

Analyzing the Governor's FY2027 Budget Recommendations

Bob Schneider, Senior Research Associate
Craig Thiel, Research Director
Citizens Research Council of Michigan

February 24, 2026

Citizens Research Council

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
- *www.crcmich.org*

Slide deck is available online

- www.crcmich.org and click on EVENTS
- https://crcmich.org/presentations/2020s/2025/Webinar_FY2026_Executive_Budget_18Feb2025.pdf

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.

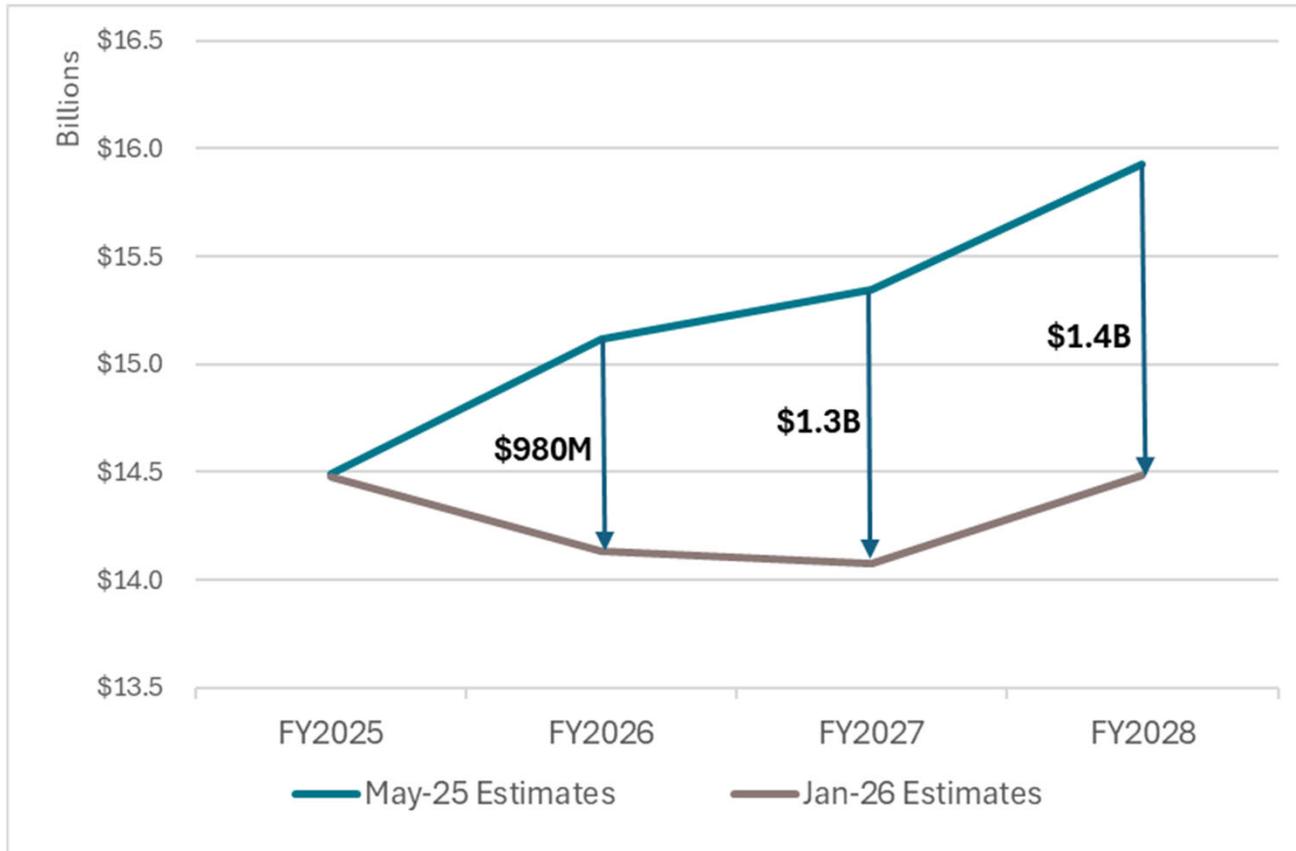
Craig Thiel, Research Director



- 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

January CREC Revisions: A Tight Budget Gets Tighter

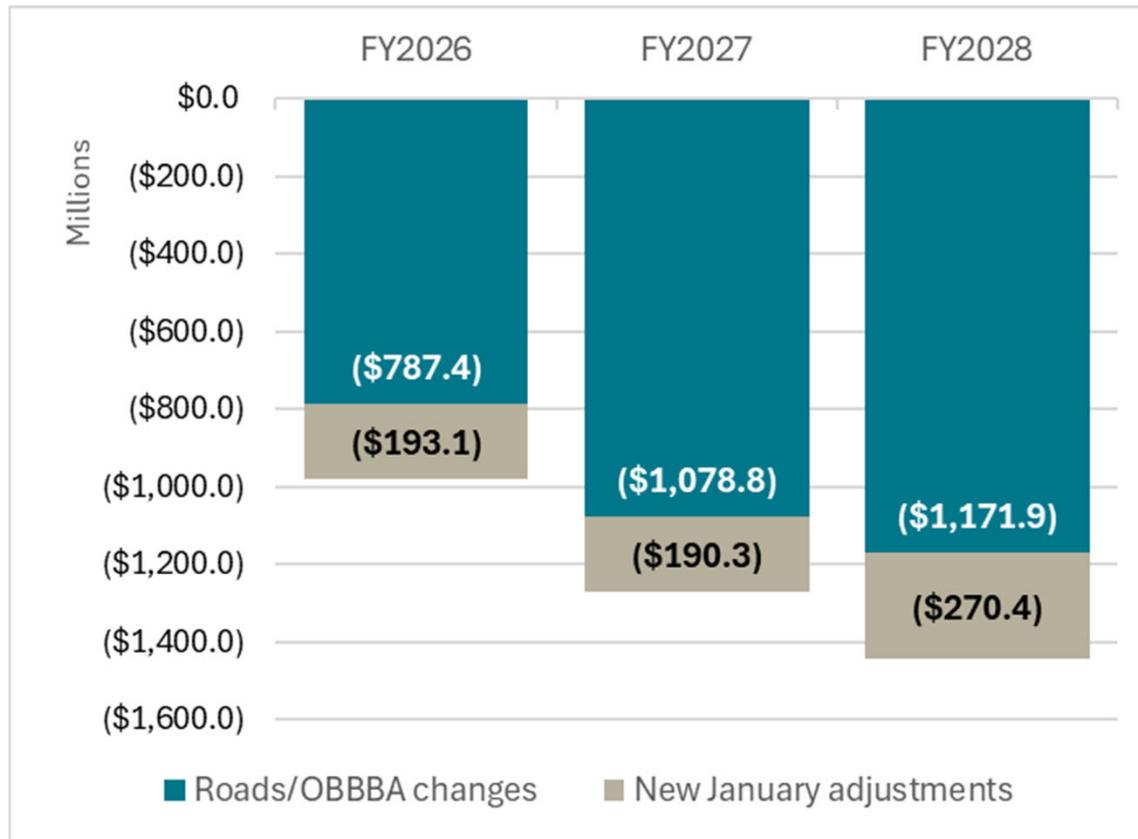
January Revenue Estimates – General Fund



Source: January 2026 CREC Final Summary.

