Oregon

Senate Finance and Revenue Committee
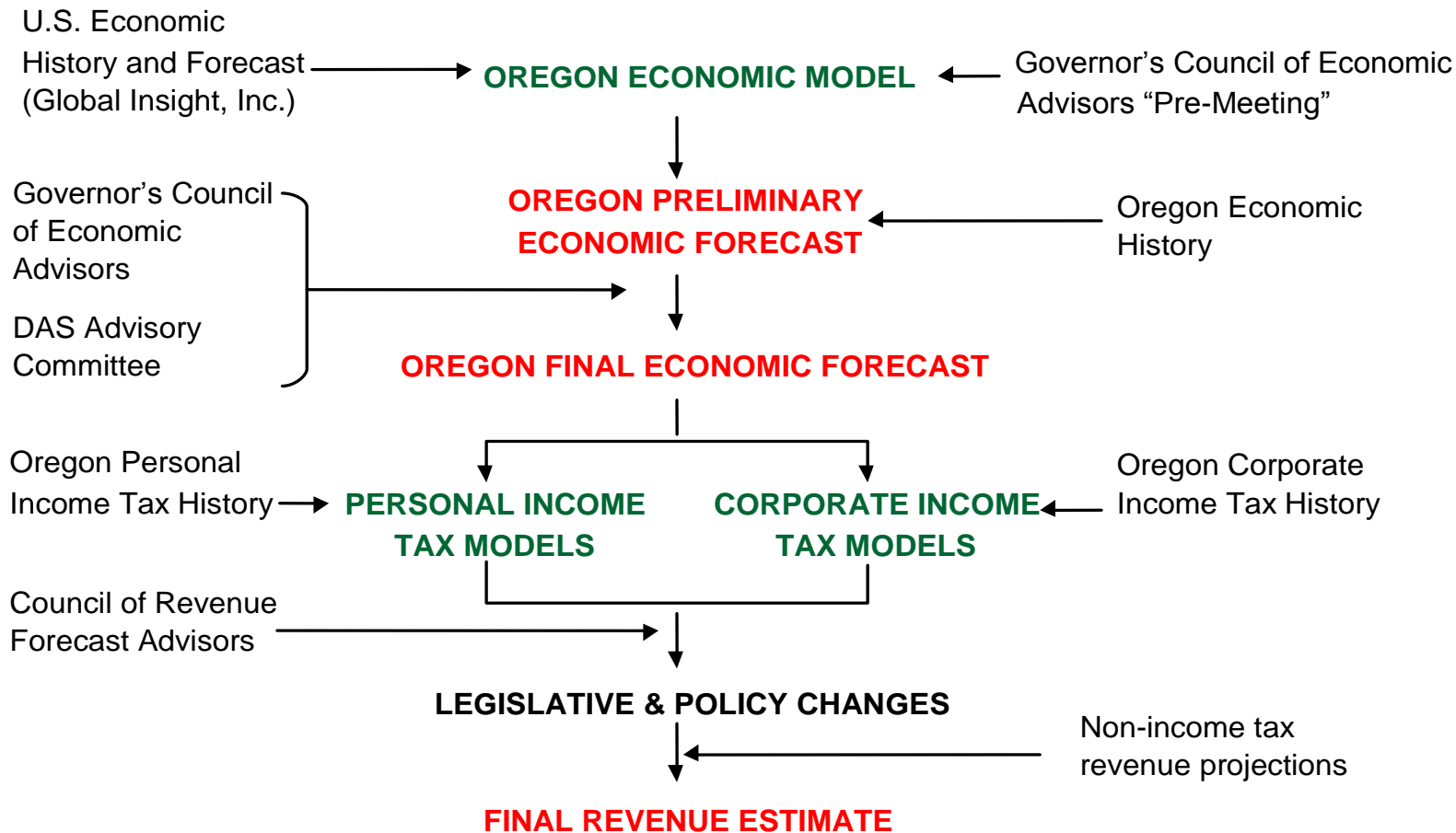
Revenue Forecast Review

Presented by: Office of Economic Analysis

Date: February 11, 2011

U.S. Economic History and Forecast (Global Insight, Inc.) → **OREGON ECONOMIC MODEL** ← Governor's Council of Economic Advisors "Pre-Meeting"

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Governor's Council of Economic Advisors

DAS Advisory Committee

OREGON PRELIMINARY ECONOMIC FORECAST ← Oregon Economic History

↓

OREGON FINAL ECONOMIC FORECAST

Oregon Personal Income Tax History → **PERSONAL INCOME TAX MODELS**   **CORPORATE INCOME TAX MODELS** ← Oregon Corporate Income Tax History

Council of Revenue Forecast Advisors →

LEGISLATIVE & POLICY CHANGES

Non-income tax revenue projections

FINAL REVENUE ESTIMATE

Timing of Quarterly Forecasts

- March, June, September, December
  - Mid-May forecast in odd numbered years
- Generally, release date during the last week of previous month (e.g., September forecast released during last week of August)
- March 2011 forecast release date February 15
- Mid-May forecast release date May 12

Close of Session of Forecast

- COS forecast for the upcoming biennium is the mid-May forecast plus legislative changes during the remainder of session.

- Usually released with the September forecast in odd-numbered years.

- COS forecast used for budgeting the upcoming biennium and is the base for kicker calculations.

Revenue Forecast

- ## General Fund Revenues
  - ### General Fund Composition
  - ### PIT and Corp Methodology
  - ### Historical performance
- ## Lottery Revenue
  - ### Methodology

Guiding Principles

- Current-law GF forecast, updated quarterly.

- Unbiased, most-likely forecast given prevailing economic conditions and assumptions.

- Continue to refine models, develop new data sources, employ expert input to improve forecast accuracy.

- For every forecast, provide users with a measure of the potential for actual revenues to deviate from projections.

Types of forecast methods

- Statistical Modeling by OEA – PIT, Corp, Cigarette and Tobacco, Criminal Fines and Court Fees, Secretary of State Fees, Lottery.

- Statistical Modeling by administering agency – Liquor, Insurance, Securities Fees.

- Simple trend or historical average – Inheritance, Central Service charges, Interest earnings, other small sources.
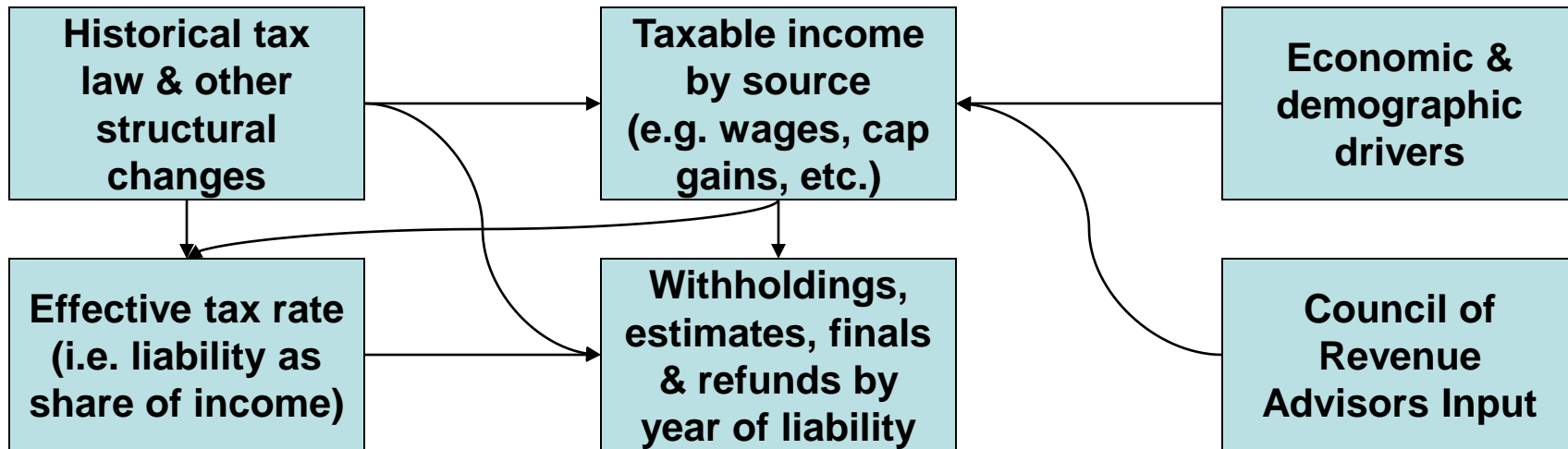
General Fund & Lottery Revenue Statement, 2011-13

