

# The truth about why Washington state has such a big budget shortfall

The \$12-\$16 billion deficit lawmakers face is a result of previous budget cuts and our state's broken tax code

## What are Washington state's budget needs?

The budget is a tool that supports the needs of communities throughout the state – funding everything from schools to infrastructure to public health. However, in Washington state, the budget has not been keeping pace with population growth, economic growth, and inflation. So after years of underinvestment in core public services, the budget requires a course correction to address the following needs:

- + **Inadequate funding due to past cuts:** The Great Recession and subsequent austerity measures led to [over \\$10 billion in cuts](#) (which is equivalent to over \$14 billion in today's dollars) to education, health care, and social services. Restoring essential funding is necessary to meet the needs of a growing population.
- + **Inflation and maintenance costs:** The cost of simply maintaining the current budget has risen significantly due to inflation.
- + **Constitutional school funding obligations:** The Washington State Supreme Court's 2012 McCleary decision on public education funding requires Washington to fully fund K-12 education, yet the state remains approximately [\\$4 billion per year short](#), particularly in special education.
- + **Early learning and child care investments:** The Fair Start for Kids Act, which expands access to affordable, high-quality child care and early learning, is phasing in from 2021 through 2030. This program is widely used and in high demand.
- + **Public service demand:** Programs like long-term care for seniors and people with disabilities and the Working Families Tax Credit, which provides a cash boost to people with low incomes, are serving more people. They play a critical role in supporting Washington families.
- + **Public sector workforce needs:** [Recent collective bargaining agreements](#) established a minimum \$18 per hour wage and modest wage increases of 3% in 2025 and 2% in 2026 to address recruitment and retention challenges. Competitive wages are essential to attracting and retaining workers.



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# Why isn't revenue keeping up?

Despite economic growth, Washington's outdated tax system – the second most regressive and inequitable tax code in the country – fails to generate sustainable revenue (Figure 1). This is because of:

- **An upside-down tax code:** The wealthiest 1% of Washingtonians are not paying their share in taxes. They pay among the lowest tax rates in the country, while middle- and lower-income residents pay much higher rates (Figure 2).