- FY2026 revenue estimate reduced by almost \$1B due mostly to October tax policy changes (roads, H.R. 1)
- GF/GP revenue projected to fall again in FY2027 as elimination of sales tax on fuel is fully phased-in
- Growth eventually returns in FY2028

Composition of GF/GP Revenue Adjustments



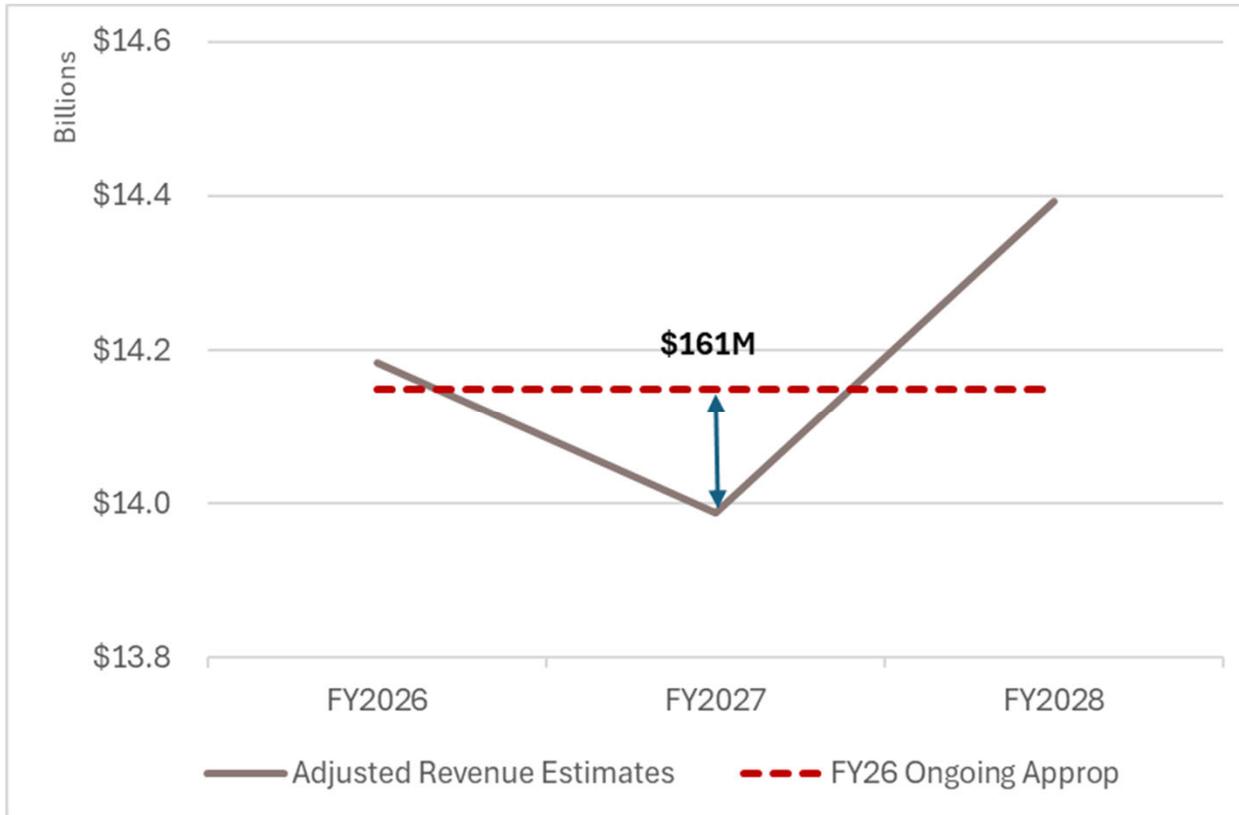
Source: January 2026 CREC Final Summary.

- The majority of the January changes were due to:
 - October road funding plan (eliminated sales tax on fuel; larger earmark from CIT)
 - Incorporating H.R. 1 tax relief for tips, overtime, and seniors

Tax Policy Proposals

- **Homestead Property Tax Credit:** restores special consideration for seniors that existed prior to 2012 law changes that capped the credit at \$1,200 and reduced the effective credit for higher-income seniors; change will **reduce GF/GP revenue by \$90-100 million per year**
- **“Back-to-School” Sales Tax Holiday:** exemption for Michigan’s 6% sales tax on the third weekend of August; exempts clothing items under \$100; school supply items under \$20; computers for personal use under \$1,000; policy change is expected to **reduce GF/GP revenue from the sales tax by around \$14 million annually**
- **Landfill Tipping Fees:** Proposal would raise surcharge on landfill waste disposal from \$0.36 to \$5.00 per ton; fee increase is expected to generate \$80 million annually for the Renew Michigan Fund; proposal would also **relieve GF/GP contribution to RMF by \$69 million annually**