	$	% of General Fund
Taxes		
Personal Income Taxes (Before Kicker)	12,052,473,000	87.0%
Corporate Income Taxes (Before Kicker)	966,163,000	7.0%
Insurance Taxes	99,171,000	0.7%
Estate Taxes	204,284,000	1.5%
Cigarette Taxes	75,988,000	0.5%
Other Tobacco Products Taxes	50,372,000	0.4%
Other Taxes	1,364,000	0.01%
Fines and Fees		
State Court Fees	55,985,000	0.4%
Secretary of State Fees	37,547,000	0.3%
Criminal Fines & Assessments	65,950,000	0.5%
Securities Fees	15,832,000	0.1%
Central Service Charges	11,152,000	0.1%
Liquor Apportionment	187,388,000	1.4%
Interest Earnings	10,120,000	0.1%
Miscellaneous Revenues	21,750,000	0.2%
One-time Transfers	0	0
Gross General Fund Revenues	13,855,539,000	100.0%
Addendum:		
Total Lottery Earnings	1,133,000,000	NA

PIT Forecast Overview

Annual tax return data

Historical tax law & other structural changes

Taxable income by source (e.g. wages, cap gains, etc.)

Economic & demographic drivers

Effective tax rate (i.e. liability as share of income)

Withholdings, estimates, finals & refunds by year of liability

Council of Revenue Advisors Input

Monthly collections data

Monthly collections by type

Historical pattern of collections

Recent monthly collections

New tax laws (LRO revenue impact statements)

Revenues Over the Business Cycle

State tax collections, 4 qtr moving average, Index: 1996Q1=100
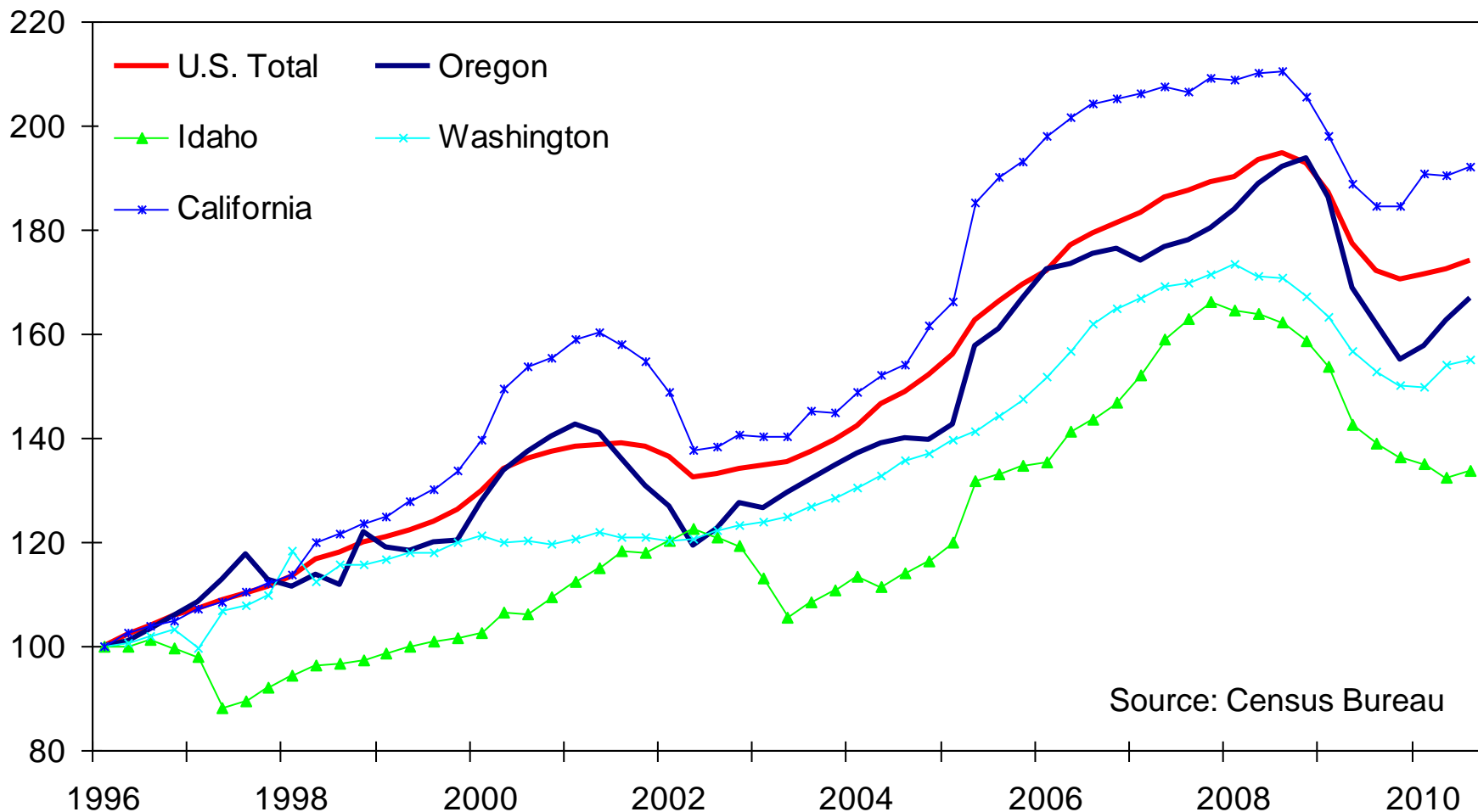
Source: Census Bureau

Big Swings in Tax Revenue
State tax collections & personal income growth, normalized standard deviations 1994-2010Q3

Volatility of Tax Collections
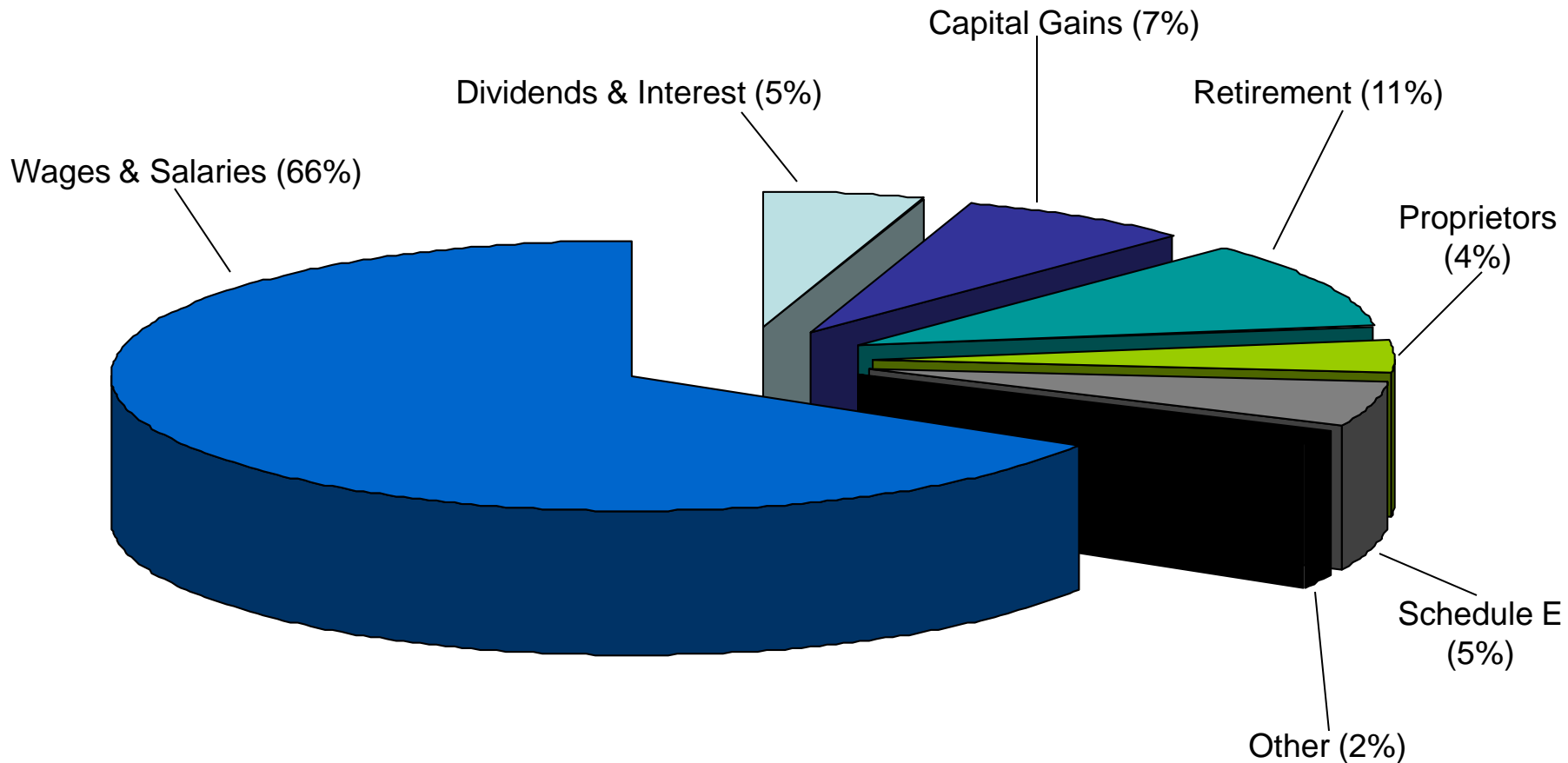
Income tax states
Sales tax states
Severance tax states

