

Prevention Alliance

BUDGET REPORT: FALL 2026 STATE BUDGET LANDSCAPE

September 2026 Revenue Forecast

On September 25th, the Economic and Revenue Council (ERFC) released the [September 2026 Quarterly Economic & Revenue Forecast](#). While there were some positive trends in the forecast, there was still caution among budget leaders and a reminder that this doesn't alleviate the challenging budget situation, particularly in the near future. They highlighted a structural deficit in the budget, particularly in FY28. The September forecast projects that when compared to the June forecast, total net state revenue subject to the [budget outlook](#)¹ is expected to increase by \$21.7 million in the 2025-27 biennium, \$430 million in the 2027-29 biennium, and \$2.382 billion in the 2029-31 biennium. The significant increase in the 2029-31 biennium is driven largely by an upward revision of the estimated receipts from the millionaire's tax that passed in the 2025 session.

While looking at the September numbers in isolation, it is promising to see the positive direction in the projected revenue numbers. However, as a reminder, the June forecast was down \$998 million over the outlook when looking at economic changes. While the June 2026 quarterly forecast showed an increase in overall revenue projections, that increase was due to the significant new revenue passed during the 2026 legislative session – most notably the passage of [Senate Bill 6346](#), commonly known as the millionaires tax, which imposes a 9.9% state tax on household income exceeding \$1 million per year. The June 2026 forecast was the first to reflect this new revenue and therefore showed an overall significant increase in projected 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 a decrease of \$427 million in the 2025-27 biennium, a decrease of \$440 million in the 2027-29 biennium, and a decrease of \$122 million in the 2029-31 biennium. This meant the June forecast showed a projected shortfall of \$998 million down over the four-year outlook compared to what was projected at the time the legislature passed the budget during the 2026 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.

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](#).

When looking at these economic factors from the June forecast and the changes in projections from the September forecast, the combined change in revenue projections over the four-year outlook is an increase of \$1.844 billion. (See table 1) While this is positive news overall, the cumulative increase lies entirely in the 2029-31 biennium, and both the 2027-27 and 2027-29 biennia have projected shortfalls.

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 2026 forecast and the projected shortfall from the September forecast compared to June.

Table 1: State Revenue Forecast Comparison

Biennium	Economic Changes (non-new Revenue) from February to June 2026	September 2026 Forecast (compared to June)	Cumulative Impact: February 2026 to September 2026 comparison
2025-27 Biennium	\$427 million decrease	\$76.258 billion (+\$21.7 million)	-\$405.3 million decrease
2027-29 Biennium	\$440 million decrease	\$82.594 billion (+\$430 million)	-\$10 million decrease
2029-31 Biennium	\$122 million decrease	\$94.121 billion (+\$2.382 billion)	\$2.26 billion increase
			Four Year Total: \$1.844 billion increase

When looking at the factors that inform the economic and revenue forecast, while there were some positive economic trends (slightly stronger employment growth, higher personal income, and more housing permits compared to June), there were also major factors that drove the forecast downward (continuing war impacts, elevated prices, tariff uncertainty, rising inflation).

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 \$1.899 billion for the 2027-29 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:

- The continuing Iran war, which could restrict supplies and increase uncertainty
- Trade policy (higher U.S. tariffs and retaliation)
- Changes to consumer spending

- International conflicts (Russia-Ukraine and the Middle East) could intensify, leading to higher prices for energy.
- WA Initiative 645

The last item on this list of 'risks' is Initiative 645, which seeks to repeal the millionaires tax (SB 6346), which passed last session. If I-645 passes and the millionaires tax were to be repealed, the Secretary of State [estimates](#) that there would be an estimated loss of \$11.432 billion over five fiscal years. This would result in the positive trend in 2029-31 and beyond changing to an immediate and significant budget shortfall. It is also worth noting that in addition to I-645, there are a couple of lawsuits challenging the millionaire's tax. If I-645 were to fail on the ballot, but the courts overturned the millionaires tax in one of the lawsuit, there would be a similar outcome of an immediate loss of a major revenue source for the state. It will be important to watch the outcome of the initiative and court cases to understand the impact on the state budget landscape.

It is also 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.

What's Next

As we get closer to the 2027 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 16th.

There are also additional factors that impact the budget landscape, including changes to caseloads, collective bargaining agreements, increased costs for services, rising court liability costs to the state, and more. These factors will all take shape throughout the fall.

It is clear at this point that the legislature is anticipated to once again face a significant budget shortfall during the 2027 legislative session. The shortfall is specifically relating to the remainder of the current 2025-27 biennium and the upcoming 2027-29 biennium. The Governor will release his proposed budget in mid-December, which will include his approach to addressing this challenging budget landscape. The legislature will then convene on the second Monday in January for the 2027 legislative session. It is a long session, which means they will have 105 days to develop a budget that responds to the current 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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