Washington Research Council

Policy Brief

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# Legislators Can Close the Budget Shortfall Without Raising Taxes

**Briefly**

*There are myriad ways to solve the budget problem without increasing taxes. Solving the problem will require cutting the 2025–27 maintenance level by about $4.7 billion (6.1%). (Since 2021, the state has adopted $13.874 billion in net new policy spending.) Gov. Ferguson and former Gov. Inslee have proposed billions of dollars in savings ideas over the past few months.*

*To illustrate the many options, we've created a spreadsheet in which readers can solve the budget problem for 2025–27 on their own. The spreadsheet includes spending history, descriptions of every new policy enacted since 2021, components of the maintenance level change for 2025–27, and the savings ideas included in Inslee's budget proposals and proposed by Gov. Ferguson.*

*To minimize disruptions to Washingtonians, the Legislature should forgo new spending as much as possible this year and consider rolling back programs that were started in the past few years.*

In the coming weeks, legislators will write an operating budget for 2025–27. To do so, they must solve a maintenance level shortfall.

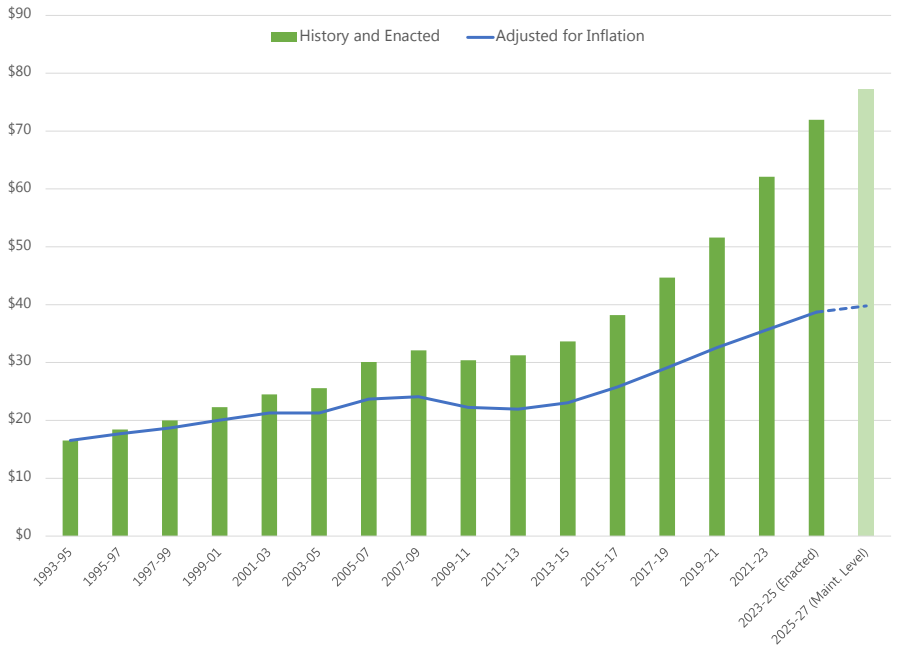
Revenues from funds subject to the outlook (NGFO) are currently expected to increase by $5.040 billion from 2023–25 to 2025–27. Nevertheless, the cost to maintain current services (adjusted for caseloads and inflation) is projected by the Office of Program Research to exceed 2025–27 resources by $4.4 billion (OPR 2024). The estimated maintenance level shortfall is estimated to be $6.7 billion over the four-year outlook period (or $7.7 billion, assuming the actual revenue forecast instead of the statutorily-allowed assumption of 4.5% revenue growth in the second biennium). Any estimates of the shortfall that are higher than this include new policy items. (One new policy item that is often included is the cost of collective bargaining agreements with employees.)

This is not a revenue shortfall. The budget problem is the result of legislative spending choices—particularly the choices made over the past four years (WRC 2024). Since 2019–21, revenues have grown by 25.0% but spending has grown by 39.4%. That rapid spending growth (without associated revenue to support it) has included $13.874 billion in net new policy spending (ERFC 2021–2024).

**NGFO**

Under the four-year balanced budget requirement, a positive ending balance is required in both the current and following biennium for "funds subject to the outlook." This is a synthetic "account" that rolls up the general fund–state (the state's primary budget account) with the education legacy trust account, the opportunity pathways account, and the workforce education investment account. It is also called the near general fund–outlook, or NGFO.

