

State Budget and Revenue

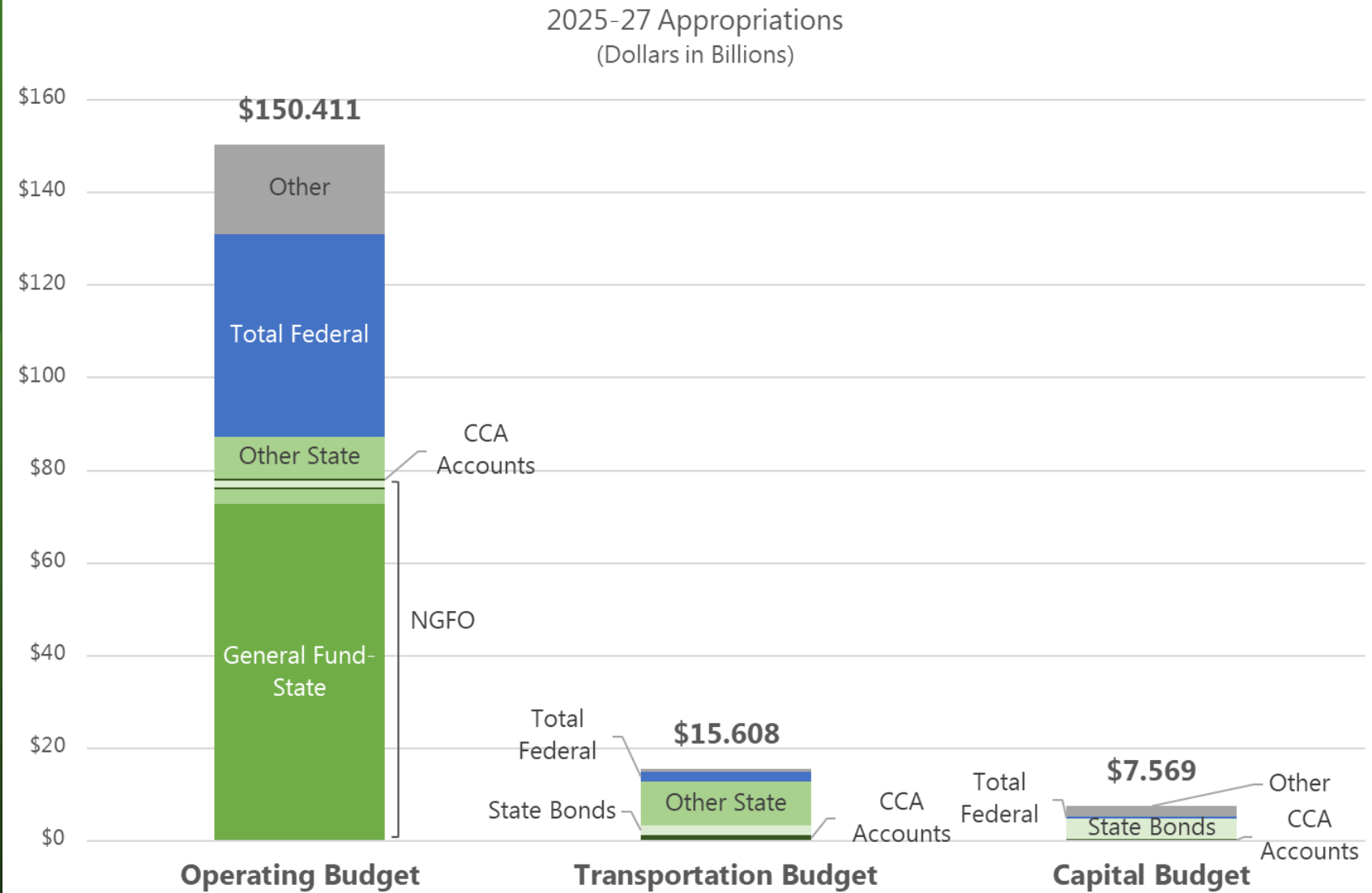
Emily Makings
November 2025



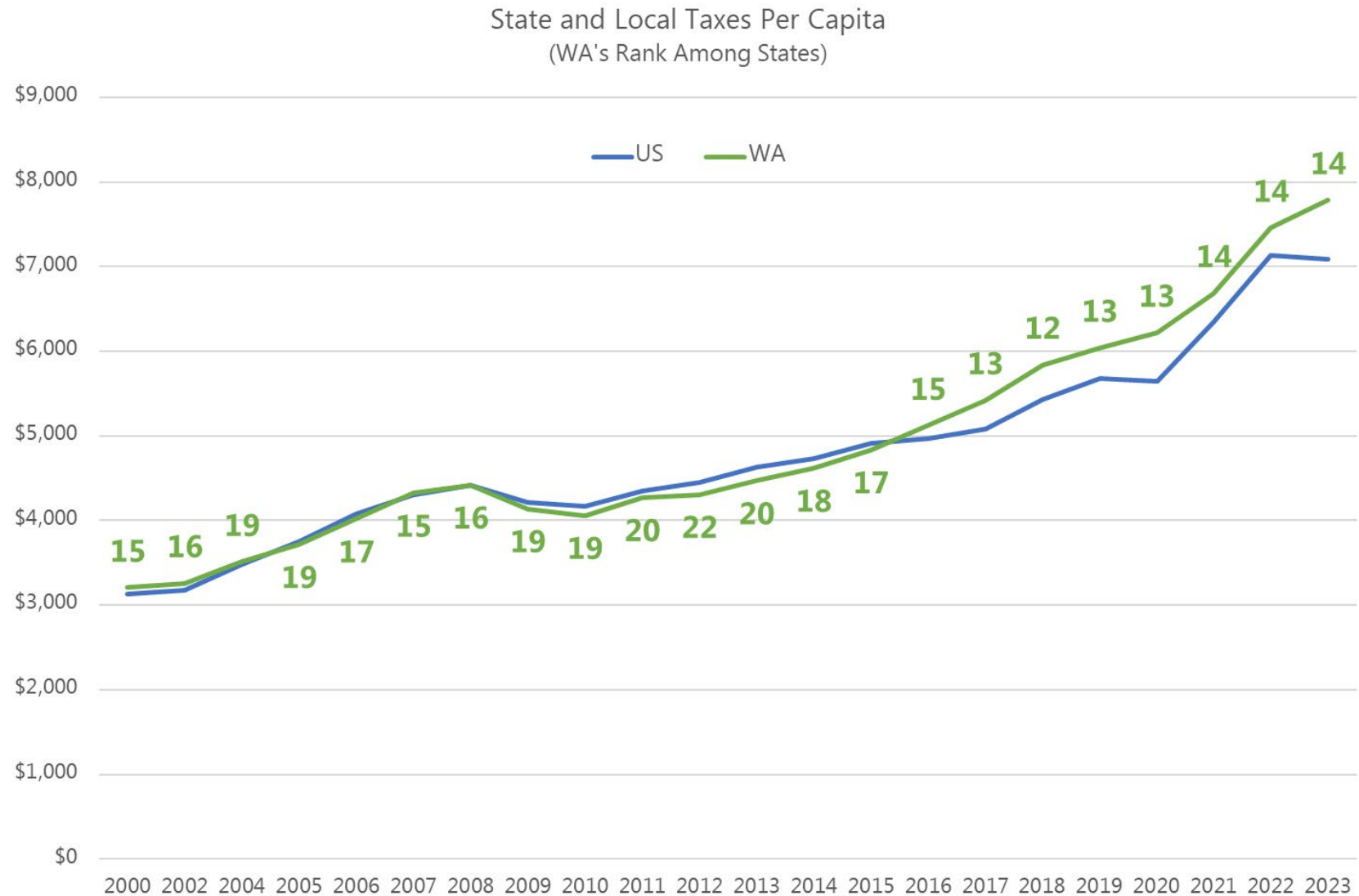
Today

- Budget context
- Revenue history
- Shortfall in 2025
