biennium, lottery earnings will climb to \$1,280.7 million, while available resources will equal \$1,286.7 million.

F. Overview of Budgetary Reserves

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

Oregon Rainy Day Fund

Established by the 2007 Legislature, 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. 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. The state budgeted a \$225 million withdrawal for spending during 2009-11. As a result, the beginning balance of the fund was reduced commensurately for 2009-11.

Education Stability Fund

The ESF gained its current reserve structure and mechanics via constitutional amendment in 2002. The ESF receives 18 percent of lottery earnings², deposited on a quarterly basis. The ESF does not retain interest earnings. The ESF has similar triggers as the ORDF (in fact, the ORDF was modeled on the ESF), 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. Should no withdrawals be made from the ESF, it is expected that the five percent cap would be reached late in the 2009-11 biennium. At that point, funding of the ESF stops and instead 15 percent of lottery earnings will flow to a school capital matching account. The balance of the ESF was withdrawn near the end of 2007-09 in order to fill the budget gap created by decreasing revenues late in the biennium.

Budgetary Reserve Outlook

Table R.4 presents projected balances for the ORDF and ESF. At the close of fiscal year 2009, the balance in the ORDF equaled \$112.5 million. The ORDF is projected to reach \$127.4 million by the end of 2009-11, and total \$212.3 million by the end of next biennium. These figures include a \$225 million withdrawal in June 2009 and anticipated deposits from General Fund ending balances for future biennia.

The ESF balance was completely withdrawn at the end of 2007-09 in order to fill the budget shortfall for 2007-09. Assuming no additional distributions are made during the next biennium, by the end of 2009-11, available ESF funds will total \$185.0 million. Table B.10 in Appendix B provides detailed information for Oregon’s budgetary reserves.

Table R.4
Oregon's Budgetary Reserves

(Millions)	2007-09 Biennium	2009-11 Biennium	2011-13 Biennium
Rainy Day Fund			
Beginning Balance	\$0.0	\$112.5	\$127.4
Deposits	\$94.3	\$11.4	\$79.2
Interest	\$18.3	\$3.5	\$5.6
Triggered Withdrawals	\$0.0	\$0.0	\$0.0
Ending Balance¹	\$112.5	\$127.4	\$212.3
Education Stability Fund			
Beginning Balance	\$178.9	\$0.1	\$185.0
Deposits	-\$178.9	\$184.9	\$201.7
Interest ²	\$17.2	\$4.7	\$28.8
Triggered Withdrawals	-\$17.1	-\$4.7	-\$28.8
Ending Balance	\$0.1	\$185.0	\$386.7
Total Reserves	\$112.6	\$312.4	\$599.0

Footnotes:
 1. Under current law, only 2/3rds of the beginning balance is available for withdrawal. Withdrawal subject to economic and financial triggers.
 2. Education Stability Fund interest is distributed to the Oregon Education Fund (75%) and the State Scholarship Commission (25%).

¹ Five percent of these transfers are deposited to the Oregon Growth sub-account. Due to the illiquid nature of this sub-account, only funds in the main account are included in the figures presented here.