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POLITICS

Oregon's economic outlook sours, leaving state lawmakers with millions less to spend than previously expected

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The Oregon Capitol framed by cherry blossoms this spring. Lawmakers are grappling with the news that Trump tariffs mean they'll have \$750 million less than previously expected to spend in the coming years. Sami Edge




By [Sami Edge | The Oregonian/OregonLive](#) and [Carlos Fuentes | The Oregonian/OregonLive](#)

Oregon lawmakers will have about [\\$755 million less](#) to spend in the next two years than they previously expected.

That's the big news out of the [May revenue forecast](#) Oregon's top economists provided Wednesday. Lawmakers will have to limit their spending to the amount forecast – meaning they can commit up to \$37.4 billion in general funds, said Michael Kennedy, a senior economist at the state's Department of Administrative Services.

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That's about 2% less than the \$38.2 billion that economists predicted in February that lawmakers would have for the coming biennium, which begins in July.

The drop in expected resources is largely due to a nearly \$500 million decline in projected personal income taxes at the end of this budget cycle and the first two quarters of the next one, Kennedy said. Decreases in Oregonian's employment rates, wage growth and capital gains will all contribute, he said. Lawmakers will also have about \$250 million less to spend in the next budget because they already spent it this legislative session, Kennedy said.

The writing has been on the wall. Democratic House Speaker Julie Fahey predicted on Monday that the revenue briefing would "not be good news" based on turbulent economic waters in the first three months of Donald Trump's presidency.

"If we are able to hold the line on the budget this year, I think that will be a major success," Fahey said. "If we are able to continue serving Oregonians at the level that we are serving them at right now."

Even the diminished spending forecast would represent an increase from the state's current budget. Lawmakers allocated nearly \$32 billion in general fund spending for the 2023-25 biennium.

Uncertainty caused by Trump's rollercoaster pledges and actions on tariffs is the biggest factor driving the projected decline in Oregon's projected revenue and volatility about how precipitous it in fact will be, state economists said. The administration's cuts to federal employment and slashing of many federal programs also have contributed, along with a promised crackdown on immigration, Oregon's chief economist Carl Riccadonna said.

"All of these factors are levers that are pushing the growth forecast in that direction," Riccadonna told reporters Tuesday.

Export-dependent Oregon is particularly sensitive to major trade policies, which directly affect personal income taxes and state labor trends, economists said. On the other hand, projected revenue from corporate activity taxes and lottery sales, which are less volatile, remain in line with earlier estimates, Kennedy said.

The state revenue forecast is more uncertain than most, Riccadonna said, and unpredictable federal policies like a dramatic tax package or another bump in tariffs could alter the picture.

"Of course this can change in a tweet or in a moment," Riccadonna told lawmakers Wednesday while presenting the forecast.

Riccadonna cast the current economic outlook as one of "sluggish growth," not outright recession. The probability of national recession is about 25% over the next year, he said, compared to 15% or less in an average year.

Economists predict that Oregon's kicker rebate, which returns money to taxpayers after the close of two year budgets in which income tax collections exceed projections by more than 2%, will return \$1.64 billion to Oregonians next year in the form of tax credits. That's an \$88 million decline from the most recent forecast in February.

Lawmakers have indicated for months that they would not have enough revenue to expand many state services or fund sizable new programs. And as the president and Congress have moved to cut funding for major programs, including reducing Medicaid by billions of dollars, Oregon's top budget writers have reiterated that the state's budget is not intended to, or fully equipped to, plug holes left by federal cuts.

Legislators now have about six weeks to figure out how to balance their spending priorities with the diminished budget forecast. It's unclear which priorities will survive. Even before the new budget revision, [Salem's top legislative budget writers](#) indicated they wouldn't have enough money to fully fund increased spending on homelessness, education and mental health that Gov. Tina Kotek included in her [proposed budget](#) last December.

In a statement Wednesday, Kotek reiterated the need to build more homes, house more Oregonians sleeping outside and improve education outcomes.

"I refuse to let Oregon be knocked off our game," she said in response to the revenue forecast. "... I am committed to working diligently with the Legislature from now through the end of the session to make hard budget choices and address our challenges head on, despite the dampening of economic growth."

The revised forecast also puts more pressure on lawmakers scrambling to find more dollars to prepare for and fight wildfires. A workgroup has proposed increasing wildfire funding by nearly \$300 million, though most of their ideas for how to do that would divert money from the state general fund, savings or lottery dollars, leaving less money for other existing programs. Ideas to raise new revenue include taxing bottles and cans, which has proven contentious, or keeping the state's kicker revenue instead of giving it back to taxpayers. Approving that plan would take a two-thirds majority in both chambers.

Wednesday's revenue forecast provided little insight into the future of Oregon transportation funding, one of the major issues that lawmakers are grappling with this session. That's because most of the state's funding to maintain roads or build transportation infrastructure comes from Oregon's gas tax, DMV fees and taxes on large trucks.

While Oregon economists expect less growth in Oregon's incomes, and thus their personal income taxes, top Democrats in the Legislature have indicated that they intend to increase taxes and fees on drivers to help pay for the state's transportation needs.

Democratic legislators slammed Trump's trade policies and their impact on Oregon in response to the forecast Wednesday.

"Reckless federal actions have consequences, and we are seeing the harm appearing in Oregon's economy," Senate Majority Leader Kayse Jama, a Portland Democrat, said in a statement.

Republican lawmakers blamed policies passed by Oregon Democrats, not federal trade policies, for the state's diminished economic forecast. They said the state's high taxes and business policies are "strangling opportunity" for Oregonians.

"It's time to stop blaming D.C. and start fixing what Democrats broke here at home," Senate Republican Leader Daniel Bonham of The Dalles said in a statement. "Oregon's problem isn't a lack of money. It's a lack of leadership."

Protect Oregon Now, a coalition of Oregon unions and groups advocating for children, the environment and various communities of color, praised Oregon leaders on Wednesday for building reserves that have left the state "better positioned than others" to weather economic uncertainty.

The group urged lawmakers to reject tax breaks for high-income Oregonians this session and instead fund child care, mental health and housing. It took specific aim at House Bill 2301, which would move Oregon's estate tax threshold from \$1 million to \$7 million, arguing that bill would cost the state nearly \$200 million in revenue this biennium.

“Economists agree: the best way to get through a downturn is to maintain support for our communities so families have every opportunity to thrive,” Alejandro Queral, executive director of the Oregon Center for Public Policy, said in a statement. “Billionaires and the wealthy will glide through a recession, but working families here in Oregon are counting on state leadership to fund the services we need to get through difficult times.”

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