- 2025 budget solution
- Outlook for 2026
- Transportation revenues

WA has three separate budgets.



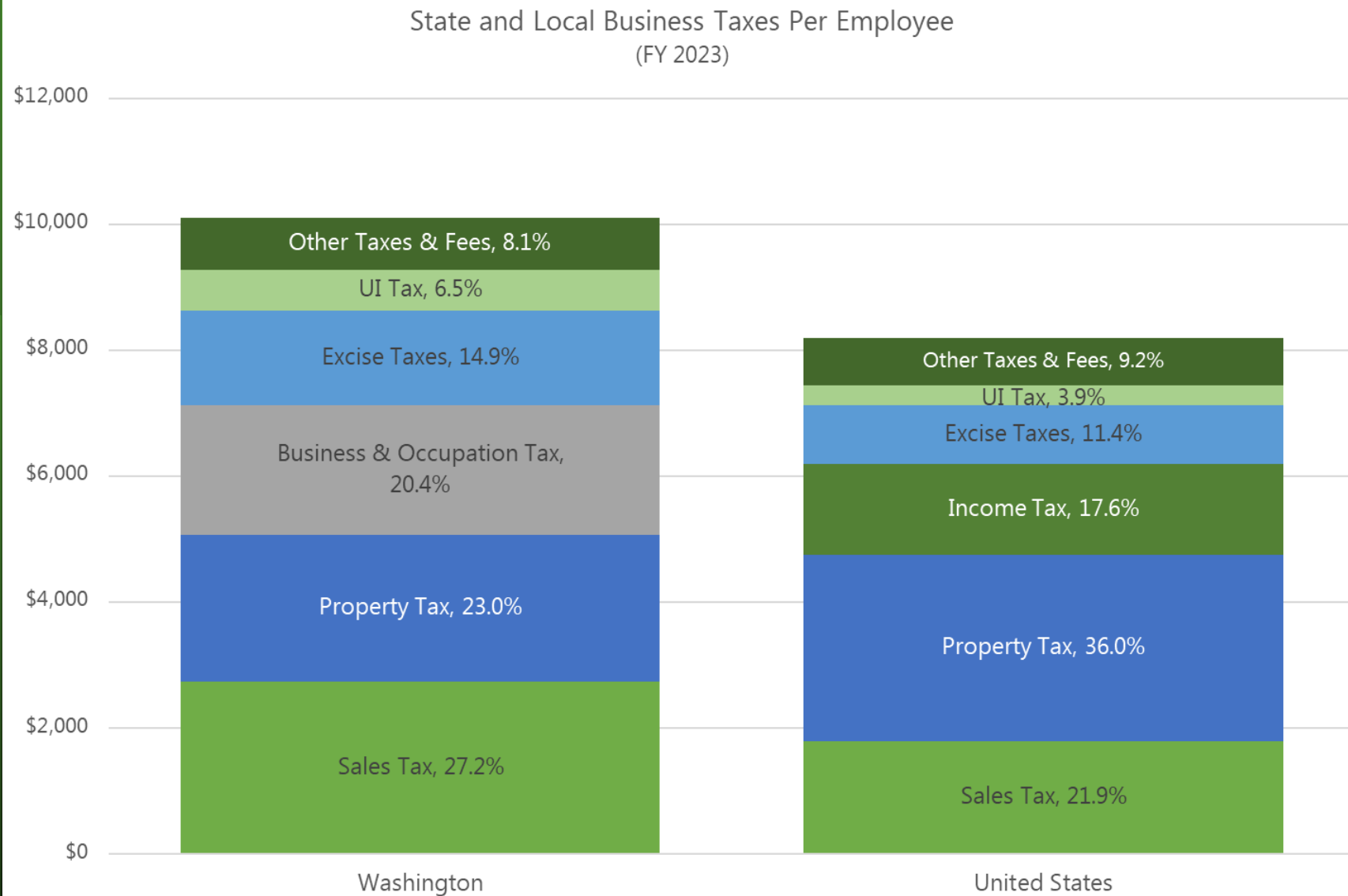
WA ranks 14th on
tax burden per
capita.



