



## **2025-27 Budget**

### **2025 Legislative Session**

#### **General Overview**

The 2025 legislative session convened on January 13 and was scheduled for 105 days. As with all odd-numbered years, 2025 marked the beginning of Washington State’s biennial budget cycle. The Legislature’s primary responsibilities were twofold: to develop and adopt biennial operating, capital, and transportation budgets, and to debate, advance and adopt policy. The session began amidst significant turnover: 24 new legislators joined the House and Senate, nine new state senators took office, and several statewide executive positions changed hands, including newly elected Governor Bob Ferguson, Attorney General Nick Brown, Insurance Commissioner Patty Kuderer and Commissioner of Public Lands Dave Upthegrove. These changes led to notable shifts in dynamics both within the Legislature and between the legislative and executive branches.

#### **Budget Shortfall**

While a broad array of policy topics was on the agenda, the dominant issue throughout the session was a multi-billion-dollar operating budget shortfall. Revenue forecasts in September and November 2024 projected that expenditures would outpace revenues in both the current and upcoming biennia. The precise size and causes of the shortfall remain debated, but contributing factors likely included increased contractual obligations to state employees, the expiration of temporary federal COVID relief funding, and inflationary pressures. Just before the session began, a leaked email from Senate Democrats previewed a plan to reform Washington’s regressive tax code by introducing new taxes targeted at the state’s highest earners and largest corporations.

Beyond the budget, legislators grappled with a record number of policy proposals. Key themes included housing affordability, parental rights, unemployment benefits for striking workers, and public safety—including firearm regulations. A total of 2,387 bills were introduced (1,305 in the House, 1,082 in the Senate), with only 433 ultimately passing the full Legislature. On March 18, the state’s revenue forecast was updated, projecting a \$900 million drop in the four-year outlook compared to November 2024, bumping the budget deficit to \$15 billion and further complicating budget negotiations. As required by law, the Legislature had to adopt a budget that balanced over two biennia, or four years, (2025-27 and 2027-29) prompting discussions around both spending cuts and new revenue sources.

Governor Ferguson released his own operating budget proposal, demonstrating how the Legislature could reduce spending at the agency level to reduce pressure on the general fund. In addition to continuing \$3 billion in programmatic cuts proposed by outgoing Governor Jay Inslee, Ferguson added another \$4 billion in reductions. He emphasized protecting vulnerable populations, investing \$100 million in law enforcement and public safety, and improving the state's ferry system. However, he also warned that deeper cuts at the federal level — potentially affecting critical services like Medicaid—required Washington State to be adaptable, adjusting to meet the needs of Washingtonians should cuts go into effect. This appeared to mean the Legislature should not exhaust all possible revenue options during the 2025 session.

## Revenue Proposals

Democratic lawmakers in both chambers released initial revenue proposals aimed at addressing the shortfall. Though the specifics varied, both proposals centered on increasing taxes on wealth and financial assets and lifting limits on property tax growth. The proposals were expected to generate \$14–17 billion over four years.

### Senate Democrats' Initial Revenue Proposal (March 2025):

- 5% employer payroll tax on payroll expenses exceeding the Social Security threshold (\$176,100), for businesses with \$7 million+ in total payroll.
- Adjust property tax levy growth to reflect population and inflation (replacing the 1% cap).
- \$10 per \$1,000 financial intangible asset tax (stocks, bonds, etc.) for those with over \$50 million in assets.
- Repeal 20 tax exemptions deemed ineffective.
- State sales tax rate reduction from 6.5% to 6%.

### House Democrats' Initial Revenue Proposal (March 2025):

- Additional 1% B&O tax surcharge on taxable income over \$250 million.
- Increase in existing financial institution surcharge from 1.2% to 1.9% for institutions with income exceeding \$1 billion.
- \$8 per \$1,000 financial intangible property tax, with the first \$50 million exempt.
- Property tax levy cap increased to 3%, reflecting population and inflation.

Following public hearings for each revenue bill, budget writers integrated these revenue assumptions into their respective proposed spending plans. Governor Ferguson, however, criticized the magnitude of the proposed revenue increases, particularly the wealth tax components, citing likely legal challenges and a strong probability that the tax would be unable to provide immediate fiscal relief. He urged lawmakers to consider deeper budget cuts and more conservative revenue options.