MI
SC
OR
NM
ID
IA
AK
WA
SD
ND
NC
TX
TN
PA

Volatility of Personal Income
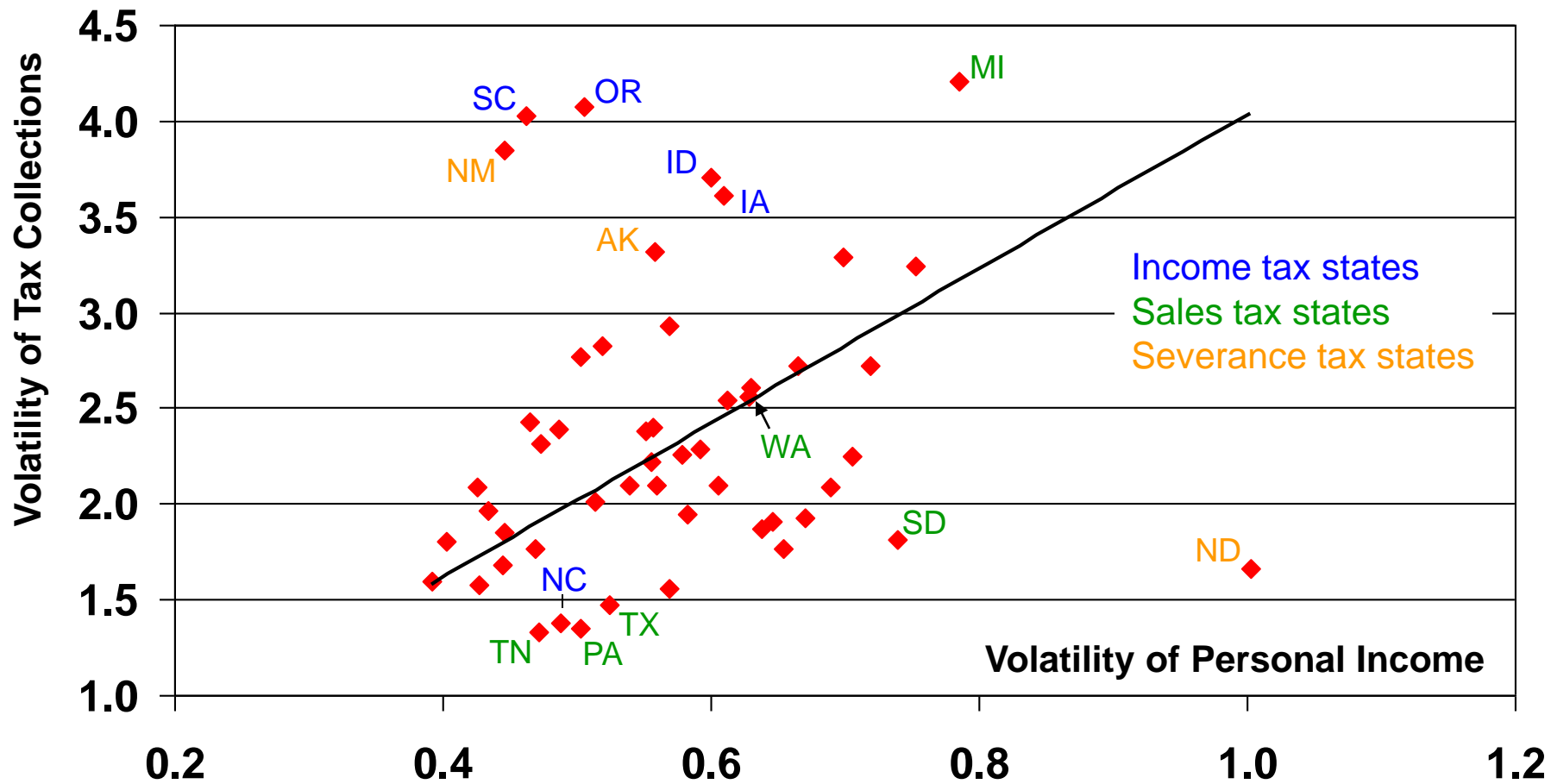
Source: Census Bureau

Revenue Forecast Errors Across Western States

PIT and CIT collections, % share of original budget estimate, FY2010

Source: National Association of State Budget Officers
Note: NV (sales= -8.8%), SD (-2.4%), WA (-6.7%) & WY (-10.7%) do not levy income taxes
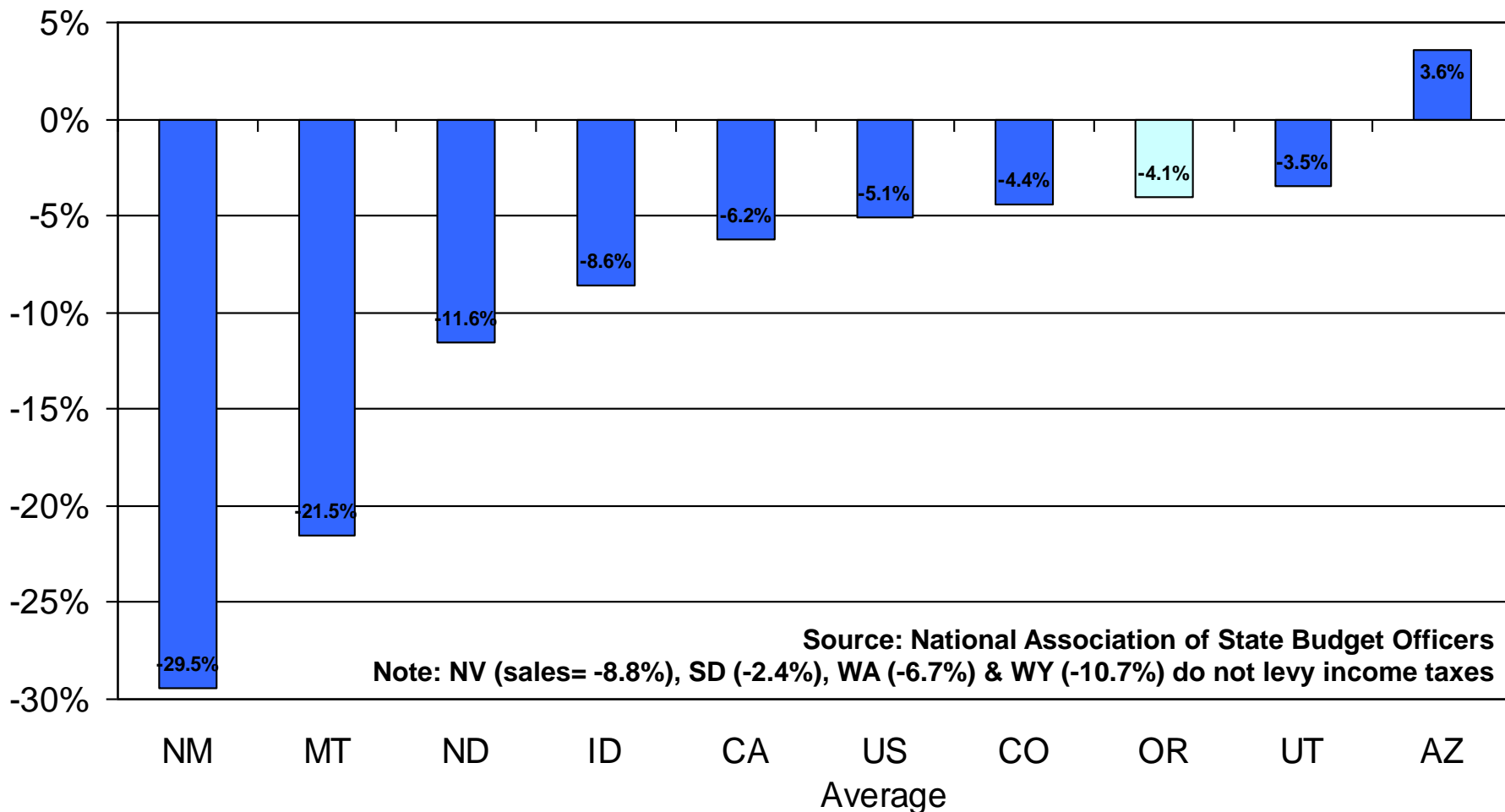
Taxable Personal Income by Type