Source: U.S. Census, WRC calculations

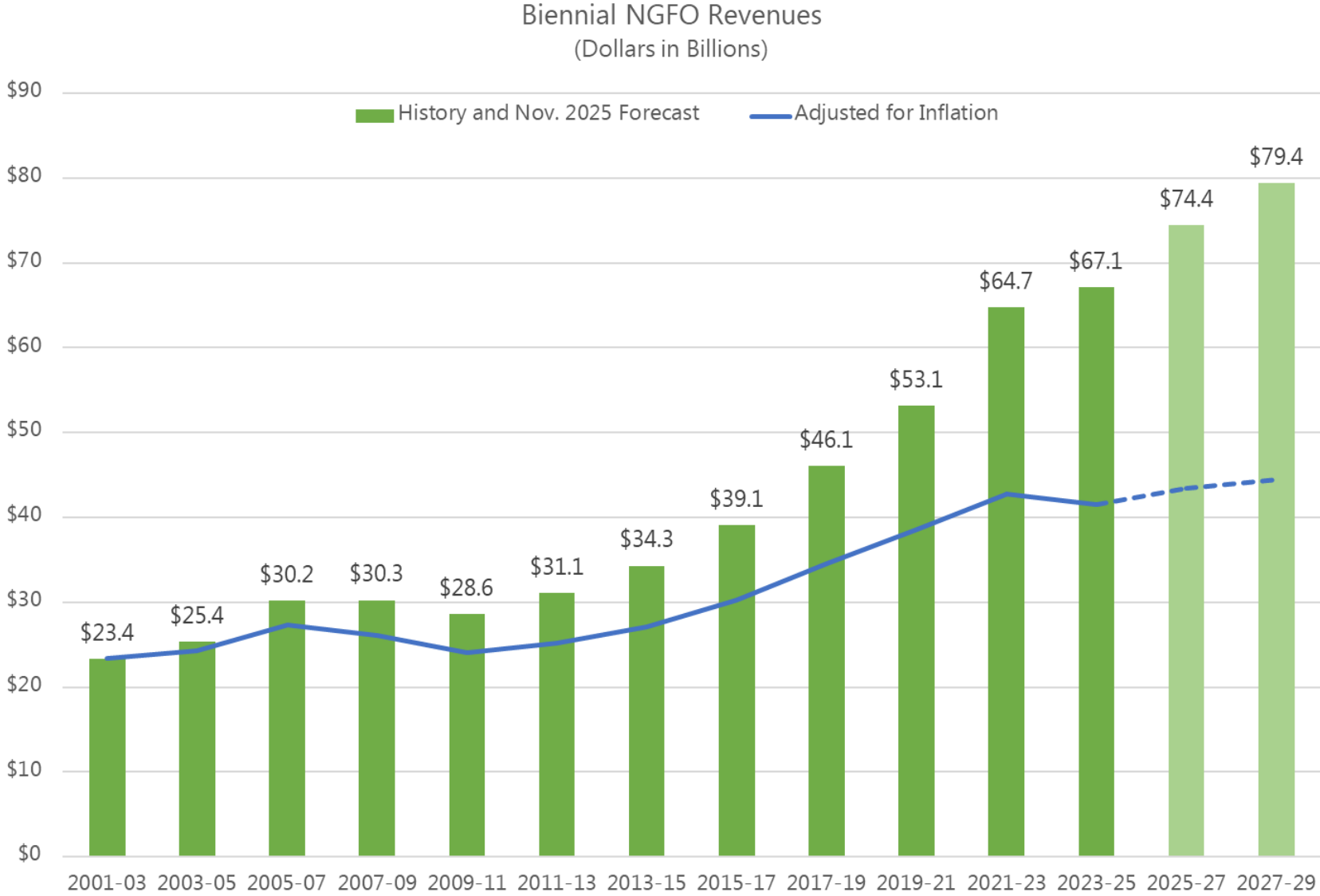
Washington ranks 10th highest in state and local business taxes per employee.

Washington businesses pay 49.6% of state and local taxes.



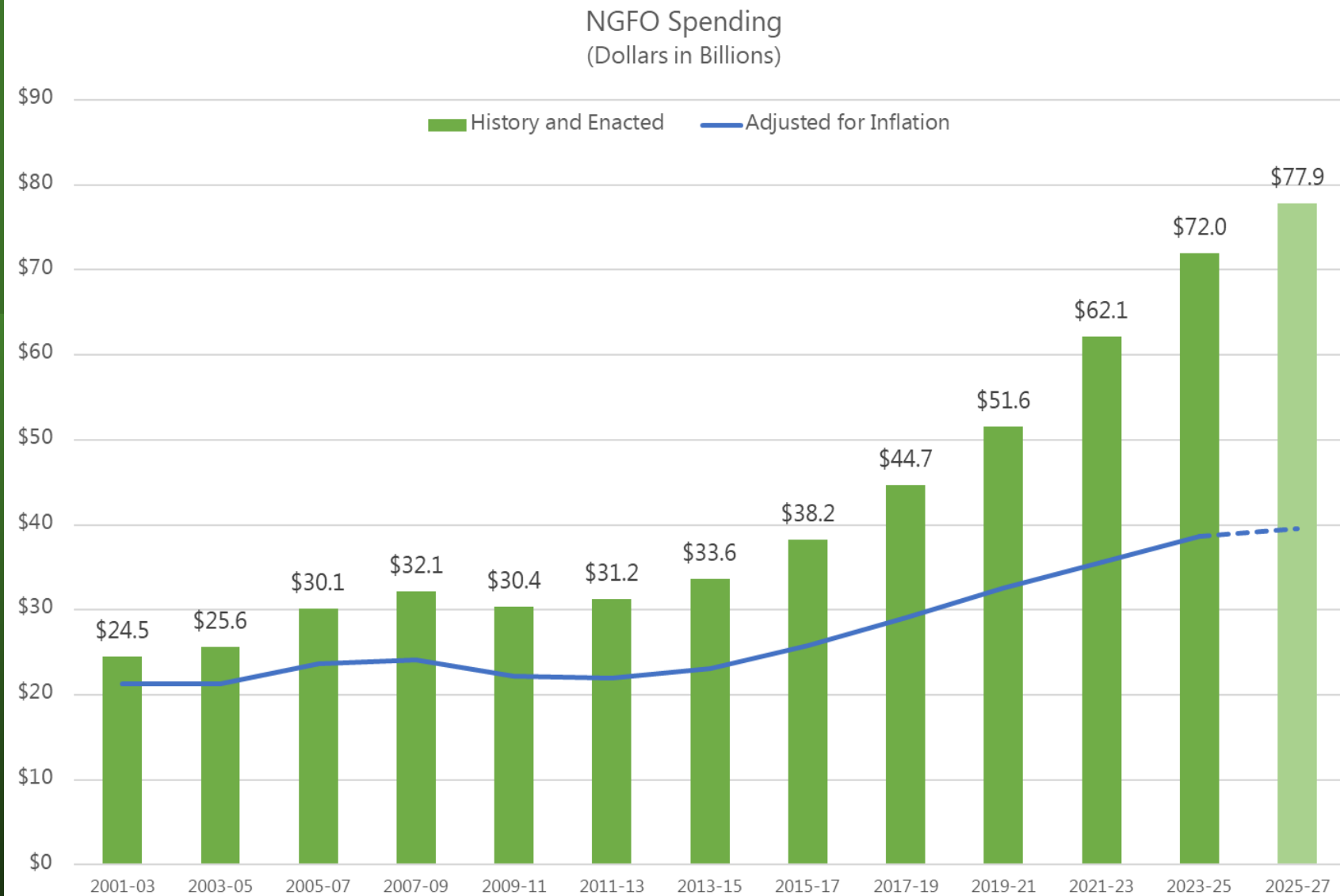
Source: COST

Economic growth and new taxes have led to substantially increased revenues coming out of the Great Recession.