Roughly ten days before adjournment, Democrats unveiled a revised revenue package, removing the most controversial proposals and scaling back others in response to the Governor's concerns. The package included the following (April 2025):

- Capital gains and estate tax increase.
- Business and occupation tax increase, and an increase to the Advanced Computing Surcharge (ACS) cap.
- Tax on services and nicotine products, including a prepayment on sales tax for certain businesses.
- Excise tax on zero emission vehicle tax credits.
- Modified tax preferences for certain industries.
- Lifting the state and local property tax cap (later abandoned in final negotiations after pushback from Governor Ferguson).

These changes were projected to generate approximately \$12 billion, though further revisions to the proposals eventually brought the projected revenue closer to \$9 billion over four years. For more details about each proposal's final form, please see the Legislature Adopted Revenue document.

## Outcomes

The Legislature adopted both new revenue and programmatic cuts or delays to support a balanced budget over four years. The Legislature advanced cost-saving measures by unwinding or delaying several statutory programs, including:

- Delay implementation of 2023 law related to the Aged, Blind, and Disabled (ABD) Assistance Program, requiring recipients to pay the state back if they receive federal SSI disability payments for the same time period as the state assistance.
- Eliminates a 2023 law that created the Washington Employee Ownership Program that allows businesses to sell to an employee ownership structure.
- Delays the implementation of a 2024 law that addressed families receiving assistance through Temporary Assistance for Needy Families (TANF). Families receiving TANF must assign their rights to child support to the state as partial reimbursement for receiving assistance. The law would have required DSHS to pass through all child support regardless of TANF assistance; that is delayed until 2029.

The Legislature adjourned *Sine Die* on April 27 at approximately 6 p.m., having passed balanced budgets and accompanying revenue legislation in both chambers. There was much speculation that Governor Ferguson may veto some revenue bills, prompting a special session. Ultimately, the Governor honored the Legislature's work and signed all three budgets and accompanying revenue bills into law. Not surprisingly, the Governor did utilize partial veto authority to cut a total of \$25 million in the operating budget, mostly attributed to studies and programs.

## Budget Summaries

### Operating Budget

The proposed state operating budget for the 2025–27 biennium is based on the March 2025 revenue forecast, which projects \$71.0 billion in General Fund revenue, and assumes 3.5% average annual growth rate over two years. Annual average growth in revenues was 5.2% over fiscal year (FY) 2022 through FY 2024; an annual average growth of 3.5% reflects a decline in revenue growth to support the state budget. For reference, the 2023-25 biennial budget totaled \$71.9 billion.

Total proposed spending for 2025-27 Operating Budget includes \$77.9 billion from the General Fund and \$150.4 billion across all funds. Of the increase in spending from 2023-25 to 2025-27, \$4.4 billion from the General Fund and \$6.8 billion overall are needed just to maintain current services, even without new programs. Budget writers reported that the key cost drivers included inflation in K–12 salaries, growing caseloads in childcare, low-income medical assistance, and long-term care. The budget funds and approves collective bargaining agreements for state employees, including for those who are not union-represented and does not include any furloughs or benefit changes.

The General Fund is projected to end with a \$225 million balance. Total reserves are estimated at \$2.3 billion, including \$2.1 billion in the Budget Stabilization Account. The four-year outlook for 2027–29 anticipates a \$673 million General Fund balance and \$3.6 billion in reserves.

Transfers were made out of the General Fund, including:

- \$77 million to the Disaster Response Account
- \$70.1 million to the Home Security Fund.

Transfers into the General Fund include:

- \$288 million from the Public Works Assistance Account
- \$110 million from the State Treasurer’s Service Account
- \$89 million from the Washington Student Loan Account.

Investments made in the Operating Budget include maintaining funding to the following areas:

- \$93 million for emergency food assistance programs
- \$1.2 billion for homelessness and affordable housing including:
  - \$200 million for the covenant homeownership program
  - \$137 million for the housing essential needs program
  - \$117 million for grants to local governments to maintain shelter space historically funded through document recording fee revenues
  - \$111 million for grants to local governments and nonprofit organizations for homeless housing programs and services
  - \$90 million to transition those living in encampments to safer housing
  - \$25 million for grants to support permanent supportive housing

- \$100 million is allocated to law enforcement grants
- \$20 million to expand resources for crime victims
- \$25 million to improve support for refugee and immigrant communities

The 2025-27 budget also includes \$4.4 billion in new revenue, primarily from increases to the business & occupation tax, capital gains and estate taxes, and excise taxes on services. For more information on the revenue package approved by the Legislature this session, please refer to the Legislature Adopted Revenue document.