Shares of Oregon taxable income, 1998-2008 average

Capital Gains (7%)

Dividends & Interest (5%)

Retirement (11%)

Wages & Salaries (66%)

Proprietors (4%)

Schedule E (5%)

Other (2%)

Source: Oregon Department of Revenue

Withholdings Mirror Wages

% change year ago
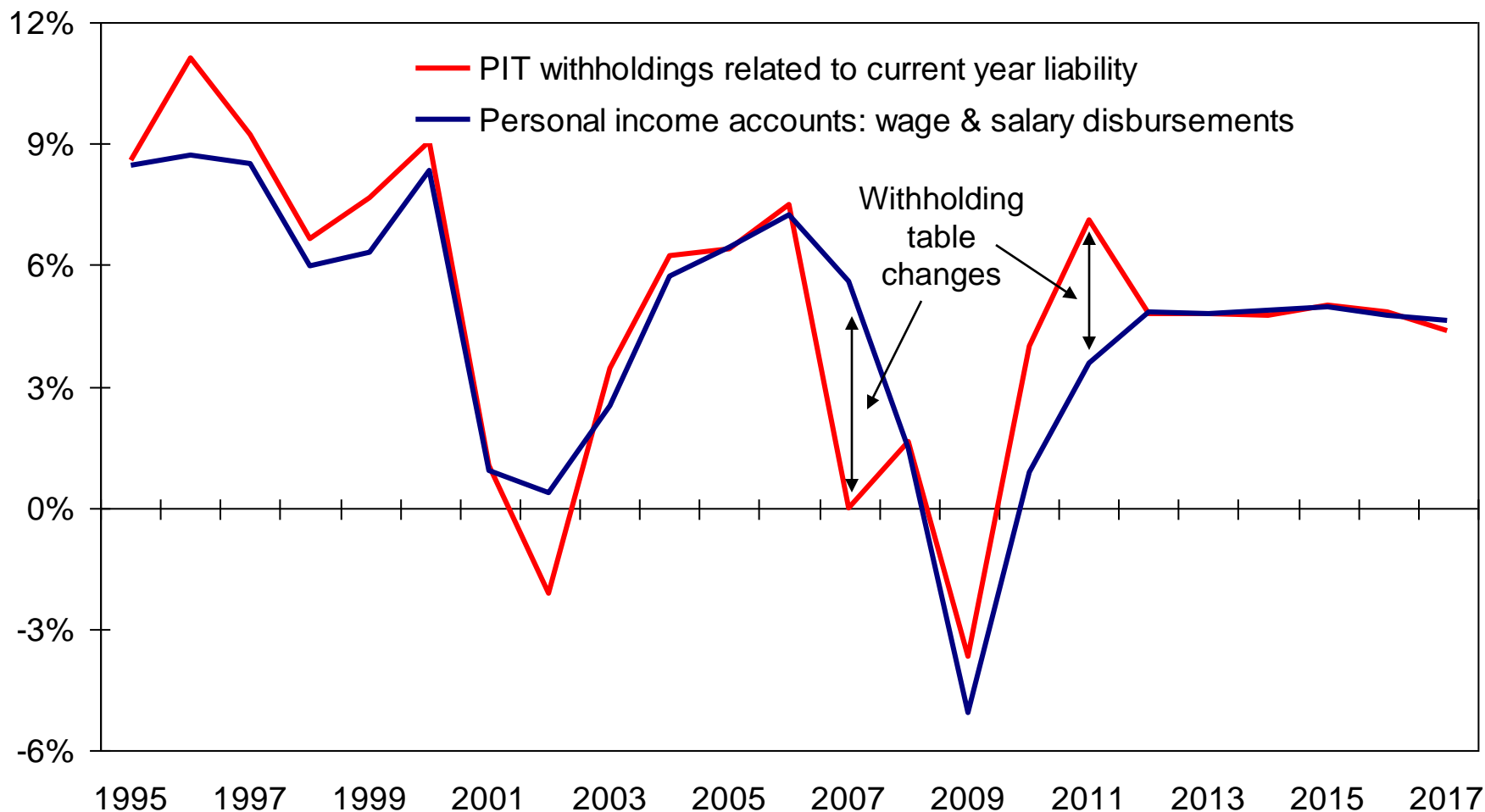
Retirement Income Leads the Way