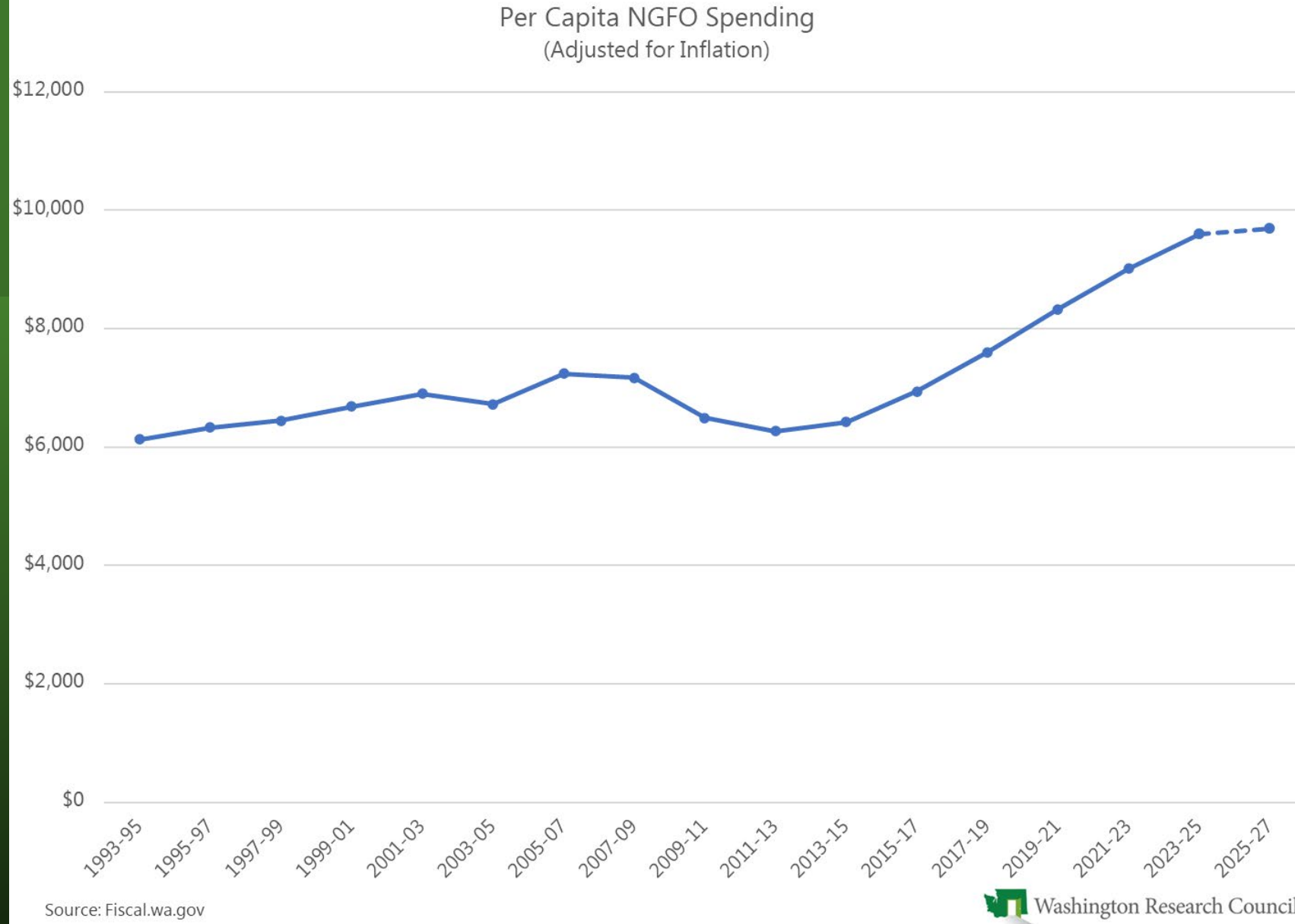
Source: ERFC

For 2025-27, the Legislature increased appropriations by \$5.9 billion (8.2%) (compared to the 2024 supplemental).