GF/GP Revenue Falls Short of Ongoing Spending



Revenue reflects January CREC adjusted for tax policy changes

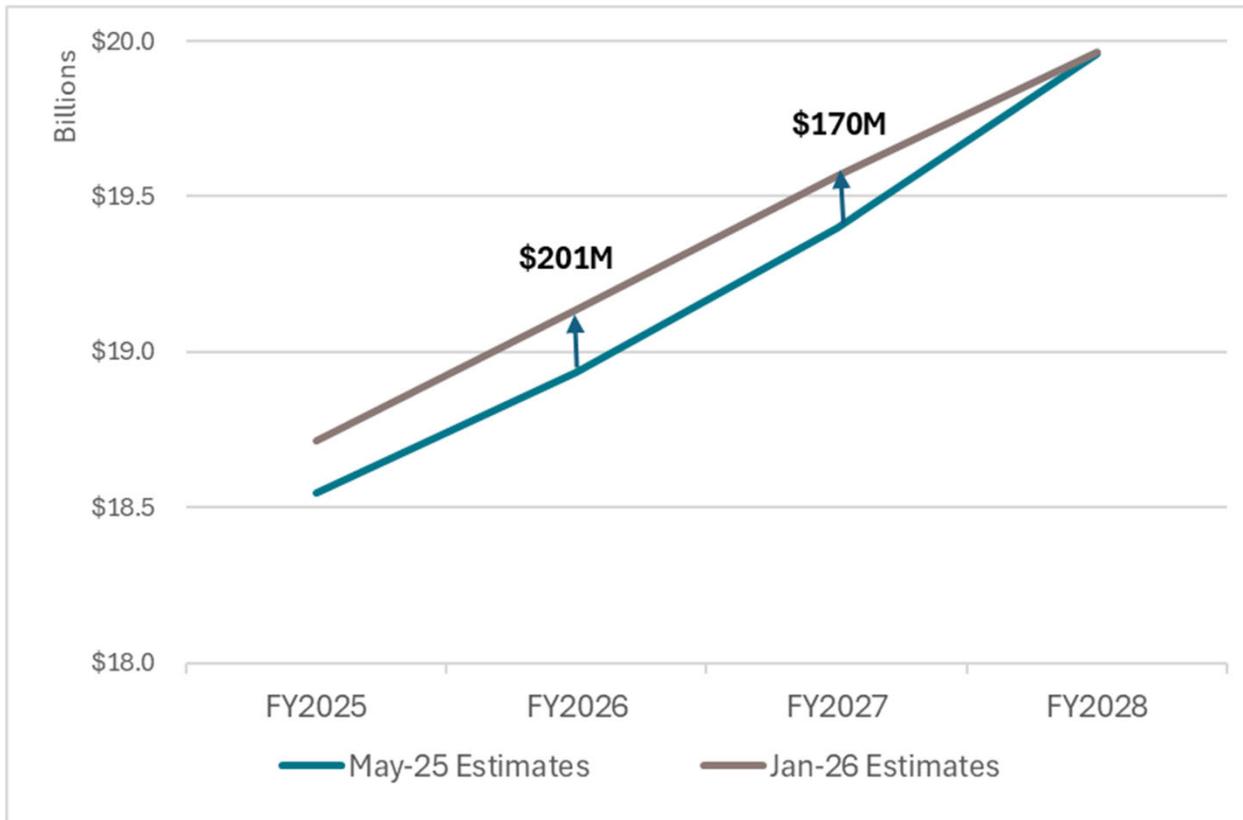
FY2026 Ongoing =

- FY2026 ongoing GF/GP appropriations
- Plus statutory local revenue sharing
- But leaves out other potential cost drivers

Ongoing appropriations exceed revenue by \$161M

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

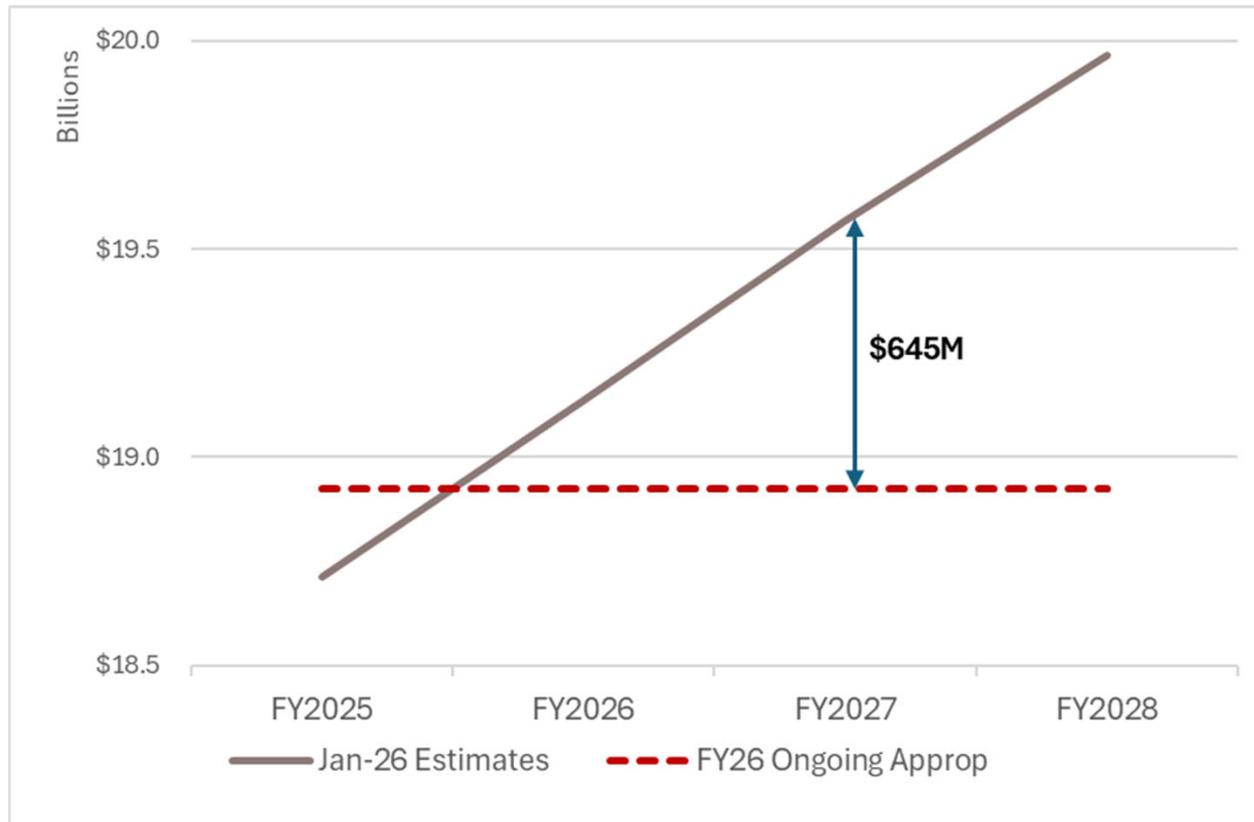
January Revenue Estimates – School Aid Fund



- Like GF/GP revenue, upward adjustments are about FY2024
- Revenue estimates jump by around 1.7% each year, while long-term growth rate assumptions remain largely unchanged.

Source: January 2026 CREC Final Summary.