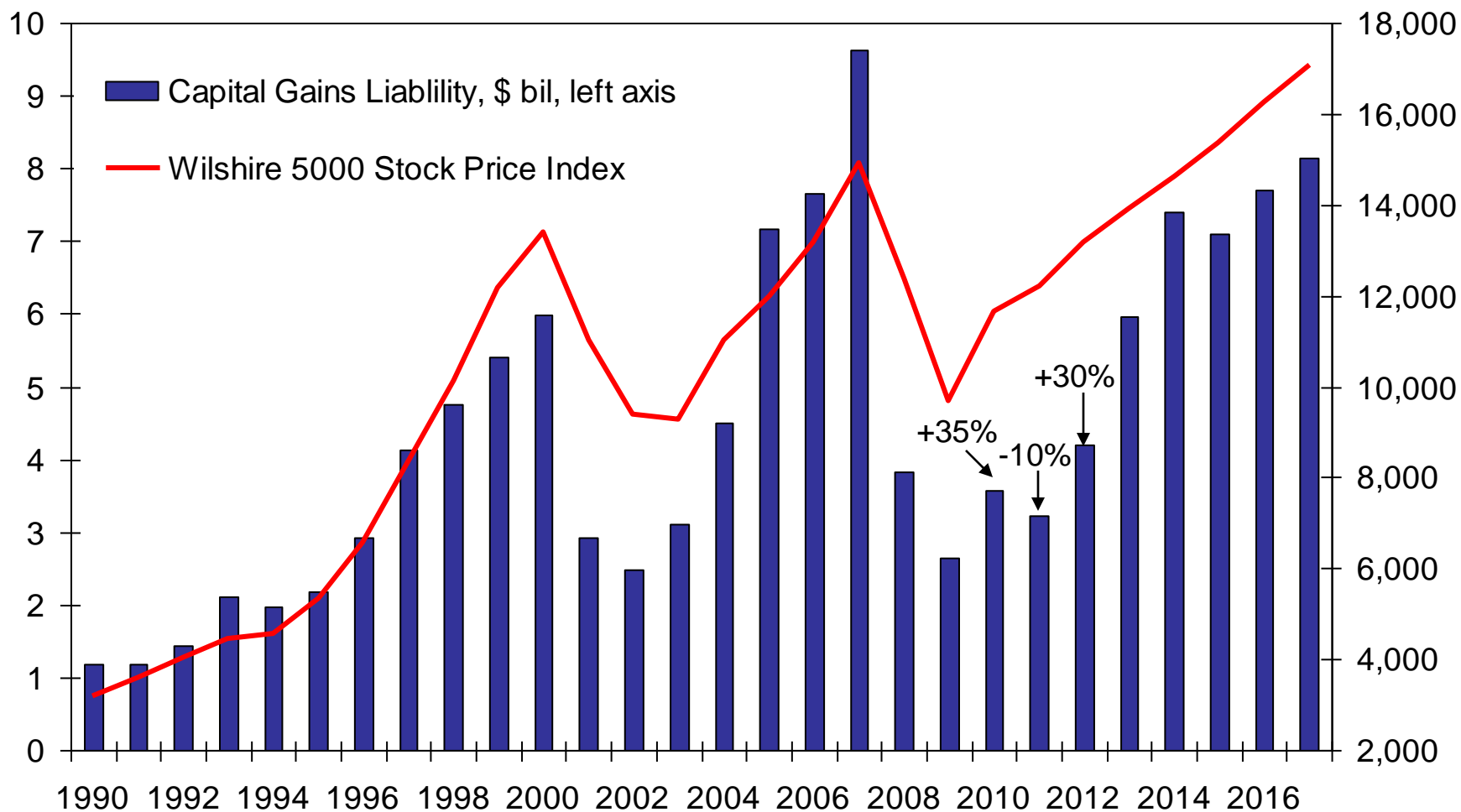Oregon taxable income, % change year ago, calendar years
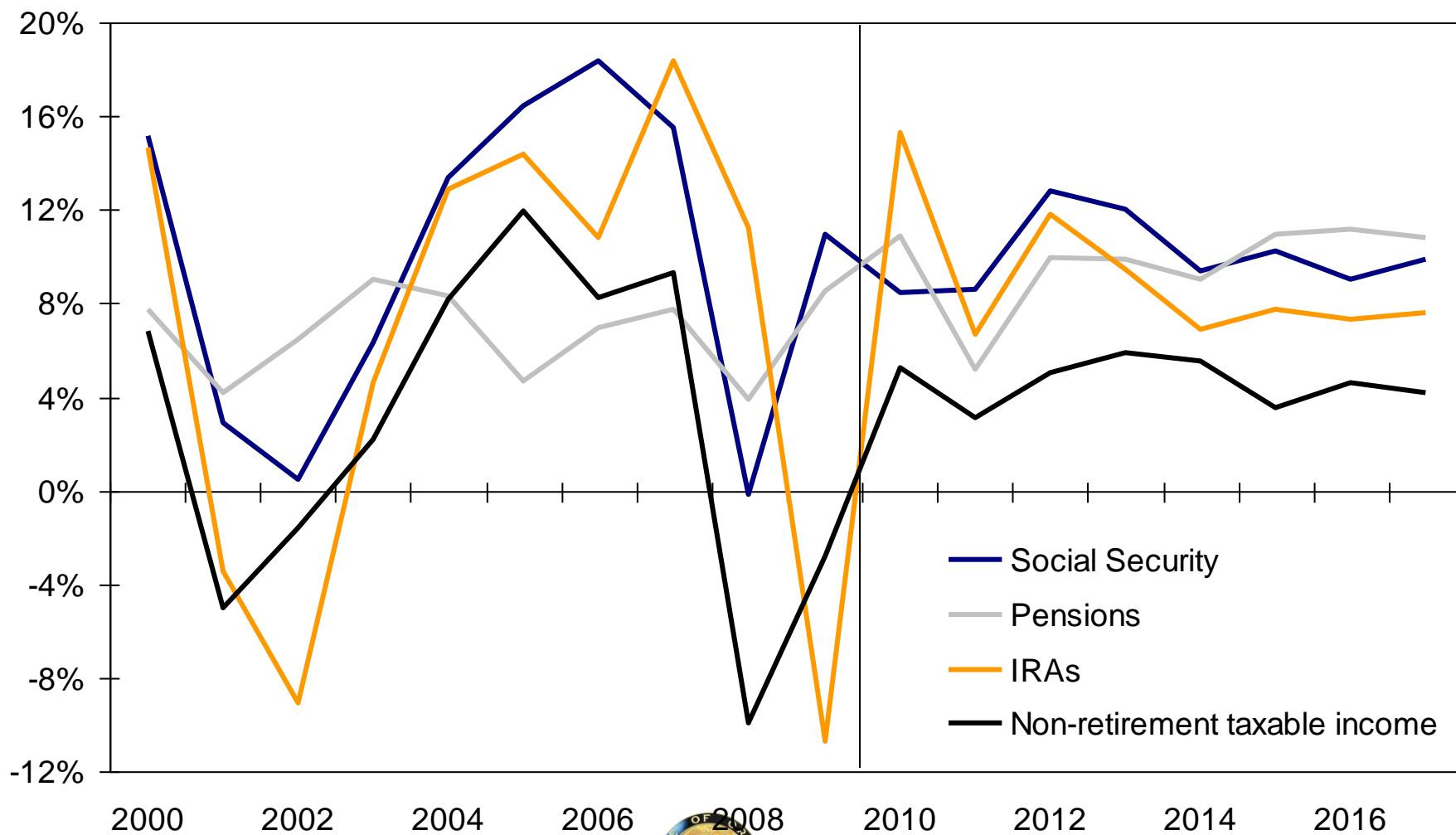
Capital Gains During the Credit Crisis

