

Budget Outlook: Adoption

January 27, 2026



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

GOVERNOR'S PROPOSED BUDGET OUTLOOK: METHODOLOGY AND ADOPTION

January 27, 2026
12:30 p.m.

- Call to order
- Approval of meeting minutes for January 12, 2026
 - *Motion expected*
- Budget Outlook methodology and adoption presentation
 - *Motions possible*
- Adjournment

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STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
PO Box 40912 • Olympia, Washington 98504-0912 • (360) 534-1560

Meeting Minutes
Budget Outlook: Methodology
January 12, 2026
Conference Call

Economic and Revenue Forecast Council

June Robinson, Senate, Chair
April Berg, House of Representatives
Travis Couture, House of Representatives
Chris Gildon, Senate
Timm Ormsby, House of Representatives
Ed Orcutt, House of Representatives
Nikki Torres, Senate
Mike Pellicciotti, Treasurer
John Ryser, Department of Revenue
Katherine Chapman-See, Office of Financial Management

Staff

Dave Reich, Executive Director
Rachel Knutson, Office of Financial Management
Corban Nemeth, Senate Ways and Means
Andy Toulon, House Appropriations

Call to Order

Senator Robinson called the meeting to order at 8:00 a.m.

Approval of the Minutes

Representative Orcutt moved, seconded by Representative Ormsby, to adopt the meeting minutes from November 18, 2025. Motion passed at 8:01 a.m.

Budget Outlook: Methodology

The Budget Outlook Work Group members presented 4 issues in preparation of Governor Ferguson's proposed 2026 supplemental operating budget outlook.

Motion for issue #1

Representative Berg moved, seconded by Treasurer Pellicciotti, to adopt a 1% reversion assumption in FY26, and a 0.9% reversion assumption in FY27-FY29. Motion passed at 8:28 a.m.

Motion for issue #2

Representative Couture moved, seconded by Representative Orcutt, to instruct staff to not utilize the 4.5% revenue growth assumption consistent with what was assumed in the Governor's 2026 supplemental budget proposal. Motion passed at 8:34 a.m.

Motion for issue #3

Representative Ormsby moved, seconded by Representative Berg, to instruct staff to assume operating funding for a juvenile rehabilitation facility in the 2027-2029 biennium. Motion passed at 8:42 a.m.

Motion for issue #4

Representative Ormsby moved, seconded by Senator Robinson, to include savings associated with future policy level budget reductions related to increasing Medicaid functional eligibility requirements in the 2027-2029 biennium. Motion passed at 8:49 a.m.

Administrative

Senator Robinson welcomed John Ryser, acting director of the Department of Revenue, to the council.

Adjournment

With no further business, the meeting adjourned at 8:50 a.m.

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Overview of the Methodology for the State Budget Outlook (January 2026)

Introduction

State budget Outlooks identify projected revenues and expenditures in Governor proposed and legislatively enacted budgets over a set period of time to facilitate compliance with balanced budget requirements initially established in Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636). The purpose of this document is to provide an overview of the methodology used to develop the four-year budget projections for the Governor's 2026 supplemental budget proposal. This document summarizes the major components of the projection, the overall approach, as well as the assumptions used in the State Budget Outlook (Outlook) document.

The amounts reflected in the Outlook are the sum of the state General Fund (GF-S), the Education Legacy Trust Account (ELTA), the Opportunity Pathways Account (OPA), and the Workforce Education Investment Account (WEIA). These funds are collectively referred to as the Near General Fund Outlook (NGF-O) funds.

During the 2021 legislative session the Fair Start for Kids Account (FSKA), was added to the NGF-O definition in Chapter 199, Laws of 2021 (E2SSB 5237). The Governor's 2026 supplemental budget proposal contains no resource deposited into or expenditures from the Fair Start for Kids Account.

Chapter 218, Laws of 2020 (SSB 6660) requires that the Governor's budget proposal meet similar four-year balanced budget and Outlook requirements that apply to the enacted legislative budget. The bill amended RCW 43.88.030 to require that the Governor's projected maintenance level for the next ensuing biennium not exceed available fiscal resources. Under statute, projected maintenance level for the Governor's budget includes the estimated costs of proposed executive branch legislation in addition to continuing program costs and required transfers to the budget stabilization account.

