Washington Research Council
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Special Report 26-01

2026 Fiscal Management Performance Review

The Washington Research Council examines how public policy issues will affect business, government, and the community. Research is based on facts from reliable data sources and informed by economic analysis with an appreciation for the power of free markets.

The Washington Research Council considers budget sustainability to be a primary objective of state fiscal policy and key to our state's fiscal health, the certainty of government services, and the competitiveness of Washington's economy.

This new periodic review of the state's fiscal performance will evaluate Washington's operating budget on multiple factors, including *Spending Growth Sustainability*, *Competitiveness*, *Reserve Adequacy*, and *Transparency and Adaptability*.

The data evaluated in these categories are comparable to other states where appropriate. The data reflect the enacted 2026 supplemental budget and the June 2026 revenue forecast (unless otherwise noted). A glossary of terms is available at the end of this report, and dynamic versions of the charts are available on the Research Council website.

The state has an important role in providing public goods and social services. But no matter how desirable such spending may be, it must be balanced against revenue constraints. The goal of state fiscal policy should be to provide a measure of certainty and stability for Washingtonians who rely on government goods and services and for taxpayers who support them.

Washington is now feeling the consequences of unsustainable budgeting. The Legislature appropriated significantly more from funds subject to the outlook in 2023–25 than were expected in revenues. The operating budgets for that biennium balanced due to the use of one-time funds (including reserves). Ultimately, compared to 2021–23, biennial spending increased by 15.9% and revenues increased by just 3.7%. This imbalance led to a substantial maintenance level shortfall (the difference between expected resources and the cost of continuing current services) for 2025–27, even as revenues were expected to increase.

Legislators responded by adding net new policy spending for 2025–27, which was funded by a historically large tax package. The 2026 Legislature continued to use one-time solutions to address the operating budget shortfall, while widening the gap between spending and revenues. (The June 2026 revenue forecast narrowed the gap.) At a time of general economic uncertainty, it is particularly important for the state to align spending and revenues, which will put the budget on a path to sustainability. The extent to which lawmakers adopt sustainable budgets will determine if our state is able to maintain public goods and services and weather a potential economic downturn.

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Spending Growth Sustainability

If spending grows faster than the economy, budgets are overly reliant on one-time fixes.

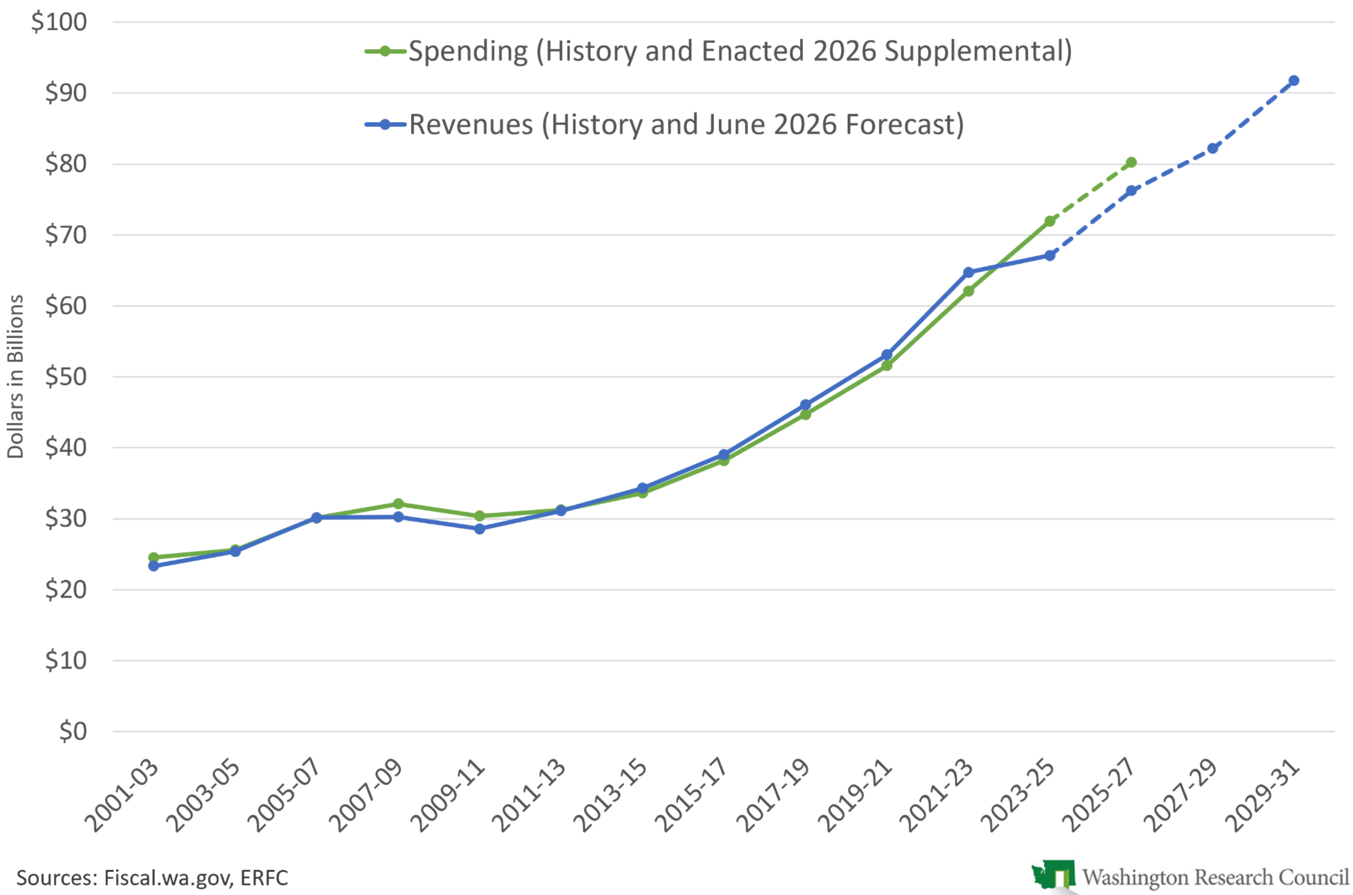
Appropriations Compared to Forecasted Revenues

Guideline

Although recessions can warrant short-term reliance on one-time funds, generally NGFO appropriations should not exceed forecasted NGFO revenues.

Final NGFO revenues exceeded spending in each biennium from 2013–15 through 2021–23. In 2023–25, spending exceeded revenues by $4.842 billion (7.2%). As revised in 2026, 2025–27 appropriations are $3.967 billion (5.2%) higher than forecasted revenues (including the June 2026 revenue forecast and new taxes adopted in 2026), even as revenues are forecasted to increase by 13.6% compared to 2023–25.

NGFO Spending and Revenues



Sources: Fiscal.wa.gov, ERFC

Spending Growth Sustainability

If spending grows faster than the economy, budgets are overly reliant on one-time fixes.