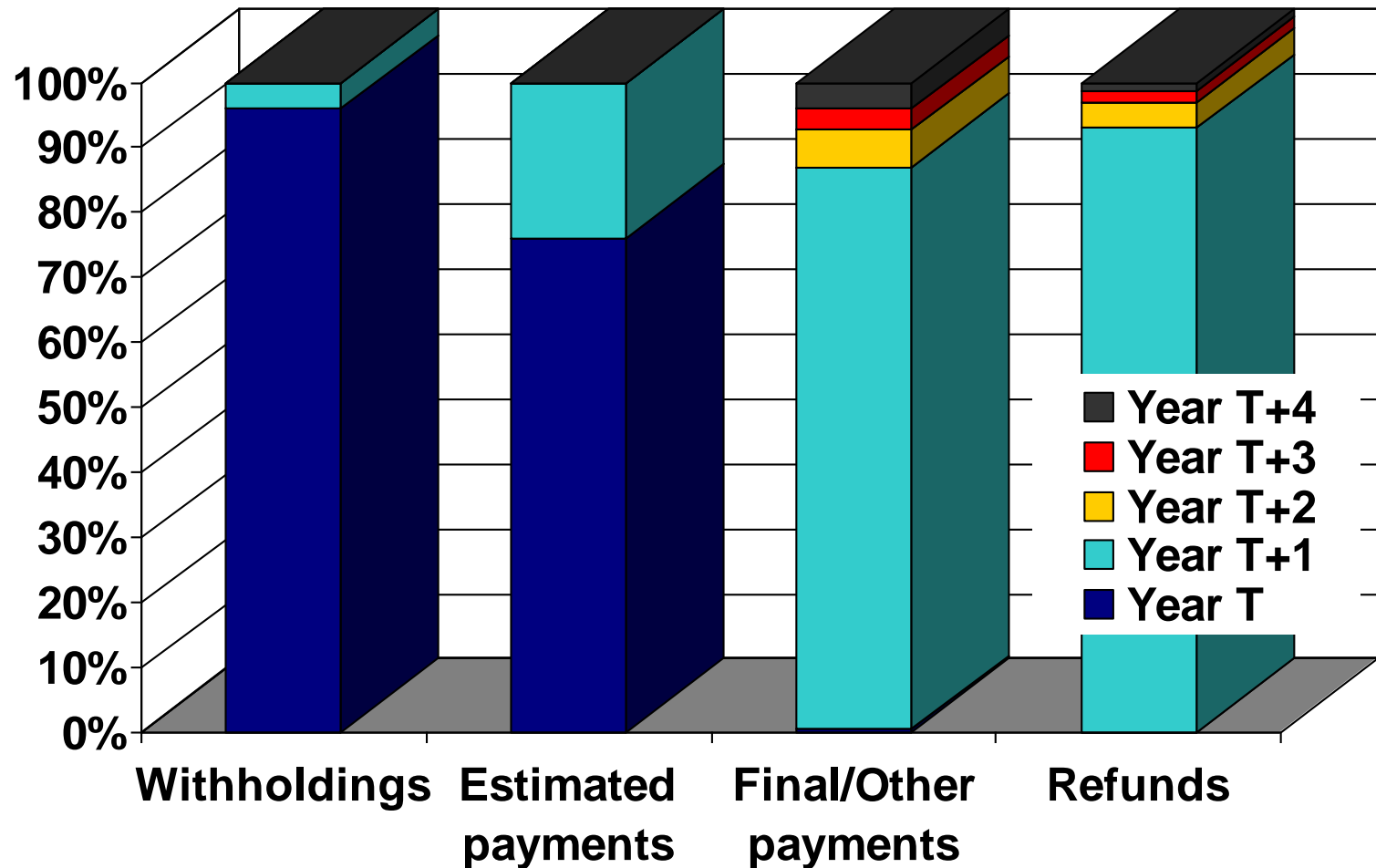Oregon realized capital gains, full-year returns, $ million
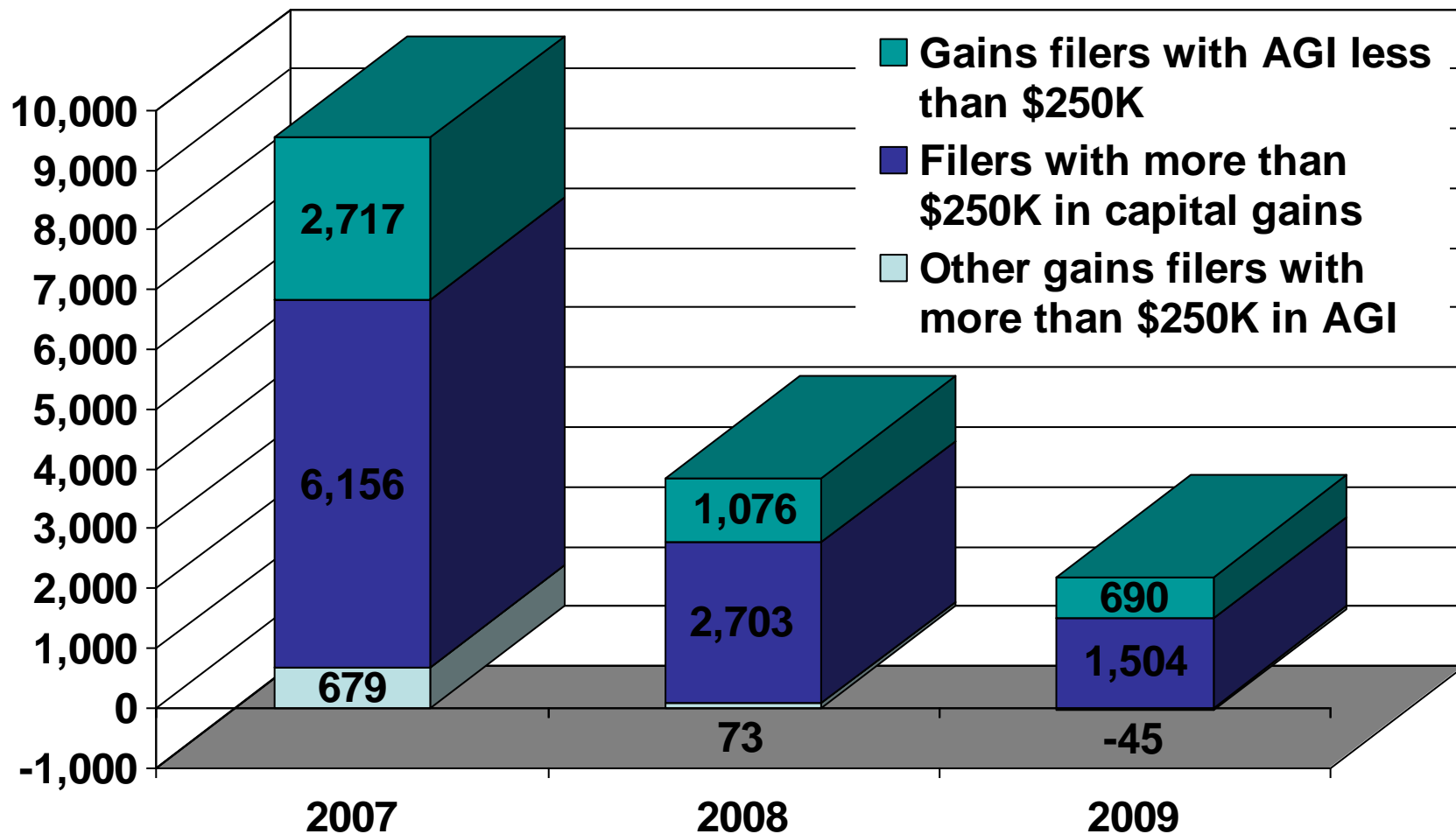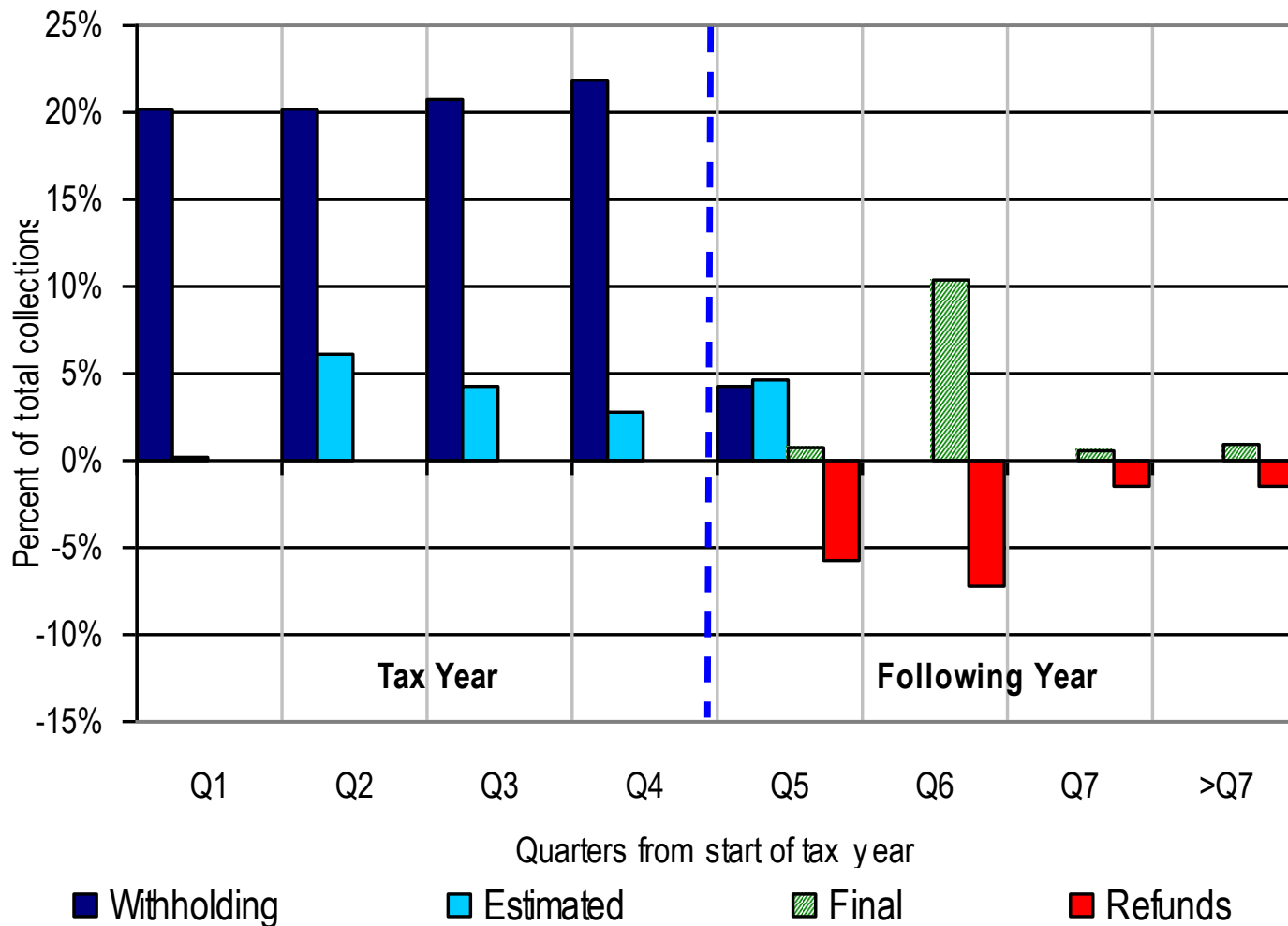
Capital Gains & Stock Prices