School Aid Fund: \$645M Ongoing Surplus



- SAF revenue estimate for FY2027 exceeds ongoing FY2026 spending by \$645M
- Room for around 3.4% growth in ongoing SAF budget

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

FY2027 Executive Budget

Highlights

Summary of Changes – GF/GP and SAF

	FY2026	FY2027	\$ Chg	% Chg
Adjusted Gross Appropriations*	\$84.0B	\$86.7B	\$2.8B	3.3%
General Fund/General Purpose	\$14.1B	\$13.6B	(\$506M)	-3.6%
Ongoing Appropriations	\$13.6B	\$13.5B	(\$117M)	-0.9%
One-Time Appropriations	\$527M	\$138M	(\$388M)	-73.7%
School Aid Fund	\$19.7B	\$20.3B	\$609M	3.1%
Ongoing Appropriations	\$18.9B	\$19.6B	\$643M	3.4%
One-Time Appropriations	\$787M	\$753M	(\$33M)	-4.2%

* = Adjusted Gross Appropriations for FY2026 include \$9.3 billion in boilerplate authorization tied to Medicaid taxes

Source: CRC analysis of [FY27 Executive Budget Book](#)

General Fund Budget

Highlights

Baseline Adjustments and Savings Proposals

Current Services Baseline Adjustments	GF/GP
Health & Human Services Caseload Costs	\$486M
Child Care Subsidy Caseload Costs – LEAP	\$40M
State Employee Wages/Retirement/Insurance	\$79M
Other Statewide CSB Adjustments	\$116M
TOTAL CSB ADJUSTMENTS	\$721M

GF/GP Savings Proposals	GF/GP
Fund Shift: Use School Aid Fund Revenue to Replace GF/GP within Higher Education budget	(\$198M)
Medicaid Efficiencies (identified through work group process)	(150M)
Tuition Incentive Program reforms	(\$17M)
TOTAL SAVINGS ADJUSTMENTS	(\$365M)

H.R. 1-Related Adjustments

Administrative Costs	Total	GF/GP*
DHHS: Supplemental Nutrition Assistance Program (SNAP) administrative costs: state share increases from 50% to 75%	\$0M	\$94M
DHHS: SNAP/Medicaid Work Requirements Implementation: 589 positions to cover eligibility determination, oversight and outreach	\$101M	\$65M
LEO: Michigan Works! Job Services and support to apprenticeship programs to support compliance with work requirements	\$30M	\$30M
TOTAL COSTS	\$131M	\$189M

Assumed Savings	Total	GF/GP
SNAP Caseload Reduction due to Work Requirements	(\$72M)	\$0M
Medicaid Reductions resulting from Work Requirements, Eligibility Determination Changes, and Insurance Provider Assessment Changes	(\$364M)	(\$70M)
TOTAL SAVINGS	(\$436M)	(\$70M)

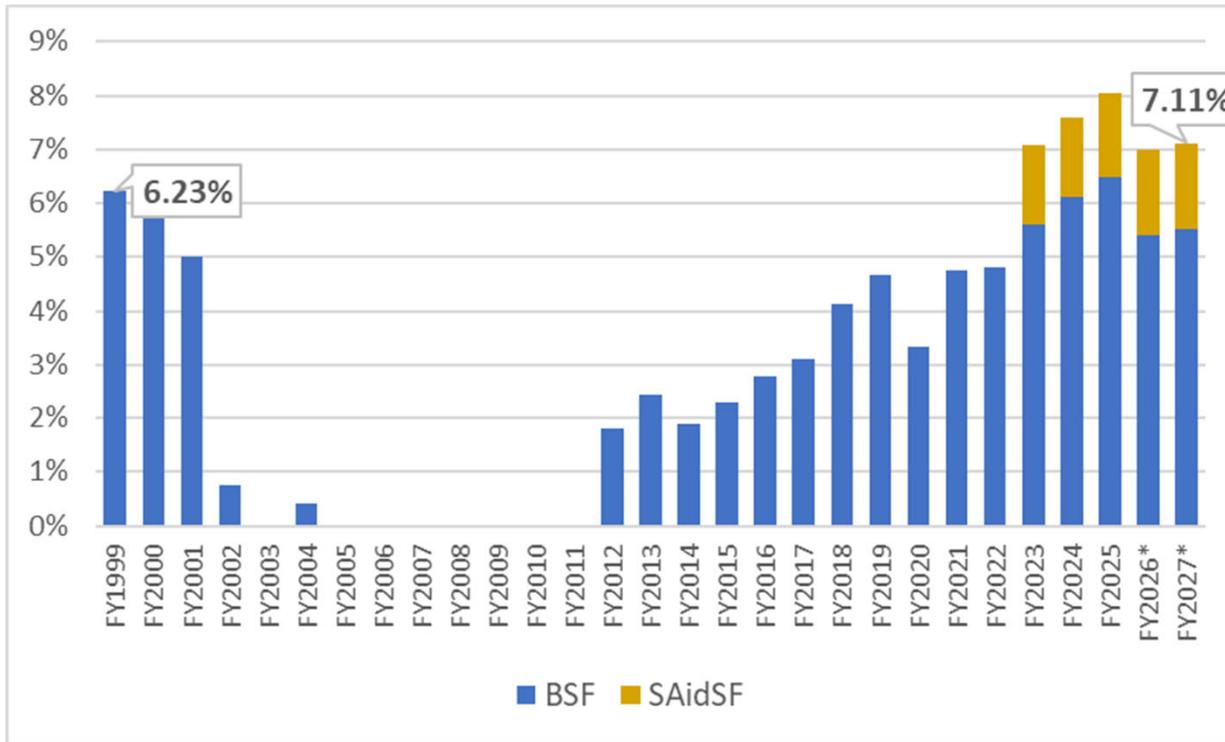
New Health and Human Services Investments

Ongoing Investments	Total	GF/GP
Direct Care Workers: retain wage add-on, incorporate state minimum wage increase and provide for sick-leave	\$352M	\$119M
Southeast Michigan State Psychiatric Hospital	\$71M	\$65M
Other Investment Proposals	\$5M	\$3M
TOTAL ONGOING INVESTMENTS	\$428M	\$187M

One-Time Investments	Total	GF/GP
Federal Disallowance – Psychiatric Hospital Payments	\$55M	\$55M
Opioid Healing and Recovery	\$63M	\$0
Nursing Facility Staffing (funding from civil monetary penalties)	\$10M	\$0
State Psychiatric Hospital System	\$7M	\$7M
Other One-Time Investments	\$6M	\$4M
TOTAL ONE-TIME INVESTMENTS	\$140M	\$66M

Pay For: Budget Stabilization Fund Withdrawal

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



Governor recommends a \$400 million from the BSF to help address the budget imbalance

Reserves within both the BSF and the School Aid Budget and Foundation Stabilization Fund would slip to around 7.1% of combined GF/GP and SAF revenue at the end of FY2027