Budget Maintenance Level

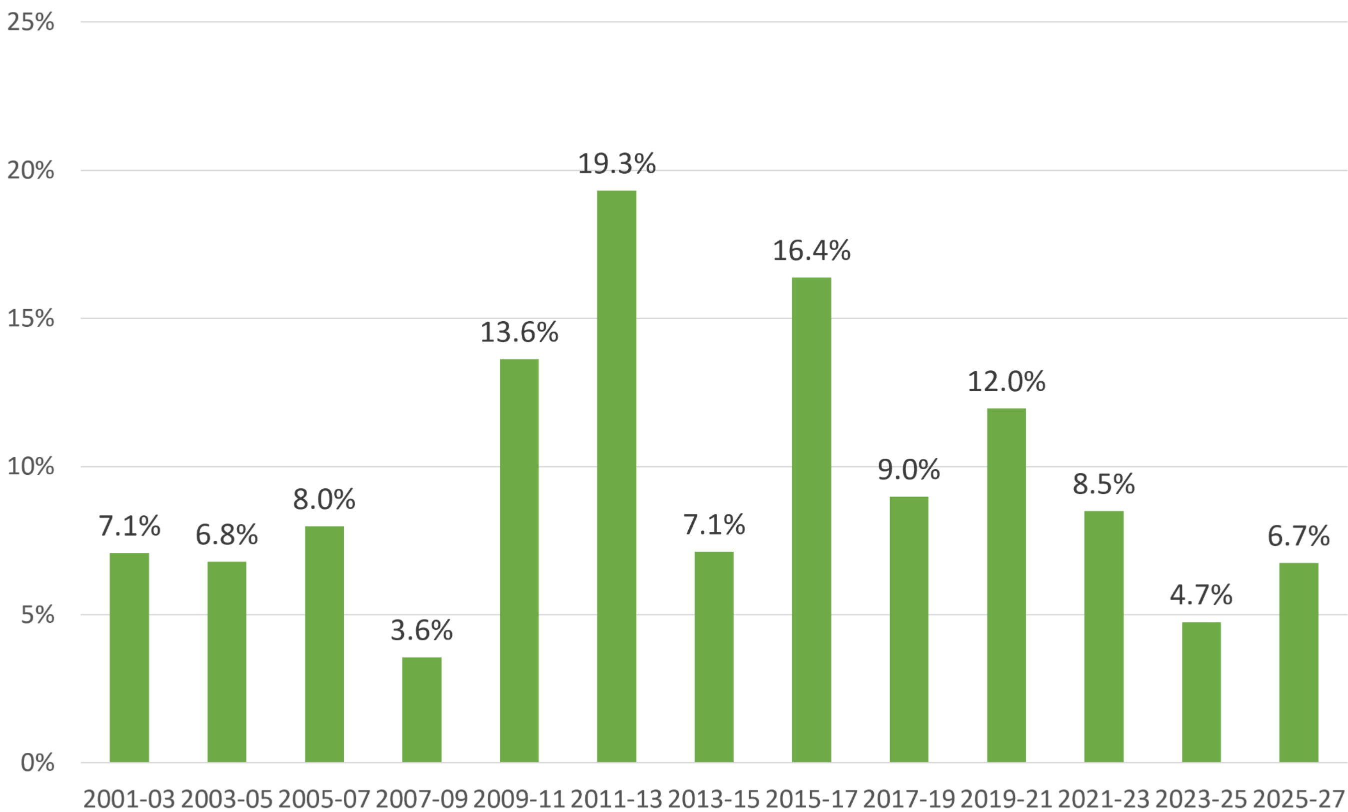
Guideline

Limit maintenance level spending increases (including large programmatic spending that is mostly implemented in future biennia—known as "bow waves").

The biennial budget process begins by carrying forward the costs of continuing services that were funded in the previous biennium. Growth of the NGFO maintenance level for the 2001–03 to 2025–27 period over actual spending in the prior biennium averaged 9.4%. Since 2019–21, maintenance level growth has been lower than average.

Maintenance Level Growth in Original Biennial Budget

(NGFO)



Source: Fiscal.wa.gov

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Spending Growth Sustainability

If spending grows faster than the economy, budgets are overly reliant on one-time fixes.

Spending Growth Compared to Personal Income

Guideline

State spending should not outpace the income of Washingtonians.

Spending growth from all state operating funds greatly exceeded growth in state personal income in 2021–23 and 2023–25, and state spending growth remains higher than personal income growth in 2025–27.

Growth in State Operating Spending and Personal Income

Sources: Fiscal.wa.gov, ERFC

Spending Growth Sustainability

If spending grows faster than the economy, budgets are overly reliant on one-time fixes.

Growth in Debt Service

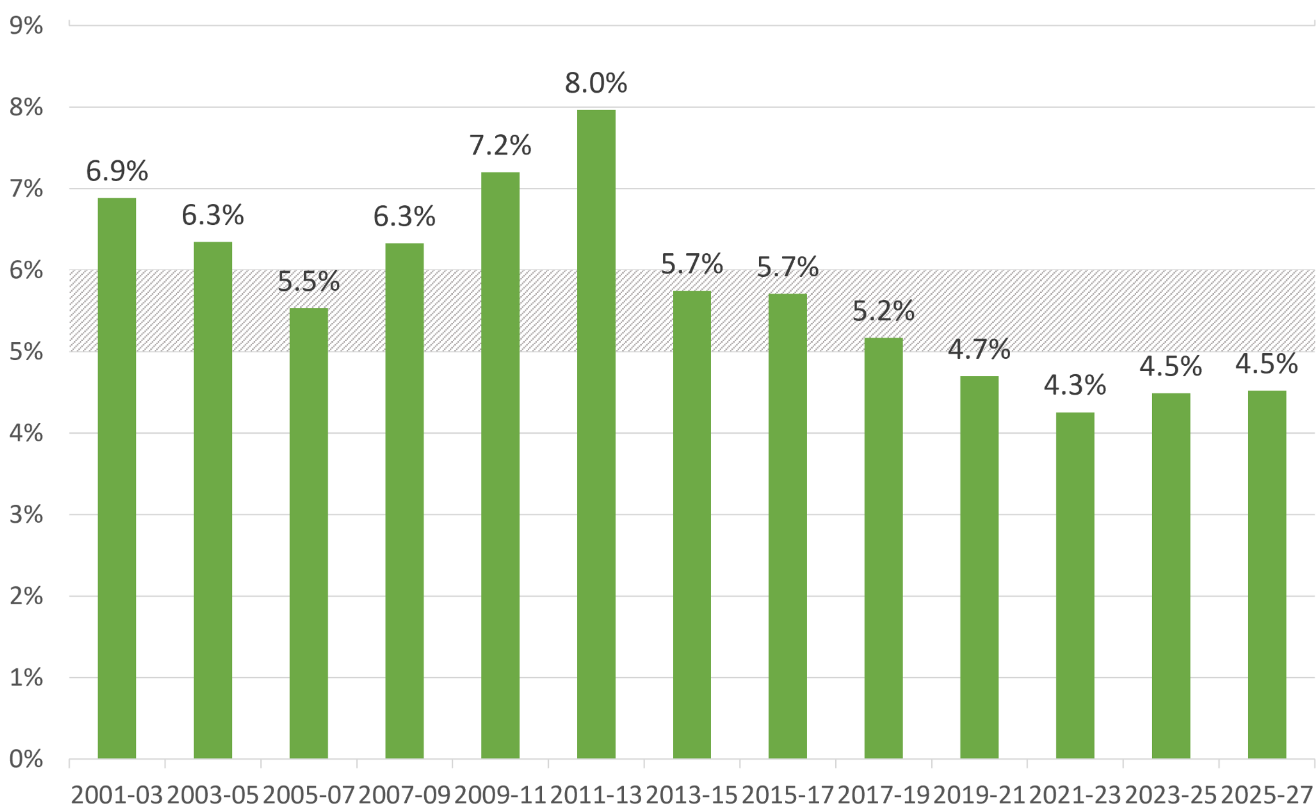
Guideline

Minimize the growth of debt service costs, which crowd out other spending.

