

Analyzing the Governor's FY2026 Budget Recommendations

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Citizens Research Council of Michigan

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Robert Schneider, Senior Research Associate



- Work Experience
 - 2nd period with Citizens Research Council
 - State Budget Office
 - House Fiscal Agency
- Policy Background
 - State budget
 - Human Services
 - Corrections
 - Transportation
- Education
 - B.S. in Economics from Central Michigan University
 - M.A. in Economics from Michigan State University.

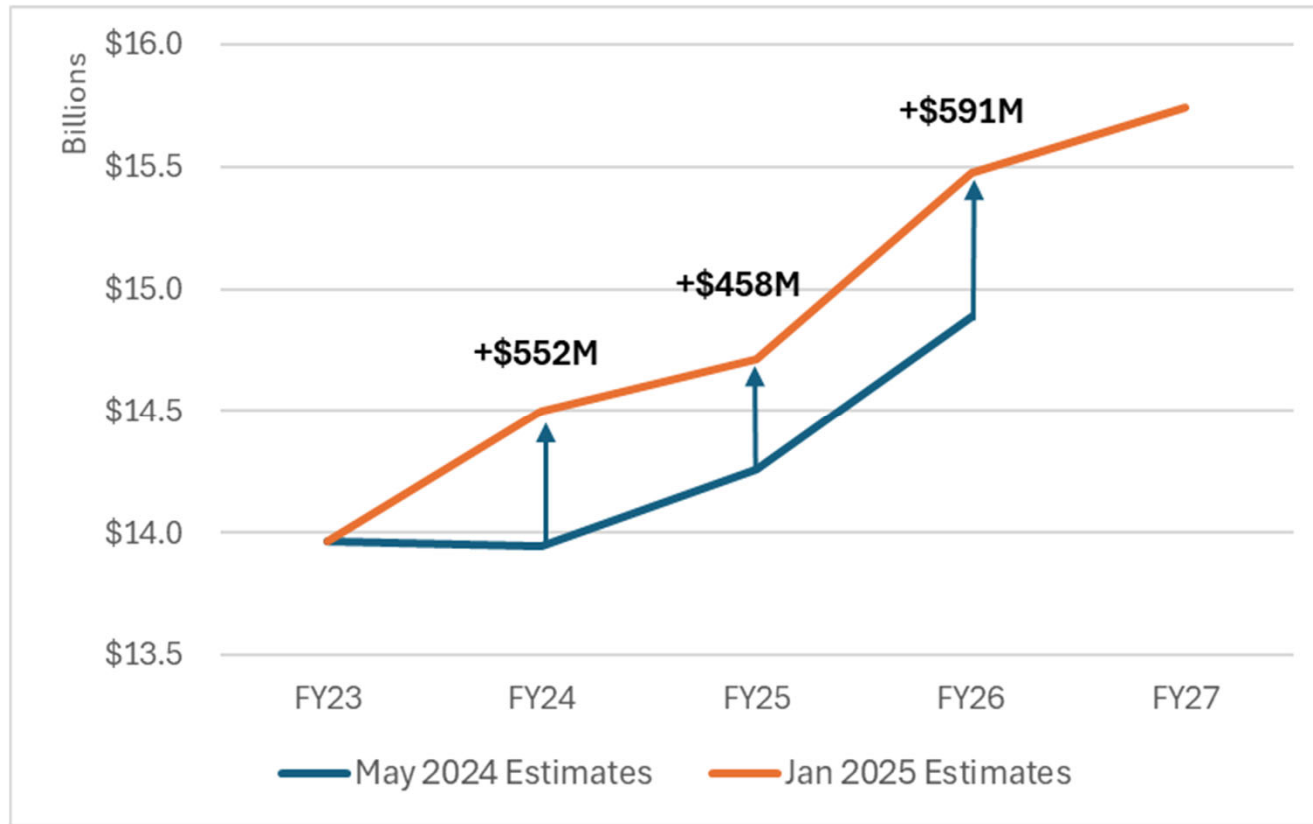
Craig Thiel, Research Director



- Work Experience
 - 2006 – present: Citizens Research Council
 - 1997 – 2006: House and Senate Fiscal
 - 1995 – 1997: Secretary of State
- Policy Background
 - State budget and taxation
 - K-12 education
 - Transportation
 - Inter-governmental relations
- Education
 - MPA, Wayne State University
 - BA, Kalamazoo College

State Revenue Picture: How Much Money Is Available?

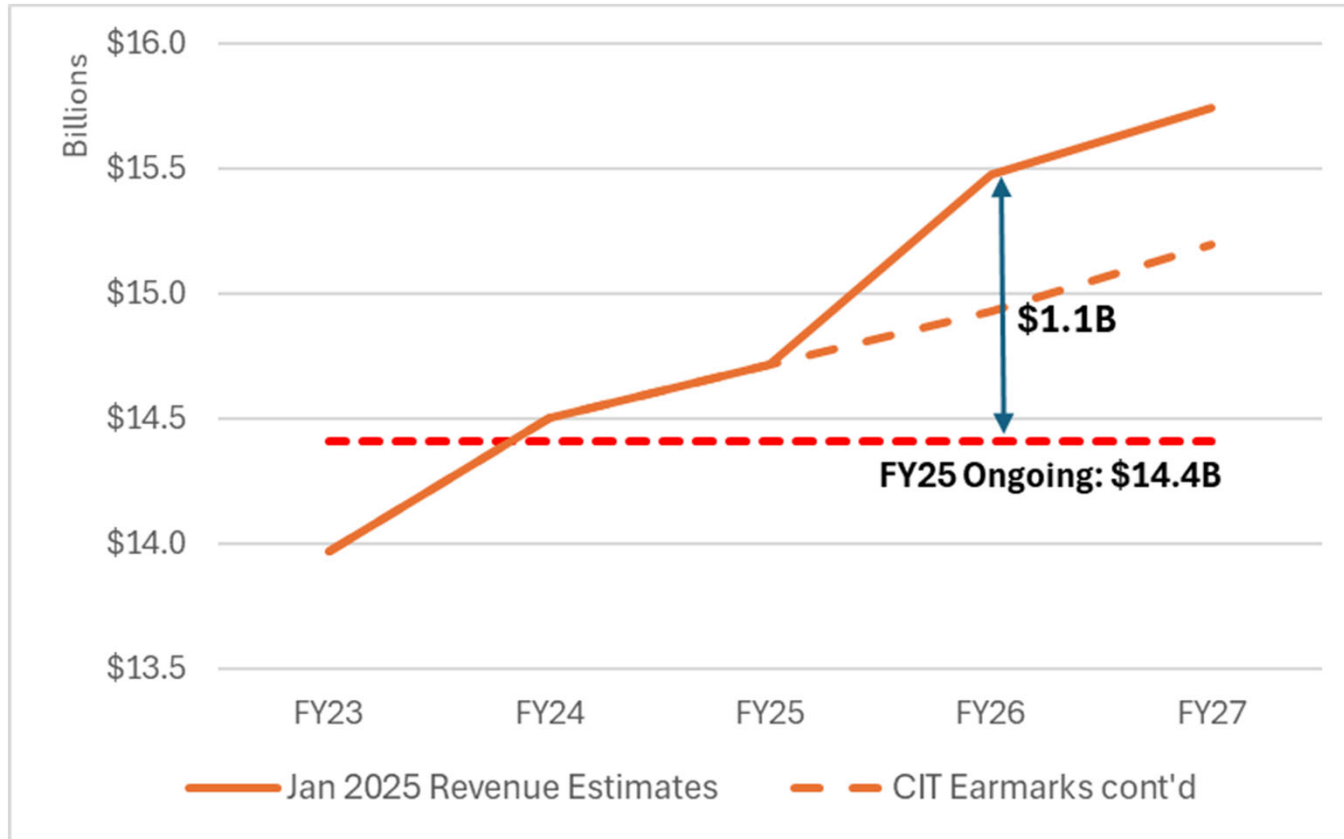
January Revenue Estimates – General Fund