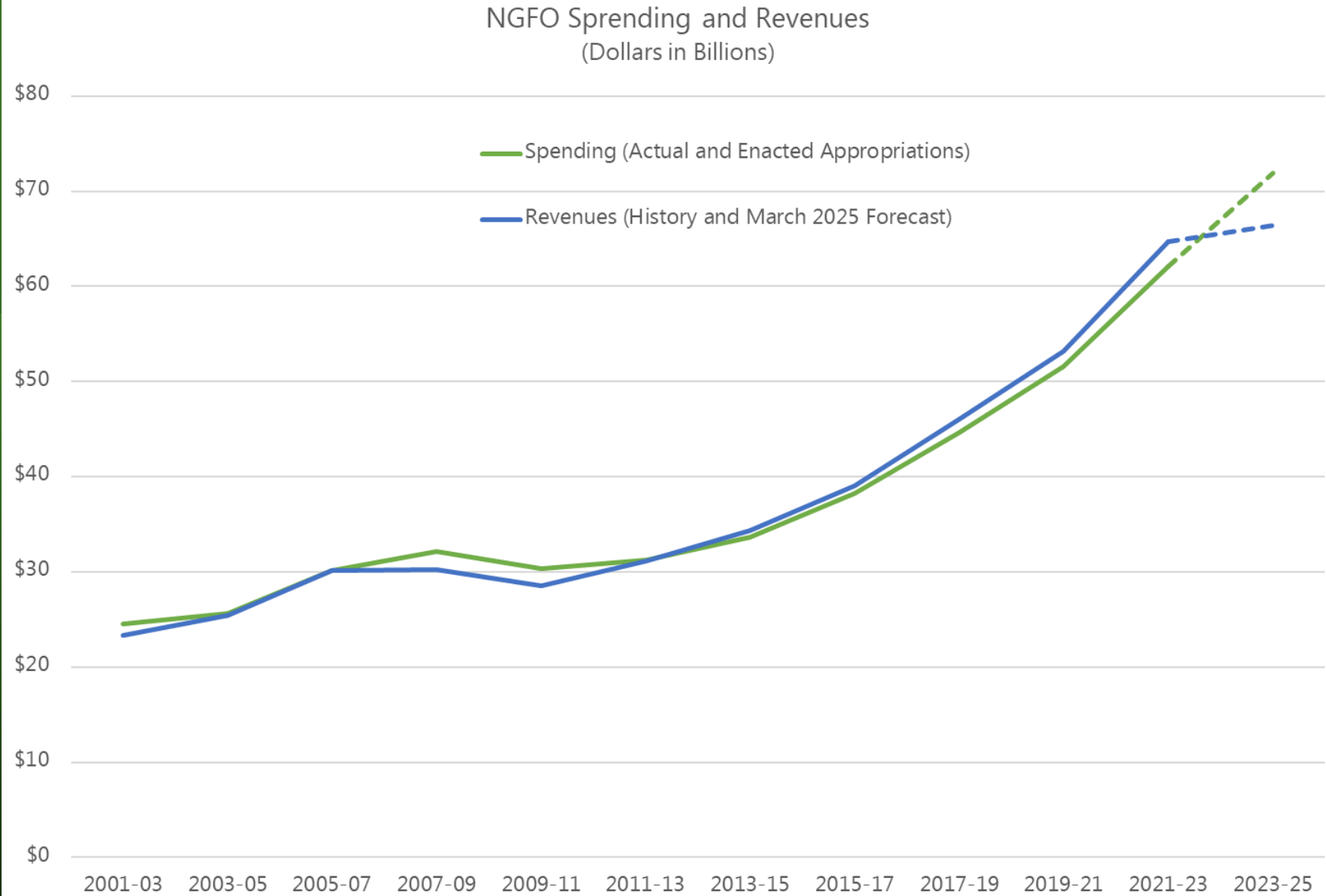


Source: Fiscal.wa.gov

Appropriations in 2025-27 are higher than 2023-25 spending even when adjusted for inflation and population.



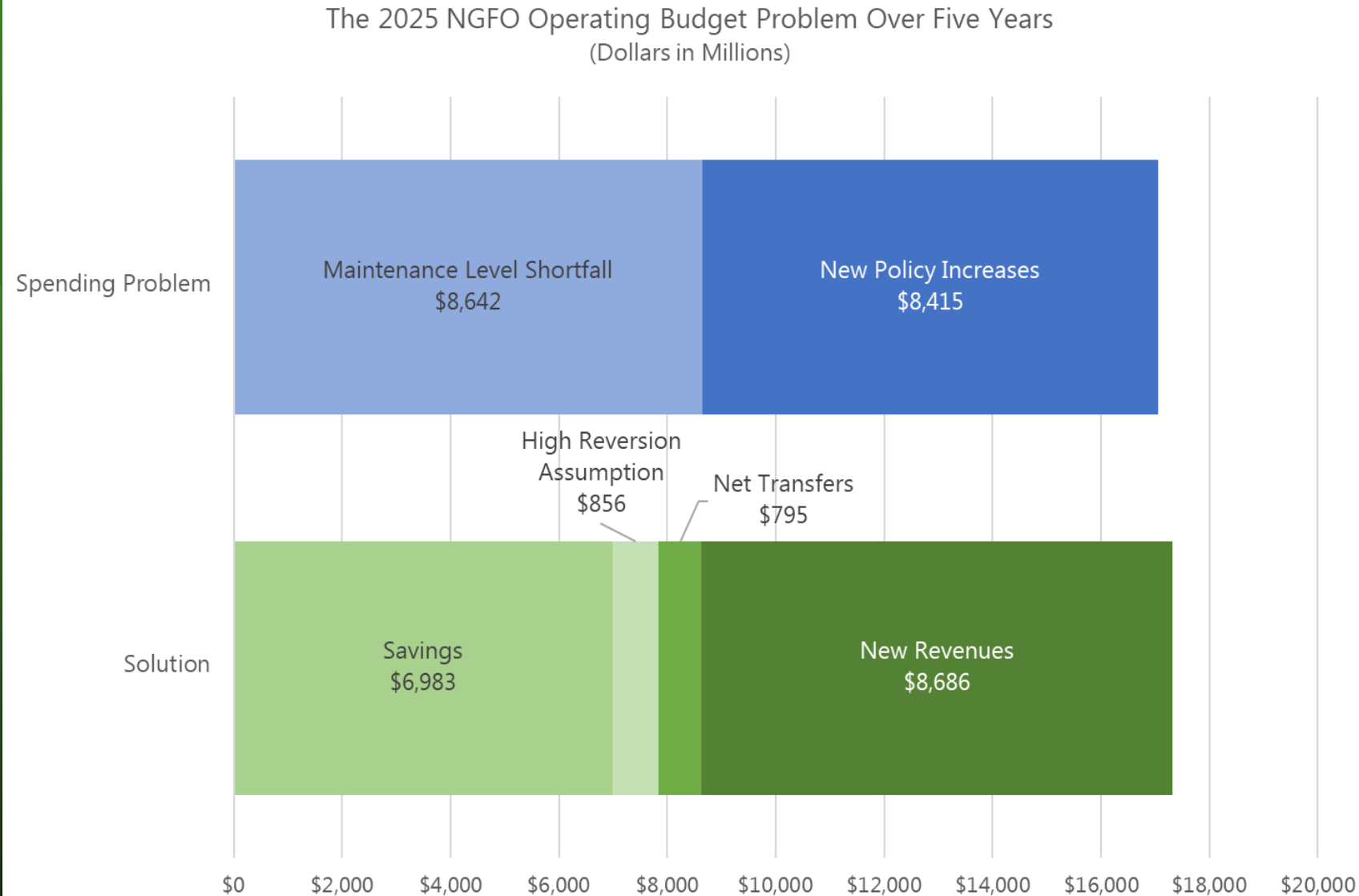
As revised in 2024,
2023-25
appropriations
exceeded revenues
by \$5.5 billion
(7.6%).



Source: Fiscal.wa.gov, ERFC

The Legislature mainly addressed the ML shortfall by cutting spending.