The state treasurer recommends limiting debt service costs to no more than 5%–6% of general state revenues. Debt service costs have been below that ceiling in recent biennia.

Debt Service as a Percent of General State Revenues

(June 2026 Forecast)



Sources: Fiscal.wa.gov, OFM

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Competitiveness

If taxes are comparable to other states, businesses will be more likely to start and grow here, improving the economy and state revenue.

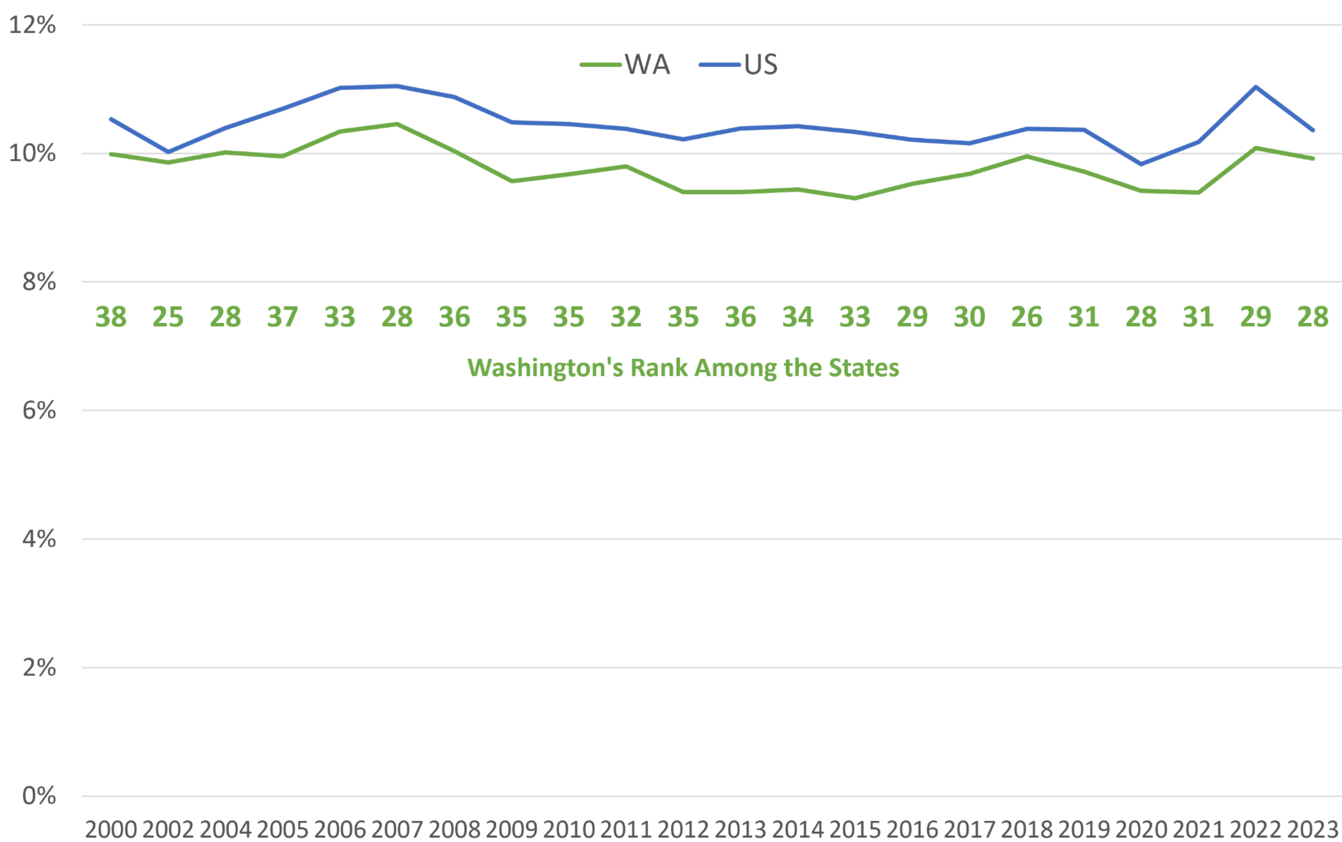
State and Local Taxes Compared to Other States

Guideline

State and local taxes should be comparable to or lower than the national average.

In 2023, Washington's state and local tax revenues were 9.9% of state personal income. This ranked 28th highest in the country and was just below the U.S. average of 10.4%. Going back to at least 2000, Washington's tax revenues have consistently hovered around 10 percent of personal income, even as Washington's personal income increased by 225.8%. (The data do not yet reflect the 2025 or 2026 tax increases.)

State and Local Taxes as a Share of Personal Income



Sources: U.S. Census, Bureau of Economic Analysis

Competitiveness

If taxes are comparable to other states, businesses will be more likely to start and grow here, improving the economy and state revenue.

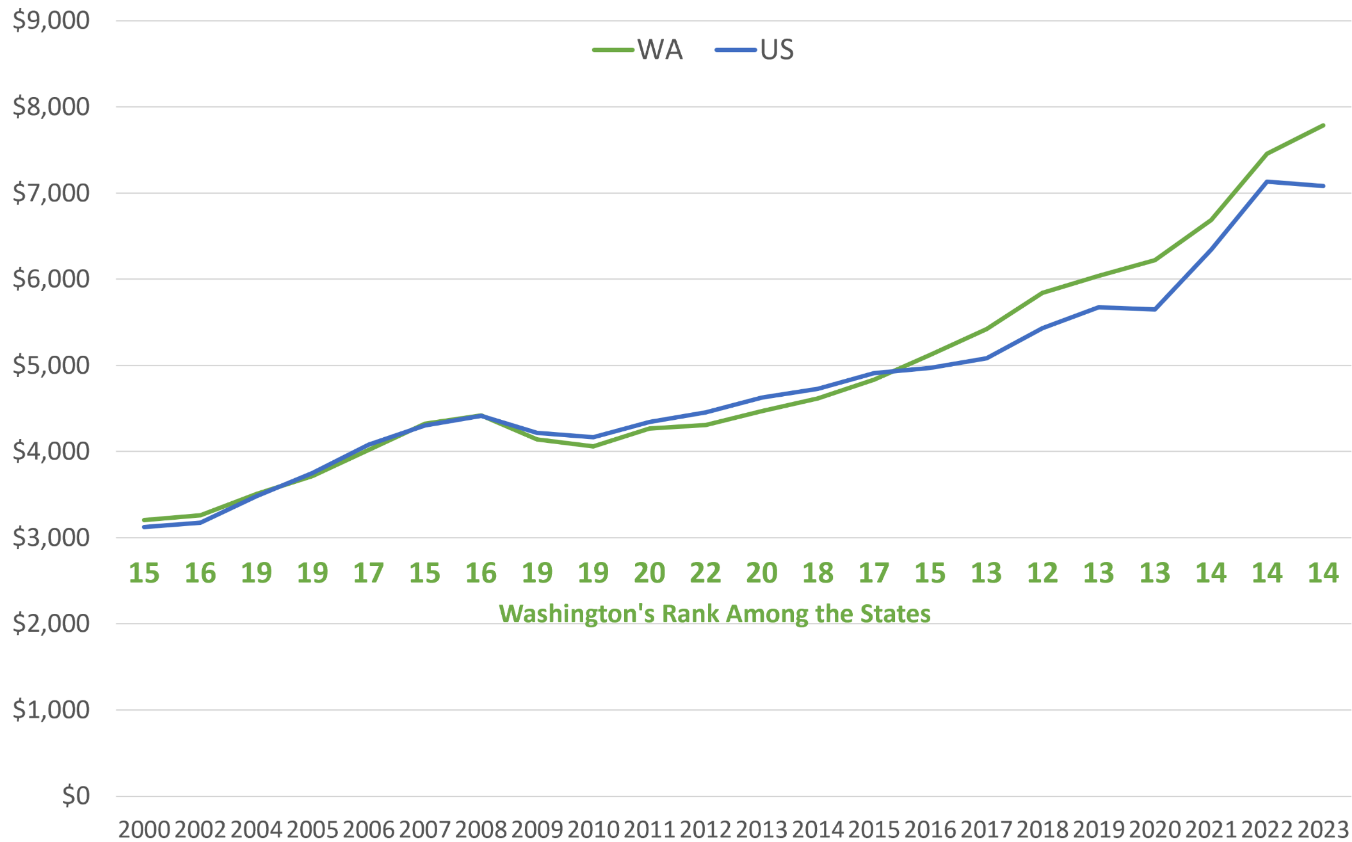
State and Local Taxes Compared to Other States

