



DATE: January 13, 2026

SUBJECT: Interim Legislative Update, December 2025

Overview

Governor Bob Ferguson released his proposed supplemental operating, capital, and transportation budgets at the end of December, focusing on three key areas: housing, transportation and affordability. His budget proposal was coupled with an announcement that he will support an income tax on income over \$1 million and offered his perspective on how such a tax should be structured.

As supplemental budgets, these budgets make mid-biennium adjustments to the state's 2025-27 budgets that the Legislature adopted in April 2025. The Governor held several press conferences to share highlights of the proposals - the operating and capital budget press conferences can be viewed [here](#), and transportation [here](#). To view the Governor's proposed budget documents, click [here](#).

The Governor's budget proposals set the stage for legislative discussions. Once the legislative session convenes on January 12, each chamber of the Legislature (Senate and House of Representatives) will hold public hearings on the proposals and will work to develop their own respective proposals. The Legislature will submit a final budget to the Governor to be signed into law at the end of the 2026 Legislative Session.

Supplemental Operating Budget

The Governor's proposed Supplemental Operating Budget is approximately \$79 billion, a \$1.2 billion increase from the current 2025-27 budget. The current biennial budget faces a \$2.3 billion shortfall driven by increased costs of existing programs and slightly declining revenue. The Governor proposes addressing that shortfall by reducing spending by \$797 million, shifting revenue and closing tax preferences to the tune of \$391 million, allocating \$123 million in funds from other accounts, and transferring \$1 billion from the Budget Stabilization Account (also known as the Rainy Day Fund). State agencies submitted \$2 billion in critical budget requests, and the Governor's budget proposes to fund \$700 million of those needs.

Washington is one of the only states in the nation that requires a four-year balanced budget. There are, however, certain conditions that allow the state to exempt itself from that requirement. One is the use of the budget stabilization account, and the other is less than 1 percent projected job growth. Both conditions have been triggered; therefore, the Governor's proposal balances over the two-year biennium, rather than the four-year outlook.

Proposed Transfers and Reductions

To balance the budget with no new revenue, the Governor proposes several budget transfers, including transferring \$75 million from the Public Works Assistance Account, \$5 million from the derelict vessel removal account, and several others into the general fund. The budget ends ongoing funding for local government comprehensive planning grants after all eligible local governments have received formula grants for the current round of updates. The budget also utilizes \$569 million of new Climate Commitment Act revenues to maintain the Working Families Tax Credit, which is a statutory allowable use of those funds.

Tax/Revenue Changes

While the Governor's budget does not propose new taxes or revenue, it does propose eliminating tax preferences for certain corporations. The first is the elimination of the sales tax exemption for data centers when they purchase replacement server equipment. The second is eliminating the preferential business and occupation (B&O) tax rate for wholesalers of prescription drugs. Finally, the Governor proposes closing a tax loophole for insurance companies by clarifying that only entities that pay the premiums tax may claim the related B&O exemption. In total, these changes would generate \$145 million in the 2025-27 biennium.

Enhanced Investments

A key priority for the Governor in developing a supplemental budget was to provide focused relief to Washingtonians with the most financial burdens. Select investments include:

- \$18.5 million to provide healthcare coverage for individuals who lost coverage as a result of federal decisions;
- \$30 million to provide a one-time \$200 credit to household utility bills for approximately 125,000 low-income families via the Washington Families Clean Energy Credits;
- \$33 million to expand the State Home Energy Assistance Program, which provides utility bill assistance to low-income households, an energy assessment for their home, and replacement of outdated systems;
- \$4.1 million to continue covering the administrative costs of providing summer meals for students;
- \$25 million to sustain support for individuals newly arriving to Washington seeking asylum;
- \$49 million to preserve food benefits for roughly 30,000 lawfully present immigrants in Washington who are now not eligible for Supplemental Nutrition Assistance Program (SNAP) due to recent federal changes;
- \$955 million to cover increased insurance premiums by state agencies to fund the state's Self-Insurance Liability Account, which saw an increase of 800 percent in claims filed against just one state agency (Department of Children, Youth, and Families);
- \$1 million for the Department of Commerce to provide local planning and permit review grants;
- \$135,000 for local governments to update zoning to allow mixed-use buildings in appropriate commercial areas, with the goal of expanding affordable housing sites near urban and transportation hubs.

Supplemental Capital Budget & Housing Investments

The governor's Supplemental Capital Budget proposal focuses on investments in housing. In total, the proposal makes \$396 million in new appropriations, leaving \$5.3 million in remaining bond authority. The Governor proposes adding \$225 million to the Housing Trust Fund, beyond what was included in the biennial budget. In addition to this investment, the Governor issued an Executive Order to create the Washington State Task Force to prepare for the establishment of the Department of Housing. This new state agency would serve as the hub for expanding housing supply statewide and identify gaps and opportunities for all housing types. The Executive Order directs the Task Force to provide recommendations by November.

The budget also proposes \$5 million to extend the reach of the Low-Income Home Rehabilitation Grant program, which serves rural homeowners impacted by recent flooding. An additional \$335,000 would be used to create a housing accelerator framework to eliminate barriers to building new affordable homes by reducing the cost of housing through simplifying grant applications, updating permitting rules, and reducing unnecessary steps in the planning process so projects can move faster. The Governor dedicates \$2 million to support coordinated land banking for local governments.

