



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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June 5, 2026

**TO:** Agency Directors

**FROM:** K.D. Chapman-See  
Director

**SUBJECT: 2027–29 OPERATING, TRANSPORTATION, AND CAPITAL BUDGET INSTRUCTIONS**

As we enter the 2027–29 biennial budget cycle, I will start by thanking each of you for your partnership in working through what will likely be the most challenging budget any of us has yet faced in these roles. On behalf of myself and the team here at the Office of Financial Management (OFM), we see and appreciate the complexity you’re navigating. You’re leading through extraordinary uncertainty and change, caring for your staff and the people we serve, at a time when public service is more difficult and necessary than ever.

Protecting core services in a sustainable and equitable way must be our priority. Simultaneously, we must ensure state government has a solid financial foundation for the long-term. To do this, the realities of our current budget must be continually kept at the forefront while you develop your decision packages.

To be direct, there will be significant budget shortfalls next biennium in both operating and transportation budgets. I want to be clear that we do not yet know precisely how significant the shortfalls will be.

Key contributing factors to our budget challenges include costs for providing essential services that are far outpacing revenue due to inflation, cuts to federal funding, population growth, ongoing economic uncertainty, and court decisions with substantial or long-term funding impacts.

In the past decade, inflation has increased by 39%. That means something that cost \$100 in 2016 now costs \$139 in April 2026. The rising costs for utilities, construction and materials, fuel, and other necessities are weakening the state’s purchasing power, impacting the operating, capital, and transportation budgets.

Furthermore, between 2015 and 2025, the state’s population increased by 14.2% – or more than 1 million people. More people require state services as economic pressures hit individuals’ and families’ budgets, just as they impact the costs of doing business as a state.

This year’s revenue forecasts will likely not provide sufficient support for the maintenance of current programs, let alone any expansions, despite recent tax code changes. Revenue from the Millionaire’s Tax (Chapter 238 Laws of 2026) will not be collected until FY29, and 42% of the projected revenue from this new tax will go directly back to supporting small businesses, Washington families, and



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consumers. This law is also the subject of a court challenge and may also face potential ballot measures, the outcomes of which could impact the state's receipt of revenue. In view of these factors, agencies should not assume funds from the Millionaire's Tax are available for their requests in the 2027–29 biennium.

Given our current reality, I am directing all agencies to submit operating and transportation budget requests that focus only on addressing mandatory increases while not expanding existing programs and services. The capital budget will also face challenges during the 2027–29 biennium, and agencies must carefully calibrate requests for both reappropriations and new appropriations to align with their top priorities.

A “business as usual” approach will not meet the need of this moment – and OFM will be working with each of you to reimagine what it looks like to continue providing essential services to the public while also addressing the budget shortfall. We recognize reductions necessary to address this shortfall will come on top of billions in reductions adopted in the last 16 months, making these further savings additionally challenging without significant impacts to services the state provides.

### **Reductions and cost savings**

- Agencies should plan to pause the phase-in of most new programs and not propose the creation of additional programs.
- When agencies identify savings and cost-reductions that can begin immediately, they should consult with OFM about how those ideas can be implemented.
- Executive Cabinet agencies are directed to provide reduction options for efficiencies, program reforms, and other savings in non-essential services and programs. While we are not requiring a specific or uniform reduction amount at this time, given the anticipated shortfall for fiscal year 2028 and the likelihood that shortfall will grow as forecasts and mandatory maintenance level costs are updated, reduction options should be significant and ongoing.
- The Governor has requested agencies, in addition to carefully reviewing base budget expenditures, specifically consider:
  - Programs created or expanded after January 1, 2019;
  - Areas where Washington provides particularly high levels of service relative to other states, or is one of only a handful of states that provides a specific service or program;
  - Innovative proposals that reimagine service delivery in cost-effective ways.
- The Governor is committed to equity and requests that agencies be mindful and carefully consider disproportionate impacts reductions may have on communities underserved by state services.
- We strongly encourage non-cabinet agencies to also submit reduction options, and all agencies to conduct additional internal planning for various scenarios of necessary reductions. Reduction options in the operating budget should not include the transfer of costs to the capital budget.



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Policy level budget requests that result in a net increase in funding should only be submitted for the following:

- Non-discretionary changes in legally mandated caseloads or workloads.
- Critical and emergent costs that cannot be accommodated with savings or efficiencies in the existing budget.

For all budget requests, including maintenance level requests, agencies should ensure that the request maximizes cost efficiency strategies before requesting new funds.

We understand this is a heavy and complex charge, and OFM staff will work with you throughout the summer and fall to do this important work. The Governor has already begun regular meetings with OFM and cabinet agencies to begin tackling these challenges collectively. He is confident that agencies will propose solutions that balance Washingtonians' needs, priorities, and our budget realities. The Governor understands that very difficult decisions lay ahead, and only by working together will we get through it.

The 2027–29 budget instructions are available on [OFM's website](#). Agency operating, transportation, and capital budget requests, including the required budget reduction decision packages, are due to OFM by close of business on Monday, September 14, 2026.

Thank you for your assistance. We look forward to working with you and your staff in the months ahead. If you have questions, please contact your agency's assigned [OFM budget advisor](#).

cc: Agency Budget Officers  
OFM Budget Advisors