Guideline

State and local taxes should be comparable to or lower than the national average.

On a per capita basis, Washington collects more tax revenue than the national average, and more than 36 other states. In 2023, Washington's state and local taxes per capita were $7,786, above the U.S. average of $7,083. (The data do not yet reflect the 2025 or 2026 tax increases.)

State and Local Taxes Per Capita



Source: U.S. Census

Competitiveness

If taxes are comparable to other states, businesses will be more likely to start and grow here, improving the economy and state revenue.

Tax Competitiveness

Guideline

Washington's tax structure should encourage economic growth by maintaining competitiveness with other states.

In FY 2026, Washington had the nation's sixth-worst tax competitiveness, up from 18th worst in 2020, according to the Tax Foundation. Washington's sales and unemployment insurance taxes were the second worst and corporate taxes were fourth worst. The primary change was in individual income taxes (due to the new capital gains tax), which moved from seventh best in 2020 to 31st best in 2026. (The data do not fully reflect the 2025 or 2026 tax increases.)

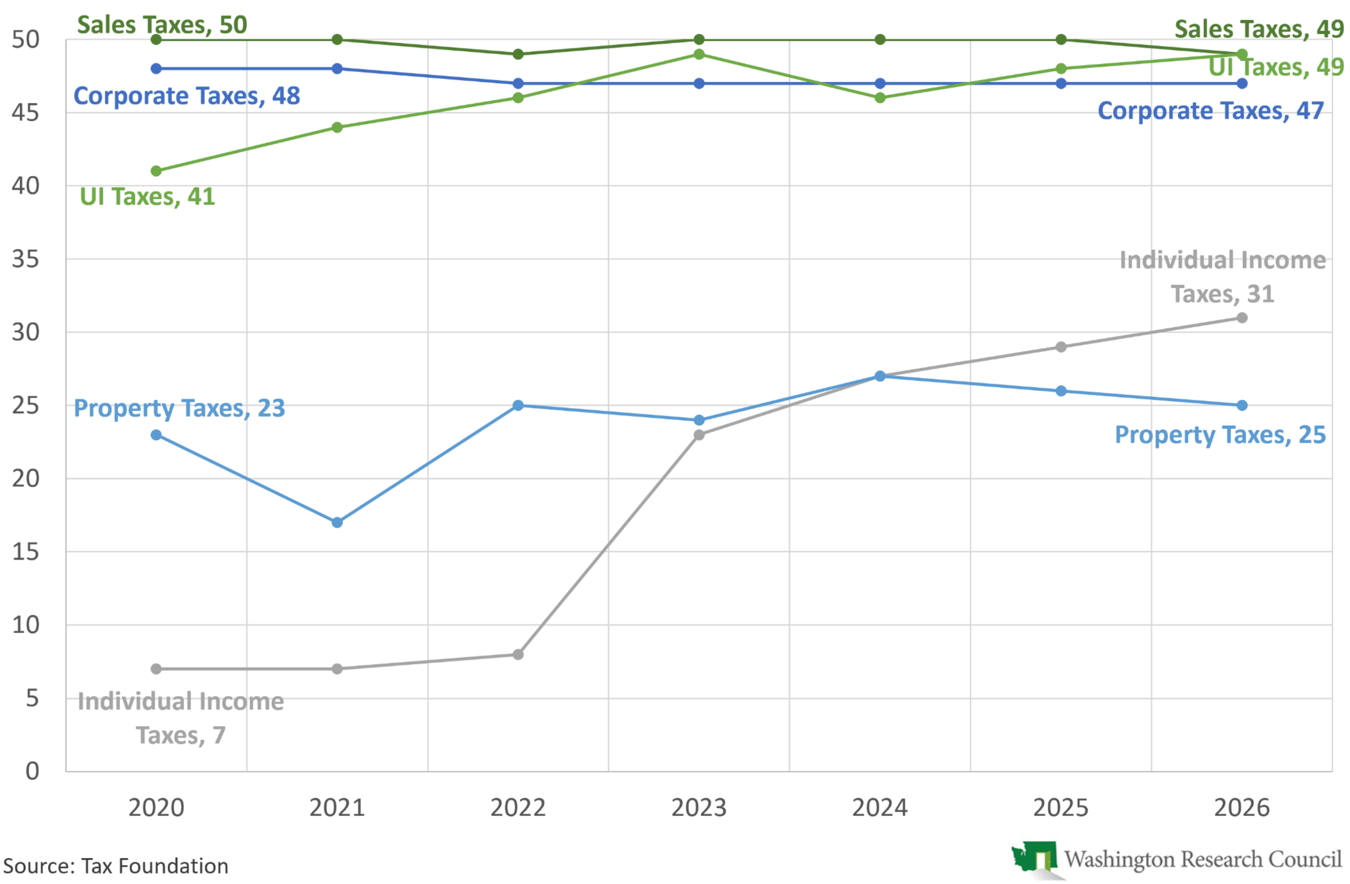
Washington's Overall Rank on State Tax Competitiveness Index

(50=Worst)

2020	2021	2022	2023	2024	2025	2026
33	**33**	**38**	**46**	**46**	**46**	**45**

Washington's Rank on Components of State Tax Competitiveness Index

(50=Worst)



Source: Tax Foundation

Competitiveness

If taxes are comparable to other states, businesses will be more likely to start and grow here, improving the economy and state revenue.