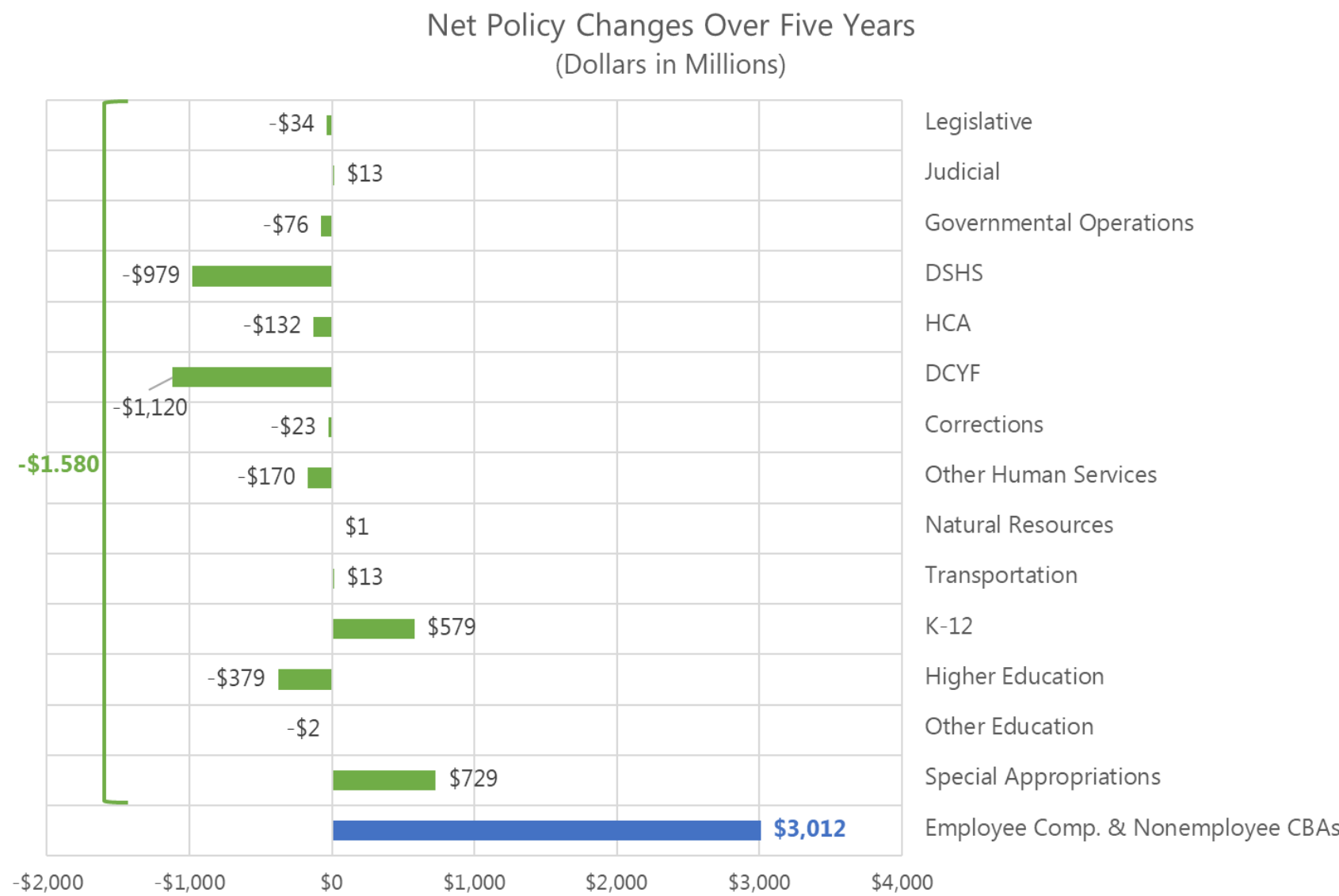
To fund new spending, the Legislature increased taxes.



Sources: Fiscal.wa.gov, ERFC

Effectively, the 2025 budget shifted spending from current priorities to compensation.

Overall, the spending cuts were more than offset with new policies.



Source: Fiscal.wa.gov

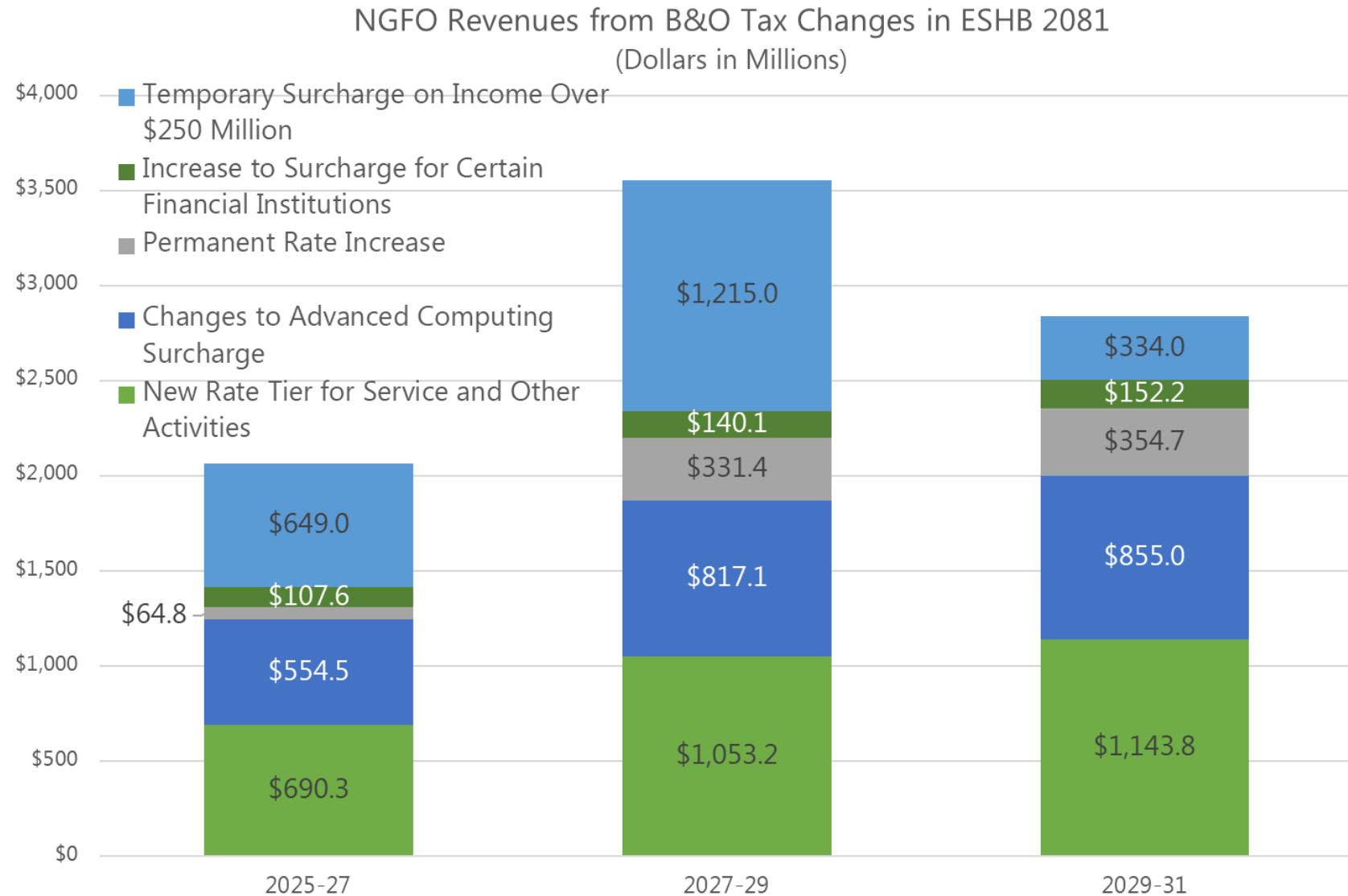
The new spending is funded with a \$9 billion tax package.

