

May 14, 2026

A Few Items of Note Looking at the FY2027 School Aid Budget Proposals

In a Nutshell

- With both the house and senate chambers’ FY2027 state budget proposals now public, and Governor Whitmer’s recommendation released in February, all parties have laid their cards on the table to begin negotiations towards budget completion before the July 1 statutory deadline.
- Within the School Aid budget, we examine a few items where there is coherence and disagreement across the three proposals.
- The next step in the budget cycle is the May state revenue estimating conference that will set the School Aid Fund revenue parameters to guide budget negotiations and completion.

In stark contrast to the drawn-out state budget cycle of last year, full legislative spending proposals for the Fiscal Year (FY)2027 state budget have been completed well in advance of the May Consensus Revenue Estimating Conference. With both the house and senate chambers’ proposals now public, and Governor Whitmer’s FY2027 executive budget recommendation released in February, all parties have laid their cards on the table to begin negotiations towards budget completion before the July 1 statutory deadline.

Setting aside the contents of the three proposals, making them public this early is certainly good news for local governments, colleges/universities, and K-12 schools that rely on state appropriations and must have their final spending plans approved well before the state’s fiscal year begins on October 1. While the May revenue conference will set the revenue parameters that state budget writers must work within to finalize the FY2027 General Fund and School Aid Fund spending plans, we can already see general areas of agreement and disagreement across the proposals. In this brief, we examine three areas within the School Aid Fund budget that will likely garner substantial attention during final budget negotiations following the May revenue conference.

Public K-12 schools across the state are beginning to develop their budgets for the upcoming 2026-27 school year. Under state law, they must finalize those budgets before July 1. Because of the major role played by the state School Aid Fund to support K-12 school operations, knowing where areas of alignment exist across the three FY2027 School Aid proposals give districts an early sense of which programs and services are likely to be funded, and at what levels, helping them build their individual spending plans.

The single most important component of every district's annual spending plan is the amount of base funding it receives from the per-student foundation allowance, set annually as part of the School Aid budget. Since FY2022, all of Michigan's 825 local districts (traditional public and charter schools) have received the same amount of per-student funding to support their operational expenses. Each district's total funding received via the foundation allowance is a function of the per-student amount included in the School Aid budget and the number of students enrolled. The foundation allowance for the current 2025-26 school year is set at \$10,050 per student.

In most years, proposed changes to the foundation allowance differ across the School Aid budget recommendations from the governor, the house, and the senate. Because the allowance is central to a district's overall financial picture, local school leaders watch closely to see how lawmakers resolve those differences. When the gaps among the proposals are large, districts are often reluctant to finalize their budgets until this issue is settled through the state budget process.

This year, however, that won't be a concern. That is because the three proposals are in lockstep and recommend the same modest 2.5 percent (\$350 per student) increase, raising the grant to \$10,300 for the 2026-27 school year. Notably, this increase would be less than the estimated rise in inflation next year (3.1 percent) and the general cost pressures facing district budgets.

While there is consensus around the base foundation allowance amount for next year, there is disagreement regarding where to set the allowance for online cyber schools. Under both Governor Whitmer's and the senate's proposals, cyber schools would receive 80 percent of the full amount, or \$8,240 per student next school year. Justification for the reduction is based on the rationale that the operating costs of cyber schools are lower than brick-and-mortar charter schools. This provision would have a cumulative \$53 million impact on the budgets of 16 cyber schools responsible for educating about 25,000 of the state's roughly 1.36 million K-12 students. The house's plan does not include a proposal to reduce the foundation allowance for cyber schools. It is worth noting that the foundation allowance for students enrolled in full-time virtual programs run by traditional districts that operate much like cyber schools would receive the full \$10,300 per student allowance next year.

In addition to the base per-student funding districts receive, the state School Aid budget sends additional per-student dollars to districts that enroll children from low-income households and students learning the English language. These funding streams are designed to help schools meet these students' added educational needs. The School Aid budget assigns additional funding "weights" to the foundation allowances of eligible low-income students and English learners to approximate the additional costs district incur serving these students. In recent years, the School Aid budget has made major investments in these "weighted student funding" components of the budget; total "at-risk" student funding jumped from \$750 million in FY2023 to \$1.3 billion in FY2026.

Another healthy increase to weighted student funding appears to be on the horizon. The three FY2027 School Aid spending plans look very different in how they approach funding for low-income "at-risk" students. Governor Whitmer proposes a 6.1 percent increase to the "at-risk" line item, the house recommends a 5 percent bump, and the senate includes a 25 percent increase. In terms of total funding, the house budget would increase the "at-risk" line by \$65 million, while the senate's budget would add \$324 million, bringing the total line to \$1.6 billion for FY2027.

In addition to the increased state investments, recent School Aid budgets have changed the way that "at-risk" dollars flow to local schools. Prior to FY2024, all districts received the same funding "weight" for eligible "at-risk" students expressed as a percent of the foundation allowance. In FY2023, every district received 11.5 percent of its foundation allowance for each "at-risk" student enrolled. Now, the funding weights (as a percent of the foundation allowance) vary with the concentration of student

poverty in a district, something called the “opportunity index”. For FY2026, the minimum weight is set at 16 percent (about \$1,600 per “at-risk” student) for districts where low-income students make up 20 percent of total enrollment. In contrast, schools where at least 85 percent of students are from low-income households receive an “at-risk” weight of 22 percent (roughly \$1,850 per student).