Additionally, RCW 43.88.030 suspends the requirement that the projected maintenance level of the Governor's proposed budget balance to available fiscal resources in the next ensuing biennium if the Governor proposes appropriations from the budget stabilization account pursuant to Article VII, Section 12(d)(ii) of the Constitution. This provision of the Constitution allows appropriations from the budget stabilization account by a simple majority of the legislature if the employment growth forecast for that year is less than 1 percent. The Governor's proposed outlook does assume a budget stabilization account transfer under this constitutional provision and as such is not statutorily required to balance to available fiscal resources in the ensuing biennium.

Resources

Pursuant to Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636), the amounts depicted include the actual/projected revenue and other resources. Some of the largest components include:

Beginning Fund Balance

The Outlook uses the certified fund balance in accordance with generally accepted accounting principles for the most recently closed biennium as the starting point. The beginning fund balance for subsequent Fiscal Years (FYs) is equal to the projected ending balance for the previous FY.

Revenue Forecast

Current revenues for the 2025-27 and 2027-29 biennia reflect the adopted November 2025 quarterly revenue forecast by the Economic and Revenue Forecast Council (ERFC or Council). The provisions of Chapter 8, Laws of 2012, 1st sp. sess. (SSB 6636) call for the ensuing biennium revenue (in this instance, the 2027-29 biennium) to be based on the greater of:

Overview of the Methodology for the State Budget Outlook (January 2026)

- (1) the official revenue forecast for the ensuing biennium; or
- (2) an assumed revenue increase of 4.5 percent per year for that ensuing biennium.

The November 2025 forecast projected revenue growth of less than 4.5 percent per year in the 2027-29 biennium. The Governor's proposed supplemental budget did not assume the 4.5 percent revenue growth adjustment in the 2027-29 biennium. At the January 12, 2026 ERFC meeting, the Council directed that the Outlook for the Governor's 2026 supplemental budget be prepared without the impact of the 4.5 percent revenue growth adjustment. This decreases estimated resources in the Outlook by \$2.168 billion.

For more information, please see the memo to the Council available at:

https://erfc.wa.gov/sites/default/files/2026-01/20260112_budget_outlook_methodology_memo.pdf

Transfers to Budget Stabilization Account (BSA)

Pursuant to a constitutional amendment approved by the voters in 2007 (Article VII, section 12(1) of the Constitution), the Outlook reflects the transfer of one percent of general state revenues (GSR) for each FY to the BSA. The estimated transfer amounts are based on the calculation of estimated GSR as defined in Article VIII, section 1, of the Constitution. The calculation of estimated GSR is based on the November 2025 revenue forecast adjusted for the estimated revenue impacts of the Governor's proposed revenue legislation. In the Outlook, the assumed 1 percent GF-S transfers to the BSA are \$700 million in the 2025-27 biennium, and \$755 in the 2027-29 biennium.

Extraordinary Revenue Growth

Pursuant to a constitutional amendment approved by the voters in 2011 (Article VII, section 12 of the Constitution), the Outlook reflects the transfer of three-quarters of extraordinary revenue growth (ERG) into the BSA. ERG is defined in the state Constitution as growth in general state revenues for the fiscal biennium that exceeds the average biennial percentage growth of the prior five fiscal biennia by one-third. The state Constitution also provides that the transfer only occurs to the extent that it exceeds the normal transfer amount into the BSA and that no ERG transfer shall occur in a fiscal biennium following a fiscal biennium in which annual average state employment growth averaged less than one percent per fiscal year. The adopted November 2025 revenue forecast does not project ERG for the 2025-27 or 2027-29 biennia, so no additional BSA transfer is assumed in this Outlook.

Prior Period Adjustments

The Outlook assumes NGF-O prior period adjustments of \$93 million in the 2025-27 biennium and \$41 million in the 2027-29 biennium. The larger amount for the 2025-27 biennium reflects an adjustment for the state share of remittances paid back to the state by Medicaid Managed Care Organizations pursuant to contractual gain share provisions and excess reserves returned by Behavioral Health Administrative Services Organizations pursuant to direction from the Health Care Authority.

Enacted Fund Transfers

This category reflects all enacted NGF-O fund transfers made through the 2025 legislative session (including special sessions) after accounting for vetoes. For more information, see the 2025 Legislative Budget Notes:

- <https://fiscal.wa.gov/lbns/2025LBN.pdf>

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Governor's Proposed Resource Changes

Proposed Fund Transfers

The Governor's 2026 supplemental budget proposes the following NGF-O transfers.