Taxes Paid by Business

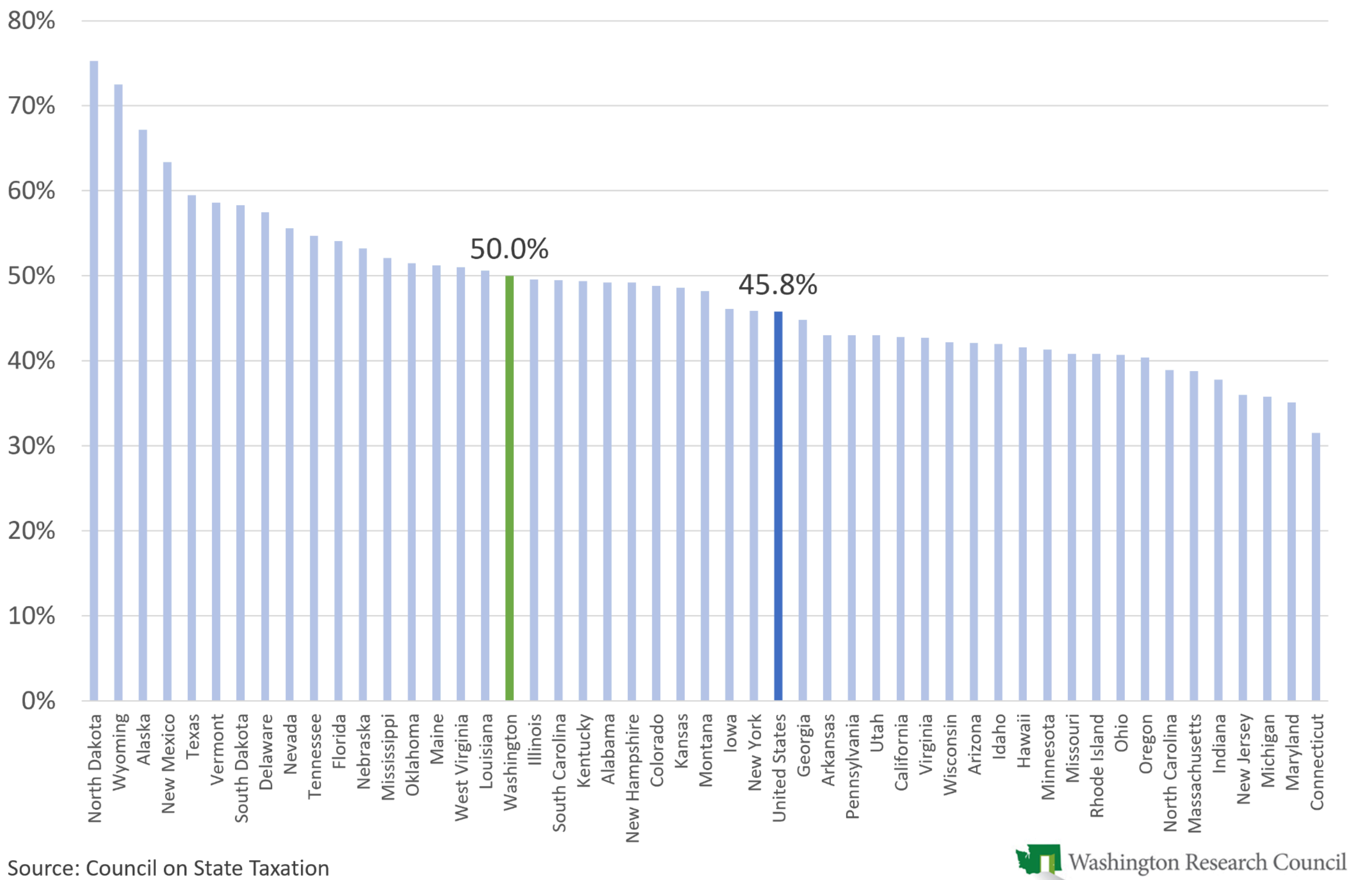
Guideline

The relative tax burden between businesses and individuals and the amount of taxes paid per employee should be near the national average.

In FY 2024, businesses in Washington paid 50.0% of state and local taxes. That was the 18th highest amount in the country, and above the U.S. average of 45.8%. Eight of the states ahead of Washington rely heavily on severance taxes (levied on the extraction of resources like oil and natural gas). Among states with economies that rely less on resource extraction, Washington ranks 10th. (The data do not yet reflect the 2025 or 2026 tax increases.)

Share of Total State and Local Taxes Paid by Business

(FY 2024)



Source: Council on State Taxation

Competitiveness

If taxes are comparable to other states, businesses will be more likely to start and grow here, improving the economy and state revenue.

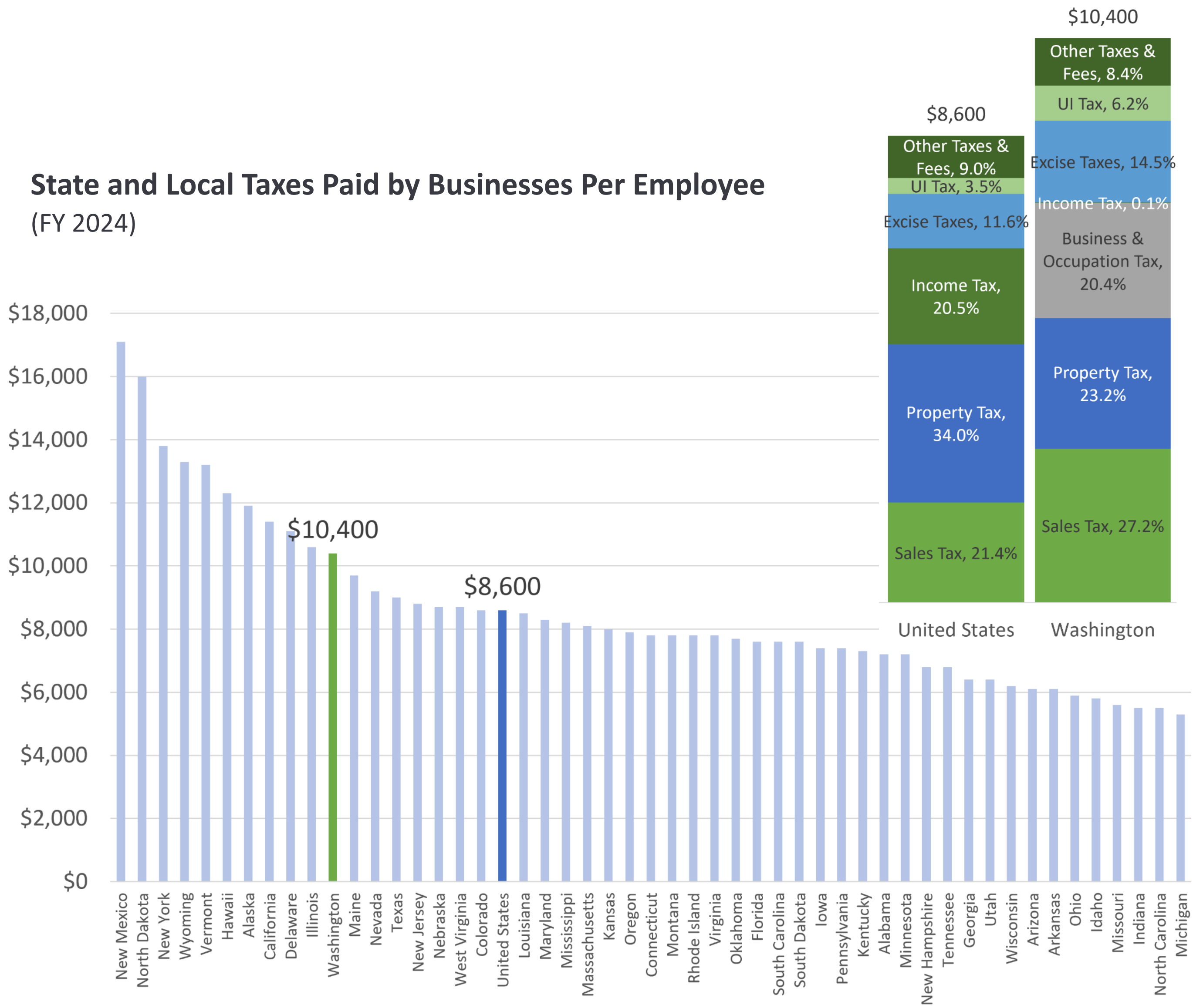
Taxes Paid by Business

Guideline

The relative tax burden between businesses and individuals and the amount of taxes paid per employee should be near the national average.