Chart 1: NGFO Spending (Dollars in Billions)



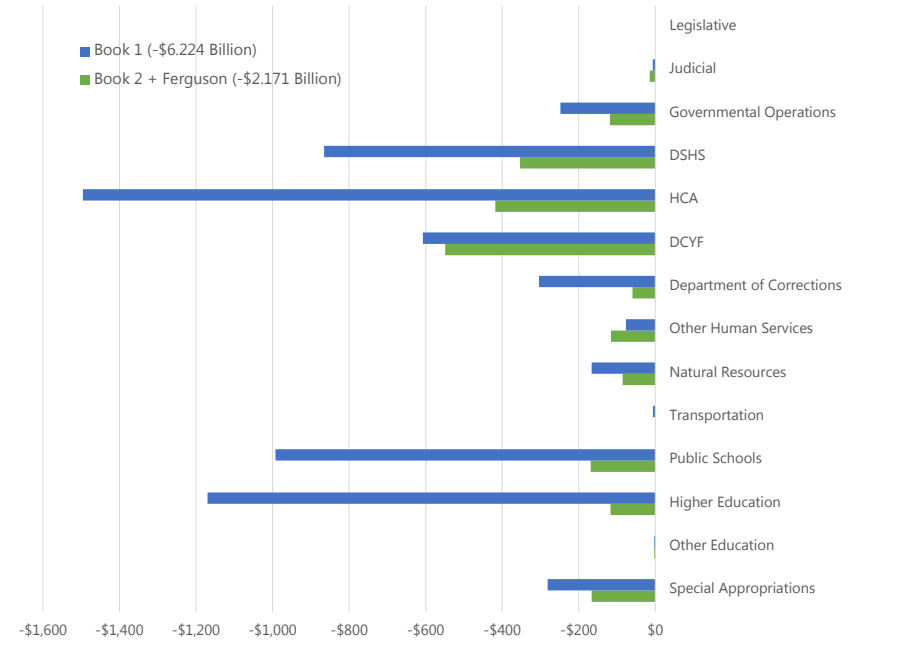

## How Should the Problem be Solved?

There are myriad ways to solve the budget problem without increasing taxes. For example, Gov. Ferguson and former Gov. Inslee have proposed billions of dollars in savings ideas over the past few months. Inslee's Book 1 budget, which is a proposal that must be balanced within current resources, reduced the projected maintenance level for 2025–27 by $4.706 billion (6.1%). To get there, he proposed $6.224 billion in savings and $1.518 billion in increased spending (including the employee CBAs). (Note that the Book 1 budget would appropriate $72.521 billion, which is still $575.7 million *higher* than appropriations in the 2023–25 biennium.)

Inslee's preferred budget proposal (Book 2) balanced because it increased taxes, but it also contained $1.013 billion in policy reductions (these were offset by $3.245 billion in new policy increases).

Last month, Gov. Ferguson endorsed Inslee's Book 2 savings items and proposed additional savings from the maintenance level totaling $1.169 billion in 2025–27. (Gov. Ferguson also proposed more "savings" that resulted from nixing some new policies proposed by Inslee.) In announcing these savings ideas, Gov. Ferguson acknowledged that there is more work to be done and more savings to be found.

Chart 2: Two Sets of Savings Options (Dollars in Millions)




To that end, we've created a spreadsheet in which readers can solve the budget problem for 2025–27 on their own. (The problem is larger over four years, but the estimated maintenance level for 2027–29 is not publicly available by agency, and Inslee's Book 1 and Book 2 proposals did not include four-year cost estimates by agency. However, over half of the problem is in 2025–27; solving that will go a long

way toward solving the four-year problem.)

The spreadsheet includes—for all agencies that receive NGFO appropriations—spending history, descriptions of every new policy enacted since 2021, components of the maintenance level change for 2025–27, and the savings ideas included in Inslee's Book 1 and Book 2 proposals and proposed by Gov. Ferguson. (It includes Gov. Ferguson's savings that apply to the maintenance level.) To solve the maintenance level problem, aim for the Book 1 appropriations level: $72.521 billion. (The exact 2025–27 appropriations level necessary to stay within current resources will depend on the appropriations level in the 2025 supplemental, the impact of the February caseload forecast, and the upcoming March revenue forecast.)

## Comment

Gov. Inslee's Book 1 proposal is one way to solve the problem without raising taxes, but it is not the only way. First, it cuts more deeply than necessary because it would also add new spending. Second, it's possible to spread out the reductions to avoid targeting sensitive human services and education funding so acutely. Third, it's possible to avoid many reductions to services that people depend on and still solve the problem.

To minimize disruptions to Washingtonians, the Legislature should forgo new spending as much as possible this year and consider rolling back programs that were started in the past few years. However, in cases where priorities have changed, legislators should consider cutting programs that have been on the books for a long time.

The Legislature created this problem by spending so heavily in recent years even when the state knew that revenue growth was slowing. It can fix the problem without asking Washingtonians to pay more in taxes or cutting deeply into long-established services.

## References

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