Transfers Proposed in Governor's 2026 Supplemental Budget (\$'s in 1,000's)			
	2025-27	2027-29	4-Year Total
Disaster Response Account (GF-S)	\$(14,000)	\$0	\$(14,000)
Laboratory Accreditation Account (GF-S)	\$(500)	\$0	\$(500)
Reclamation Account (GF-S)	\$4,000	\$0	\$4,000
Emergency Medical Services and Trauma Care Systems Trust Account (GF-S)	\$1,750	\$0	\$1,750
Waste Reduction, Recycling, and Litter Control Account (GF-S)	\$2,000	\$0	\$2,000
Public Works Assistance Account (GF-S)	\$75,000	\$0	\$75,000
Military Department Rent and Lease Account (GF-S)	\$2,000	\$0	\$2,000
Medical Test Site Licensure Account to the (GF-S)	\$1,500	\$0	\$1,500
Washington State Library Archives Building Account (GF-S)	\$10,000	\$0	\$10,000
Washington Student Loan Account (GF-S)	\$1,637	\$0	\$1,637
Capital Community Assistance Account (GF-S)	\$3,400	\$0	\$3,400
Financial Services Regulation Account (GF-S)	\$2,382	\$0	\$2,382
Treasurer's Service Account (GF-S)	\$5,000	\$0	\$5,000
Secretary of State's Revolving Account (GF-S)	\$5,000	\$0	\$5,000
Education Technology Revolving Fund (GF-S)	\$9,000	\$0	\$9,000
Information Technology Investment Revolving Account (GF-S)	\$2,000	\$0	\$2,000
Washington Technology Solutions Revolving Account (GF-S)	\$3,000	\$0	\$3,000
Derelict Vessel Removal Account (GF-S)	\$5,000	\$0	\$5,000
Performance Audits of Government Account (GF-S)	\$2,800	\$0	\$2,800
Developmental Disabilities Community Services Account (GF-S)	\$2,000	\$0	\$2,000
Total	\$122,969	\$0	\$122,969
Notes:			
1. Positive numbers reflect a transfer from a non-NGF-O account to a NGF-O account.			
2. Negative numbers reflect a transfer from a NGF-O account to a non-NGF-O account.			

Additional BSA Related Transfer

The Governor's 2026 supplemental budget proposes the following transfer between the BSA and GF-S account.

BSA Related Transfer Proposed in the Governor's 2026 Supplemental Budget (\$'s in 1,000's)			
	2025-27	2027-29	4-Year Total
BSA to GF-S	\$880	\$0	\$880
Total	\$880	\$0	\$0

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Proposed Revenue Legislation

The Governor is proposing four pieces of legislation that will affect NGF-O revenues if enacted:

Governor's Revenue Proposals (\$'s in 1,000's)			
	2025-27	2027-29	4-Year Total
Insurance Premiums Tax (HB 2487/SB 5949)	\$55,600	\$17,200	\$72,800
Fees for Environmental Programs (HB 2288/SB 6151)	\$(1,087)	\$(2,091)	\$(3,178)
Repeal Data Center Refurbishment Tax Exemption (HB XXXX/SB 6231)	\$63,000	\$140,480	\$203,480
Repeal Prescription Drug Reseller Tax Preference (HB XXXX/SB 6228)	\$26,500	\$154,600	\$181,100
Total	\$144,013	\$310,189	\$454,202

Budget Driven Revenue Adjustments

Adjustments are made to reflect the difference between assumed transfers of cannabis, liquor, and lottery revenue to GF-S and OPA in the November 2025 forecast and what is estimated to be available after adjusting for the Governor's proposed spending levels. Adjustments are also made to account for a bill proposed by the Governor, Cannabis Fee Increases (HB XXXX/SB XXXX), which beginning July 1, 2027, increases the annual fee for cannabis producers, processors, and retailers and adds an annual inflation adjustment to these fees.

Governor's Budget Driven Revenue (\$'s in 1,000's)			
	2025-27	2027-29	4-Year Total
Liquor & Cannabis Board (Liquor)	\$(9,891)	\$(10,409)	\$(20,300)
Liquor & Cannabis Board (Cannabis)	\$384	\$764	\$1,148
Lottery	\$(577)	\$(713)	\$(1,290)
Cannabis Distribution Changes	\$(59)	\$(119)	\$(178)
Total	\$(10,143)	\$(10,477)	\$(20,620)

Adjusted Capital Gains Tax Distributions

An additional resource adjustment is made to reflect a change to the distribution of capital gains tax revenue (RCW 82.87.030) in Sec. 924 of the Governor's 2026 supplemental budget proposal. For the 2025-27 biennium an additional \$150 million in capital gains tax revenue, \$75 million in FY 2026 and \$75 million in FY 2027, is to be deposited into ELTA, rather than be deposited into the Common School Construction Fund.

