October 2025 | State Budget Note

CITIZENS RESEARCH COUNCIL OF MICHIGAN

Unpacking the FY2026 State Budget: Six Things You Should Know

In a Nutshell

- After an arduous budget cycle, the Michigan Legislature finally completed work on the state's FY2026 budget in the early morning hours of October 3, avoiding a shutdown of state government operations.
- The budget agreement will eventually generate $2 billion in new annual road funding. It also implemented legislation to mitigate much of the anticipated $1.1 billion hit to the FY2026 budget arising from the enactment of the federal OBBBA.
- To their credit, lawmakers approved a structurally balanced budget free of gimmicks that would have pushed off real decision-making on needed cuts. However, future cost pressures tied to OBBBA changes in the financing of Medicaid and food assistance leave little room for growth in the GF/GP budget over the next several years.

In the wee hours of October 3, 2025, the Michigan Legislature finally resolved what had been a contentious, eight-month budget stalemate. After passing a seven-day temporary budget bill to avoid a state shutdown, the legislature approved a general omnibus budget bill covering the state's 15 executive branch departments and a separate education budget bill providing funding to K-12 schools, public universities, and community colleges.

Despite the long wait, the approved budget successfully addressed several challenges that contributed to the thorny stalemate. It includes $1.1 billion in new appropriations for transportation infrastructure; an amount that will grow to over $2 billion by Fiscal Year (FY)2030. It also amends state law to greatly mitigate the immediate revenue decline the state was facing under the federal One Big Beautiful Bill Act (OBBBA), sparing the budget from much deeper cuts to discretionary General Fund/General Purpose (GF/GP) appropriations.

Importantly, the budget is structurally sound with ongoing revenue and ongoing spending aligned going forward. Lawmakers smartly avoided the temptation to use available one-time revenue to paper over necessary FY2026 budget cutting. When the FY2027 budget is introduced next February, there will be no immediate need to address budget gimmicks or appropriations based on suspect assumptions.

Here are six key takeaways from the budget deal, outlining the agreement's key elements and what they mean for FY2027 and beyond.

38777 Six Mile Road Suite 208 | Livonia, MI 48152 | 734.542.8001
115 West Allegan Suite 480 | Lansing, MI 48933 | 517.485.9444
313.572.1840 | 616.294.8359| crcmich.org

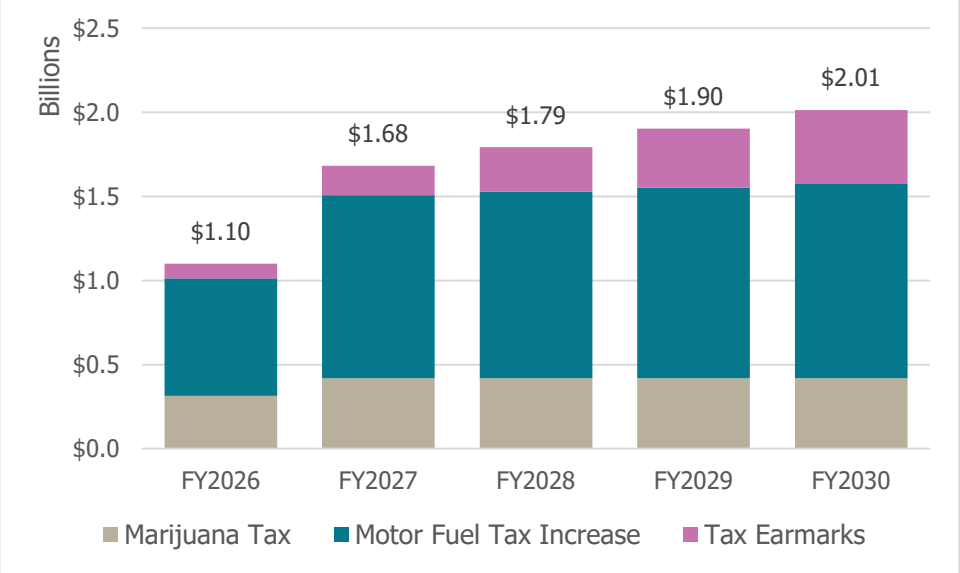
New Revenues for Road Infrastructure

The most significant hurdle during this budget cycle was resolving the debate on road funding. Both the House of Representatives and Governor Whitmer put forth plans to generate $3 billion in new annual allocations for road and bridge infrastructure, but the plans took different paths to get there. The House plan called for redirecting existing revenue to roads, which also meant there would be $3 billion less for other parts of the budget. The Governor's plan called for new road allocations to come primarily from new tax revenue, but even her plan necessitated significant budget cuts of around $1 billion.