- GF/GP revenue growth is all about FY24 – 4% jump from last May
- Trend growth in out years looks very much like the May forecast
- **IMPORTANT:** FY26 revenue includes \$550M in expiring Corporate Income Tax earmarks

Source: January 2026 CREC Final Summary.

GF/GP Ongoing Surplus = \$1.1B?!?



Source: Research Council calculations based on Executive Budget Book..

FY25 Ongoing =

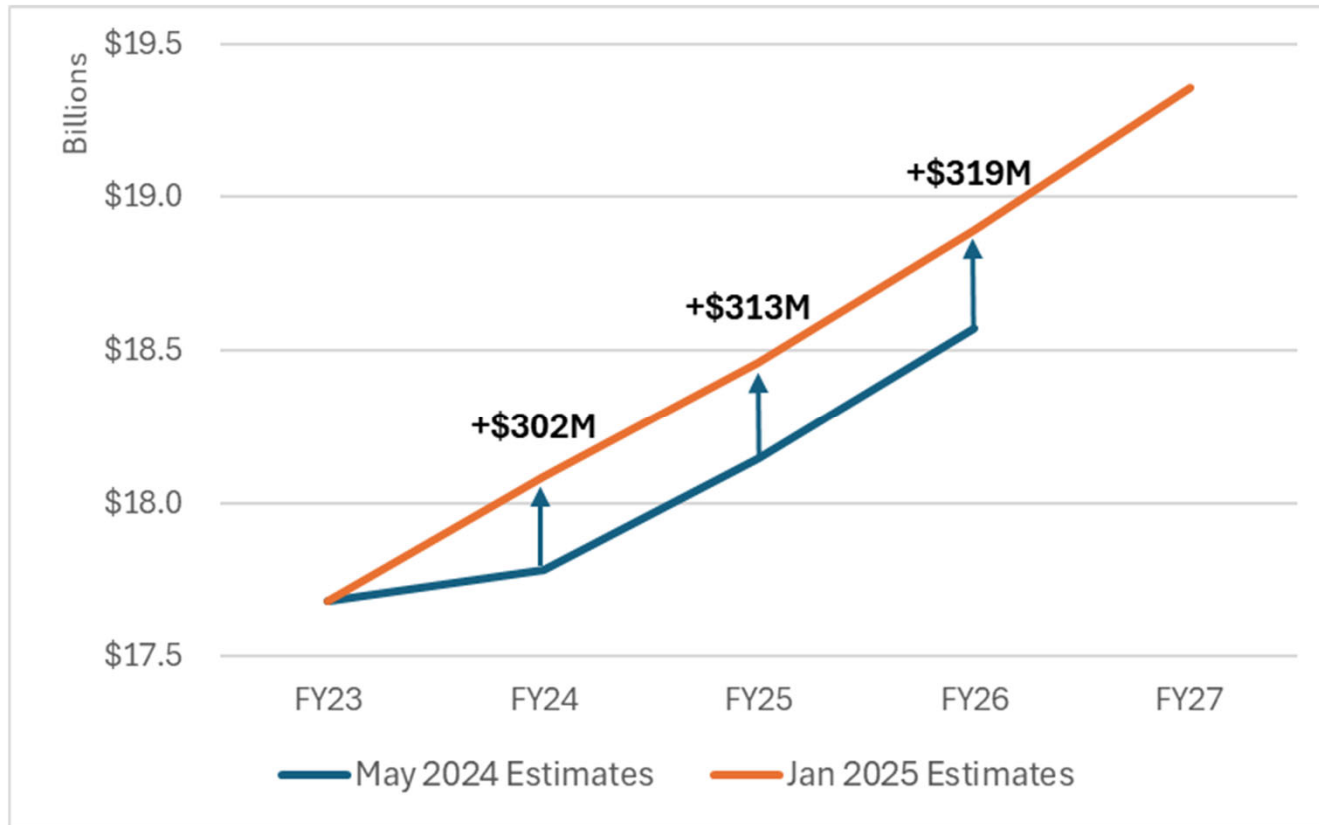
- FY25 ongoing GF/GP appropriations
- Statutory local revenue sharing
- R&D tax credit tax expenditure (\$100M)

\$1.1B surplus equates to 7.4% growth

Caveats

- Cost pressures (more to come)
- CIT earmarks are half the surplus

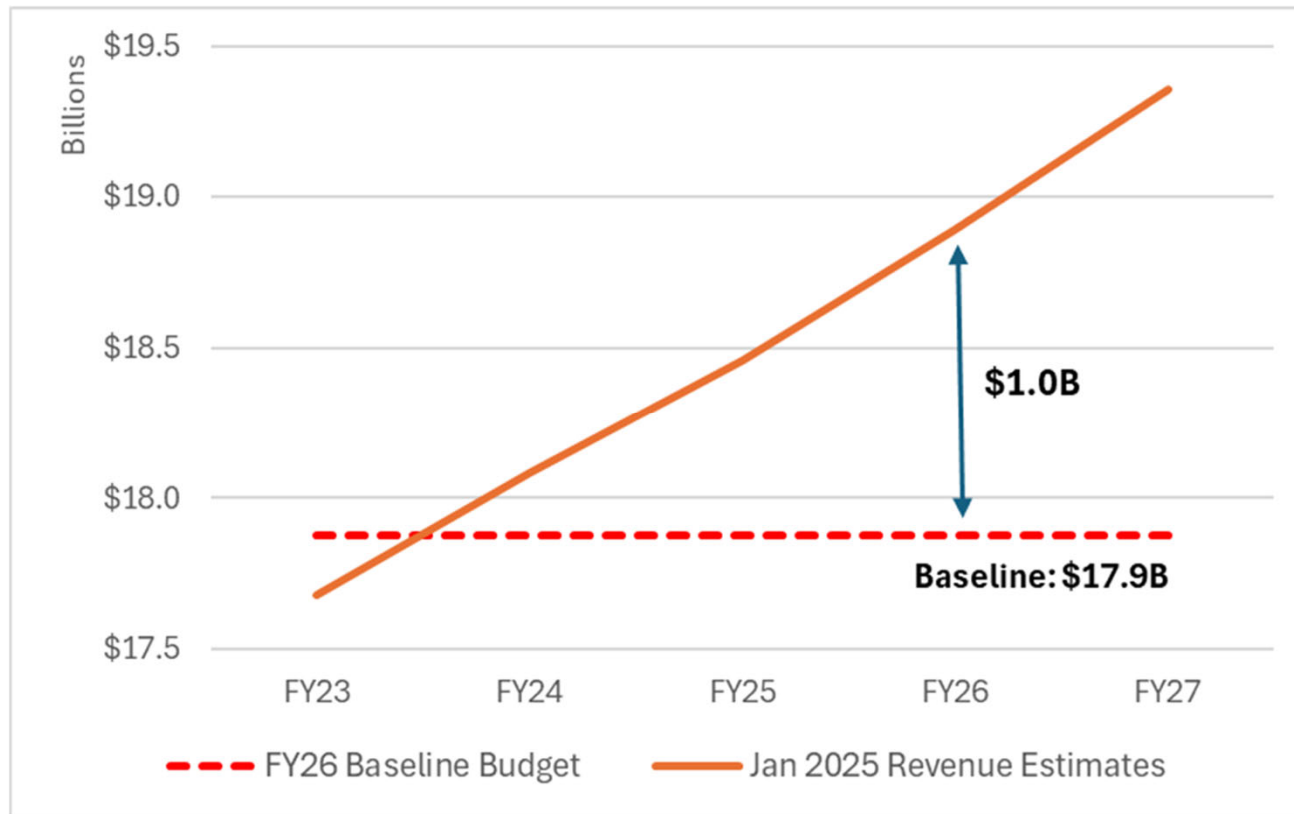
January Revenue Estimates – School Aid Fund