The Governor proposes making an \$11.5 million investment in the Washington State Green Bank through a grant from the Department of Commerce. The Washington State Green Bank is a nonprofit financing entity that uses innovative funding models to make clean energy projects accessible and affordable.

Supplemental Transportation Budget

The Governor's proposed Supplemental Transportation Budget has a clear focus on maintaining the state's existing infrastructure rather than investments in new projects. The centerpiece of the Governor's proposal is the new "Preserve Washington" account, which dedicates \$2.1 billion to statewide maintenance and preservation and about \$1 billion to purchase three new ferries over the next 10 years.

The Governor proposes funding these investments by bonding against the capacity of those revenue streams (a 6-cent fuel tax and other fees) adopted by the Legislature last session. The Governor's proposal maintains two planned transfers of funds from the operating budget to the transportation budgets: 1) the equivalent of one-tenth of one percent sales tax is scheduled to be transferred to transportation starting in 2027, and 2) the operating budget "borrowed" funds from the transportation budget this biennium that is scheduled to be repaid in the 2027–29 biennium. Both were widely expected to be at risk given pressure on the state's operating budget, but the Governor proposes leaving these transfers unchanged.

Funding for maintenance activities includes \$1.1 billion for bridge preservation, \$164 million for paving in the summer, \$756 million for paving from now until 2036, and approximately \$100

million for slope stabilization, landslide response, and addressing failing culverts and other urgent needs. These funds are flexible and available as needed, with no money preassigned to specific projects.

The Governor proposes restoring the Regional Mobility Grant Program in future biennia. In the 2025-27 budget, the Legislature zeroed out the program beyond the 25-27 biennium. The Governor's budget restores funding levels beyond the current biennium, providing \$77 million for 2025-27 and about \$55 million for 2027-29.

Other notable investments in this budget include:

- An additional \$5 million to address statewide encampments (\$10 million total for the 2025-27 biennia) and an additional \$10 million in the 2027-29 biennial budget (\$15 million total).
- \$15 million for dredging and channel maintenance on the Columbia River and Lower Columbia River.
- Directing the Washington State Department of Transportation (WSDOT) to analyze bridge strikes and develop options to address them.
- \$2.2 million for the Local Road Grant Program administered by the County Road Administrative Board.
- \$6.5 million to the Washington State Patrol for safety upgrades, including the final phase of the radio replacement project and network equipment for district offices.
- \$1.9 million to the Department of Licensing to enhance data protection for driver information.

Bridge Preservation

During his press briefing, the Governor highlighted the “poor condition” of 80 bridges statewide, the lowest rating used by WSDOT, signaling serious structural damage or deficiencies. He emphasized the urgency of preservation, noting that bridges are designed to last about 80 years and that 342 bridges across the state have reached or exceeded that age. Funding for bridge repair is flexible in his budget proposal, with WSDOT given discretion to address the most urgent needs rather than specific projects. The Governor also stressed that investing in maintenance now helps reduce a growing backlog, supports economic activity by keeping goods and people moving, creates jobs, and saves money by fixing problems before they become critical.

Ferries

The Governor's budget continues the path to a lower-emission ferry system by converting six existing ferries to hybrid-electric power and building 16 new plug-in vessels with charging infrastructure at 16 terminals by 2040. The budget allocates \$1 billion to build or purchase three additional ferries and maintain the current fleet.

Flood Response

The budget addresses flood damage, though the total cost to the state is still unknown. Typically, when roads are repaired using Federal Highway Administration standards, the state is

reimbursed by the federal government. However, WSDOT noted that the current presidential administration may take a different approach, creating uncertainty about whether future flood repair costs will be reimbursed.

Media Coverage: [What to know about WA Gov. Bob Ferguson's \\$3B transportation spending plan](#), The Washington State Standard

Governor's Support for Income Tax

During a press conference announcing his proposed supplemental budgets, Governor Ferguson expressed his support for the Legislature to adopt a statewide “Millionaire’s Tax” during the upcoming legislative session. The proposed new tax would apply to individuals earning more than \$1 million in a single calendar year and would be based on annual income, excluding net worth or assets such as the value of an individual’s home.

The Governor indicated that the tax should be voter-approved and stated with optimism that voters would approve the measure and that it would withstand legal challenges. Once implemented, the tax is projected to generate approximately \$3 billion annually for the state’s operating budget. However, revenues would not come in until 2029, meaning the tax would not address the state’s supplemental budget shortfall, nor could it be factored into the 2027-29 biennial budget.

Governor Ferguson proposed directing future revenues from the Millionaire’s Tax toward four priorities:

1. Expanding the Working Families Tax Credit to increase benefits for eligible families.
2. Reducing B&O taxes on small businesses, including eliminating the tax for businesses with annual gross revenue under \$1 million.
3. Increasing funding for K-12 education.
4. Reducing sales taxes by eliminating taxes on personal hygiene items, baby products, and affordable clothing.

Reflecting on the Legislature’s proposed wealth tax during the previous session, the Governor explained that his opposition stemmed from their reliance on revenue that would not be available in the near term and would likely face delays due to legal challenges. He encouraged lawmakers to advance the Millionaire’s Tax to support future budgets beginning in 2029.

January Look Ahead

Looking ahead to January and beyond there are some key forthcoming dates:

- **January 12, 2026** – Start of the 60-day legislative session
- **January 21-22, 2026** – Association of Washington Cities (AWC) City Action Days
- **March 12, 2026** – Scheduled end of the legislative session