The final agreement settles for less in new transportation allocations. The plan has three revenue-raising components. The largest involves eliminating the six percent sales tax on motor fuel and replacing it with a roughly revenue-neutral 20-cent per gallong increase in the motor fuel tax rate. This eliminate-and-replace approach makes the action mostly invisible to consumers at the pump but effectively shifts around $1 billion in revenue to transportation infrastructure.

The second component is a new 24 percent excise tax on the whole-

Chart 1
New Transportation Funding by Source



Source: Citizens Research Council analysis of House Fiscal Agency and Senate Fiscal Agency bill analyses

sale price of marijuana. This would cover sales from either provisioning centers or other marijuana establishments to retail licensees, as well as the wholesale price of any marijuana directly cultivated by a retailer for eventual sale. The tax is expected to generate $420 million annually for road infrastructure.

Finally, the agreement revises existing tax earmarks for road infrastructure. The annual $600 million earmark from the state's personal income tax is cancelled. In its place, a new earmark from the state's corporate income tax is established directing $688 million in FY2026 to transportation needs. This earmark gradually increases to a permanent amount of $1,040 million by FY2030.

Given the budget's late passage, road funding in FY2026 takes an initial hit relative to the House-passed plan, as the effective dates of the tax reforms (sales, motor fuel, marijuana) are moved back from October 1, 2025, to January 1, 2026. Still, in FY2030, with all changes fully phased in, the plan will generate over $2 billion in new annual revenue for transportation and roads.

Eliminating the Sales Tax on Motor Fuel: What About the Budget "Losers"?

Back in 2022, when the state enjoyed an ongoing surplus of around $2.5 billion in GF/GP and School Aid Fund revenue, the Research Council recommended state lawmakers that the moment had come to permanently shift revenue from the sales tax on motor fuel over to road infrastructure.[5] That is because those extra revenues would have helped address the perennial challenge that had plagued this idea in the past: dealing with the budget "losers" that are created with this tax shift. This year's budget agreement finally pulls the trigger on ensuring that all taxes paid at the pump are used for road work, but unfortunately those surplus revenues are no longer available to help.

Two of the biggest "losers" associated with the tax shift are K-12 schools and local governments. The School Aid Fund (SAF) receives an earmark from the sales tax, typically around 73 percent of total revenue. Exempting fuel from the sales tax results in an annual loss of $680 million in sales tax collections at the pump, based on current fuel prices. Likewise, the Michigan Constitution earmarks roughly 10 percent of sales tax revenue to cities, villages, and townships in the form of revenue sharing payments distributed on a per-capita basis. The fuel exemption results in an estimated loss of around $93 million in sales tax collections annually for these payments. The road plan approved by the Michigan House in April established new tax earmarks coming from GF/GP revenue to backfill both of these impacts, effectively holding harmless both the SAF and constitutional revenue sharing from the tax shift. So, how did the "losers" fare in the final budget?

For schools, the picture is mixed. The SAF itself was entirely held harmless from the loss of the sales tax allocation. Legislation approved as part

of the budget agreement ensures that additional sales tax revenue equal to the estimated SAF revenue loss from the exemption of fuel from the sales tax will be deposited annually into the SAF; that amount effectively comes out of what would otherwise have been GF/GP revenue.

However, to address GF/GP budget pressure, the budget itself increases the SAF contribution for public university operations by $400 million, replacing an equivalent amount of GF/GP that can then be used to support other areas of the budget. So, while the SAF is held harmless from the revenue impact of exempting fuel from the sales tax, the amount of SAF that remains available for K-12 schools is reduced by $400 million as the result of this appropriation fund shift.

