Prevention Alliance

## *BUDGET REPORT: FALL 2025 STATE BUDGET LANDSCAPE*

### ***September 2025 Revenue Forecast***

On September 23rd, the Economic and Revenue Council (ERFC) released the September 2025 Quarterly Economic & Revenue Forecast. The forecast showed a continued decline in our state revenue collections and budget projections compared to the last quarterly forecast that was released in June. The September forecast projects that when compared to the June forecast, total net state revenue subject to the budget outlook[1] is expected to *decrease* by $13.4 million in the current 2023-25 biennium, $412.3 million in the 2025-27 biennium, and $477.3 million in the 2027-29 biennium. This brings the total projected shortfall compared to June to $903 million over the four-year outlook.

**Overview: The Economic & Revenue Forecast Council**

In Washington, the Economic & Revenue Forecast Council (ERFC) releases and adopts four official revenue forecasts each year: spring during legislative session (February in short session years; March in long session years), summer (June), fall (September), and winter before the governor releases their proposed budget (November).

These revenue forecasts look at the various revenue sources (sales tax, property tax, real estate excise tax, business & occupation tax, tobacco/cannabis/liquor taxes, etc.) and the projected impact of economic factors such as unemployment, sales, airline travel (for the ripple effect on Boeing), housing construction and sales, exports, etc. Looking at all these factors, the ERFC builds a forecast for what the state's estimated revenue will be and how much larger/smaller it is than the previous forecast.

As a reminder, the June forecast was also down $720 million when looking at economic changes. While the June 2025 quarterly forecast showed an increase in overall revenue projections, that increase was due to the significant new revenue passed during the 2025 legislative session. The June 2025 forecast was the first to reflect this new revenue. However, when those new revenue additions are backed out, we get a more accurate picture of the economic/non-policy revenue forecast. Taking out the new revenue, in June we saw an increase of $407 million in the current 2023-25 biennium, but then a decrease of $490 million in the 2025-27 biennium, and a decrease of $638 million in the 2027-29 biennium. Which meant the June forecast showed a projected shortfall of $720 million down over the four-year outlook compared to what was projected at the time the legislature passed the budget during the 2025 session.

When looking at these economic factors from the June forecast and the projected shortfall from the September forecast, the combined projected decline in state revenue when compared to the budget passed by the legislature in April is $1.6 billion down over the four-year outlook.

[1] Funds subject to the budget outlook include the state general fund (GF-S), the Education Legacy Trust Account (ELTA), the Opportunities Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). Chapter 8, Laws of 2012, requires the legislature to adopt a four-year balanced budget. Since the 2013-2015 biennium, the legislature has been required to enact a balanced operating budget that leaves a positive ending fund balance in the general fund and related funds (ELTA, OPA, and WEIA). For more background on the Four-Year Outlook, see the Prevention Alliance policy brief on Washington's Four Year Outlook.

While we normally include a comparison chart looking back to the spring forecast (which is the quarterly forecast the legislature used to build their budget on) the significant new revenue passed by the legislature muddies those numbers a bit. Instead, the table we are providing gives a picture of the projected shortfall numbers, which focuses on the economic factors for the June 2025 forecast and the projected shortfall from the September forecast compared to June. *See table 1 for more detail.*

**Table 1: State Revenue Forecast Comparison**

| **Biennium** | **Economic Changes (non-new Revenue) from March to June 2025** | **September 2025 Forecast** *(compared to June)* | **Cumulative Impact: March 2025 to September 2025 comparison** |
|---|---|---|---|
| **2023-25 Biennium** | *$407 million increase* | $67.137 billion *(-$13 million)* | **$394 million increase** |
| **2025-27 Biennium** | *$490 million decrease* | $74.343 billion *(-$412 million)* | **-$902 million decrease** |
| **2027-29** | *$638 million decrease* | $79.537 billion *(-$477 million)* | **-$1.115 billion decrease** |
| | | | ***Four Year Total:*** **-$1.623 billion decrease** |

These numbers show that overall, the September 2025 economic and revenue forecast projects a continued concerning downward trend for the current and ensuing biennia. While there were some positive economic trends (GDP rebounded, debt limit raised, international trade agreements, and strong stock market numbers), there were also major factors that drove the downward forecast (economic impacts of tariffs, federal changes in employment and spending, slow economic growth, and state revenue collections growth continues to be slow).

Another budget indicator that is tracked is the amount in 'reserves'. Reserves are comprised of the projected ending balance (projected revenue and other resources minus estimated expenditures) combined with the amount in the Budget Stabilization Account, also known as the Rainy-Day Fund. The total reserves are estimated at $1.63 billion for the 2025-27 biennium.

When the ERFC produces the quarterly forecast, they include both potential upside and downside risks that could impact the forecast as released, for better or for worse. Some concerning potential landscape shifts that could happen, and impact economic and revenue projections include:

- Higher U.S. tariffs and retaliation
- Impact of the federal government shutdown
- Larger reductions in federal spending and/or employment
- Inflation due to tariffs and/or Federal Reserve pressure
- International conflicts (Russia-Ukraine and the Middle East) could intensify, leading to higher prices for energy.