These new taxes increase NGFO revenues by 5.1% in 2025-27 and by 7.1% in 2027-29 (compared to the March forecast).

Revenue Package
(Dollars in Millions)

	<u>2025-27</u>	<u>2027-29</u>	<u>4-Years</u>
B&O Tax Increases (HB 2081)	\$2,031	\$3,510	\$5,541
Excise Tax Increases (SB 5814)	\$1,147	\$1,534	\$2,681
Capital Gains Tax & Estate Tax Increases (SB 5813)	\$322	\$314	\$636
Tax Preference Changes (SB 5794)	\$50	\$86	\$136
Tax on Zero-Emission Vehicle Program Surpluses (HB 2077)	\$55	\$0	\$55
Subtotal	\$3,604	\$5,444	\$9,047
Shifts to/from Transportation Budget	\$609	-\$1,217	-\$608
Total	\$4,213	\$4,226	\$8,439

HB 2081 includes a permanent B&O rate increase, a temporary surcharge, changes to the advanced computing surcharge, and a new rate tier for services.



Source: DOR

SB 5814 extends the sales tax to certain services.

Legal and implementation issues suggest that there could be changes to the law and revenue estimates.

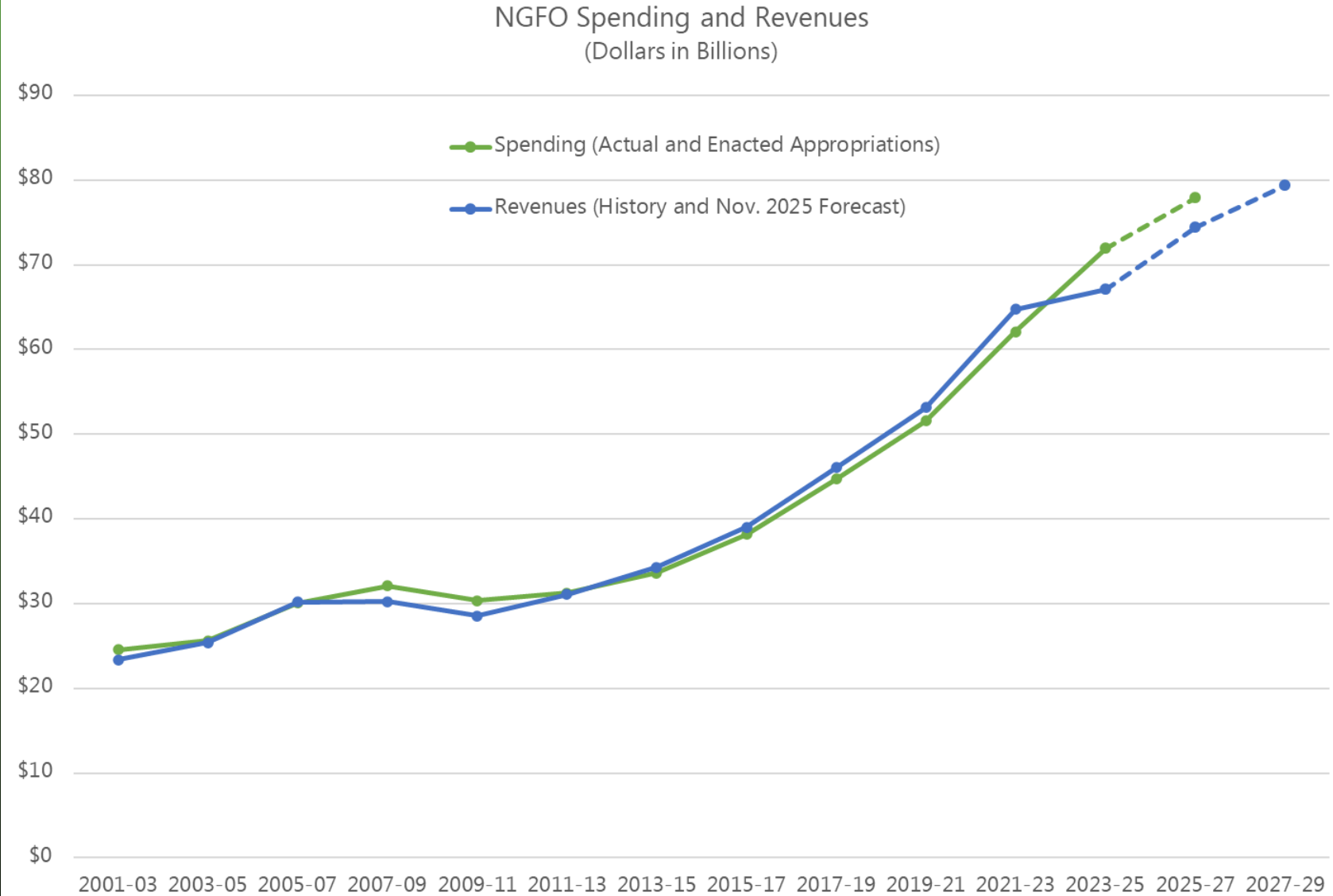
NGFO Revenue Impact of ESSB 5814
(Dollars in Millions)

	<u>2025-27</u>	<u>2027-29</u>
Extending Sales Tax to Select Services	\$663.5	\$881.8
Eliminating Certain Digital Automated Service Exclusions	\$379.2	\$496.0
Taxation of Nicotine Products	\$104.1	\$155.9
Total NGFO	\$1,146.8	\$1,533.7

Immediate sustainability concerns with 2025-27 operating budget

- The unrestricted ending balance was low (\$80 million in 2025-27) given the general fiscal and economic uncertainty.
- The budget only balanced because it assumed an unusually high level of reversions.
- It relied on a tax package that was rushed through with minimal oversight.

There's still a big disconnect between spending and revenues in 2025-27.



Sources: Fiscal.wa.gov, ERFC

With the November revenue forecast, the budget is out of balance in the current and ensuing biennium.