For local governments, however, no provision for backfilling constitutional revenue sharing payments was included. Cities, villages, and townships will need to absorb the full $93 million decline in revenue sharing payments resulting from the exemption of fuel from the sales tax. Further, statutory revenue sharing payments – which supplement the constitutionally-dedicated payments – were held flat under the budget agreement.

Some of the lost revenue sharing funding will be replaced with a new public safety revenue sharing program. The program provides $35 million on an ongoing basis and another $7.5 million on a one-time basis for FY2026 to cities, villages, and townships, with funding distributed based on the average annual violent crime counts over the last three years in each jurisdiction, as reported to the Michigan State Police. Whereas constitutional and statutory revenue sharing are unrestricted in use, these new public safety revenue sharing allocations must be used to fund law enforcement activities.

Addressing OBBBA: Tax Relief and the Insurance Provider Assessment

With the road funding debate already putting stress on GF/GP appropriations, the enactment of the federal One Big Beautiful Bill Act (OBBBA) this summer added further to the state's budget challenges. As noted in a July analysis,[6] the OBBBA could have reduced state revenue by an additional $1.1 billion – a decline that would have had a direct impact on the ongoing budget deliberations for FY2026.

That revenue hit came from two separate OBBBA provisions. First, business tax relief enacted as part of the OBBBA would have ripple effects on Michigan's corporate income tax collections. That impact was initially expected to reduce state GF/GP revenue by around $670 million in FY2026. Second, OBBBA and a related and still-pending federal rule would require Michigan to eliminate its Insurance Provider Assessment (IPA), a tax on health insurers that plays an important role in financing the state's Medicaid program. Notably, the federal rule, as introduced, would require Michigan to immediately suspend the IPA once the rule is finalized. While Michigan awaits final federal guidance on the tax, the ultimate impact of losing the IPA is clear: the state would need to either absorb up to $1.6

billion in Medicaid cuts or find a way to shift $450 million in GF/GP funding from elsewhere in the budget to backfill the IPA revenue loss and keep Medicaid whole. The $1.6 billion reflects the amount of Medicaid program payments currently supported by the IPA, along with the federal matching funds that these tax dollars leverage.

The budget agreement helped ease both of the OBBBA-related impacts. First, the agreement called for "decoupling" the state's corporate income tax from OBBBA's tax relief provisions. Currently, any changes to a corporation's taxable income under the federal corporate income tax automatically carry over into the firm's taxable income under the state's corporate income tax. Legislation approved as part of the budget deal breaks that linkage for OBBBA's new business tax relief. As a result, the anticipated $670 million revenue loss from those changes to Michigan's corporate tax base is eliminated.

At the same time, the agreement also calls for taking the opposite action regarding other new temporary OBBBA-related tax relief for overtime pay and tipped income earners. Federal tax exemptions under these provisions do not affect a taxpayer's adjusted gross income, which is the starting point for calculating taxable income under Michigan's personal income tax. That means, under current law, these changes would have no effect on income tax liability in Michigan. Legislation enacted under the budget agreement now requires that adjusted gross income be calculated to include these OBBBA adjustments for tax years 2026 through 2028, which reflects the years for which they are in effect under the OBBBA. The bill also ushers in more favorable treatment of retirement earnings for certain Social Security recipients during these three tax years – a change seemingly intended to emulate similar tax relief for retired seniors under OBBBA. Altogether, this new recognition of OBBBA tax relief under the plan will reduce GF/GP revenues by $160 million to $180 million through FY2028.