Expenditures

As the starting point for the expenditure projection, the Outlook utilizes the most recently enacted budget (the 2025-27 biennial operating budget). Adjustments are then made for the Governor's 2026 supplemental proposed Maintenance Level (ML) and proposed Policy Level (PL) changes. For more information on the 2025-27 biennial budget, please see:

- <https://fiscal.wa.gov/lbns/2025LBN.pdf>

Estimating Costs for the 2027-29 Fiscal Biennia

Estimated costs for the 2027-29 biennium are based on the appropriations detailed in the Governor's 2026 supplemental operating budget. Per statute, the estimated expenditures in the Outlook reflect the cost to continue current programs, entitlement program growth, and actions required by law in the subsequent fiscal biennium (i.e., the 2027-29 biennium) in addition to the costs of Governor proposed legislation. The general approach to estimating the cost to continue current programs and growth in

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entitlement programs is by applying a historical growth factor to the FY cost/savings associated with a budget item.

The historical growth factors used to estimate increased costs in the subsequent fiscal biennium are updated each biennium through a joint effort by legislative and executive branch staff and are ultimately adopted by the ERFC. The growth factors to be used for Outlooks prepared during the 2025-27 biennium were adopted by the ERFC on September 13, 2024.

Additional information on the calculation of the historical growth factors adopted by the ERFC for the current Outlook can be found in the following document available on the ERFC website:

- https://erfc.wa.gov/sites/default/files/2025-06/20240913_BO_Outlook_Growth_Factors_Update.pdf

The current ERFC adopted growth rates are shown below:

2024 Outlook Growth Rates Summary Table	
Default Growth Rate Category	Adopted 2024 Growth Factors
All Other	1.02%
Children, Youth, and Families ¹	1.02%
Corrections	1.49%
Debt Service	Use Bond Model
Department of Social and Health Services	3.09%
Higher Education	1.17%
K-12 Education	Use K-12 Model
Low Income Health Care & Community Behavioral Health	2.83%

There are some cases whereby simply applying the growth factor to the cost or savings of a budget item is not used to estimate costs in the subsequent fiscal biennium. These include the following situations:

- **K-12 Education.** K-12 Outlook calculations are derived from the K-12 model, which is updated quarterly based on the caseload forecast for growth and inflationary factors. The K-12 model is periodically updated for other factors such as levy equalization and student transportation.
- **Debt Service.** Debt service calculations are derived from the debt service model. The Outlook statute specifies that "estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature." Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2027-29 biennium bond bill and capital budget.
- **Custom adjustments.** Custom adjustments are used when the estimated annual costs in the subsequent fiscal biennium are expected to be significantly different from the second FY of the current biennium. This occurs primarily when a policy is being phased in during the second FY of a biennium or may be delayed until the subsequent fiscal biennium. In most cases, the growth factor is applied after a custom adjustment is made to reflect the phase in for the policy item. In a small number of cases, the custom adjustment already accounts for the types of growth captured by the growth factor and so the growth factor is not applied.
- **One-Time costs.** Certain items in the budget are one-time for the current biennium and therefore the related costs or savings are not carried forward into the subsequent biennium.

¹ Children, Youth, and Families was not presented as a separate growth factor to the Council but was calculated with the All Other category and subsequently displayed as a separate category in Outlooks published during the 2026 session.

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- **Compensation items.** Because the Outlook statute specifically excludes any additional future costs related to collective bargaining agreements (CBAs) not approved by the Legislature, or salaries and benefits, no growth factor is applied to compensation related items. However, a custom adjustment is applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium.

Maintenance Level Items

In this section, additional adjustments are made to reflect the NGF-O costs of continuing to comply with current law provisions. This is often referred to as maintenance level (ML). Pursuant to the provisions of Chapter 8, Laws of 2012, 1st sp.s. (SSB 6636), this excludes the costs of policy enhancements, including new CBAs not approved by the Legislature, other proposed compensation increases, and costs of any adverse court rulings within 90 days of each respective legislative session.

The following are the total statewide ML impacts, by biennial period:

- ❖ 2025-27 biennial: \$1.244 billion increased costs.
- ❖ 2027-29 biennial estimate: \$1.125 billion increased costs.

These amounts are based on the Governor's 2026 supplemental budget proposal and will change prior to the enacted 2026 supplemental budget.