In FY 2024, Washington businesses paid $10,400 in taxes per employee. Nationally, businesses paid $8,600 in taxes per employee. Washington ranked 11th highest by this measure; excluding states that rely on severance taxes, Washington ranked seventh. (The data do not yet reflect the 2025 or 2026 tax increases.)

State and Local Taxes Paid by Businesses Per Employee
(FY 2024)



Source: Council on State Taxation

Reserve Adequacy

Strong reserves provide liquidity and improve the state's ability to weather economic downturns without raising taxes or reducing public programs.

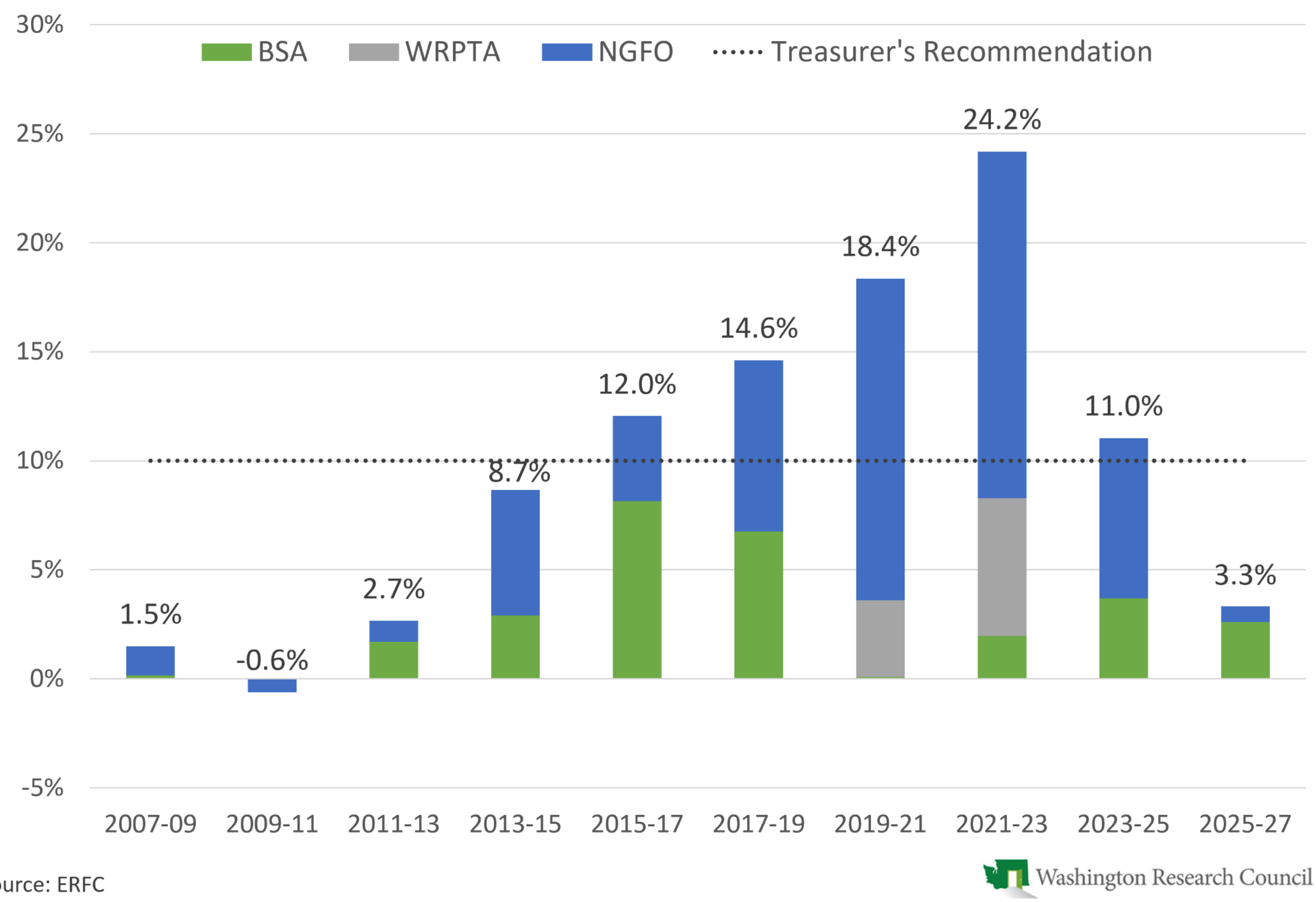
Reserves as a Share of Revenues

Guideline

The state treasurer recommends that Washington maintain reserves of at least 10% of revenues.

From 2015–17 through 2023–25, combined reserves exceeded the treasurer's 10% recommendation. The Legislature began drawing down the NGFO balance in 2023–25, after sweeping the BSA balance in 2021. Based on the 2026 supplemental budget, reserves are expected to be just 3.3% of revenues in 2025–27. Of that, the 2025–27 BSA ending balance is expected to be $1.031 billion (2.6% of revenues) and the unrestricted NGFO balance is expected to be $277 million (0.7% of revenues). (These figures reflect the official outlook and are not adjusted to incorporate the June revenue forecast. The estimated unrestricted NGFO ending balance for the current biennium is dependent on estimated revenues and accounting assumptions.)