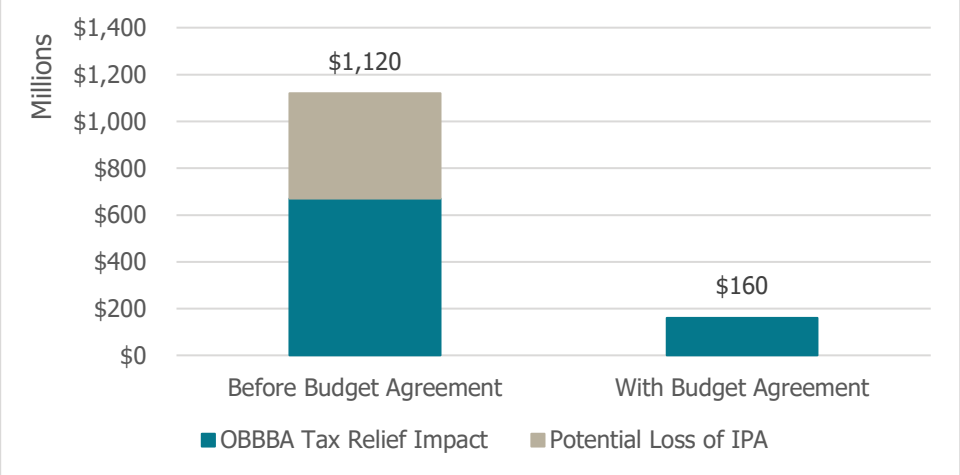
Importantly, the budget agreement also provides a "fix" for the state's IPA. As background, the OBBBA establishes new guidelines for a unique set of Medicaid provider taxes that includes the IPA. Those guidelines require stricter adherence to federal requirements that such taxes be "broad-based" and "uniform". In short, if states tax health insurers (or any other health care provider group), the tax cannot discriminate between providers with high and low Medicaid utilization. This requirement is meant to ensure that states don't concentrate the provider tax's burden on providers with high Medicaid utilization since those providers actually stand to gain from the tax. States use provider tax revenue to leverage additional federal matching funds, then pass those funds back to the same Medicaid providers in the form of increased reimbursement for Medicaid services. In some cases, providers that rely heavily on Medicaid-funded services actually get more back through enhanced Medicaid reimbursements than they pay to the state through the tax. The federal "broad-based and uniform" standards are meant to ensure that states do not exploit these taxes to leverage an undue amount of federal Medicaid matching funds.

However, Michigan and other states have, for many years, obtained federal waivers from the broad-based and uniform requirements by exploiting a flaw in a federal statistical test meant to gauge the extent to which tax burden is more concentrated on providers with high Medicaid utilization. The IPA has received such waivers, and yet it clearly violates the federal intent by imposing a significantly higher tax burden on Medicaid health plans than it does on private health insurers. Through OBBBA, the federal government has signaled its intent to put an end to the practice of approving waivers for taxes that have exploited the federal statistical test.

The budget agreement helps the state prepare for the eventual demise of the IPA in its current form. Legislation enacted as part of the budget agreement adds new discretion within state law allowing the Michigan Department of Health and Human Services (DHHS) to alter the structure of the tax if the federal government notifies Michigan that it must eliminate it. The structural change would eliminate the current tiered tax rate structure and replace it with a uniform tax rate across all health insurers. That would shift the IPA's tax burden significantly toward private health insurers and away from Medicaid health plans. DHHS would be required to set the uniform rate at a level that would generate no more revenue than it currently generates. The structure would eliminate the potential budget ramifications noted above.

Chart 2

Estimated State Revenue Impact of OBBBA Before and After the Budget Agreement



Source: Research Council calculations based on House Fiscal Agency analyses of House Bills 4961 and 4968.