Timing of Collections

Collections related to liability in year T, share of total, 1994-2007 average
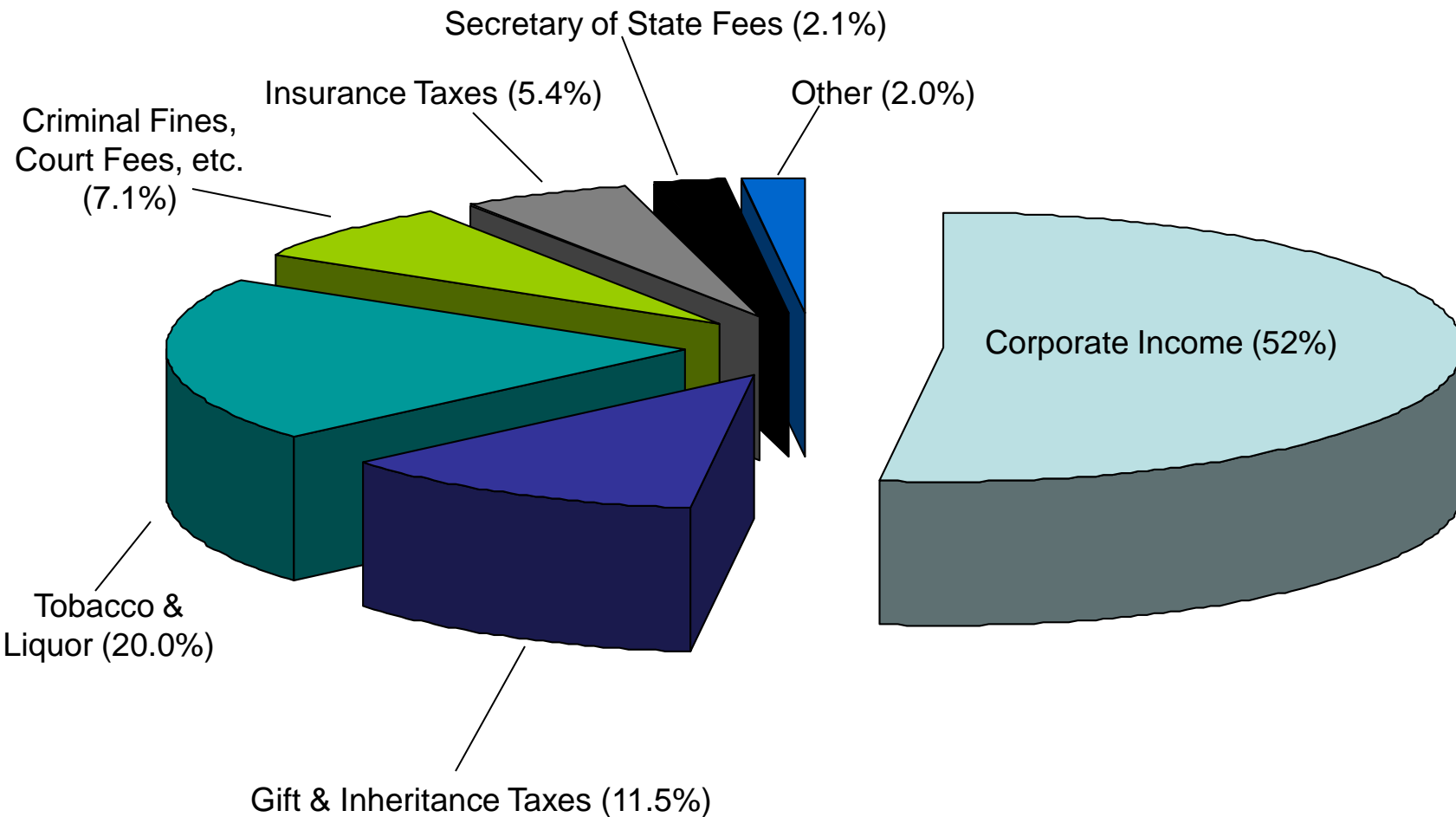
Timing of Collections (% of Total)

Other General Fund Revenues

Shares of Oregon General Fund Revenues excl. PIT, FY2009-11

Secretary of State Fees (2.1%)

Insurance Taxes (5.4%)

Other (2.0%)

Criminal Fines,
Court Fees, etc.
(7.1%)

Corporate Income (52%)

Tobacco &
Liquor (20.0%)

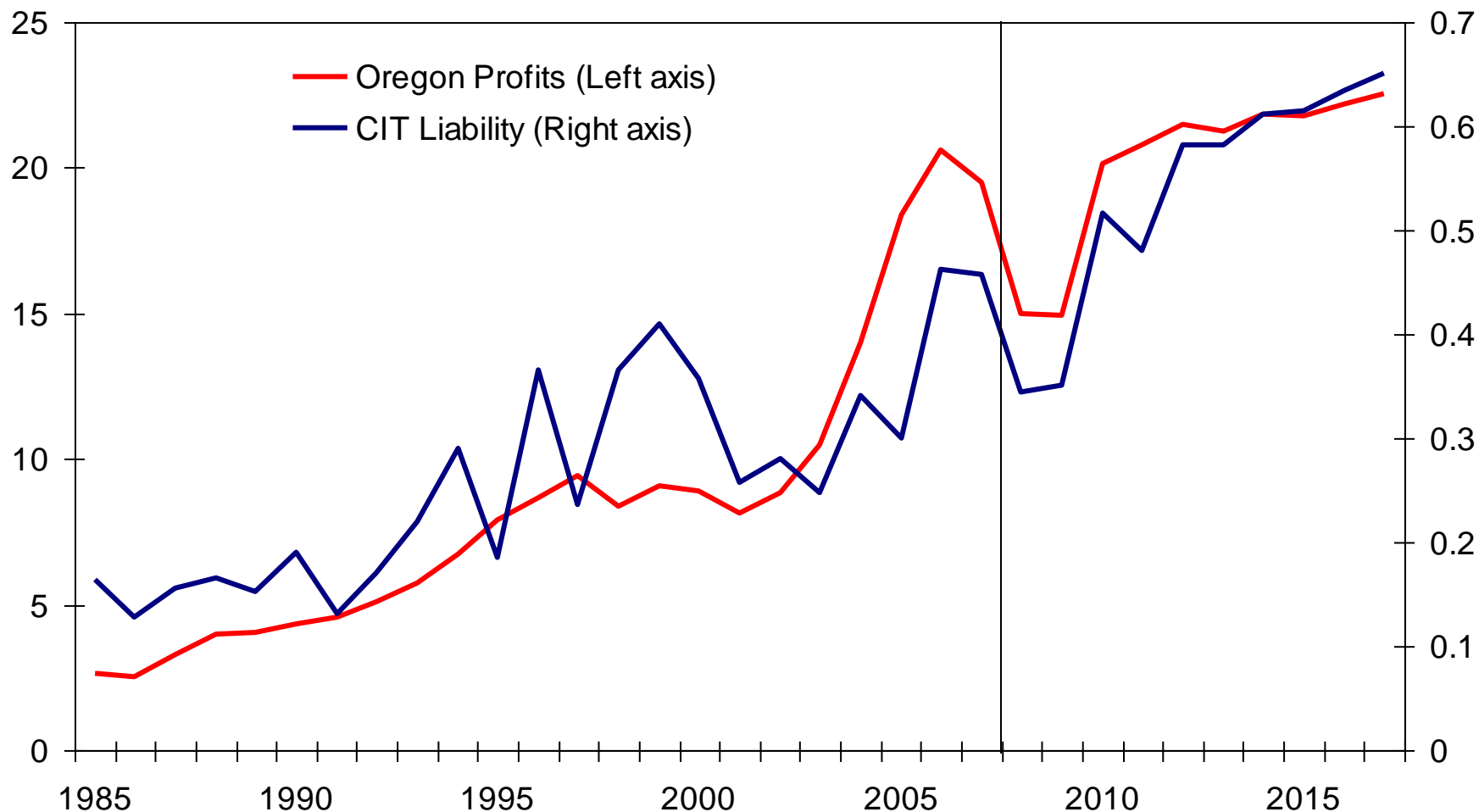Gift & Inheritance Taxes (11.5%)

Source: Oregon Department of Revenue

Corporate Taxes and Profits

$ billions, tax years

Lottery Forecast

- Brief review of methodology
- State Lottery Resource Forecasts

Video Sales Model

- Video accounts for ~85% of earnings

- Weekly Net Sales (dollars wagered minus prizes paid)

- Long run growth is a function of projected consumer expenditure growth

- Seasonal swings are a function of average temperature

- Week to week variation is driven by proximity of standard pay days

Traditional games

- Gross weekly sales forecasted for each game – Instant (Scratch-Its), Megabucks, Powerball, Keno, etc.

