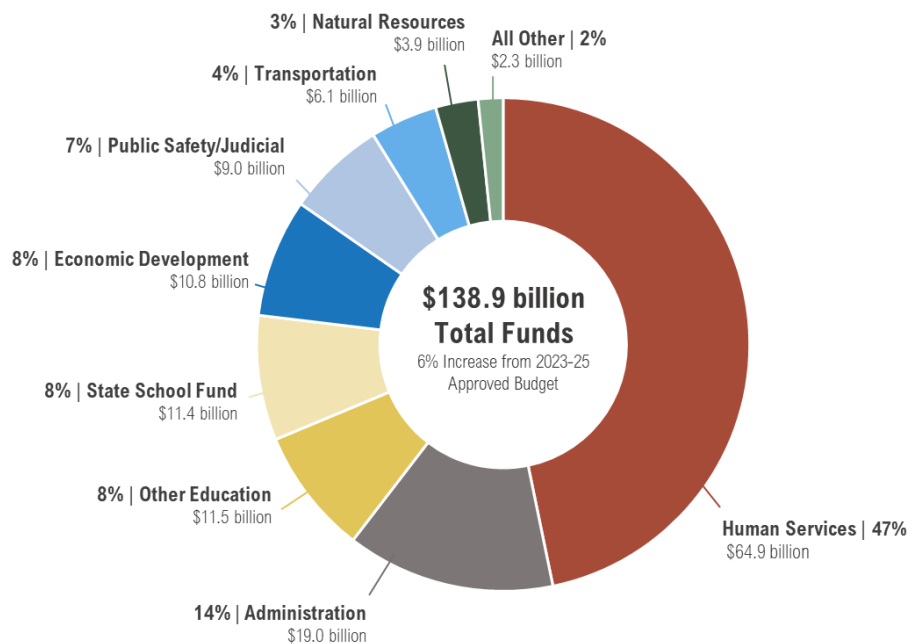


## Western States Legislative Fiscal Officers Association Oregon Budget Update - September 2025

### 2025-27 LEGISLATIVELY ADOPTED BUDGET

During the 2025 legislative session, which was adjourned on June 27, the Oregon Legislature adopted a budget for the 2025-27 biennium totaling \$37.3 billion General Fund, \$1.8 billion Lottery Funds, \$56.1 billion Other Funds, and \$43.7 billion Federal Funds. The 2025-27 state budget of \$138.9 billion represents a 5.9% increase from the 2023-25 legislatively approved budget. Combined General Fund and Lottery Funds expenditures for the 2025-27 biennium are up 11.7% from the 2023-25 legislatively approved level.

#### 2025-27 Legislatively Adopted Budget



Although significant uncertainty surrounding federal funding existed during legislative development of the budget, the state economic and revenue forecast issued in March 2025 reflected sufficient resources to continue current service level funding for programs and services, retain a 1.5% General Fund ending balance, and support additional investments of \$987.5 million. This was the foundation for the Joint Committee on Ways and Means budget framework during session. However, the revenue forecast released in May, which is used as the basis for the adopted budget, declined by over \$500 million. While this didn't create a shortfall that required reductions to ongoing expenditures, it was a considerable shift

from the past two legislative sessions where the May forecast had projected a significant increase in revenues. With only a few weeks left in session, the budget plan had to be rebalanced to accommodate the lower level of available resources. This was partially addressed by suspending the statutory 1% transfer to the Rainy Day Fund for the 2023-25 biennium that would have otherwise been deposited in January 2026.

The adopted budget retained a projected General Fund ending balance for the 2025-27 biennium of \$472.8 million, which represents 1.3% of expenditures. However, Oregon is continuously tied to the federal definition of taxable income for personal and corporate income taxes, and passage of H.R. 1 is estimated to decrease 2025-27 General Fund revenues by just under \$900 million. The Legislature will now need to address a projected budget deficit, along with the General Fund costs associated with H.R. 1, in the February 2026 session.

## TRANSPORTATION FUNDING

Oregon's transportation system is primarily funded through gas taxes, driver and vehicle licenses and fees, and weight-mile taxes. The majority of this revenue is constitutionally dedicated to the State Highway Fund (SHF) and shared between the Oregon Department of Transportation (ODOT), counties, and cities. Due to inflationary cost increases, relatively flat SHF revenues, and statutory restrictions dedicating a majority of revenues to transportation projects, ODOT calculated a budget deficit for operations and maintenance activities of approximately \$354.3 million and 1,005 positions in the 2025-27 biennium. Reductions in the prior two biennia to address the escalation of operating costs above revenue growth had already limited the agency's ability to take additional reductions without significantly impacting services. Although the 2025-27 Governor's Budget assumed sufficient revenue to fund ODOT operations, restoring the shortfall and increasing support for programs, no details on the sources of funding were identified.

During the 2025 session, ODOT's budget was held pending a transportation funding bill that remained under development until mid-June. Due to continued amendments and uncertainty surrounding the timing of the bill, the Joint Committee on Ways and Means passed out an ODOT budget that included \$46 million in reductions and elimination of 121 position to partially address the shortfall, but also assumed passage of a transportation funding bill that would generate sufficient revenue to support restoration of the remaining shortfall of \$308 million, including 884 operations and maintenance positions. Ultimately, no agreement was reached on the transportation funding package, and ODOT immediately announced that it would lay off 483 employees (approximately 10% of total staff), hold 449 positions vacant, and close 12 maintenance facilities across the state.

The Governor called the Legislature into a special session beginning on August 29 to increase transportation revenues to support ODOT operations and road maintenance, as well as funding for local governments and transit districts.

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