Source: January 2026 CREC Final Summary.

- Like GF/GP revenue, upward adjustments are about FY24
- Revenue estimates jump by around 1.7% each year, while long-term growth rate assumptions remain largely unchanged.

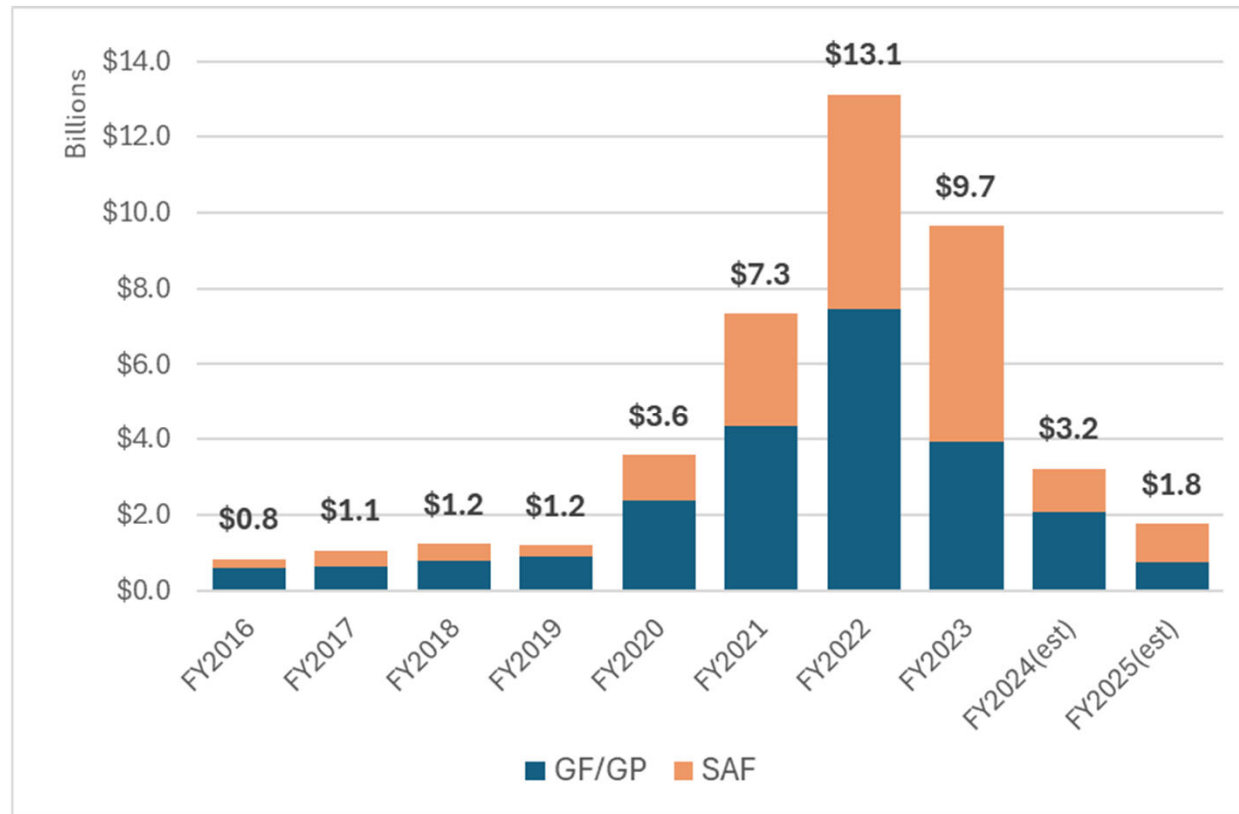
School Aid Fund: \$1B Ongoing Surplus



- SAF revenue estimate for FY26 exceeds ongoing FY25 spending by \$1B
- Room for around 5.7% growth in ongoing SAF budget

Source: Research Council calculations based on Executive Budget Book..

Major Fund Balances Continue to Fall



Both GF/GP and SAF projected year-end balances continue to drop from COVID-era peak in FY2022

FY25 Year-End Balance Estimates under Governor's budget:

- GF/GP: \$754M
- SAF: \$1B

Source: FY26 Executive Budget Book and State of Michigan Annual Comprehensive Financial Reports (FY16-23)