- Sales modeled as a function of trend, seasonal, and weekly variables. Megabucks and Powerball equations include jackpot levels.

- Currently, Mega Millions and Powerball forecasted together.

- Projected earnings equal gross sales less expected prizes and administrative expenses.
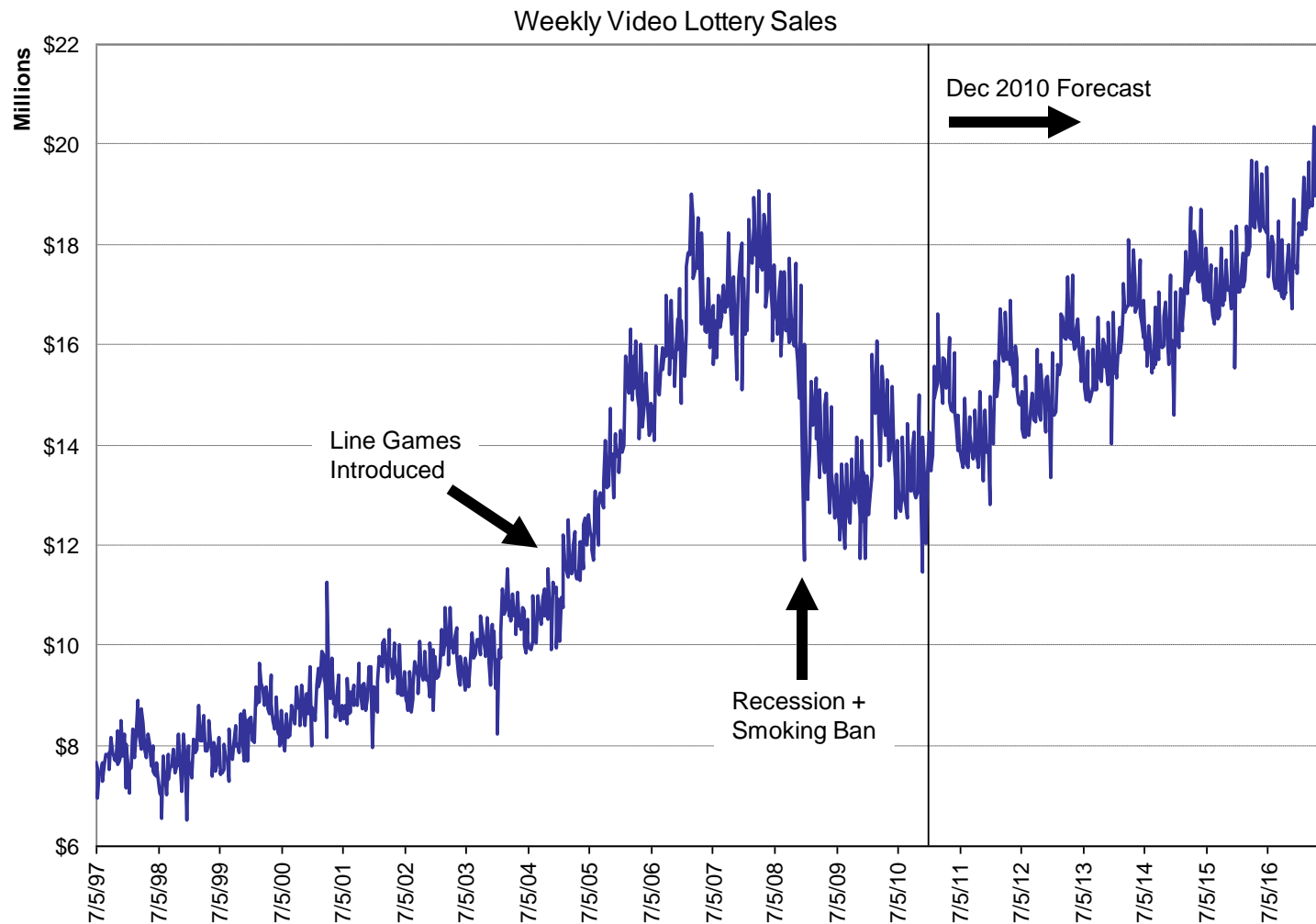
Resources and Allocation

- Video + Traditional + Administrative Savings = Available Resources

- Allocations:
    - County Economic Development
    - Education Stability Fund (18%)
    - Parks and Natural Resources (15%)
    - Collegiate Athletics (1%)
    - Gambling Addiction (1%)
    - County Fairs
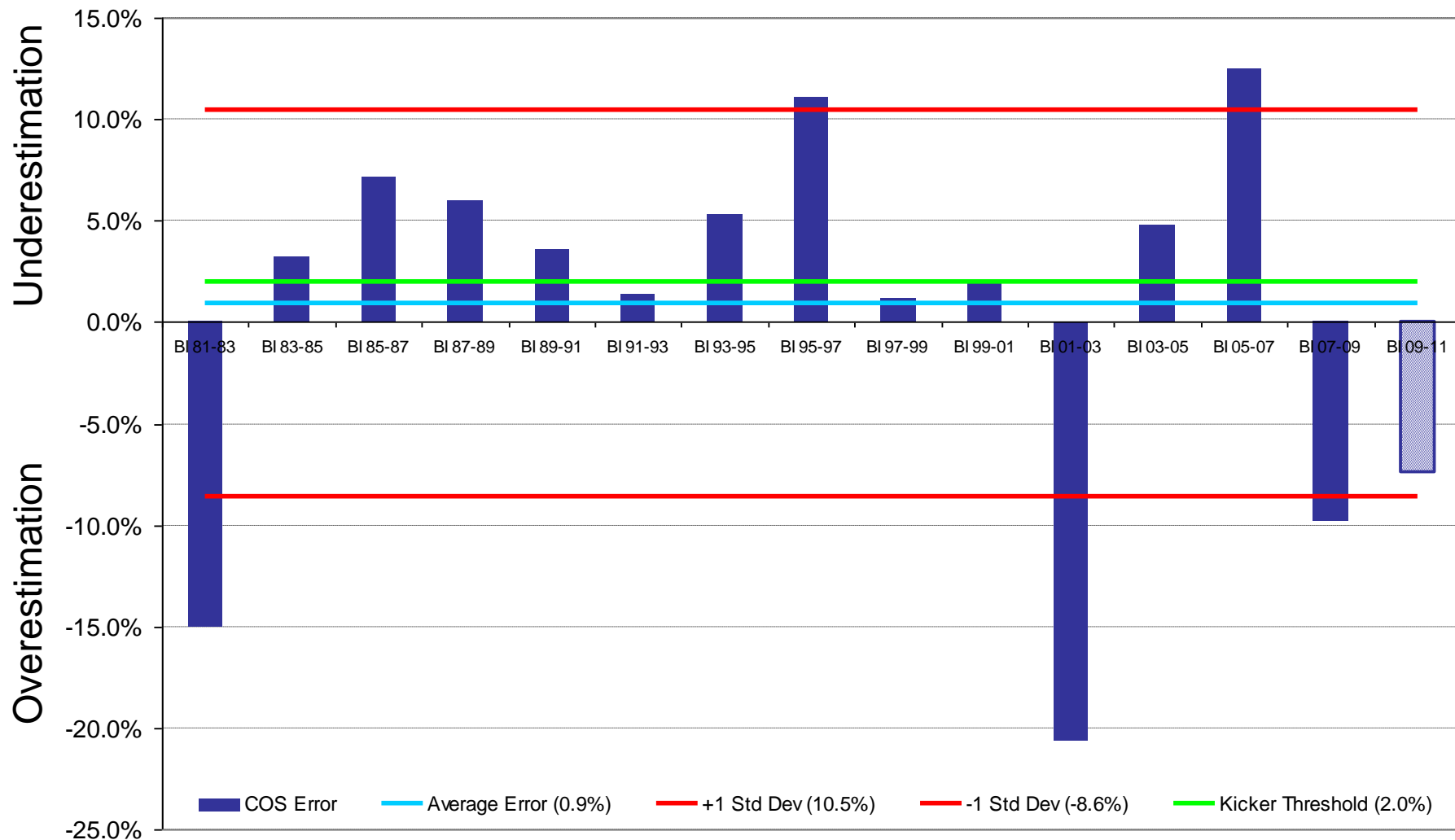   - Debt Service on Lottery Bonds
    - Other Allocations

Video Lottery Sales

Weekly Video Lottery Sales

General Fund COS Forecast Errors

For More Information

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