Reserves as a Share of NGFO Revenues



Source: ERFC

Reserve Adequacy

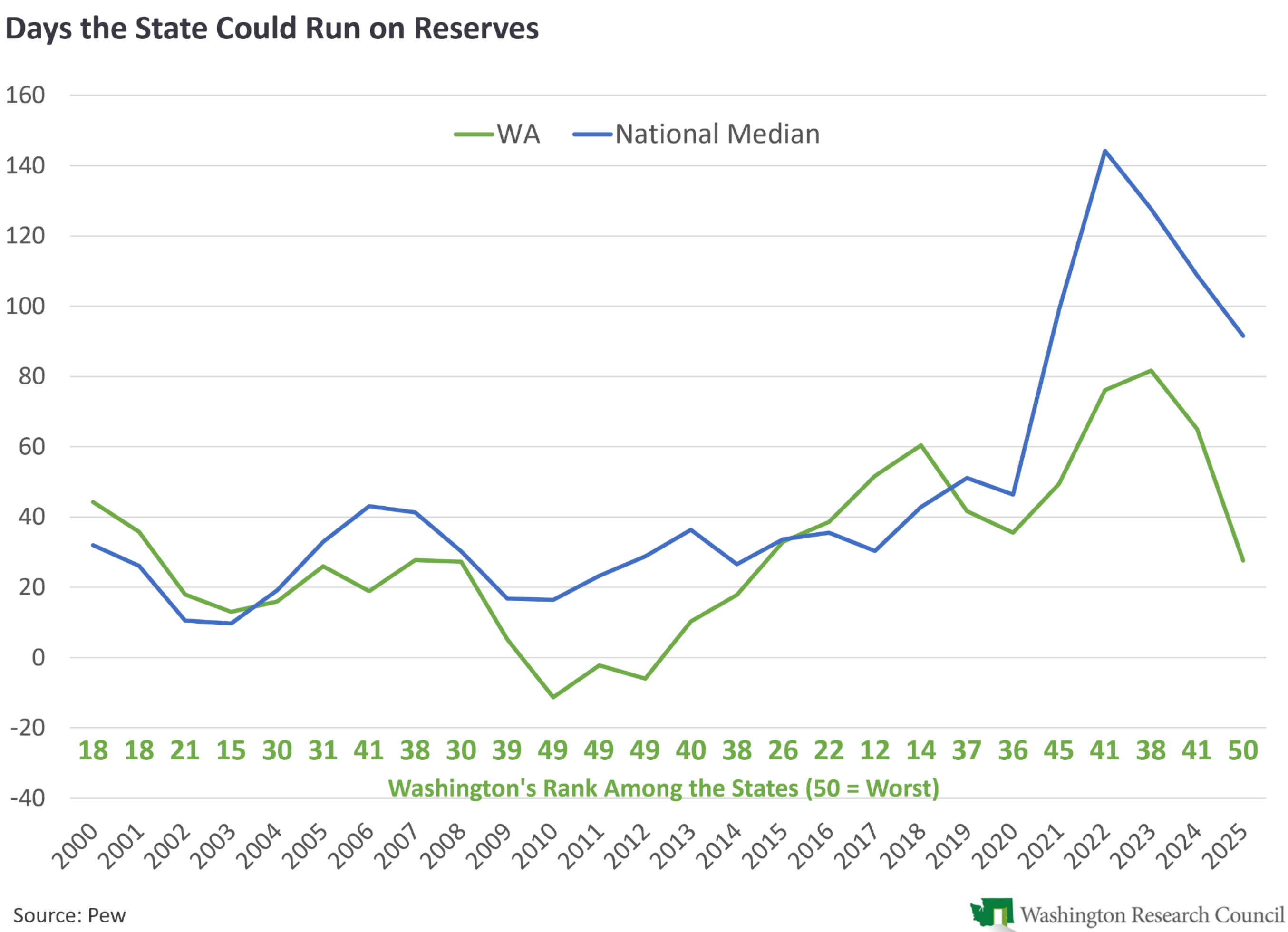
Strong reserves provide liquidity and improve the state's ability to weather economic downturns without raising taxes or reducing public programs.

Days the State Could Run on Reserves

Guideline

The Government Finance Officers Association recommends that governments have at least two months of operating expenses in reserves.

According to Pew, with total reserves at the end of FY 2025, Washington could have funded 27.7 days of FY 2025 expenses. That was the fewest days of any state; the national median was 91.6 days.



Reserve Adequacy

Strong reserves provide liquidity and improve the state's ability to weather economic downturns without raising taxes or reducing public programs.

General State Revenues as a Percent of NGFO Revenues

Guideline

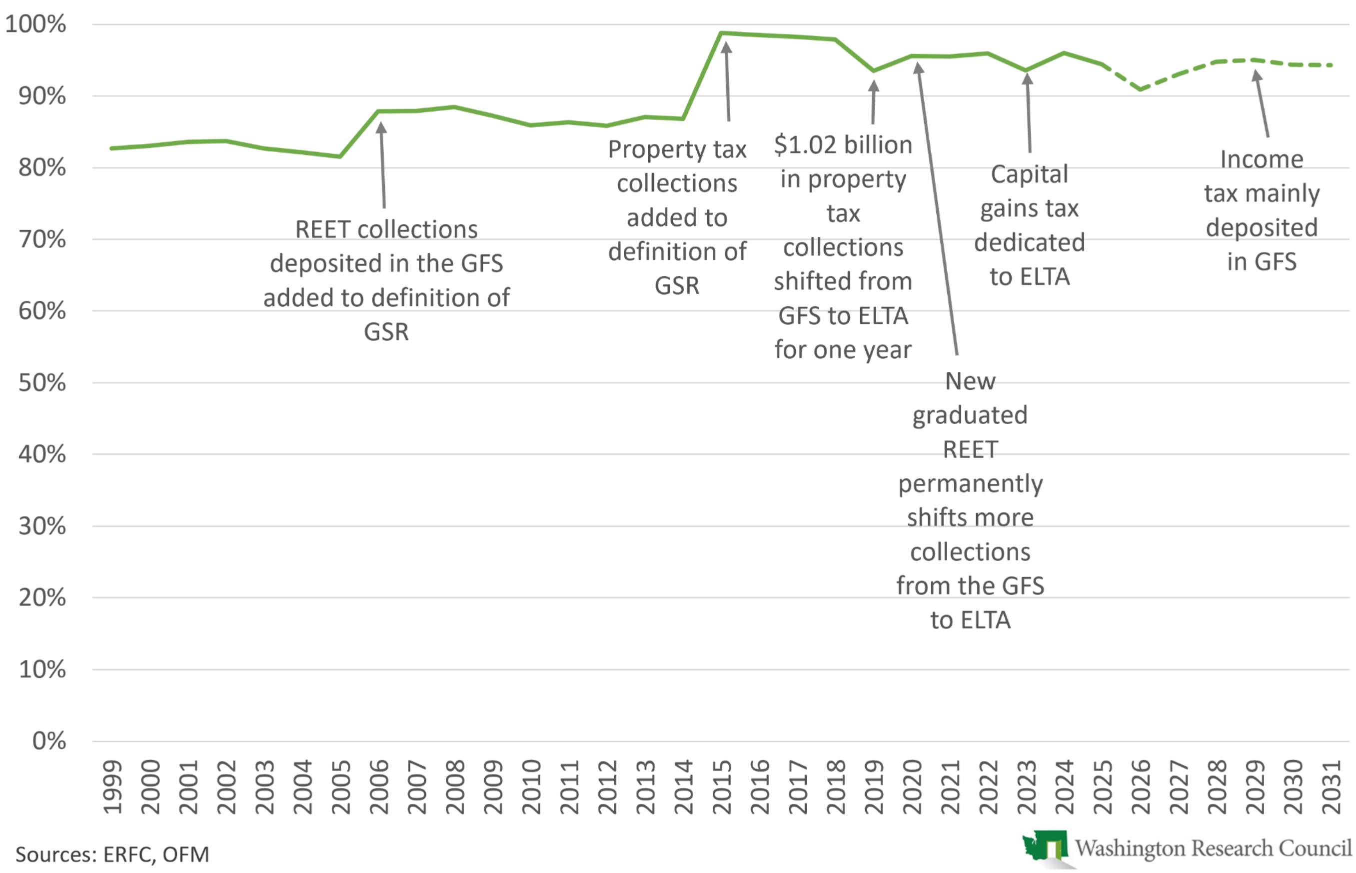
To ensure that the state builds adequate reserves, general state revenues as a share of the NGFO should be as high as possible.