It is important to remember that all these numbers are simply projections, or the 'best guess', based on available data and the economic landscape. Budget writers, the Governor's office, state agencies, and advocates will be tracking actual revenue collections in the coming months to see which way the economic and revenue climate goes – more toward the optimistic or pessimistic projections.

***Other Budget Landscape Indicators***

The revenue forecast is a very important component of the budget landscape, and one that there is consistent and transparent reporting for due to the existence of the Economic & Revenue Forecast Council in Washington. However, it is not the only piece of the budget puzzle. Below is an overview of some other factors that are percolating in relation to our state budget landscape in Washington. While we don't have firm numbers to share for all of these components, the narrative about their current projected impact is important to understand in the broader budget landscape.

***Remaining Collective Bargaining Agreement***

While most of the collective bargaining agreements (CBA) were deliberated and ultimately funded by the legislature last session, there was one union – the Washington Public Employees Association (WPEA) – who failed to approve their two-year deal in time for lawmakers to account for it in the 2025-27 state budget passed during the 2025 session. This means the ~5,300 WPEA members, which represents state government and community college employees, did not get the pay increases that other state workers received starting July 1st. Recently, members of WPEA overwhelmingly ratified a new one-year contract that would secure raises they weren't able to secure during the 2025 session. The new collective bargaining agreement - if funded - will provide a 3% increase retroactively, along with a 2% increase next July. The agreement was recently approved by more than 90% of the WPEA members who participated. It will be up to the legislature and Gov. Ferguson on whether to fund the agreements in the 2026 supplemental budget they will craft next legislative session.

***Tort Liability Costs***

An additional factor for the state budget landscape is increasing state liability costs. The Department of Enterprise Services (DES), which is the agency that manages the state's lawsuit payouts, submitted a decision package requesting a one-time infusion of nearly $570 million to address rapidly increasing liability costs relating to alleged misconduct such as wrongful terminations, deaths in prison, and mishandled child welfare cases.

Premiums paid by state agencies finance the liability account, but those premiums haven't kept pace with surging costs associated with legal claims against the state. In the 2023-25 biennium, the state paid nearly $800 million in settlements and court judgments. Another $110 million went toward legal fees. Without a more permanent fix to funding the state's self-insurance fund, DES has warned its gap could grow to more than $1.3 billion by mid-2027. By mid-2029, the deficit could be anywhere from $2 billion to $3.2 billion. The department is also asking the Governor to propose adjusting the insurance fund's ongoing funding to minimize this shortfall.

***Federal Activity***

While the state's economy and budget landscape is always influenced by activity at the federal level, that impact is anticipated to be much more significant this year. The two areas of federal activity anticipated to have the largest impact include the passage of H.R. 1 and international tariffs proposed by the Trump administration.

*House Resolution 1:* The passage and enactment of H.R. 1 brings changes to federal policy that will have a significant impact to both individuals in Washington and the state as a whole – especially relating to the state budget. Many state agencies included 'placeholder decision packages' where they provided a narrative and, when possible, projected cost estimates for the anticipated impact of the federal H.R. 1 legislation. These placeholder decision packages can be found under the respective agencies on the Office of Financial Management (OFM) decision package page. In addition, while there is a lot of unknowns about the specific fiscal implications of the federal legislation, OFM has developed a webpage providing agency-specific insights into what's changing as a result of H.R. 1, who is impacted, and when these changes take effect. Effected areas covered by the website include food assistance, health care (Medicaid enrollment, Medicaid providers, and other health care system impacts), higher education, and energy and economic development. OFM has stated that the information will be updated monthly.

*Tariffs*: As a state that has international trade as a significant portion of the economy, the recent federal activity relating to tariffs is anticipated to have a substantial impact on the Washington economy. OFM released a recent report stating that Washington's economy faces a projected $2.2 billion loss in revenue by 2029 and 32,000 job losses as a result of new tariffs proposed by the Trump administration. The report also states that simulations indicate that quarterly state GDP growth could decline by 1.2% to 1.8% between 2025 and 2029. This in turn would have a negative effect on the state economy and revenue collections.

***Caseload Forecast***

Another factor for the state budget landscape in Washington is projected changes in caseload for the various state-funded programs and services (ex. Apple Health (Medicaid), common school enrollment, subsidies for child care, basic needs programs, etc.). Changes in case load result in corresponding increases or decreases in state spending. The next caseload forecast will be released by the Washington State Caseload Forecast Council on November 12th.

***What's Next***

As we get closer to the 2026 legislative session, there are a lot of knowns in relation to the budget landscape, and a lot of unknowns. The next major indicator will be to see how state revenue and other economic factors evolve when the ERFC releases the next quarterly revenue forecast on November 18th.

It is clear at this point that the legislature is anticipated to once again face a significant budget shortfall during the 2026 legislative session. This upcoming year is the second year of the biennium, which means it's a short session and legislators will have just 60 days to develop and

pass the 2026 supplemental budget. That is a very tight timeline considering the complexities of the evolving budget landscape. The extent of the budget shortfall and whether or not the Governor and legislature will be faced with cuts and/or considering additional new revenue is still to be determined. What is clear at this point is that the budget landscape continues to be very challenging and will continue to evolve in the coming months.

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