FY2026 Executive Budget

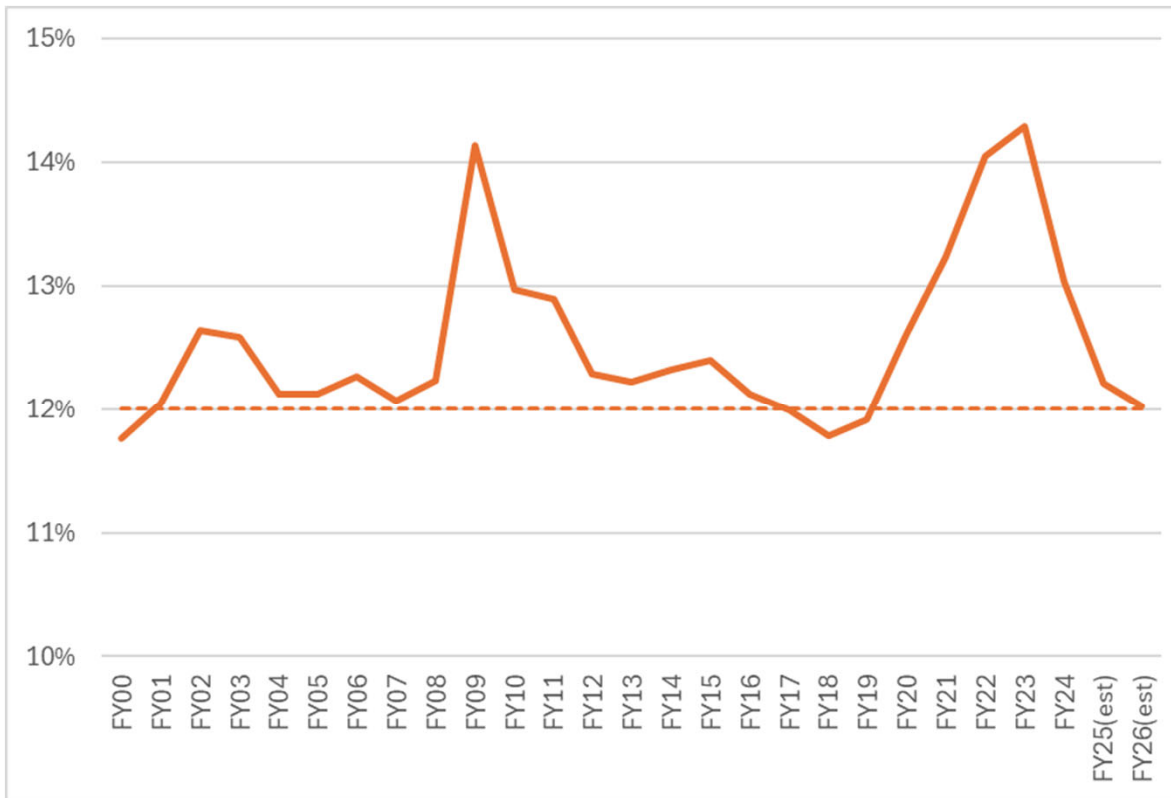
Highlights

Summary of Changes – GF/GP and SAF

| | FY2025 | FY2026 | \$ Chg | % Chg |
|------------------------------|---------|---------|---------|--------|
| Total Appropriations | \$81.5B | \$83.5B | \$2.0B | 2.4% |
| General Fund/General Purpose | | | | |
| Ongoing Appropriations | \$13.6B | \$14.6B | \$1.0B | 7.5% |
| One-Time Appropriations | \$1.3B | \$649M | -\$1.8B | -48.9% |
| School Aid Fund | | | | |
| Ongoing Appropriations | \$18.0B | \$18.9B | \$884M | 4.9% |
| One-Time Appropriations | \$562M | \$646M | \$84M | 14.9% |
| | | | | |

Perspective on Recent Budget Growth

Total State Budget as Percentage of Michigan Personal Income



Source: Research Council analysis of Senate Fiscal Agency historical data.

FY19 State Budget = \$58.3B

FY25 State Budget = \$81.5B

- More than \$23B in budget growth over six years
- Average annual growth of 5.7%

But prices and incomes also grew faster given the surge in inflation

FY26 proposal would bring budget back to prior trend

General Fund Budget

Highlights

Baseline Adjustments and Savings Proposals

Major cost pressures cut into revenue surplus

| Current Services Baseline Adjustments | Total | GF/GP |
|---|---------------|---------------|
| Health & Human Services Caseload Costs | \$1.1B | \$529M |
| Child Care Subsidy Caseload Costs – LEAP | \$63M | \$63M |
| State Employee Wages/Retirement/Insurance | \$183M | \$121M |
| Other Statewide CSB Adjustments | \$217M | \$13M |
| TOTAL CSB ADJUSTMENTS | \$1.6B | \$726M |

| GF/GP Savings Proposals | Total | GF/GP |
|-------------------------------------|----------------|-----------------|
| Program Reductions and Eliminations | (\$80M) | (\$24M) |
| Net Fund Shifts Impacting GF/GP | \$0 | (\$90M) |
| TOTAL SAVINGS ADJUSTMENTS | (\$80M) | (\$114M) |

Doing the math: Adjustments leave \$457M for anything else.

Health and Human Services

| Ongoing Investments | Total | GF/GP |
|--|---------------|---------------|
| Changes to Medicaid Eligibility for High Medical Cost Adults | \$96M | \$33M |
| Child Welfare Service Enhancements | \$85M | \$63M |
| Medicaid Pre-Release Services for Incarcerated Individuals | \$40M | \$20M |
| Crime Victim Grants Increase | \$20M | \$20M |
| Other Investments | \$163M | \$47M |
| TOTAL ONGOING INVESTMENTS | \$377M | \$172M |

| One-Time Investments | Total | GF/GP |
|--|---------------|---------------|
| Federal Disallowance – Psychiatric Hospital Payments | \$79M | \$79M |
| Energy Assistance | \$25M | \$25M |
| Water Bill Payment Assistance | \$6M | \$6M |
| Other One-Time Investments | \$18M | \$3M |
| TOTAL ONE-TIME INVESTMENTS | \$127M | \$112M |