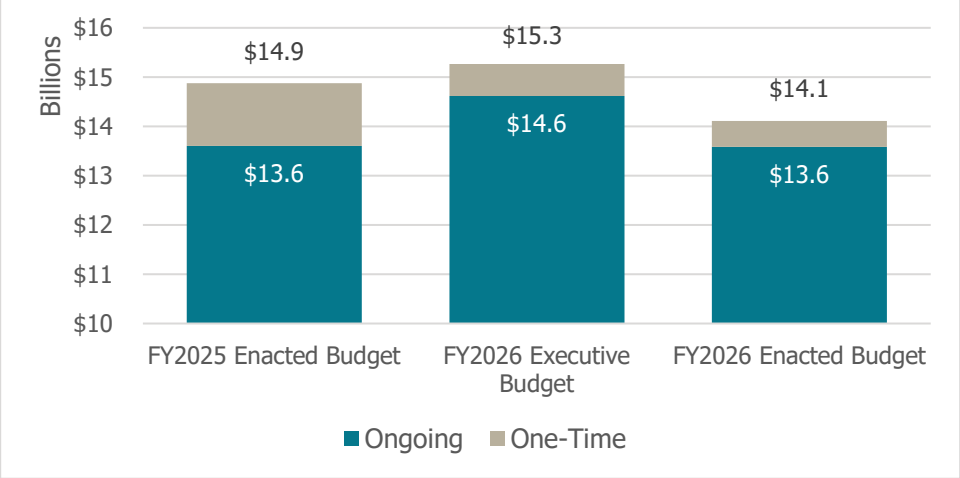
All told, these OBBBA-related changes under the budget agreement result in a GF/GP revenue loss of around $160 million in FY2026, according to the House Fiscal Agency. As noted in **Chart 2**, the net effect of these OBBBA-related revisions brings the GF/GP revenue loss down from $1.1 billion to $160 million. While still a decline, the action puts $960 million in GF/GP revenue back in play for budget deliberations relative to the working assumptions in place before the final budget deal.

GF/GP Budget Cut by $760 Million, but Ongoing Funding is Unchanged

The legislative changes to reduce the state revenue impact of OBBBA significantly mitigated the necessary GF/GP appropriation reductions required to balance the FY2026 budget. The budget decisions to tap additional SAF revenue for universities and to require local governments to absorb the loss in constitutional revenue sharing tied to the exemption of fuel from the sales tax had the same effect. Still, there were GF/GP appropriation reductions in this budget.

Chart 3 compares GF/GP appropriations for the initial FY2025 budget passed last year, the FY2026 Executive Budget recommendation released in February, and the final FY2026 budget enacted last week. Overall, total FY2026 GF/GP appropriations are $760 million lower than those in the FY2025 budget.

Chart 3
Comparing GF/GP Appropriations for FY2025 and FY2026



Source: Citizens Research Council analysis of related budget bills and House Fiscal Agency and Senate Fiscal Agency analyses.

Notably, however, ongoing GF/GP appropriations in FY2026 – total appropriations net of spending designated as "one-time" in nature – are only $18 million lower than in FY2025. On the whole, the GF/GP reductions in the FY2026 budget were largely the result of the elimination of close to $1.3 billion in one-time appropriations from the FY2025 budget and their replacement with only $526 million in new one-time GF/GP spending authorization within the FY2026 budget.

To be sure, there were ongoing GF/GP appropriation reductions included in the FY2026 budget. As noted above, SAF appropriations were used to backfill a $400 million GF/GP appropriations reduction for university operations. There is also a $101 million reduction in GF/GP appropriations within the Department of Labor and Economic Opportunity budget. Those ongoing reductions, however, are largely offset by other GF/GP appropriation increases. Medicaid and public assistance caseloads are the

major drivers of these increases, with GF/GP funding increasing by $470 million within the DHHS budget and by $90 million within the Department of Education budget due to increased caseload costs for the state's child-care subsidy program.

Chart 3 also shows that GF/GP appropriations in the final budget were reduced by $1.2 billion from the Governor's February Executive Budget recommendation, with most of the Governor's proposed new investments being either eliminated or downsized.

The Debate on Budget "Bigness"

Between FY2019 and FY2023, "adjusted gross" appropriations within the state budget, which reflect the entire state budget from all funding sources – GF/GP, SAF, federal funding, dedicated state revenue (e.g., transportation funds) – grew from $58.3 billion to $85.7 billion. So, in just four years, the budget grew by $27.3 billion, or by about 47 percent.

Two factors primarily drove this growth. First, the state experienced an unexpected surge in revenues following the COVID-19 pandemic, which in turn was driven by massive federal economic stimulus to individuals (e.g., Paycheck Protection Program, multiple rounds of tax rebates, enhanced unemployment benefits). Second, those state revenues were later supplemented by additional direct federal aid (e.g., Coronavirus Aid, Relief, and Economic Security (CARES) Act, American Rescue Plan Act (ARPA)) to states that boosted appropriations during the pandemic.