Figure 1

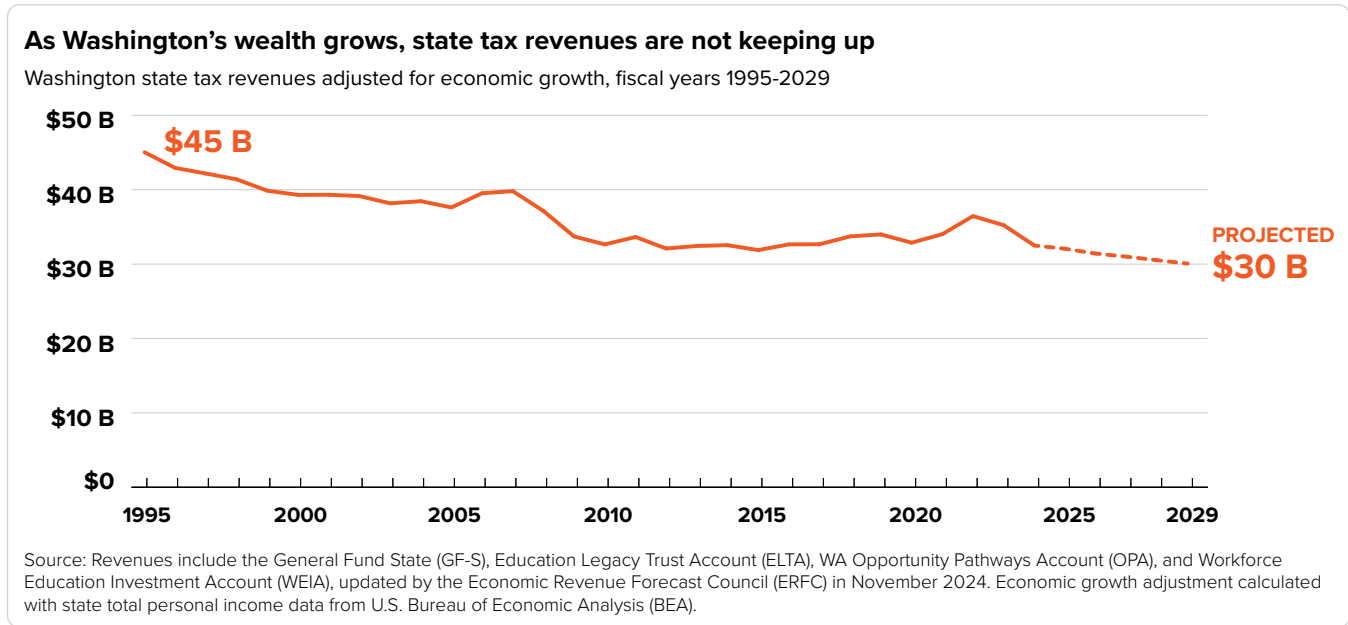
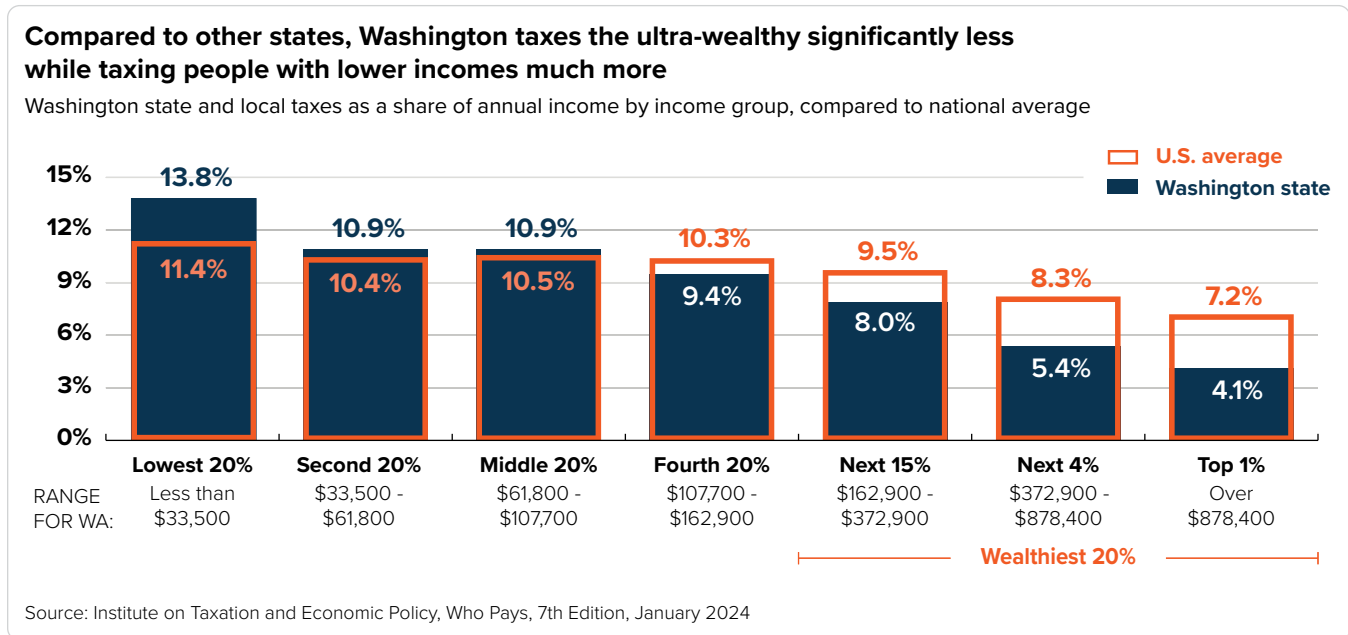