The senate’s School Aid budget proposal would increase the “at-risk” student funding weights substantially. For low-poverty districts, the “at-risk” weight would increase from 16 percent of the foundation in FY2026 to 20 percent (\$2,025 per student) in FY2027, while the highest-poverty districts would see their weights increase from the current 22 percent to 27 percent (\$2,300 per student). Also of note, the senate budget proposal includes legislative intent language to fully fund the statutory “at-risk” student weights over the next 15 years, moving the lowest weight to 35 percent and the highest weight to 47 percent by FY2041.

The differences between the house and senate proposals regarding funding for “at-risk” students have garnered the most public attention thus far. Both the total funding and how these dollars flow to districts will have to be reconciled in final FY2027 budget negotiations. Given the amount of School Aid Fund dollars involved here, it is likely that other areas of the School Aid budget may have to be adjusted to accommodate the final agreement.

While the house and senate appear to be on different pages with respect to “at-risk” student funding, they are much more aligned when it comes to the use of School Aid Fund (SAF) dollars to finance state higher education appropriations. As our recent analysis shows, state budgets have grown SAF support for higher education from \$764 million in FY2020 to over \$1.3 billion in FY2026. Much of the SAF appropriations growth has occurred in response to dollar-for-dollar General Fund appropriation reductions to universities, rather than to expand existing or authorize new postsecondary programming. For example, lawmakers authorized an additional \$400 million SAF appropriation to replace an equal amount of General Fund spending for universities in FY2026.

The use, and subsequent growth, of the General Fund/School Aid Fund budget swap by state budget writers has drawn the ire of K-12 school interests. Despite these ongoing concerns, the FY2027 Executive Budget proposes \$400 million in additional SAF dollars to replace existing General Fund higher education appropriations to address, in part, a nascent General Fund budget shortfall.

Notably, neither legislative proposal follows Governor Whitmer’s lead to tap the SAF to address the General Fund budget challenges. Instead, the house and senate spending proposals maintain, more or less, the current-year SAF allocations for higher education appropriations. The table below summarizes the amount of SAF resources used to finance FY2027 appropriations to community colleges and universities compared to FY2026. (Note: The SAF is used to finance 100 percent of the community college appropriations in FY2026 and across all three FY2027 spending proposals, while about one-third of the \$2.3 billion university appropriations is covered by the SAF.) We fully expect that final budget negotiations will involve discussions around the continued use of SAF resources to support higher education appropriations.

Use of School Aid Fund Dollars for Higher Education Appropriations (millions)

	FY2026		FY2027	
	Budget	Governor	House	Senate
Community Colleges	\$ 493.0	\$ 525.4	\$ 491.0	\$ 490.8
Universities	\$ 850.8	\$ 1,247.4	\$ 845.0	\$ 939.7
Total SAF	\$ 1,343.8	\$ 1,772.8	\$ 1,336.0	\$ 1,430.4
Note: Diff. from FY2026		\$ 429.0	\$ (7.8)	\$ 86.7

Source: FY2027 executive, house, senate budget documents

With the three FY2027 School Aid budget proposals now public, all attention turns to the upcoming May revenue estimating conference. Just as the January conference guided the development of the governor's executive budget, the May conference will provide house and senate leaders with updated state revenue estimates needed to enter final negotiations and enact a balanced state budget (hopefully) before the July 1 deadline.

As we noted going into the January conference, the General Fund side of the FY2027 state budget already faced headwinds arising from downgraded revenue estimates tied to changing economic conditions and increased state spending pressures tied to changes in federal social safety net programs contained in last year's One Big Beautiful Bill Act. At the same time, the School Aid Fund side of the budget was projected to be in a much healthier position going forward. Early indications suggest that those general revenue trends will be reflected again in the May conference, making what was already a challenging FY2027 budget cycle just a little more difficult. However, now we have full General and School Aid Fund budget proposals from the governor, house and senate.

ABOUT THE AUTHOR

Craig Thiel - Research Director



Craig is the Research Council's Research Director and primary researcher of education and school finance issues. Prior to becoming Research Director, Craig served as the Director of State Affairs and as a Senior Research Associate. During his graduate school studies, he worked for the Council as a Lent Upson-Loren Miller Fellow from 1993 to 1995. Before joining the Council in 2006, Craig worked for ten years as a fiscal analyst at both the Senate Fiscal Agency and the House Fiscal Agency. He previously worked for the Michigan Department of State, Office of Policy and Planning and the United States Environmental Protection Agency in Chicago.

Craig holds a B.A. in Economics and Political Science from Kalamazoo College and a Masters in Public Administration from Wayne State University. He holds positions on various professional, nonprofit, and local government boards/associations.

Founded in 1916, the Citizens Research Council of Michigan works to improve government in Michigan. The organization provides factual, unbiased, independent information concerning significant issues of state and local government organization, policy, and finance. By delivery of this information to policymakers and citizens, the Citizens Research Council aims to ensure sound and rational public policy formation in Michigan. For more information, visit www.crcmich.org.

Southeast Michigan

38777 Six Mile Rd. Suite 208, Livonia, MI 48152
(734) 542-8001

Mid Michigan

115 W Allegan St. Suite 480, Lansing, MI 48933
(517) 485-9444

Detroit (313) 572-1840

West Michigan (616) 294-8359

A Fact Tank Cannot Run on Fumes

Do you want to ensure better policy decisions and better government in Michigan? A donation to support our organization will help us to continue providing the trusted, unbiased, high-quality public policy research Michigan needs. We also accept charitable bequests. Click the gas tank to donate or learn more about planned giving.