Naturally, this growth sparked debate over the size of the state budget and concerns about whether state appropriations remained sustainable. Did the state create future "fiscal cliffs" with all this new money? With this latest budget deal completed, it seems appropriate to take another look at the size of the budget; how does the FY2026 budget compare to the FY2025 budget? And, historically speaking, is the budget still inflated relative to historical trends?

FY2026 Budget Relative to FY2025

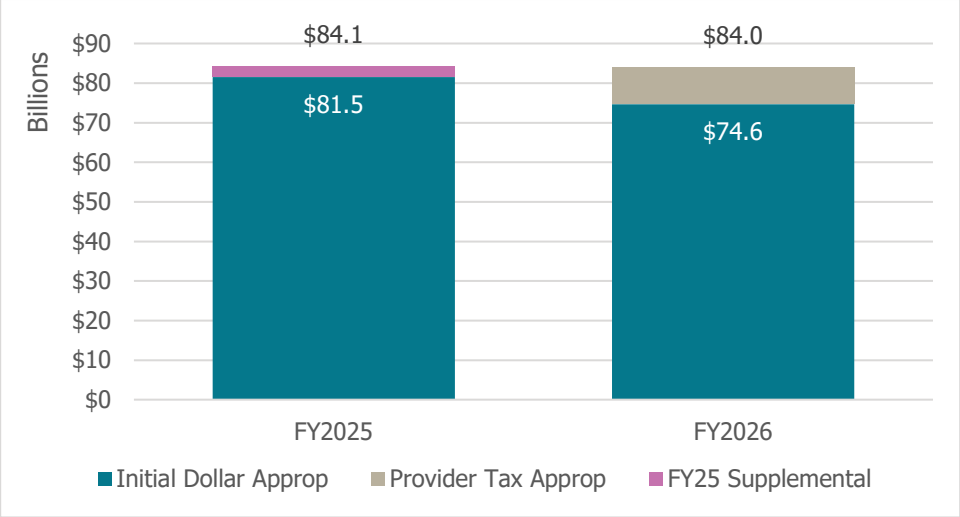
Comparing the total size of the state budget from year to year is typically easy, but a nuance in the FY2026 budget's construction has made it much more difficult. For background, a budget bill in Michigan consists of two parts. "Part 1" of a bill is made up of hundreds of programmatic line items, each with an appropriated dollar amount. Conveniently, a summary unit at the beginning of the bill sums all of the individual line items to provide the total appropriations within that bill. A separate "Part 2" of each budget bill typically contains a lengthy set of "boilerplate" language provisions. These sections are often used to establish guidelines and restrictions on how certain appropriations are to be spent and sometimes establish legislative reporting requirements for programs.

The FY2026 budget, however, contains a huge and atypical shift in appropriations out of the dollar appropriations in Part 1 and into the boilerplate

language section of Part 2. This funding is tied to the two Medicaid provider taxes most affected by the OBBBA: the IPA and the state's hospital Quality Assurance Assessment Program (QAAP) tax on hospitals. In total, $9.3 billion, reflecting both the direct tax revenue and the related federal matching funds leveraged by both taxes, is shifted to Part 2 boilerplate. Theoretically, this shift could be an attempt to isolate the provider tax appropriations in recognition of the risks to both taxes posed by the OBBBA. As noted above, the current IPA will be nullified by OBBBA at a date yet to be determined. Further, the hospital QAAP tax rate will be subject to OBBBA-mandated reductions as soon as FY2028. Still, both taxes are expected to be fully functional for most, if not all, of FY2026. While the current IPA is at immediate risk from OBBBA, the legislative fix discussed early in this report should allow it to remain in place under a DHHS-implemented restructuring of the tax.