Revenue Sharing and Universities

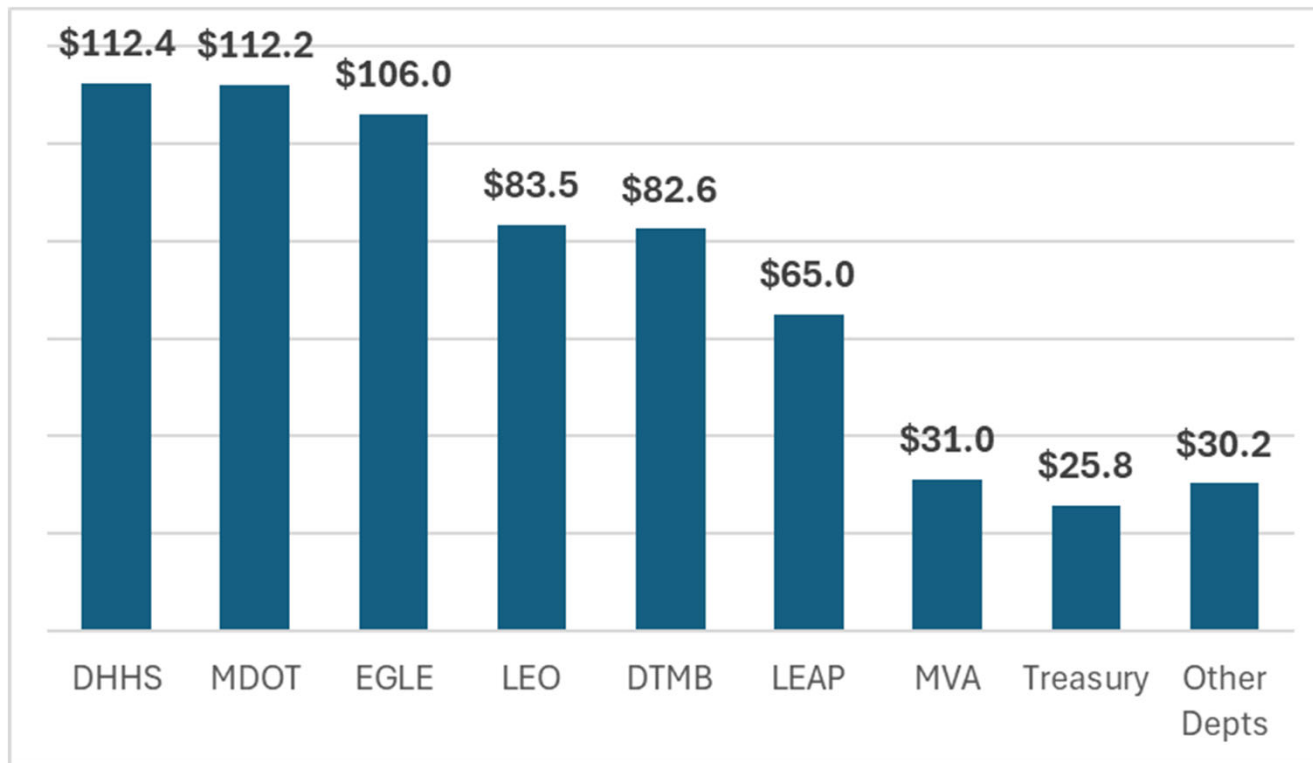
Ongoing Funding Adjustments

| Local Revenue Sharing | Total | GF/GP* |
|---|--------------|--------------|
| Constitutional Revenue Sharing – Cities, Villages, Townships | \$25M | \$0 |
| Statutory Revenue Sharing – Cities, Villages, Townships (3.6% increase) | \$12M | \$12M |
| Statutory Revenue Sharing – Counties (3.6% increase) | \$10M | \$10M |
| Maintain \$75M for Public Safety and Violence Prevention Fund | \$0 | \$0 |
| TOTAL REVENUE SHARING INCREASES | \$47M | \$22M |

| State Universities | Total | GF/GP |
|---|---------------|--------------|
| University Operations (net 3.1% increase from FY2025 total funding) | \$67M | \$67M |
| Postsecondary Scholarship Fund | \$50M | \$50M |
| Fund Shift: School Aid Fund replaces GF/GP | \$0 | (\$100M) |
| TOTAL UNIVERSITY INCREASES | \$117M | \$17M |

One-Time GF/GP Appropriations

(in millions)



\$649M in one-time GF/GP appropriations will draw down on the projected fund balance of \$754M

Education Budget

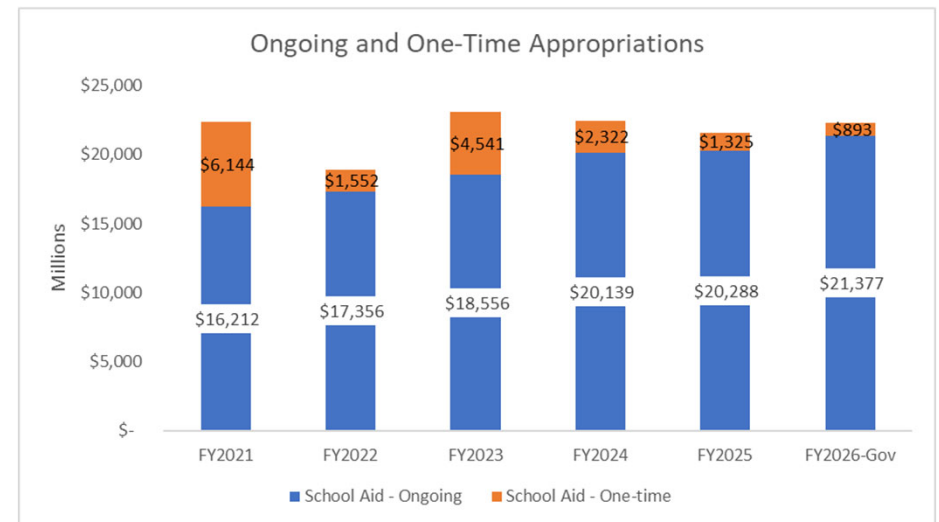
Highlights

Background – Context for Executive Budget

- Student academic performance and well-being
 - Serious performance lags across many measures, especially for low-income students
 - Pandemic's profound negative impacts on K-12 learning and achievement
 - On top of academic struggles, student mental health challenges persist
- Districts did NOT receive base foundation increase – two years at \$9,608 pp
 - Instead, the state reduced the amount that districts must contribute for teacher pension underfunding, resulting in ongoing savings for districts (est. \$400 pp in FY2025)
 - Reduced contribution rate made permanent in state law
- Improved revenue picture results in modest School Aid Fund surpluses (one-time and ongoing)
 - Allows for inflationary-PLUS growth in SAF appropriations
- FY2026 proposal builds on Gov. Whitmer's previous budget priorities
 - Unfinished learning/tutoring, student mental health, access to pre-K, early literacy
 - Provide differentiated funding to meet unique needs of students – "at-risk", special education, English learners

Big Picture: School Aid Appropriations

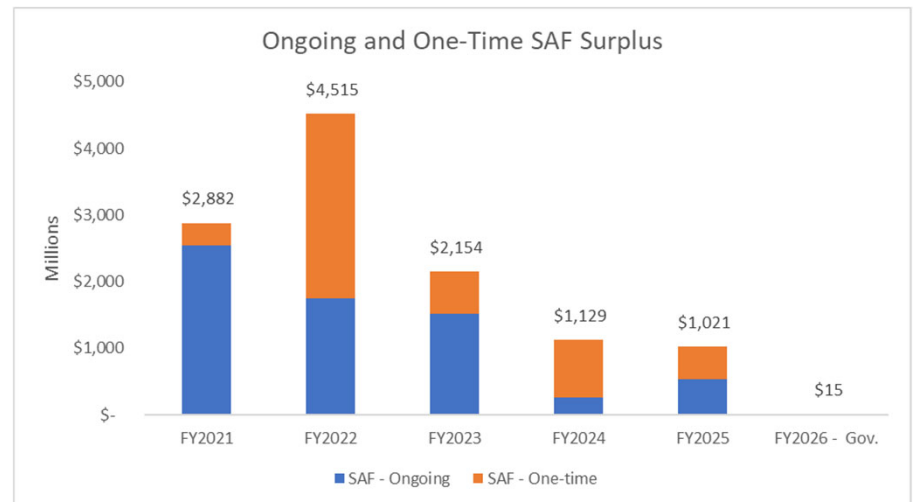
- Overall - inflation-PLUS increases
 - 4% increase for major state funding streams (e.g., foundation, “at-risk”)
 - Again, mix of appropriations (chart)
 - Ongoing K-12 spending up 5%
- Spend down one-time SAF surplus
 - A few “new” programs, but many items are continued from previous budgets



Source: Research Council calculations from Senate Fiscal Agency and House Fiscal Agency (includes School Aid Fund for higher ed.)