Kindergarten – Grade 12 (K-12) Education

The amounts depicted reflect the November 2025 caseload forecast and K-12 entitlement changes. The K-12 funding is adjusted each year of the ensuing biennium using the K-12 model, which updates the growth and inflationary factors with each forecast. The K-12 model is also periodically updated for other factors such as levy equalization and student transportation.

ML adjustments total \$241 million increased costs in the 2025-27 biennium and an estimated \$219 million increased costs in the 2027-29 biennium.

The larger cost increases are related primarily to safety net adjustments, updates to the School Employees Benefits Board (SEBB) rate, and special education enrollment and workload adjustments. The largest savings in this category are related to enrollment and workload adjustments for the general K-12 population and charter schools.

Low-Income Health Care and Community Behavioral Health

The amounts depicted reflect the November 2025 caseload forecast and per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include utilization, caseload, and medical inflation. The average growth factor for this grouping is 2.83 percent per FY from FY 2027 levels.

ML adjustments total \$352 million increased costs in the 2025-27 biennium and an estimated \$351 million increased costs in the 2027-29 biennium.

The larger state costs are related primarily to projected increases in utilization of medical services by some Medicaid-eligible clients and adjusted rates for managed care health services. Larger state savings are related to projected mandatory caseload adjustments for the Medicaid eligible population and adjustments to the federal medical assistance percentage (FMAP) paid for behavioral health medical services.

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Social and Health Services

The amounts depicted reflect the November 2025 caseload forecast and updated per capita cost information, as well as other mandatory maintenance level changes. Some of the major cost components include caseload, utilization, and severity of client needs. The average growth factor for this grouping is 3.09 percent per FY from FY 2027 levels.

ML adjustments total \$305 million increased costs of in the 2025-27 biennium and an estimated \$250 million increased costs in the 2027-29 biennium.

The larger cost increases are due to caseload adjustments related to long-term care services, various cash and food assistance programs, residential services for the developmentally disabled population, and the Disproportionate Share Hospital program at Eastern State Hospital. The larger savings are related to the impacts of federal changes to eligibility for long-term care services based on immigration status, forecasted cost and utilization changes related to both nursing homes and community based long-term care programs, and caseload changes for temporary assistance for needy families (TANF).

Higher Education

Higher Education adjustments are generally related to the Initiative 732 cost of living adjustments, the Washington College Grant program, the College Bound Scholarship program, and maintenance, operations, and lease adjustments. The amounts depicted reflect the November 2025 caseload forecast. The average growth factor for this grouping is 1.17 percent per FY from FY 2027 levels.

ML adjustments total \$59 million increased costs in the 2025-27 biennium and an estimated \$83 million increased costs in the 2027-29 biennium.

The larger increases are related to caseload adjustments in the Washington College Grant program. The larger savings are related to caseload adjustments in the Washington College Bound Scholarship program and for Initiative 732 cost of living adjustments.

Corrections

The amounts depicted reflect the November 2025 caseload forecast, as well as other mandatory maintenance level changes. The average growth factor for this grouping is 1.49 percent per FY from FY 2027 levels.

ML adjustments total \$64 million increased costs in the 2025-27 biennium and an estimated \$50 million increased costs in the 2027-29 biennium.

The larger increases are related to adjustments to the caseload associated with violator sanctions (the penalties imposed on individuals who break the conditions of their supervision), and adjustments to the male offender caseload. The larger savings are due to adjustments to Public Employee Benefits Board (PEBB) health benefit funding rates.

Children, Youth, and Families

The amounts depicted reflect the November 2025 caseload forecast for the Department of Children, Youth, and Families, as well as other mandatory maintenance level changes. The average growth factor for this group was calculated concurrently with the All Other category (as noted in the footnote on page 5) and is 1.02 percent from FY 2027 levels.

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ML adjustments total \$277 million increased costs in the 2025-27 biennium and an estimated \$333 million increased costs in the 2027-29 biennium.

The larger increases are related to forecasted caseload adjustments for the Working Connections Child Care (WCCC) program, enrollment-based pay, and forecasted caseload adjustments related to the foster care population. The larger savings are due to forecasted caseload adjustments for the for the juvenile rehabilitation program.

All Other

This area includes all other agencies not reflected in the preceding Outlook groups, such as general government agencies, smaller human service agencies, natural resource agencies, legislative agencies, and judicial agencies. The average growth factor for this grouping is 1.02 percent per FY from FY 2027 levels.

ML adjustments total \$3 million increased costs in the 2025-27 biennium and an estimated \$5 million savings in the 2027-29 biennium.