Estimated NGFO Outlook

(Dollars in Millions)

	2025-27	2027-29
Beginning Balance	2,536	(760)
Revenue		
Revenue Assumed in Enacted Budget	75,246	80,652
June 2025 Revenue Forecast Change	(490)	(638)
Sept. 2025 Revenue Forecast Change	(412)	(477)
Nov. 2025 Revenue Forecast Change	105	(185)
<i>Total Revenue</i>	<i>74,449</i>	<i>79,352</i>
Other Resource Changes		
Transfer to Budget Stabilization Account	(699)	(755)
Adjustments	76	41
Enacted Transfers	625	7
<i>Total Other Resource Changes</i>	<i>3</i>	<i>(707)</i>
<i>Total Resources</i>	<i>76,987</i>	<i>77,885</i>
Spending		
Maintenance Level	76,833	79,866
New Policy	1,024	464
Prelim. Nov. Caseload Forecast	654	
Actual/Assumed Reversions	(764)	(696)
<i>Total Spending</i>	<i>77,748</i>	<i>79,634</i>
Unrestricted Ending Fund Balance	(760)	(1,749)
Budget Stabilization Account Beg. Balance	1,269	2,064
Transfers from GFS and Interest Earnings	796	889
Projected BSA Ending Balance	2,064	2,953
<i>Total Reserves</i>	<i>1,304</i>	<i>1,204</i>

Before the 2025 session, shortfalls were expected in the transportation budget of \$520 million in 2025-27 and \$2.4 billion in 2027-29.

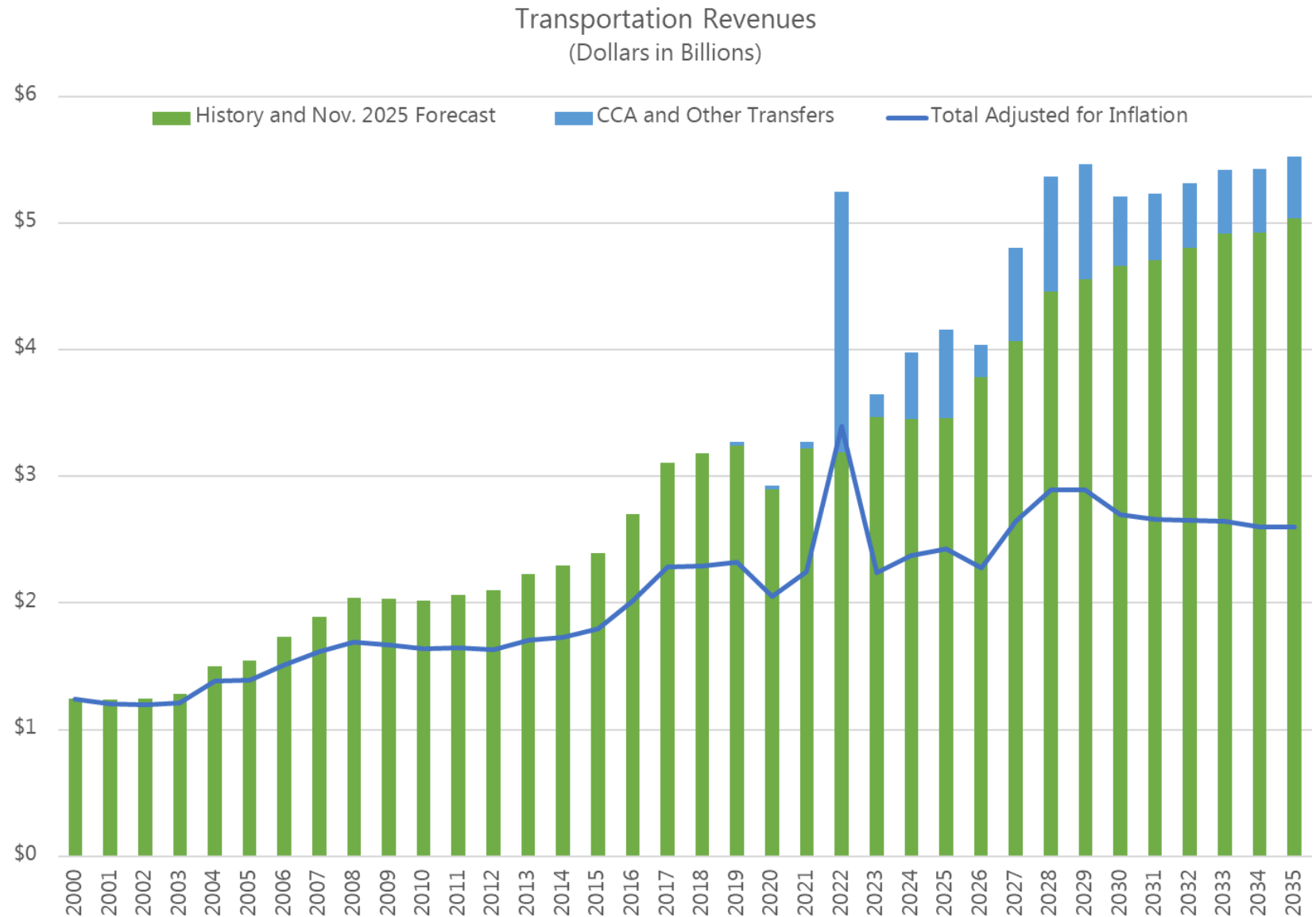
New resources allowed the budget to balance through 2027-29.

2025 Changes to Transportation Resources

Dollars in Millions

	<u>2025-27</u>	<u>2027-29</u>
Tax and Fee Increases		
Motor vehicle fuel and special fuel taxes	\$370	\$555
Retail sales and use taxes	\$169	\$237
Vehicle weight fees	\$96	\$154
Speed safety camera system violations	\$41	\$86
Tire fees	\$29	\$43
Driver fees	\$17	\$26
Other vehicle fees	\$13	\$17
Credit card recovery fee	\$7	\$11
Luxury aircraft tax	\$5	\$8
Other	\$0	\$1
Total	\$746	\$1,139
Transportation Budget Impact of Transfers To and From the Operating Budget		
Temporary transfer from multimodal account to GFS	-\$226	\$0
Temporary transfer from PWAA to GFS (instead of to move ahead WA account)	-\$114	\$0
Temporary elimination of GFS transfer to move ahead WA flexible account	-\$114	\$0
Accelerated sales tax deferral payments	-\$155	\$0
Temporary transfer from GFS to multimodal account	\$0	\$609
Dedicate 0.1% of state sales and use tax rate to the multimodal account	\$0	\$608
Total	-\$609	\$1,217

Adjusted for inflation, transportation revenues are expected to decline beginning in 2029.



Source: ERFC

Summary

- In 2024, the Legislature increased biennial appropriations by 15.8% at a time when revenues were expected to increase by 3.5%.
- This mismatch between revenues and spending led to the 2025 shortfall.
- An historically large tax package was adopted not to close the maintenance level shortfall but to add new spending.
- Revenue forecasts since the end of session have reduced estimated revenues, leaving a new shortfall in the current biennium.