Pay For: Tax Proposals to Support Medicaid

Tax Proposals	Est Revenue (FY2027)
Tobacco Tax: increase tax from \$2 to \$3 per pack of cigarettes; increase tax on other tobacco products (e.g., pipe tobacco, smokeless tobacco) from 32% to 57% of wholesale price	\$232M
Vape Tax: new tax equal to 57% of wholesale price on e-cigarettes and alternative nicotine products	\$95M
Digital Advertising Tax: new 4.7% excise tax on the Michigan share of digital advertising revenue	\$282M
Increase Internet Gaming Tax: increase highest marginal rate from 28% to 36%; applies to casinos with adjusted gross revenue more than \$185 million	\$136M
Per-Wager Sports Betting Tax: new tax equal to 25 cents per sports bet would apply to first 20 million wagers annually for each licensee	\$39M
Sports Betting: elimination of the “free play” deduction from a licensee’s tax base	\$21M
TOTAL FY2027 REVENUE	\$805M

Much of the revenue from these taxes is dedicated to the Medicaid Benefits Trust Fund to support the Medicaid program, **offsetting \$780M in GF/GP costs**

So, What Happened With the Roads?

Changes in State Funding by Program Area

	FY2025	FY2027	\$ Chg	% Chg
Local Road Agencies				
County Road Commissions	\$1,317M	\$2,012M	\$695M	52.8%
Cities and Villages	\$734M	\$1,112M	\$378M	51.5%
State Trunkline Fund				
Road and Bridge Programs	\$297M	\$603M	\$306M	103.1%
Highway Maintenance	\$487M	\$530M	\$43M	8.9%
Comprehensive Transportation Fund				
Local Bus Operating	\$227M	\$315M	\$88M	38.9%

Source: CRC analysis of FY2025 enacted budget and FY2027 Executive Budget

Education Budget

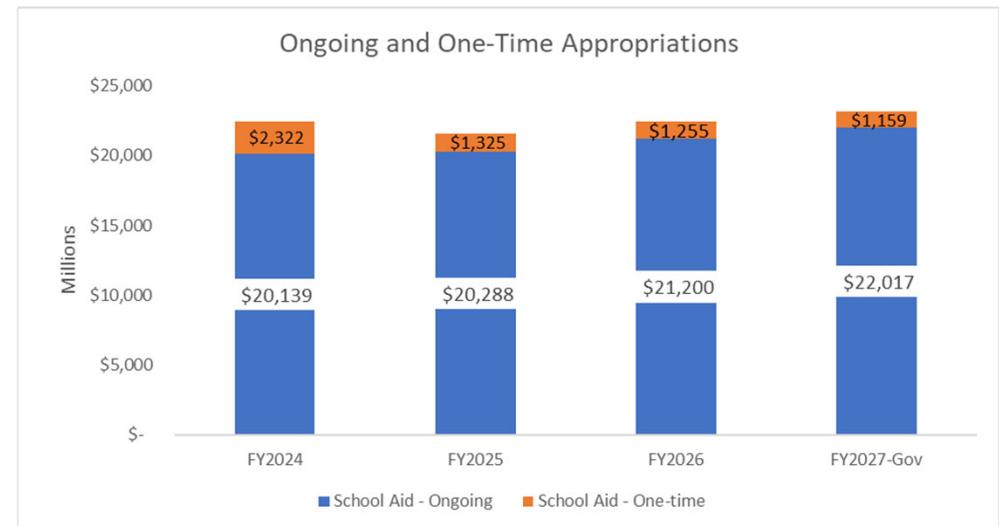
Highlights

Background – Context for Executive Budget

- Persistent challenges facing Michigan K-12 students
 - Student achievement flagging paired with widening gaps for student subgroups
 - Stubbornly high student absenteeism rates
- SAF revenue growth is holding steady thanks to sales tax, fueling increased K-12 investments in recent budgets
- Recent state budgets have benefited from large SAF surpluses, but those are drying up
- K-12 funding is a state responsibility and state budget decisions don't happen in a vacuum

Big Picture: Education Budgets

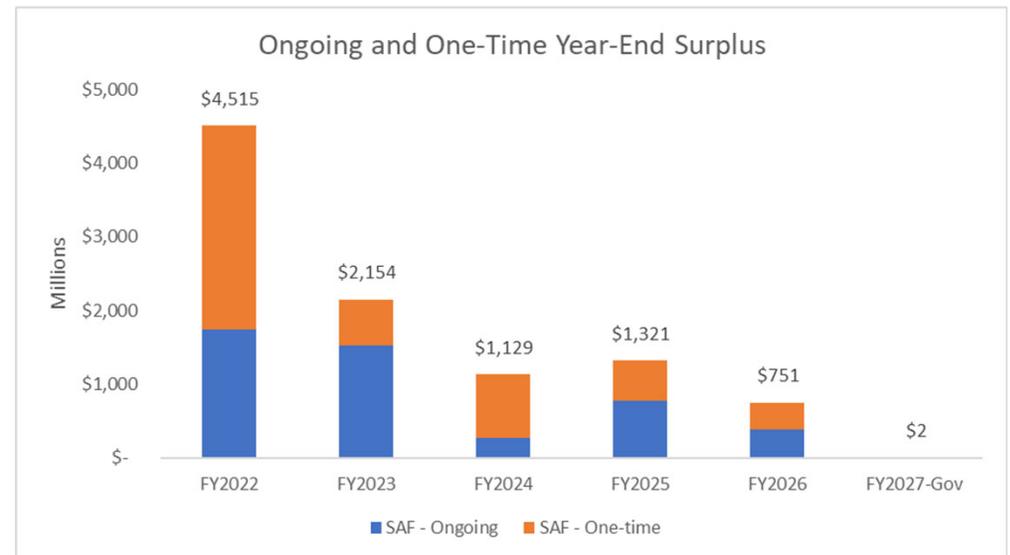
- Overall – mixed bag
 - K-12 – inflationary-plus increases
 - Higher education – second year in a row of flat funding
- K-12 funding
 - Foundation allowance gets inflationary increase
 - Continued emphasis on targeted supports to drive greater equitable student funding
 - Mix of ongoing and one-time funding increases
- Higher education funding
 - Maintain FY2025 operations funding levels
 - Increases for financial aid programs
- Spend down one-time SAF surplus



Source: Citizens Research Council calculations from Senate Fiscal Agency and House Fiscal Agency reports
(note: includes community college/higher ed appropriations)