The larger increases are related to capital project operating costs for operations and maintenance of high priority land acquisitions and capital improvements for the Department of Fish and Wildlife, ongoing funding for software license fees to sustain the aquatic protection permitting system for the Department of Fish and Wildlife, and the cost of voter pamphlet printing for the Office of the Secretary of State. The larger savings are related to adjustments associated with aligning funding for the projected operating costs of veteran's homes for the Department of Veterans Affairs.

Debt Service

The amounts depicted reflect the cost of the debt on all capital budget bonds that were authorized through the 2025 session using the bond model to calculate estimated costs for the 2027-29 biennium. Pursuant to ERFC guidance on June 6, 2019, the model used for the Outlook assumes enactment of a 2027-29 biennium bond bill and capital budget.

ML adjustments total \$55 million in savings for the 2025-27 biennium and an estimated \$157 million savings for the 2027-29 biennium.

Policy Level Items

In this section, adjustments are made to reflect the policy level (PL) expenditures included in the Governor's 2026 supplemental budget proposal. Growth in the ensuing biennium is calculated using the same growth factors and methodologies as outlined above.

The total statewide PL impacts, by biennial period:

- ❖ 2025-27 biennium: \$85 million savings.
- ❖ 2027-29 biennium estimate: \$289 million increased costs.

Kindergarten – Grade 12 (K-12) Education

PL adjustments total \$72 million savings in the 2025-27 biennium and an estimated \$146 million savings in the 2027-29 biennium.

The larger increases are related to grant funding for the Treehouse Graduation Success program, tribal and dual-language programs in schools, the Homeless Stability Education Program, and the Ninth Grade

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success program. The larger savings are related to a reduction in Transition to Kindergarten (TTK) slots for the 2026-27 school year, adjustments to school bus depreciation calculations to extend the expected operating life of school busses, and an adjustment to the Running Start program that reduces the number of college credits high school students can take in a school year.

Low-Income Health Care and Community Behavioral Health

PL adjustments total \$38 million increased costs in the 2025-27 biennium and an estimated \$37 million increased costs in the 2027-29 biennium.

The larger increases are related to a GF-S backfill for reductions in Dedicated Cannabis Account funding, GF-S backfill to restore savings assumed in the enacted 2025-27 biennial budget for FY 2026, and increased caseloads for the Community Behavioral Health Supports program. The larger savings are related to decreasing Apple Health Expansion program caseloads, requiring site neutral payment for clinic services regardless of hospital affiliation, and adjustments based on the number of individuals on 90-day to 180-day civil commitment orders who are served in community settings.

Social and Health Services

PL adjustments total \$1 million increased costs in the 2025-27 biennium and an estimated \$135 million savings in the 2027-29 biennium.

The larger increases are related to the state share GF-S match for the Supplemental Nutrition Assistance Program (SNAP) required by the federal government under H.R.1, addressing impacts related to federal changes to Medicaid eligibility tied to immigration status for noncitizens currently receiving long-term care and developmental disability services, and adjustments to reflect actuarially projected costs of the self-insurance liability premium. The larger savings are related to increases in functional eligibility requirements and the assumption that the federal government will continue to delay reductions to Disproportionate Share Hospital grants.

Pursuant to direction provided by the Council at the January 12, 2026 ERFC meeting, savings associated with future policy level budget reductions related to increasing functional eligibility requirements in the 2027-29 biennium are included. For more information, see the memo at:

- https://erfc.wa.gov/sites/default/files/2026-01/20260112_budget_outlook_methodology_memo.pdf

Higher Education

PL adjustments total \$12 million savings in the 2025-27 biennium and an estimated \$56 million savings in the 2027-29 biennium.

The larger increases are related to adjustments to reflect actuarially projected costs of the self-insurance liability premium and ongoing funding for the University of Washington's Center for Behavioral Health and Learning. The larger savings are related to across the board reductions at the University of Washington, Washington State University, and for the Community and Technical College System.

Corrections

PL adjustments total \$131 million increased costs in the 2025-27 biennium and an estimated \$121 million increased costs in the 2027-29 biennium.

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The larger increases are related to adjustments to reflect actuarially projected costs of the self-insurance liability premium and to establish close custody bed capacity at the Monroe Correctional Complex. The larger savings are related to proposed reforms to limiting the circumstances when an individual's sentence is tolled (HB XXXX/ SB XXXX) and administrative service reductions.

Children, Youth, and Families

PL adjustments total \$292 million increased costs in the 2025-27 biennium and an estimated \$86 million savings in the 2027-29 biennium.