## Transportation Budget

Transportation Budget writers faced a multi-billion shortfall over the budget's 10-year spending plan. This was exacerbated with the March 2025 revenue forecast, which projected a further \$1.7 billion decrease in the fuel tax from the prior year's forecast. The fuel tax represents 44% of all forecasted transportation revenues, which presented significant challenges to balance the budget in the next four years. The final negotiated 2025-27 biennial transportation budget totals \$15.5 billion, which is lower than both the House and Senate's initial proposals. Of the \$15.5 billion, approximately 60% (\$9.2 billion) is allocated for capital expenditures, and approximately 40% (\$6.2 billion) will pay for ongoing operating expenditures.

The final budget relies on a variety of new and existing revenues, including a 6-cent fuel tax increase, and increases in several fees such as truck weight fees, passenger weight fees, filing fees and more. While the Legislature considered revenue proposals to replace the fuel tax, such as the road usage charge – a fee modeled after a program in Virginia that is calculated based on a car's average miles per gallon – the Legislature chose to not advance those proposals and instead increased revenues through the state's traditional transportation funding sources. [Click here](#) for a full list of new revenue sources.

Despite these increases, some planned projects were delayed, in order to maintain a balanced budget. The budget also includes a permanent transfer of 0.1% of the state sales tax to transportation, beginning in 2028, adding \$300 million annually.

### *Capital Investments & Project Adjustments*

Most capital funding supports ongoing projects from previous legislative packages and the Climate Commitment Act (CCA). However, many state and local projects not yet under contract have been deferred. To view the final 2025-27 Transportation Budget, [click here](#).

- Fish passage barrier removal receives \$1.09 billion this biennium—\$125 million more than the last—and \$1.12 billion is committed in future budgets.
- Washington State Ferries funding supports construction of a new hybrid-electric ferry and related electrification. The first vessel conversion is delayed by one year, with bids for new vessels due in May 2025. Fleet preservation funding increased by \$100 million for 2025–27.
- Highway maintenance and preservation remains flat for 2025–27 but increases by \$200 million in 2027–29.

### *Climate Commitment Act (CCA)*

Appropriations totaled \$1.36 billion for the 2025-27 biennium, including the following key investments:

- \$127 million for ferry terminal electrification
- \$33 million for the Sandy Williams Connecting Communities program
- \$26.2 million for port electrification competitive grants
- \$7.5 million for the high-speed rail program

### *Cost Management & Program Changes*

To manage costs, the budget reduces or eliminates certain programs and administrative expenses. Savings include reduced travel for agency staff, expanded flexibility for WSDOT project delivery, and authorization for in-house ferry work. While funding for bike and pedestrian safety programs was preserved, reductions were made to transit coordination, rideshare, and transportation demand management grants.

### *Public Safety & Enforcement*

New investments total \$30 million for driver safety, including over \$18 million for work zone speed cameras and \$10 million for young driver education. An additional \$16 million supports the Washington State Patrol, funding training, bonuses, and new trooper classes.

## **Capital Budget**

The state's capital budget funds infrastructure and building construction for state and local communities through direct appropriations and grant programs. A percentage of the operating budget is dedicated to paying bonds issued to fund the budget. Of the three budgets, revenues in the capital budget were the most stable although not as ample as in previous years. In recent years there was an influx of funding into the capital budget from the federal government through American Rescue Plan (ARPA) funds that did not occur for the 25-27 biennium.

### *Key Investments*

The 2025-27 Capital Budget appropriates \$4.5 billion in new bond capacity and \$7.5 billion in total funds, including cash, federal funds, and other revenue sources. To view the final 2025-27 Capital Budget and the associated project lists and grant programs, [click here](#). Below are some highlights of the investments made within the final Capital Budget:

- \$975 million for construction of and improvements to K-12 buildings
- \$827 million for natural resources
- \$605 million for the Housing Trust Fund
- \$129 million for behavioral health facilities
- \$365 million for the Public Works Assistance Account to finance infrastructure projects for cities, counties, and special purpose districts. Existing revenue streams are predicted to give the PWAA some \$754 million in resources through the 2025-27 biennium. This year's budgets make a one-time additional diversion of \$288 million on top of preexisting diversions of \$180 million. To offset that, the capital budget gives the Board \$100 million in state construction bonds and authority to spend \$265 million from the

PWAA, which protects existing commitments and allows the Board to offer a new loan round.

- \$81 million for the Community Economic Revitalization Board to assist communities with financing publicly owned economic development infrastructure improvements to encourage new business development and expansion.
- \$32.5 million for the Brian Abbott Fish Barrier Removal Board to award grants for local culvert replacements.
- \$125 million for grant programs funding local clean energy and climate resilience and mitigation projects.