Big Picture: SAF Budget Surplus Spend Down

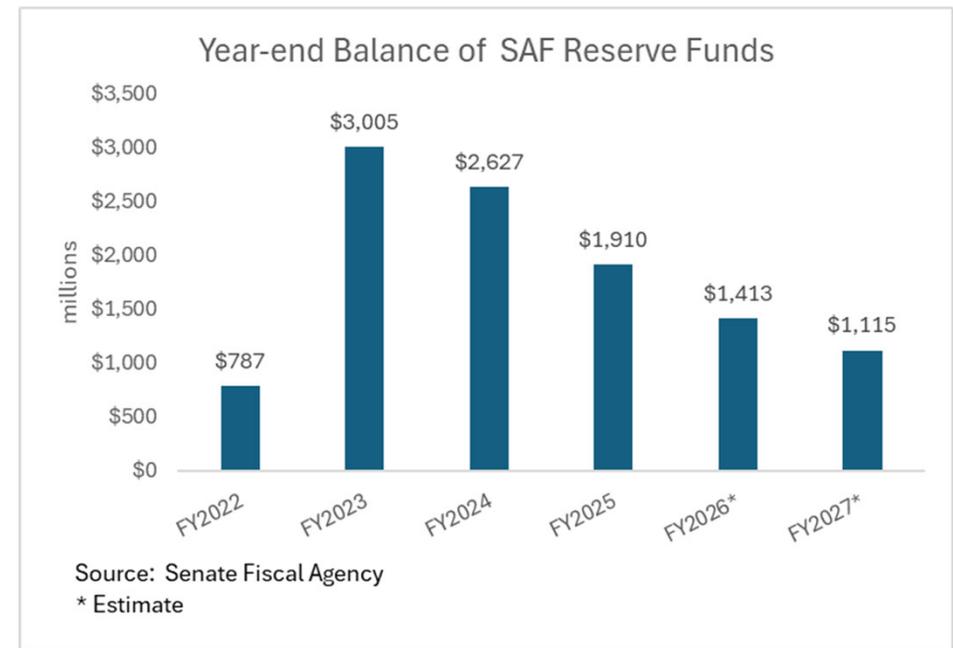
- FY2022 - \$4.5B combined surplus
 - \$751M used in FY2027 (chart)
- Ongoing surplus is function of better-than-expected revenue growth
 - Programmed into budget for ongoing items (e.g., "at-risk")
- One-time resources fueled by various federal stimulus actions and year-end budget surpluses
 - Programmed into budget for one-time items; however, some of these items have become multi-year efforts (e.g., student mental health)



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

Big Picture: Spending Covered by Reserve

- Deposits of \$3.5B SAF into various “reserve” funds since FY2022
 - New “rainy day” fund
 - School infrastructure
 - Student transportation
 - Declining enrollment
- Reserve funds have been appropriated over several years
 - \$400M included in FY2027 budget
 - Exhaust reserve funds for declining enrollment (\$125M) and student transportation (\$125M) grants; no designated funding for FY2028
- \$1.1B remaining after FY2027 (chart)
 - \$500M in “rainy day” fund reserves



K-12 Budget Highlights

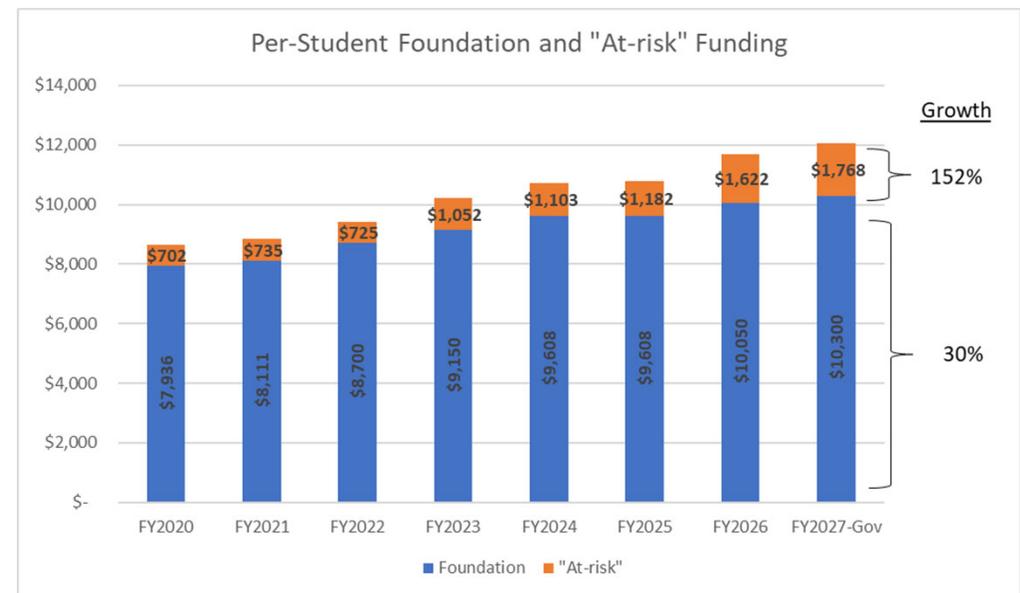
Base funding components

- **Foundation allowance** – general operations
 - \$10,300 per-student, 2.5% increase
 - Cyber charters schools would receive 80% of base foundation (\$8,240)
- **Declining student enrollment**
 - Estimated 0.6% decline statewide in FY2027; down 7% statewide since FY2019
 - Experiences vary across local districts/charter schools
 - \$125M for enrollment stability payments; up \$54M from FY2026
 - Last year of dedicated funding; SAF will have to pick up in FY2028
- **Student Mental Health**
 - \$300M for per-pupil payments (\$50M ongoing); excludes nonpublic schools
 - Requires schools to “waive information privilege” related to mass casualty events
- **Universal School Meals**
 - \$200M for expanded school meals program; excludes nonpublic schools

K-12 Budget Highlights

Weighted-student funding elements

- 6% increase to several weighted-student funding (WSF) elements
- Economically disadvantaged (at-risk) students
 - Eliminates "at-risk" student categorical (Sec. 31a); converts to a new weighted student foundation allowance
 - Districts with higher concentrations of student poverty receive larger per-student allotments (Opportunity Index)
 - Weights range from 17% to 23% of foundation allowance (\$1,768 to \$2,374)
- English language (EL) students
 - Eliminates Sec. 41 EL categorical; converts to a new weighted student funding foundation allowance
- Special education funding increase, but no change to WSF model for FY2027



Source: Citizens Research Council

K-12 Budget Highlights

How WSF will work in FY2027

- Old way – separate funding streams for each categorical grant
 - Each with its own formula allocation, allowable uses, state reporting req.
- New way – single funding stream for “at-risk” and EL student funding supports using a weighted pupil count
 - Example: low-income student that qualifies for mid-level EL supports
 - Pupil count: 0.1692 (“at-risk” weight) + 0.1165 (EL weight) = **0.2857 weight**
 - WSF funding: $\$10,300$ (foundation) * 0.2857 (WSF weight) = **$\$2,943$**
 - FY2027 funding: $\$10,300 + \$2,943 = \mathbf{\$13,243}$
- Shift to WSF structure ties funding to foundation allowance, provides districts with more spending discretion, reduces state requirements