The larger increases are related to adjustments to reflect actuarially projected costs of the self-insurance liability premium, operating a proposed new juvenile rehabilitation facility, and payments for eight settlement agreements that exceed the amount covered by the Self-Insurance Liability Account. The larger savings are related to implementing a soft caseload cap for the Working Connections Child Care program, rebasing of subsidy child care provider rates to the 75th percentile of the market rate, and delayed implementation of revised federal rules around paying providers prospectively.

Pursuant to direction provided by the Council at the January 12, 2026 ERFC meeting, the increased costs associated operating a proposed new juvenile rehabilitation facility in the 2027-29 biennium are included. For more information, see the memo at:

- https://erfc.wa.gov/sites/default/files/2026-01/20260112_budget_outlook_methodology_memo.pdf

All Other

PL adjustments total \$469 million savings in the 2025-27 biennium and an estimated \$57 million costs in the 2027-29 biennium.

The larger increases are related to implementing caseload limits for contracted attorneys representing indigent parents in dependency and termination of parental rights cases for the Office of Public Defense, adjustments to reflect actuarially projected costs of the self-insurance liability premium for the Office of the Governor, and pass-through funding to the superior courts to maintain services related to truant and at risk youth and children in need of services. Larger savings are related to a one-time shift in funds for Working Families Tax Credit remittances from GF-S to the Climate Commitment Act.

Compensation and Benefits

The PL budget adjustment for employee compensation and benefits is \$5 million increased costs in the 2025-27 biennium and an estimated \$144 million increased costs in the 2027-29 biennium. There is no growth factor applied to these items although custom adjustments are applied to items that are not fully implemented in the second year of the biennium to capture the full cost in the subsequent fiscal biennium. This includes increased costs associated with correcting a miscalculation of the savings related to SB 5083 (2025) and the savings associated with a 2 percent reduction to the amounts funded for the salaries and benefits of Washington Management Service (WMS) and Exempt Management Service (EMS) employees of executive branch agencies, the Office of Financial Management, and the Office of the Governor.

Additionally, the Governor's 2026 supplemental budget proposal funds two Office of Financial Management negotiated collective bargaining agreements (CBAs), and two higher education negotiated CBAs. The details associated with the major elements of these CBAs are provided in OFM Document 2026-3:

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- <https://ofm.wa.gov/wp-content/uploads/OFM-Document-2026-3.pdf>

Debt Service

PL adjustments total no increased costs in the 2025-27 biennium and \$84 million increased costs in the 2027-29 biennium. PL changes reflect the additional debt service required for bonds assumed in the Governor's proposed Capital budget.

Assumed Reversions

Reversions are the estimated appropriations that will be unspent and revert to the state for reappropriation. Per direction by the ERFC at the January 12, 2026 meeting, reversion assumptions for the 2026 supplemental operating budget are as follows:

- 1% of GF-S appropriations for FY 2026, and;
- 0.9% of GF-S appropriations for FY 2027, FY 2028, and FY 2029.

Consistent with prior Outlooks and direction from the ERFC, additional reversions are assumed in relation to estimated adjustments in K-3 allocations as a result of actual and forecasted K-3 class sizes being less than what is funded.

Reversion Assumptions (\$'s in 1,000's)			
	2025-27	2027-29	4-Year Total
Standard 0.5% Reversion Assumption	\$(365,975)	\$(382,684)	\$(748,659)
Additional Reversion Assumption	\$(329,053)	\$(306,147)	\$(635,200)
K-3 Reversion Assumption	\$(130,032)	\$(133,818)	\$(263,850)
Total	\$(825,060)	\$(822,649)	\$(1,647,709)

Additional information regarding reversion assumptions is available in the January 12, 2026 memo to the ERFC which can be found at:

- https://erfc.wa.gov/sites/default/files/2026-01/20260112_budget_outlook_methodology_memo.pdf

Budget Stabilization Account

Per Article VII, section 12(d)(ii), of the Constitution, if the employment growth forecast for any fiscal year is estimated to be less than one percent, then for that fiscal year moneys may be withdrawn and appropriated from the budget stabilization account by the favorable vote of a majority of the members elected to each house of the Legislature.

RCW 43.88.030(5)(b) states that beginning in the 2021-2023 fiscal biennium, the projected maintenance level of the governor's operating budget document or documents submitted to the legislature must not exceed the available fiscal resources for the next ensuing fiscal biennium.

