Prevention Alliance

BUDGET MEMO: JUNE 2026 REVENUE FORECAST

On June 26th, the Economic and Revenue Council (ERFC) released the June 2026 Quarterly Economic & Revenue Forecast. The forecast showed a continued *downward* trend in our state revenue collections and budget projections compared to the last quarterly forecast that was released in February. Given this is the first quarterly forecast since the conclusion of the 2026 legislative session, it is the first to capture the projections for the new revenue passed by the legislature this year. Since there were various new revenue proposals passed in the 2026 session, it is important to parse out the non-economic from economic changes in revenue projections. Economic changes are those relating to consumer spending, unemployment rates, real estate activity, etc., while non-economic changes are those relating to legislative changes (i.e. new revenue passed by the legislature) and fund transfers made during the 2026 legislative session.

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.

The June 2026 forecast projects that when compared to the February forecast (which is what the legislature based the 2026 supplemental operating budget on), total net state revenue subject to the budget outlook[1] is expected to increase by $960.6 million in the current 2025-27 biennium, increase by $1.784 billion in the 2027-29 biennium, and increase by $5.172 billion in the 2029-31 biennium.

However, projected revenue increases, especially in the out-years, are largely driven by legislative changes through new revenue. When those new revenue additions passed in the 2026 session are backed out, we get a more accurate picture of the economic/non-policy revenue forecast. Taking out the new revenue[2], we see a *decrease* of $427 million in the current 2025-27 biennium, a *decrease* of $450 million in the 2027-29 biennium, and a *decrease* of $122 million in the 2029-31 biennium. This means there is currently a projected shortfall of about $1 billion down over the four-year outlook compared to what was projected at the time the legislature passed the budget during the 2026 session. While we normally are focused on

[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.

[2] Office of Financial Management, https://ofm.wa.gov/news-publications/june-revenue-forecast-shows-mixed-picture-adds-to-expected-shortfall-in-coming-budget-cycle/

the total change in revenue forecast, it is this economic forecast (highlighted in yellow in the table below) that reflects the concerning downward trend in the state budget landscape. *See table 1 for more detail.*

Table 1: State Revenue Forecast February 2026 Compared to June 2026

Biennium	**February 2026 Forecast (baseline)**	**Non-Economic Changes from February to June** *(includes new revenue passed in the 2026 session)*	**Economic Changes from February to June**	**June 2026 Forecast**	**February 2026 to June 2026 comparison** *(includes new revenue passed in the 2026 session)*
2025-27 Biennium	$75.27 billion	$1.387 billion increase	$427 million decrease	$76.24 billion	$961 million increase
2027-29 Biennium	$80.38 billion	$2.234 billion increase	$440 million decrease	$82.16 billion	$1.78 billion increase
2029-31 Biennium	$96.91 billion	$5.294 billion increase	$122 million decrease	$91.74 billion	$5.17 billion increase
			Four Year Total in Economic Changes: $998 million decrease		***Four Year Total****: $7.916 billion increase*

Looking at the economic changes, which are highlighted in yellow above, we see the June 2026 economic forecast projects a concerning downward trend for the current and next two ensuing biennia. While there were some positive economic trends (consumers are still spending and investment in AI is a growth driver), there were also major factors that drove the downward forecast. These negative factors include:

- Iran war impacts, including on gasoline prices
- Employment growth has been weak
- Tariff uncertainty continues
- While inflation has been slowing over the last few years, it has picked up recently

This downward shift in the revenue forecast is an early indicator of the potential budget landscape for the 2027 session. There are still several months before the 2027 session begins and there are a lot of factors that could impact that landscape, but having a fairly substantial decrease in projected revenue in the couple of months since the previous session adjourned is a concerning trend that should be monitored.

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:

- Trade policy could degrade due to higher U.S. tariffs and retaliation
- International conflicts, including the Iran war, could intensity and continue to impact things like energy prices
- Stock market correction could impact consumer spending
- Weaker employment growth in Washington

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. The total reserves are estimated at $1.876 billion for the current 2025-27 biennium. For comparison, the total reserves last June for the 2023-25 biennium were $3.359 billion.

It is important to remember that all these numbers are 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.

June Caseload Forecast

Another factor that impacts 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.). The state Caseload Forecast Council met on June 11th to discuss their June caseload forecast. A summary of the caseload forecast is available here. When looking at the June 2026 caseload forecast, there were 7 caseloads that saw an increase, 8 that are lower, and 16 that had a negligible change.

In presenting the caseload forecast, staff noted that the June forecast is the one that captures new laws, policies, and budget decisions made by the legislature in the previous session, so it is not uncommon to see larger changes to caseload levels in the June forecast than at other times of the year. In the case of the June 2026 forecast, we see about half of the caseloads showing a negligible change, meaning there hasn't been a large upswing in demand for many services (which would require additional state funding to support), nor as much of a decrease is demand for many services.

While we as the public don't often see the direct fiscal impact of the changes in caseload, this year the Office of Financial Management (OFM) produced a helpful June 2026 Caseload Forecast Overview. In the overview, they state that OFM estimates that caseload changes and related adjustments will save about $40 million in the current 2025-27 biennium. OFM also stated they expect demand for many of the programs and areas represented in the caseload forecast to continue to increase in coming years, adding further pressure on the state budget.

The next Caseload Forecast will be released on November 12th and will be used to inform Governor Ferguson's proposed 2027-29 biennial budget.

What's Next

At this point in the year, state agencies are hard at work pulling together the funding requests (known as decision packages or DPs) that they may put forward for the Governor to consider for inclusion in his proposed 2027-29 operating budget, which he will release in mid-December

2026. The downward shift in the economic and revenue forecast is an early indicator that the fiscal landscape will likely be strained with minimal funding available for anything new or expanding. This concern is echoed in the budget instructions for state agencies released by OFM in June 2026. The budget instructions, which agencies follow as they prepare their decision packages, "protecting core services in a sustainable and equitable way must be our priority". It then goes on to state that agencies should:

- Plan to pause the phase-in of the newest programs and not propose the creation of additional programs
- Identify savings and cost-reductions, including options for efficiencies, program reforms, and other savings in non-essential services and programs.
- Carefully review base budget expenditures, specifically considering programs created or expanded after January 1, 2019; areas where Washington provides particularly high levels of service relative to other states; and innovative proposals that reimagine service delivery in cost effective ways.

Any requests resulting in a net increase in funding are directed to be limited to:

- Non-discretionary changes in legally mandated caseloads or workloads
- Critical and emergent costs that cannot be accommodated with savings or efficiencies in the existing budget

All these instructions translate to agencies submitting minimal requests for new or expanded funding unless legally required or emergent and urgent. Instead, agencies are directed to focus on opportunities for efficiencies and cost saving reductions. Agency decision packages are due to the OFM on September 14th.

The ERFC will convene again on September 25th to release the fall quarterly revenue forecast, which will further build out the economic and revenue landscape as we prepare for the 2027 legislative session.

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