K-12 Budget Highlights

Governor's "\$600M Literacy Initiative"

- Mix of direct/indirect funding, one-time and on-going
- **New, direct funding** for "Science of Reading" - mostly one-time
 - \$100M for evidence-based, high-impact tutoring
 - \$100M to implement effective curriculum (available for two years)
 - \$50M for teacher training in LETRS (available for five years)
 - \$11M for additional literacy coaches in intermediate school districts
- **Indirect funding** – mix of ongoing and one-time
 - \$143M for Great Start Readiness Program expansion; 6% bump in per-student allocation
 - \$135M for before/after school and summer school programs

K-12 Budget Highlights

Base vs. categorical funding

- Substantial growth in K-12 categorical funding over recent years
 - Largely reflective of shifting policy preferences of Lansing officials (not necessarily local preferences)
 - Fueled by large one-time and ongoing SAF surpluses
 - Moved SAF appropriations “off budget” with use of reserve funds, expanding number of categorical funding streams
 - 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, adopting to changing state priorities

Community Colleges/Universities Highlights

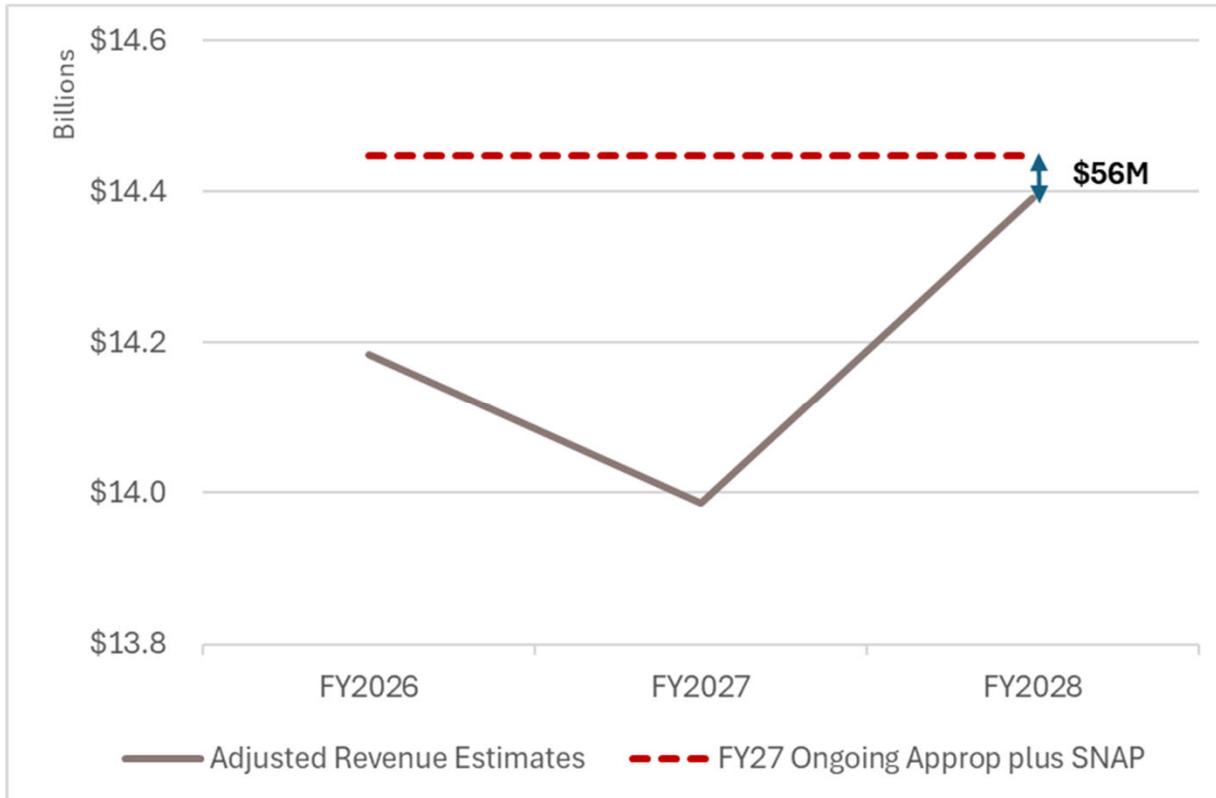
Flat funding for operations and increased SAF allocation

- No ongoing increase to base operations funding
 - But proposal continues FY2026 one-time discretionary funding (3 percent)
 - Maintains current tuition restraint language
 - Bottom line: second year in a row at FY2025 operations funding levels
- One-time funding increases for infrastructure, technology, equipment, maintenance, and safety improvements (ITEMS)
- Student financial aid and scholarships funding increases
 - Additional cohort of students eligible for MI Achievement Scholarship - \$232M
 - Expand eligibility for Michigan Reconnect to 21-year-olds - \$25M
 - Additional \$198M fund shift to SAF
- Total School Aid Fund support increases from \$1.3B to \$1.8B
 - \$200M tied to GF/SAF funding shifts, another \$200M tied to spending bumps
 - Note - General Fund holds SAF "harmless" from \$622M cut in 2025 roads package