Per RCW 43.88.030(5)(d)(ii), RCW 43.88.030(5)(b) does not apply in a fiscal biennium for which the governor proposes appropriations from the budget stabilization account pursuant to Article VII, section 12(d)(ii) of the state Constitution.

The Governor's 2026 supplemental budget proposes to use BSA funds to pay for wildfire suppression costs. Total PL appropriations from the BSA are \$139 million in the 2025-27 biennium.

Overview of the Methodology for the State Budget Outlook (January 2026)

Additionally, the Governor's 2026 supplemental budget proposes to transfer \$880 million from the BSA to the general fund in the 2025-27 biennium.

Total Reserves

Pursuant to the direction of the ERFC, the summary document for the Outlook shows reserves in the NGF-O Accounts and the Budget Stabilization Account. To calculate Percentage of Reserves to Revenues and Other Resource Changes, ending balances are divided by the sum of Forecasted Revenues and total Other Resource Changes. Beginning fund balances are not included in the percentage calculation.

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Governor's Proposed 2026 Supplemental Omnibus Operating Budget Official Outlook (Draft)

Funds Subject to Outlook NGF-O

(Dollars in Millions)

	2025-27			2027-29		
	FY 2026	FY 2027	2025-27	FY 2028	FY 2029	2027-29
Beginning Balance	2,536	943	2,536	98	-1,223	98
Forecasted Revenues	36,302	38,147	74,449	38,903	40,450	79,352
November 2025 Revenue Forecast (NGF-O)	36,302	38,147	74,449	38,903	40,450	79,352
Addtl Revenue Based on 4.5% Growth Rate Assumption	0	0	0	961	1,208	2,168
Remove the 4.5% Additional Revenue Assumption	0	0	0	-961	-1,208	-2,168
Other Resource Changes	938	367	1,306	-203	-205	-408
GF-S Transfer to BSA (1%)	-340	-360	-700	-370	-385	-755
Prior Period Adjustments	73	20	93	20	20	41
Enacted Fund Transfers	612	13	625	4	4	7
Other Proposed Transfers	9	114	123	0	0	0
BSA Transfers	514	366	880	0	0	0
Revenue Legislation	0	144	144	149	161	310
Budget Driven Revenue	-4	-6	-10	-5	-5	-10
Adjusted Capital Gains Tax Distributions	75	75	150	0	0	0
Total Revenues and Resources	39,776	39,457	78,290	38,798	39,022	79,043
Enacted Appropriations	38,471	39,387	77,858	39,763	40,568	80,331
Maintenance Level Total	572	673	1,244	606	519	1,125
K-12 Education	122	119	241	126	93	219
Low Income Health Care & Comm Behavioral Health	193	159	352	173	178	351
Social & Health Services	89	215	305	149	101	250
Higher Education	24	35	59	33	50	83
Corrections	34	30	64	25	25	50
Children, Youth, and Families	123	154	277	166	168	333
All Other	-1	3	3	-2	-3	-5
Debt Service	-13	-42	-55	-63	-94	-157
Policy Level Total	218	-303	-85	59	231	289
K-12 Education	1	-72	-72	-83	-63	-146
Low Income Health Care & Comm Behavioral Health	51	-13	38	21	16	37
Social & Health Services	8	-7	1	41	94	135
Higher Education	2	-15	-12	-28	-28	-56
Corrections	53	78	131	61	60	121
Children, Youth, and Families	319	-26	292	-70	-17	-86
All Other	-216	-253	-469	37	20	57
Compensation & Benefits	0	5	5	69	75	144
Debt Service	0	0	0	9	75	84
Reversions	-427	-398	-825	-406	-416	-823
Revised Appropriations	38,833	39,359	78,192	40,021	40,902	80,923
Projected Ending Balance	943	98	98	-1,223	-1,880	-1,880
Budget Stabilization Account						
Beginning Balance	1,269	1,000	1,269	1,026	1,427	1,026
GF-S Transfer to BSA (1%)	340	360	700	370	385	755
Appropriations from BSA	-139	0	-139	0	0	0
BSA Transfers	-514	-366	-880	0	0	0
Interest Earnings	44	32	76	31	44	75
Budget Stabilization Account Ending Balance	1,000	1,026	1,026	1,427	1,856	1,856
Total Reserves	1,943	1,124	1,124	204	-24	-24
% of Reserves to Revenues and Other Resource Changes						
NGF-O	5.2%	2.9%		0.5%	-0.1%	
Budget Stabilization Account	2.5%	0.3%		-3.2%	-4.7%	
	2.7%	2.7%		3.7%	4.6%	