The four dedicated accounts within the NGFO can be used broadly and they are bundled together with the GFS for the purpose of balancing the operating budget. However, only general state revenues (which exclude the dedicated accounts) feed into constitutionally-required reserves. Thus, volatile revenue sources like the capital gains tax, real estate excise tax, and estate tax (which are deposited in whole or in part in the education legacy trust account, one of the dedicated accounts in the NGFO) do not contribute to reserves.

The state should avoid the use of dedicated accounts so that general state revenues make up a higher share of the NGFO and contributions to reserves better reflect the volatility of Washington's tax structure. General state revenues were 94.4% of NGFO revenues in FY 2025 and are estimated to be 90.9% of NGFO revenues in FY 2026. The highest share was 98.8% in 2015.

General State Revenues as a Percent of NGFO Revenues

(June 2026 Forecast)



Sources: ERFC, OFM

Transparency and Adaptability

The use of dedicated funds outside the outlook not only obscures portions of state spending but makes it more difficult to prioritize spending across public programs.

NGFO Spending as a Percent of Total State Operating Spending

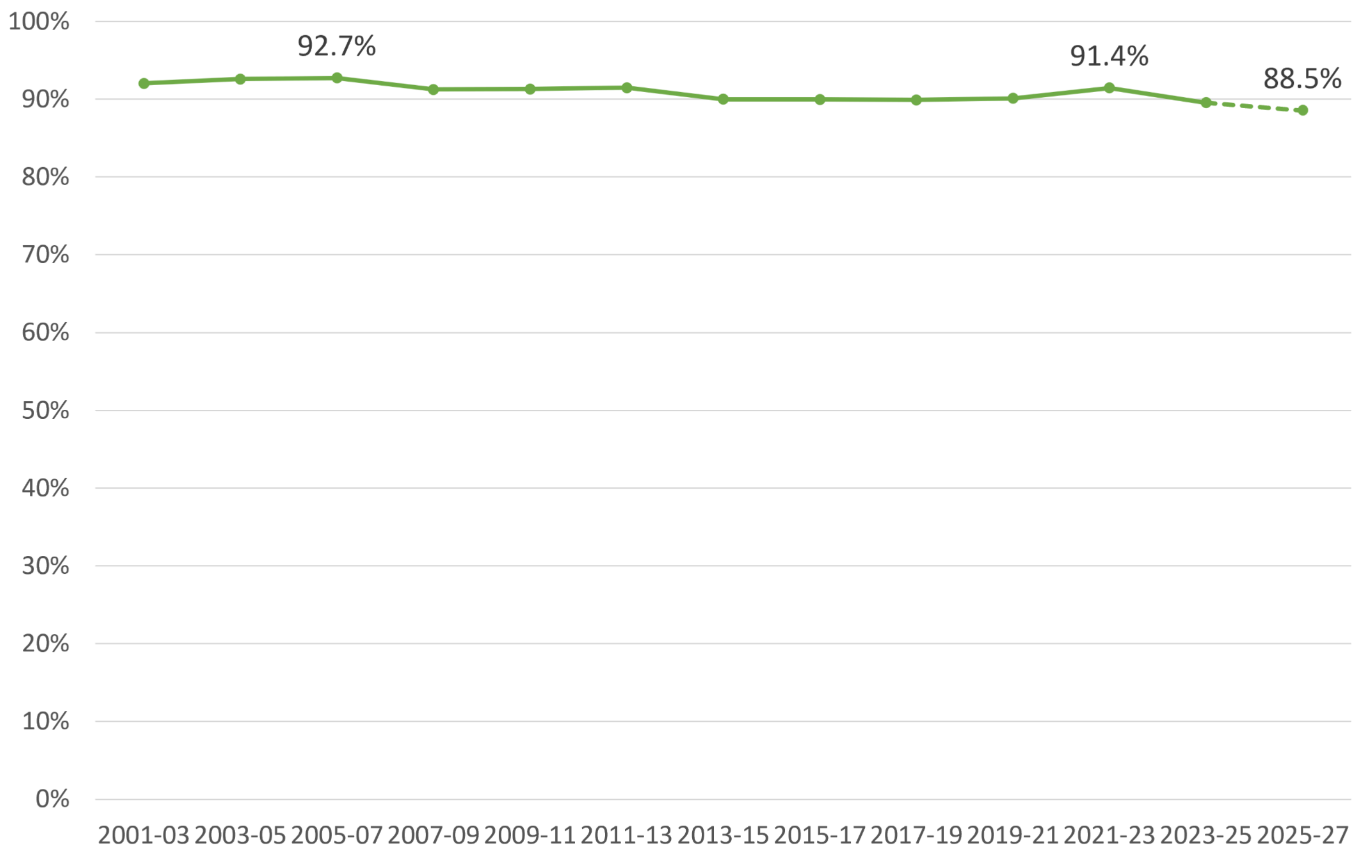
Guideline

The state budget should be transparent so that it is understandable for the public and policymakers and adaptable so policymakers have maximum flexibility to deal with contingencies.

Washington's four-year outlook is an important budget sustainability tool that applies to the NGFO. Consequently, most attention by lawmakers, the media, and the public is focused on the NGFO. However, some state operating spending is siloed in dedicated accounts, which do not receive as much public scrutiny. Further, given budget constraints, legislators must prioritize which programs they fund. This activity is more difficult when some funds are deposited in dedicated accounts outside of the NGFO.

In recent years, an increasing amount of state operating spending has come from such dedicated accounts. The NGFO was 92.7% of total state operating spending in 2005–07 and is estimated to be 88.5% of total state operating spending in 2025–27. If all state operating spending in 2025–27 was subject to the outlook, an additional $10.384 billion would be “on-budget” and therefore more transparent and available for prioritization.

NGFO as Percentage of Total State Operating Spending



Sources: Fiscal.wa.gov, LEAP

Glossary

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." The funds included are the general fund–state (GFS), the education legacy trust account (ELTA), the opportunity pathways account, the workforce education investment account, and the fair start for kids account. Together, these accounts are also referred to as the near general fund–outlook, or NGFO. The NGFO ending balance is an unrestricted reserve—any amount that is not spent in a biennium rolls over and becomes the beginning NGFO balance for the next biennium.

BSA: The budget stabilization account (BSA) is Washington's constitutional rainy day fund. The state constitution requires that 1% of general state revenues (see below) must be transferred to the BSA annually and that three-quarters of any extraordinary revenue growth be transferred biennially. BSA funds are protected from withdrawals by supermajority vote requirements.

WRPTA: The Washington rescue plan transition account (WRPTA) is a statutory reserve account that was created in 2021 and seeded with reserves from the BSA. The Legislature has spent down this account; as of the beginning of 2025–27, it has a zero balance.

General State Revenues: General state revenues (GSR) are defined in the state constitution. Effectively, general state revenues include most state money for the general fund, adjusted to remove certain sources and add back revenues that are transferred out of the general fund.

Total State Operating Spending: Total state operating spending in this report is operating spending from all state accounts (excluding appropriations made in the transportation budget). The NGFO is a subset of total state operating spending.

Maintenance Level: The maintenance level is the cost of continuing current services, adjusted for inflation and enrollment. It also includes the impact of statutory requirements that are scheduled to be implemented.