Long-Term Budget Outlook

Looking Ahead to FY27

GF/GP: FY2028 Starts with a Structural Deficit



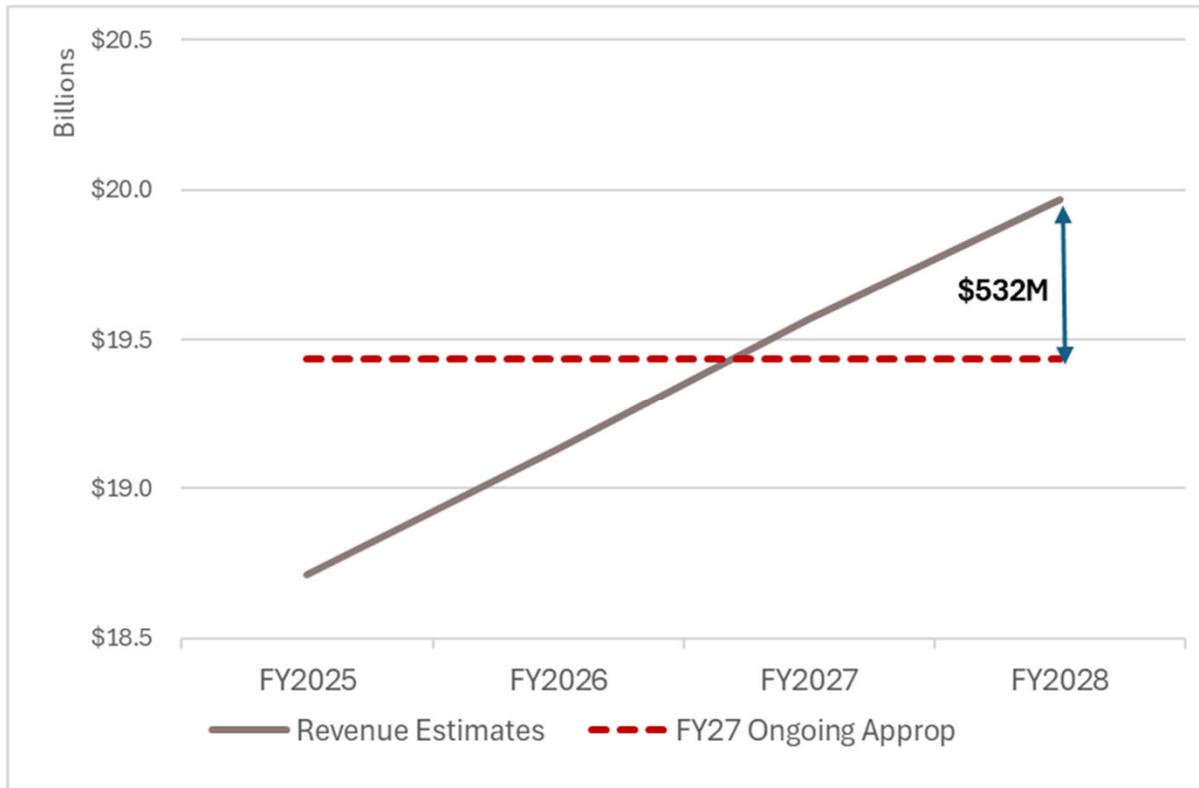
Source: Research Council calculations based on Executive Budget Book data.

Michigan will likely incur \$300M in new SNAP benefit costs in FY2028 on top of ongoing FY2027 appropriations

Once again, the state GF/GP budget will be underwater even before factoring in inflationary increases

HFA estimates a deficit of \$475M after factoring in DHHS caseloads, employee payroll and other cost pressures.

SAF: All is Well... for Now



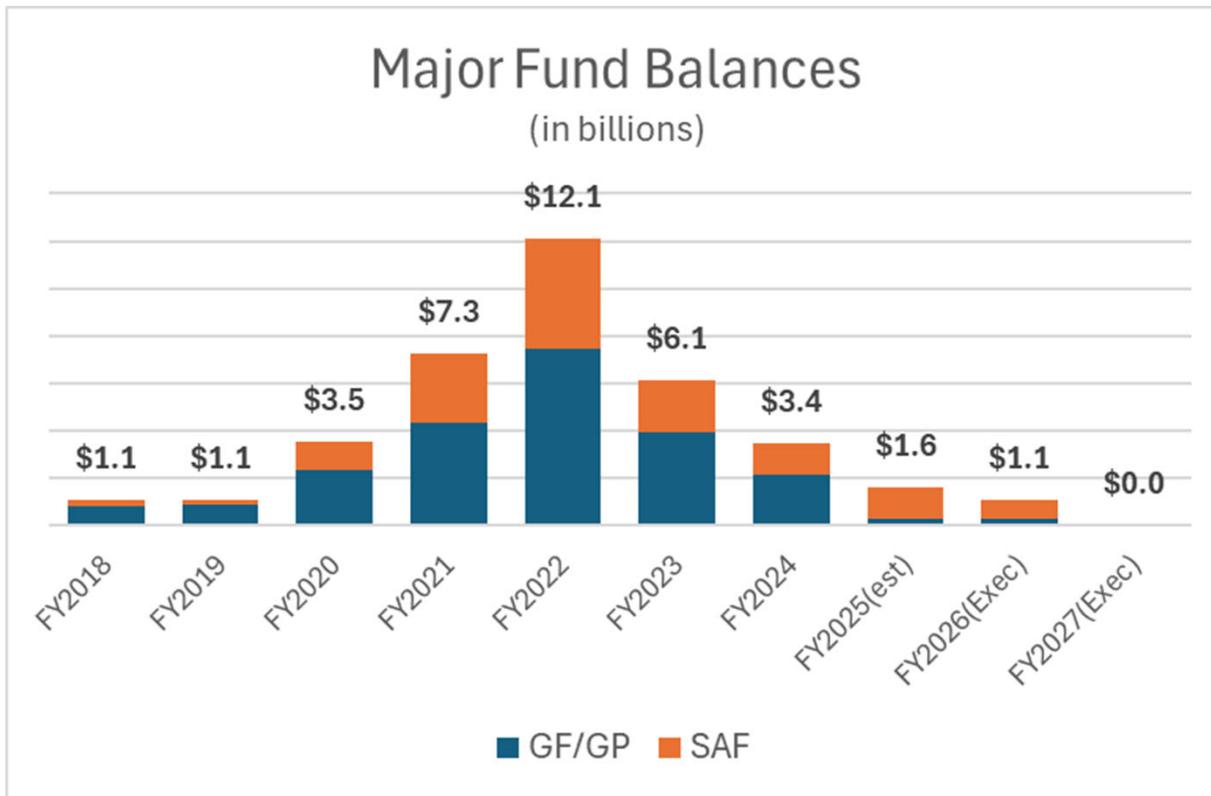
Source: Research Council calculations based on Executive Budget Book data.

School Aid Fund budget growth results in a \$532M revenue surplus

Surplus would allow for up to 2.7 percent growth in ongoing appropriations.

Will lawmakers be tempted to use SAF surplus to address GF/GP challenges?

Major Fund Balances Continue to Fall



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

FY2027 Year-End Balance Estimates under Governor's budget:

- GF/GP: \$20M
- SAF: \$2M

Source: FY27 Executive Budget Book and State of Michigan Annual Comprehensive Financial Reports (FY16-24)

Q&A with MIRS

Citizens Research Council of Michigan

Publications are available at: www.crcmich.org

Blogs are at: www.crcmich.org/insights

Please support our work: www.crcmich.org/donate

Follow Us on Twitter: @crcmich

Become a Fan on Facebook: www.facebook.com/crcmich

Find us on LinkedIn: www.Linkedin.com/company/citizens-research-council-of-michigan



Providing Independent, Nonpartisan Public Policy Research Since 1916