Figure 2

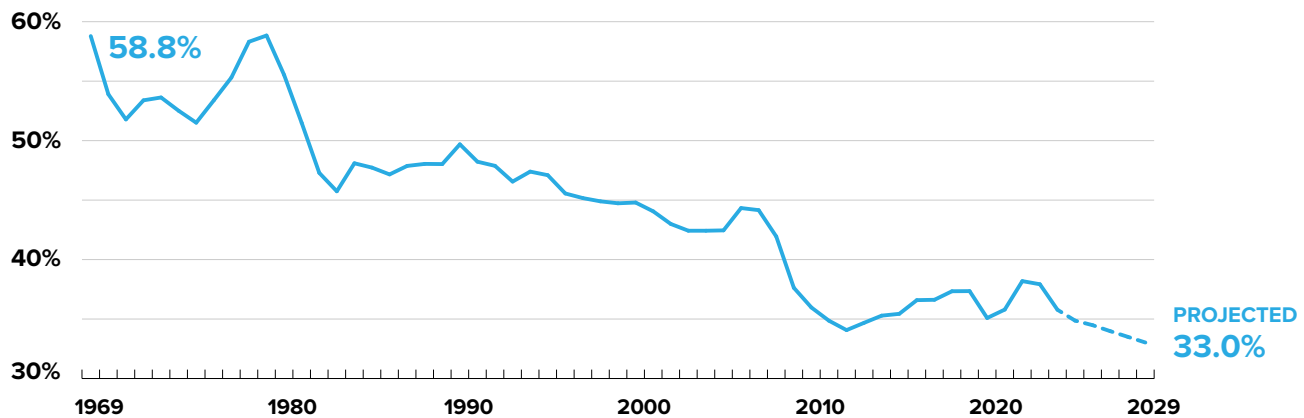


- **Overreliance on sales tax:** [Around 50% of the state's general fund comes from sales taxes](#), which disproportionately impact lower-income households.
- **Declining sales tax revenue:** As spending shifts – particularly among people with higher incomes – from taxable goods to untaxed services such as spa treatments, financial services, and cable packages, sales tax revenue fails to keep pace with economic growth. Recently, new homes and cars have become unaffordable for many people, which has also led to a decline in revenue (Figure 3).

Figure 3

### Spending on taxable sales is shrinking due to soaring incomes and economic shifts towards nontaxable services

Washington state taxable sales as a share of total state personal income, fiscal years 1969-2029



Source: Washington State Economic Revenue Forecast Council, updated November 2024.

- **Property tax restrictions:** State law limits property tax revenue growth to 1% annually, far below inflation and property value increases. Also, Washington state requires uniformity in property taxation, which means that luxury vacation homes and commercial properties are taxed at the same rate as small family homes. This is inequitable and equates to another tax loophole for wealthy people and corporations.
- **Transportation funding gaps:** The state relies on fuel taxes for 50% of its transportation budget revenues, but as fuel efficiency improves and remote work expands, this [revenue source declines](#).
- **Expiration of federal COVID aid:** Temporary federal funding that supported critical public services is running out, placing additional pressure on the state budget.

# To strengthen Washington's future, lawmakers must address the revenue shortfall

[Voter support for progressive taxation](#) shows we are on the right track. To build a budget that reflects our values and meets our state's growing needs, lawmakers must ensure our revenue system is stable, adequate, and equitable. To ensure our communities are supported and everyone in our state has a better opportunity to thrive, legislators and our governor must:

## 1 Ensure those who profit most contribute their share

Our economy has grown tremendously, but our tax code hasn't kept pace. Those who have profited the most from Washington's prosperity should pay their share to keep our communities strong.

### Policy Solutions:

*Remove arbitrary caps on payroll taxes for employers of high earners. And ensure high-profit corporations pay their share by making the Business & Occupation tax more progressive.*

## 2 Modernize the tax code

Our outdated system relies heavily on revenue sources that don't reflect today's economy. We need a tax structure that grows alongside our state's wealth and population.

### Policy Solutions:

*Enact a tax on extraordinary Wall Street wealth. Also reform property taxes to increase sustainable funding for schools while ensuring equitable guardrails are in place to support low- and moderate-income homeowners.*

## 3 Reduce the overreliance on working families

Right now, those with the least pay the highest share of their income in state and local taxes. A more balanced approach ensures lower- and middle-income families aren't carrying so much of the load.

### Policy Solutions:

*Expand the Working Families Tax Credit to include young adults aged 18+ as well as seniors and give a cash boost to all renters who receive the Working Families Tax Credit.*

As lawmakers face a \$12-16 billion deficit over the next four years, they must reject the short-sighted approach of cuts, which fail to address systemic funding issues and will continue creating budget deficits in the future. Washington voters have already demonstrated their support for revenue and strong public investments – most recently in the 2024 elections when they upheld the capital gains tax on the ultra-wealthy, the tax to pay for long-term care, and the fee on large polluters. Now, lawmakers must listen to the voters and make choices that build a resilient, inclusive economy – one that supports families, strengthens communities, and ensures every Washingtonian has the opportunity to succeed.