Big Picture: SAF Budget Surplus Spend Down

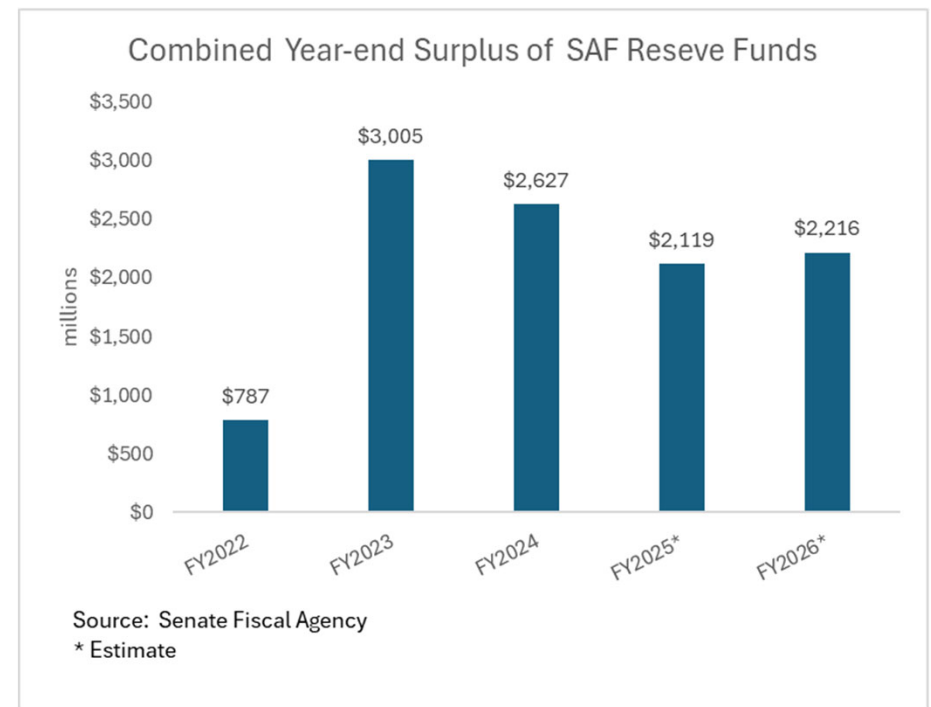
- FY2022 - \$4.5B combined surplus
 - Exhausted in FY2026 (chart)
- Ongoing surplus is function of better-than-expected revenue growth coming out of pandemic
 - Increased revenue programmed into budgets for ongoing items
- One-time resources fueled by various federal stimulus actions and year-end budget surpluses



Source: Research Council calculations from Senate Fiscal Agency and House Fiscal Agency

Some Spending Covered by Reserve Funds

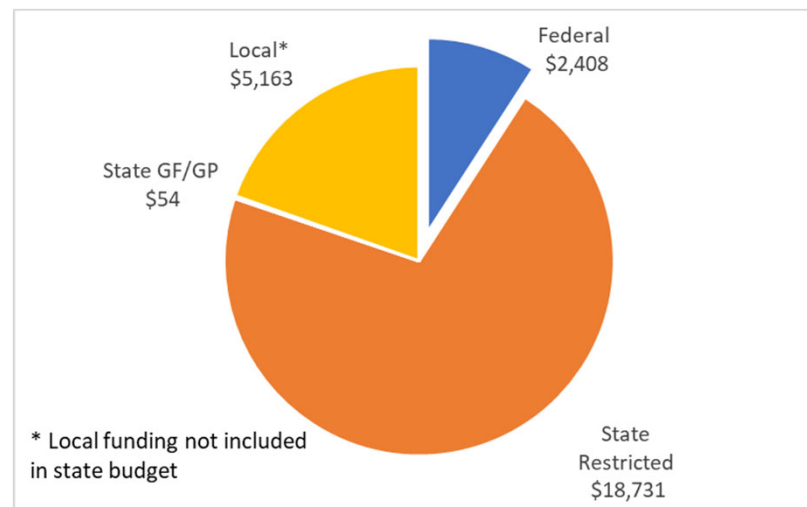
- Deposits of \$3B one-time SAF across various “reserve” funds in FY2022/FY2023
 - New “rainy day” fund
 - School infrastructure
 - Declining enrollment
- Reserve funds appropriated over several years for both ongoing and one-time items
 - Add'l \$341M deposit in FY2026
 - \$244M – total spend in FY2026
- \$2.2B remaining FY2026 (chart)
 - Added to SAF bottom line



Federal Funding – What role does it play?

- \$2.4B (9%) of total \$25B K-12 spending
- Two programs account for nearly one-half of all federal funds
 - Title I (at-risk)- \$585M
 - IDEA (special education) - \$500M
 - Funding is safe for NOW
- Programs provide supplemental supports to vulnerable students
 - Amounts vary by district based on federal formulas
 - State and federal law mandate special education services, regardless of funding availability
- State's ability to "backfill" federal revenue loss is limited

K-12 Operational Spending FY2026 (billions)



Source: Executive Budget

K-12 Budget Highlights

Base funding

- **Foundation allowance – general operations**
 - \$10,000 per-student, 4.1% increase
 - Remember, districts did not see a base increase in current year (\$9,608)
 - Cyber schools would receive 80% of base foundation (\$8,000)
- **Declining student enrollment**
 - Estimated 0.5% decline statewide in FY2026; down 6.4% since FY2019
 - Experiences vary across local districts/charter schools
 - Pupil membership down 8% in districts, but up 7% in charter schools since FY2019
 - \$71M for enrollment stability payments (same as FY2025)
 - Additional foundation allowance based on 50% of year-over-year student decline
- **Mental health funding**
 - \$125M for on-going per-pupil payments; converted from one-time spending

K-12 Budget Highlights

Student-specific funding elements

- **Students “at-risk” of academic failure**
 - 4.1% increase to “at-risk” formula allocation – total \$1.1B
 - Opportunity Index (poverty concentration) used to allocate funds; districts serving the neediest students receive larger per-student allotments
 - New requirement - districts must allocate a portion of these funds to schools with neediest students for targeted interventions
- **Students with disabilities**
 - Full-funding of foundation allowance for students with disabilities PLUS required Headlee percentages
 - Sizeable bump for ISD special education millage equalization payments; revises formula

Governor's Big Tutoring Push

- New streams of targeted funding on “highest need” students
 - Funds must be spent in **specific schools** based on School Index score
 - Schools identified as: Comprehensive Support and Improvement (CSI), Additional Targeted Support (ATS), and Targeted Support and Improvement (TSI)
- Districts must use funding for “best practices”
 - High-impact tutoring services identified by state – MI Kids Back on Track
- Est. total investment in student tutoring - \$350M
 - Redirect existing state funding - \$130M
 - New categorical funding - \$220M
- Add'l new state and parental reporting regarding use of funds
- Policy shift – state budget directs resources to **specific schools** to make sure districts are spending resources where student needs are greatest

Tutoring – Redirect Existing Funds

- Policy shift – directs districts to spend share of **existing funds** to serve high-need students attending specific schools
 - Current “at-risk” funds flow to districts, not individual schools
 - ~400 schools eligible with total student enrollment of 210,000
- Districts must re-prioritize existing state aid dollars to fund student tutoring in identified schools (CTI, ATS, TSI)
 - 10% of state share of foundation allowance , and
 - 10% of “at-risk” funds generated by students attending specific school
- Total state funding that would be earmarked for tutoring - \$130M
 - Ave. \$600 per student, but amounts will vary school to school based on foundation allowance
 - Charter schools will be required to earmark \$1,100 per student on average

