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## Election Wrap-up and 2025 Session Preview

### Elections Recap

- **Overall:** Given Washington's strong Democratic voter base, it is no surprise that Democrats cut against national trends and elected Democrats to all nine state-wide state offices, maintained Democratic control of the state legislature, rejected three ballot initiatives that would have repealed Democratic priority policies and reelected a Democratic congresswoman in one the nation's top federal races.
- **Governor:** Three-term Democrat Attorney General Bob Ferguson cruised to victory over former GOP Congressman Dave Reichert in the race to replace retiring Gov. Jay Inslee who has served the state's chief executive since 2013.
- **Attorney General:** Democrat Nick Brown easily won the open seat to replace Ferguson. Brown is seen as a rising star in state Democratic politics, now considered a front runner, in due time, to replace Ferguson or one of the state's U.S. senators, most likely Sen. Patty Murray.
- **U.S. Congress:**
  - U.S. Senate: Incumbent Democrat U.S. Sen. Maria Cantwell has defeated Republican Dr. Raul Garcia.

- 3<sup>rd</sup> District (SW Washington): First-term incumbent Democratic Rep. Marie Gluesenkamp Perez was reelected, winning a race that was considered one of the top five Congressional races.
  - 4<sup>th</sup> District (Central Washington): In this Republican-versus-Republican race, Rep. Dan Newhouse was reelected. Newhouse is one of the ten House Republicans who voted to impeach President-elect Trump (only two are still serving in Congress).
  - 5<sup>th</sup> District (Spokane-Eastern Washington): In this open seat race to replace GOP Rep. Cathy McMorris Rodgers, Spokane County Treasurer Michael Baumgartner easily won the race.
  - 6<sup>th</sup> District (Tacoma-Bainbridge Island-Olympia Peninsula): Democratic state Sen. Emily Randall won the open seat race to replace Rep. Derek Kilmer, who chose not to run for reelection.
- **State Legislature:**
    - House Democrats picked up one seat and now have a 59-39 majority. Subject to winning a recount, Senate Democrats have also added one seat and now have a 30-19 majority.
    - Progressive Democrats have clear control of the legislature. There are few options to defeat the anti-business aspects of their agenda – including tax increases and defeating restrictive and costly environmental, labor and consumer protection policies.
    - The most significant leadership change is in the Senate. Democrats have chosen Seattle Sen. Jamie Pedersen as their new Majority Leader. Pedersen replaces Sen. Andy Billig.
  - **Initiatives:** Four initiatives qualified for the general election ballot. Three were defeated and one passed.
    - Passed: I-2066, which protects the use of natural gas in homes, businesses, and industry.
    - Failed: I-2109, a repeal of the state’s seven-percent capital gains tax.
    - Failed: I-2117, a repeal of the state’s cap-and-trade program.
    - Failed: I-2124, which allowed people to opt out of mandatory participation in the state’s long-term health care insurance program.

## Governor

- **Transition Activities:** Within days of winning the election, Ferguson announced a larger transition committee comprised of many leaders from Democratic organizations and unions, and some community and business organization representatives. Ferguson is bringing to the Governor's office his core AG office leadership team. It is expected that nearly all state agency directors will be replaced, bringing a fresh perspective to state government leadership.
- **Agenda/Style:**
  - In most ways, Ferguson will not differ much from Inslee. Ferguson brings well-established progressive-left credentials to his new position. During the first Trump term, Ferguson filed dozens of lawsuits against the federal government to fight a wide array of federal policy decisions.
  - One area Ferguson will break from this mold is on law enforcement issues. During the campaign, Ferguson promised to use funds he secured from the national opioid drug manufacturers settlement to help fund increases in the number of on-the-ground police officers.
  - Another area to watch is Ferguson's approach to the budget and potential tax increases. I believe Ferguson will consider cuts in state spending before supporting tax increases, which runs counter to where most legislative Democrats land on the current budget situation.

## State Budget

- **Philosophy:** Since 2021, legislative Democrats have said they apply the principles of fighting climate change, creating tax fairness and achieving equity/social justice to their policy proposals and decision-making.
- **Operating Budget & Taxes:**
  - Budget
    - The state must pass a balanced biennial budget and must consider a financial outlook for four years.

- According to Inslee’s budget office and legislative budget writers, the state has a revenue shortfall of \$10-12 billion for the next four-year period. The estimated 2025-2027 budget is \$75 billion. This assumption is based on the costs to provide in the next two biennial budgets the same services that are funded in the current two-year budget, \$3 billion for new state employee collective bargaining agreements, and \$3-4 billion to address structural funding challenges facing public schools.
  - To address this budget situation, Democrats intend to raise taxes rather than cut spending.
  - This is not a revenue issue – it is a spending problem - as the state is maintaining solid growth in tax revenues though there are some signs of a softening economy.
- Taxes: New and Increased
  - **Payroll:** Democrats are considering establishing a payroll tax on high-income employees (6.5% on employees making more than \$168,000 on businesses with a gross revenue of 10 million is being discussed).
  - **B&O taxes:** Democrats are considering an across-the-board rate increase on all B&O tax rates. Democrats believe it is better to apply “modest” rate increases on all taxpayers rather than significantly increasing rates on a small group of business sectors. IIABW is always concerned when B & O taxes are considered because it gives the legislature the opportunity to remove our special tax rate which is 1/3 the rate of other professional services.
  - **Sales tax on professional services:** Applying the state and local sales and use tax rates to the purchase of professional services.
  - **Capital gains tax:** Under consideration is changing the threshold for applying the seven-percent capital gains taxes (currently the threshold is \$250,000 annually).
  - **Wealth tax:** No details available other than finding an approach to obtain tax revenue from the highest income/net wealth individuals.
  - **Commercial real estate taxes:** Democrats are considering increasing taxes on commercial real estate sales.

- **Local property tax cap:** To give local governments more non-state government funding for operating costs, Democrats are considering increasing the annual property tax cap from 1% to 3%.