Prevention Alliance

Budget Report: November 2025 Operating Budget Updates

November 2025 Revenue Forecast

On November 18th, the Economic and Revenue Council (ERFC) released the November 2025 Quarterly Economic & Revenue Forecast. The forecast showed a continued overall downward trend in our state revenue collections and operating budget projections compared to the previous quarterly forecast released in September. While the November forecast projects that when compared to the September forecast, total net state revenue subject to the budget outlook is expected to increase by $105.4 million in the current 2025-27 biennium, it is projected to *decrease* by $184.9 million in the 2027-29 biennium. In closing out the previous biennium, the final revenue total for the 2023-25 biennium was $13.2 million higher than the preliminary September total. *See table 1 for more detail.*

The projected *decrease* of $1.689 billion total over the current and ensuing biennia (2025-2029) is largely due to forecasted economic changes (consumer spending, unemployment rates, real estate activity, etc.).

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.

These numbers show that the November 2025 economic and revenue forecast projects a continued concerning downward trend for revenue for the current and ensuing biennia. While there were some positive economic trends (U.S. economic forecast includes slightly stronger output and lower inflation than in September), there were also major factors that drove the downward forecast (Washington is seeing lower employment growth, lower personal income growth and fewer housing permits than in September).

Table 1: State Revenue Forecast Comparison

Biennium	June 2025 Forecast - Economic Changes (non-new Revenue) *(compared to March)*	September 2025 Forecast *(compared to June)*	November 2025 Forecast *(compared to September)*	Cumulative Impact: March 2025 to November 2025 comparison
2023-25 Biennium	*$407 million increase*	$67.137 billion *(-$13 million)*	$67.137 billion *(+$13.2 million)*	**$407 million increase**
2025-27 Biennium	*$490 million decrease*	$74.343 billion *(-$412 million)*	$74.449 billion *(+$105.4 million)*	**-$796.6 million decrease**
2027-29	*$638 million decrease*	$79.537 billion *(-$477 million)*	$79.352 billion *(-$184.9 million)*	**-$1.3 billion decrease**
				Four Year Total: **-$1.689 billion decrease**

There continues to be a significant amount of uncertainty in the forecast due to trade and federal policy decisions. 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 for economic and revenue projections include:

- There could be higher than expected inflation due to tariffs and/or Federal Reserve pressure
- There could be larger federal employment/spending reductions
- The ongoing Russia-Ukraine and Middle East conflicts could intensify, leading to higher prices for energy.

The pessimistic November 2025 alternative forecast produced by the ERFC projects an additional *decrease* of $3.051 billion for the current 2025-27 biennium and an additional *decrease* of $7.235 billion for the 2027-29 biennium.

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.

November Caseload Forecast

Projected changes in caseload for the various state-funded entitlement programs and services is a significant factor in the budget landscape. The caseload forecast tracks things like Apple Health (Medicaid), common school enrollment, subsidies for childcare, basic needs programs, etc. Entitlement programs are things that the state must provide if a person is eligible. In other words, they can't cap enrollment due to lack of funding. They must provide adequate funding to ensure that service is provided to all who are eligible.

The state Caseload Forecast Council meets three times a year – in the spring during session, in June, and in November. Unlike the Economic & Revenue Forecast Council, the Caseload Forecast Council doesn't meet in September.

The state Caseload Forecast Council met on November 12th to discuss their November caseload forecast. A summary of the caseload forecast is available here. When looking at the November 2025 caseload forecast, there were 7 caseloads that saw an increase, 5 that are lower, and 17 that had a negligible change. The Governor's budget will need to factor in these adjusted caseload numbers and their corresponding budget impact in his proposed budget, which will be released in mid-December.

Maintenance Level Costs

One of the limitations of the caseload forecast is that while it provides the changes in number of people accessing the programs and services that are subject to the forecast, there is not a projected cost impact provided for those changes (at least not publicly). However, at a recent work session in the House Appropriations committee, staff from the Office of Program Research (OPR) provided preliminary maintenance level estimates over the four-year outlook period. **The projected net increase in maintenance level costs is estimated at $3.2 billion.** Major drivers of this increase include:

- $900 million under the Dept of Social & Health Services due to Long-term care caseloads & SNAP policy changes
- $800 million under the Health Care Authority due to per-capita costs and managed care rates
- $600 million under the Dept of Children, Youth & Families due to Working Connections Child Care caseload
- $500 million under the Office of the Superintendent of Public Instruction due to special education safety net

<u>Budget Stabilization Account & Projected Ending Balance</u>

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, which is also known as the Rainy-Day Fund. While we typically look at total reserves in these budget briefs, we are going to break out these two components this time since they are being discussed independently given the broader budget landscape.

Table 2: Preliminary Budget Outlook & Reserves

	2025-27	**2027-29**
Near General Fund Projected Ending Balance *(includes changes from the November revenue forecast and preliminary maintenance level costs)*	$-1.519 billion	$-4.3 billion
Budget Stabilization Account Ending Balance	$2.046 billion	$2.937 billion
Total Reserves	***$527 million***	***$-1.364 billion***

<u>Other Budget Landscape Indicators</u>

It is important to note that while the revenue and caseload forecasts are very important components of the budget landscape, they are not the *only* piece of the budget puzzle. For a deeper dive into some of the additional budget components that are impacting our current budget landscape heading into the 2025 session, see the ***Prevention Alliance Fall 2025 State Budget Landscape Report***.

<u>What's Next</u>

As we approach the 2026 legislative session, the challenging budget landscape is at the forefront of everyone's mind. Rather than growth and new investments, it is anticipated that the legislature will have minimal opportunity for new spending and rather are facing not having enough resources available to pay for current investments and therefore may need to make cuts to existing programs and services, and/or consider new revenue options.

4-Year Balanced Budget

One of the complicating factors of the Washington State budget is that there is a requirement that the budget be balanced not only for the current biennium, but also for the next ensuing biennium. This requirement to balance over the four-year outlook has been in effect since 2013 and is the only such requirement in the country. Balancing over the four-year outlook can be challenging, especially in times with significant budget shortfalls and economic instability like we are currently facing. However, in the recent House Appropriations OPR presentation it was noted that **'when employment growth of <1% is forecasted and the Legislature appropriates from the Budget Stabilization Account (BSA), the Outlook requirement is suspended for the ensuing fiscal biennium.'** In the November revenue forecast, employment growth was projected at 0%. If the employment growth stays below 1% in the February quarterly revenue forecast, it could open the opportunity for the legislature to appropriate from the BSA with a simple majority vote (rather than supermajority that is normally required), and therefore they would then have the option to suspend the four-year balanced budget requirement. When you look at table 2 above, it is clear that while there is a budget shortfall in the current 2025-27 biennium, the larger part of the shortfall – both for revenue and maintenance level costs – fall in the ensuing 2027-29 biennium. This is something that the Governor has as an option to contemplate now, and the legislature could consider if the employment growth remains below 1% in the February forecast.

The extent of the budget shortfall and whether or not the Governor and legislature will be faced with cuts, consider new revenue options, and/or pull from the rainy day fund and waive the four-year balanced budget requirement is all still to be determined. What is clear at this point is that the budget landscape is currently very challenging and will continue to evolve in the coming months.

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