“Best Practices” Funding

- **NEW** - \$250M for “best practices” (\$125M is one-time)
- Two student tutoring grant programs
 - \$174M – equal per-pupil payments (\$800pp) to identified schools
 - \$46M – competitive grant program for other high-need schools
 - Again, funding must be used for targeted interventions
- \$12M for cell phone-free policy pilot in high schools
- \$18M for ISD technical assistance, monitoring and compliance activities related to district “best practices”

K-12 Budget Highlights – One-Time Funding

Over one-half of items were previously funded

| One-Time Funding | Total | Previous |
|--|---------------|----------|
| CTE planning and “desert” grants – ISDs and district competitive grant | \$145M | Yes/No |
| Pre-school for 3-year-olds – multi-year effort to scale up pilot program | \$61M | Yes |
| MPERS Employee Health Care Reimbursement – current-year \$180M | \$90M | Yes |
| District transportation grants | \$125M | Yes |
| Consolidation grants – building demo, shared admin., district consolidation | \$150M | No/Yes? |
| Others – PreK expansion, teacher recruitment, declining enrollment | \$292M | Yes/No |
| TOTAL – one-time appropriations | \$863M | |

Budgeting Tradeoffs – base vs. categorical funding for K-12 schools

- Substantial growth in K-12 grant funding over recent years
 - Largely reflective of shifting policy preferences with Democrat majorities
 - Fueled by large one-time and ongoing budget surpluses
 - Moved SAF appropriations “off budget” with use of reserve funds
 - Result: several one-time grants have become permanent – new on-going streams of state funding, but with restrictions
- Budget tradeoffs
 - More money for categorical grants leaves fewer dollars for base funding
 - Effects at local level – less discretion to program state funding to meet student needs

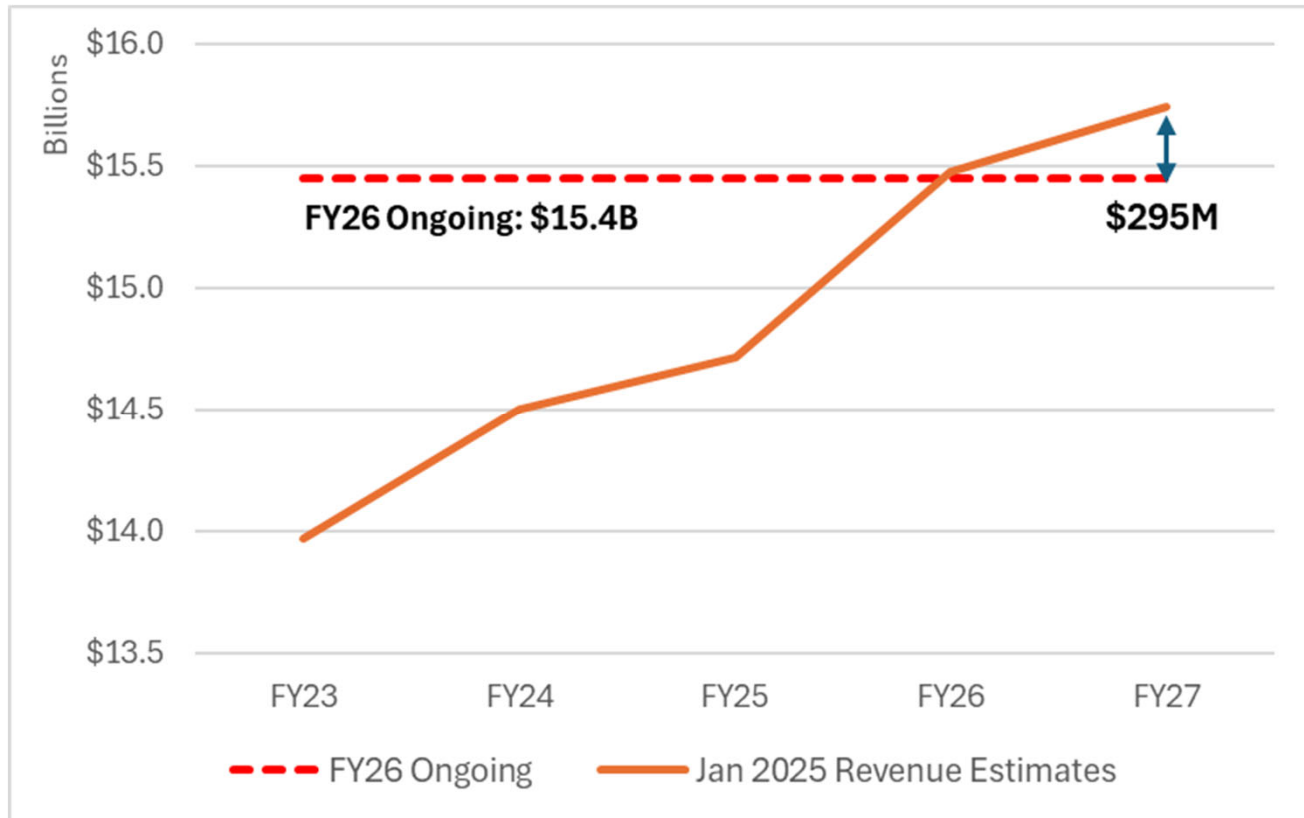
Key Takeaways for K-12 Schools

- Projected ongoing and one-time surpluses gone by end of FY2026
 - Ongoing SAF appropriations up \$1B, while one-time appropriations cut \$400M
- Inflationary-plus increase in base funding elements and student-specific funding streams
 - Following a freeze in per-pupil foundation allowance last year
- Continued growth in categorical funding to address state priorities
 - These preferences may (not) align with local needs

Long-Term Budget Outlook

Looking Ahead to FY27

GF/GP: Below Inflationary Growth in FY27



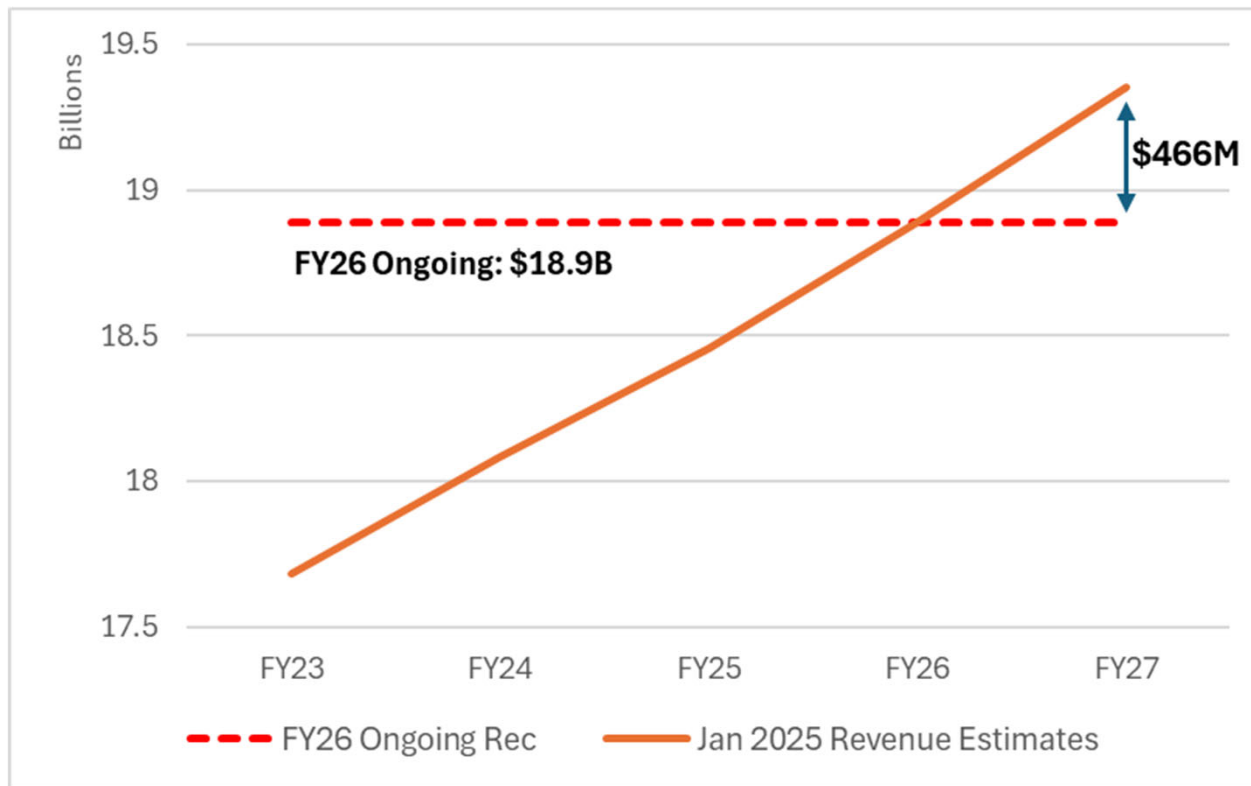
Source: Research Council calculations based on Executive Budget Book data.

If Governor's budget is enacted, there would be room for only \$295M in GF/GP growth in FY27 under current revenue estimates.

Equivalent to 1.9 percent growth

GF/GP fund balance would largely be depleted.

SAF: Inflationary 2.5% Growth in FY27



Source: Research Council calculations based on Executive Budget Book data.

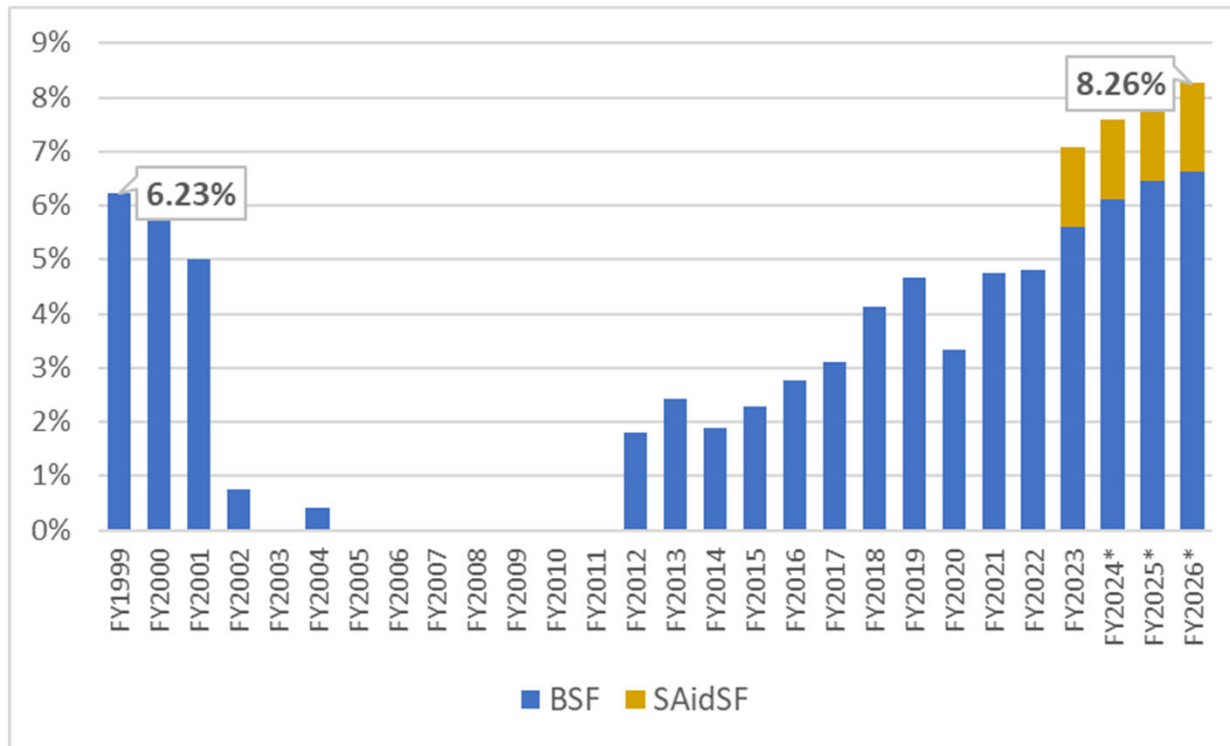
School Aid Fund budget growth would also be very modest

\$466M revenue surplus would allow for up to 2.5 percent growth in ongoing appropriations.

Like GF/GP, the SAF balances is expected to be close to zero.

Budget Reserves Continue to Climb

“Rainy Day” Reserves as a Percent of Total GF/GP and SAF Revenue



Governor recommends additional “Rainy Day” deposits:

- \$50 million to Budget Stabilization Fund
- \$50 million to School Aid Stabilization Fund

Reserves are estimated to equate to over 8.3% of combined GF/GP and SAF revenue.

What About the Roads?

Speaker Hall Proposal

Revenue Shift to Roads

| | |
|----------------------------|--------|
| Corp Income Tax Shift | \$1.2B |
| Sales Tax on Fuel to Roads | \$950M |
| Cancel MEGA Credits | \$500M |

| | |
|--------------------|--------|
| Total Road Funding | \$3.2B |
|--------------------|--------|

Challenge:

| | |
|---------------------------------|--------|
| Budget cuts (presumably GF/GP) | \$2.0B |
| Budget cuts (MEGA credits stay) | \$2.5B |

Governor Whitmer Proposal

New Road Revenue

| | |
|----------------------------|--------|
| Business Taxes (Undefined) | \$1.6B |
| Sales Tax on Fuel to Roads | \$1.2B |
| Marijuana Tax Increase | \$470M |

| | |
|---------------------|--------|
| Total Road Funding? | \$3.0B |
|---------------------|--------|

Challenge:

| | |
|--------------------------------|--------|
| Budget cuts (presumably GF/GP) | \$500M |
| Additional cuts needed? | \$500M |

Source:

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