Chart 4

Adjusted Gross Appropriations, FY2025 and FY2026



Source: Research Council analysis of House Bill 4706 (general budget) and Senate Bill 166 (education budget)

Regardless of the rationale for the shift, a fair apples-to-apples comparison of the size of the FY2026 and FY2025 budgets should include the provider tax appropriations in both budget calculations. As **Chart 4** shows, including them in FY2026 brings the total adjusted gross appropriations to $84 billion, about $2.5 billion higher than the $81.5 billion in FY2025 appropriations in place prior to final budget passage. However, adding to the challenge of comparing the two budgets, new FY2025 supplemental appropriations were also included within the final budget bill. Those adjustments added another $2.6 billion in total appropriations for FY2025. Adjusting for these new FY2025 appropriations, the two budgets are almost equal size.

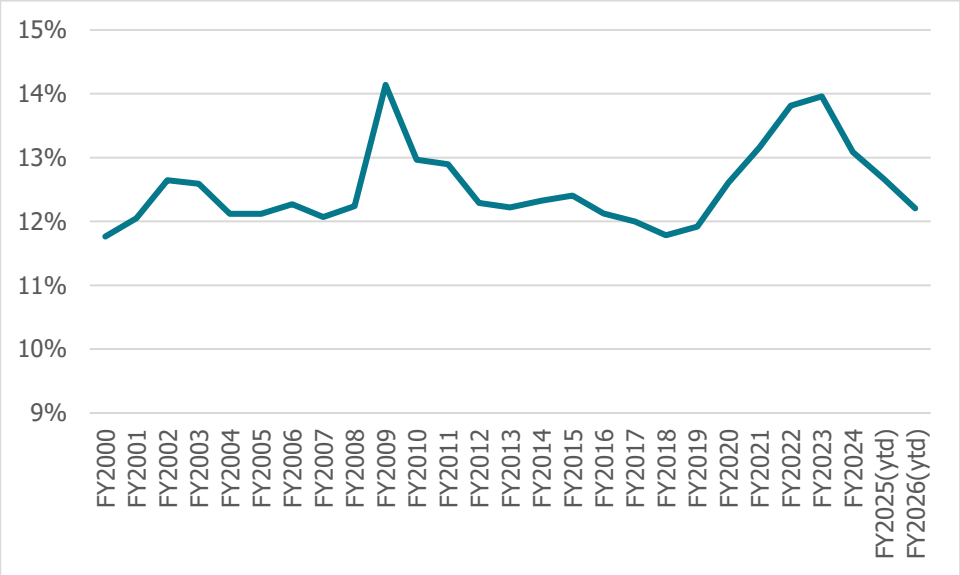
FY2026 Budget Compared to Historical Trend

On the other hand, a longer-term view of historical data on adjusted

gross appropriations shows the FY2026 budget have gradually returned to a more "normal" level. In the view of the Citizens Research Council, the fairest way to assess this question is to compare adjusted gross appropriations to state personal income. Personal income is a very broad measure of income that, of course, includes earnings from work, but also other sources of income such as interest, government transfer payments like Social Security and unemployment benefits, and business-related income. Looking at the budget as a percentage of personal income effectively gauges how large the state budget is relative to broader economic activity, as measured through income.

Chart 5 shows that between FY2000 and FY2019, adjusted gross appropriations as a percentage of personal income typically ranged from 12 to 12.5 percent. The notable exception was during the Great Recession, when states once again received significant federal stimulus (e.g., the American Recovery and Reinvestment Act) to mitigate the recession's negative impacts on the economy, employment, and state revenues.

Chart 5
Michigan Budget: Adjusted Gross Appropriations as a Percentage of Personal Income



Sources: Research Council calculations using historical adjusted gross appropriations data from the Senate Fiscal Agency and Michigan personal income data from the U.S. Bureau of Economic Analysis.

Chart 5 also helps illustrate the surge in adjusted gross appropriations following the onset of the COVID-19 pandemic. The budget as a percentage of personal income reached almost 14 percent at its peak in FY2023 – approaching the FY2009 peak during the Great Recession. However, it also demonstrates the budget's "return to normal" with the approved FY2026 budget expected to be about 12.2 percent of state personal income (based on current economic estimates agreed to during the state's May Consensus Revenue Estimating Conference).

In short, while the budget remains more than $25 billion larger than it was in FY2019, this growth can now largely be attributed to a significant spike in inflation, which eventually pushed up both incomes and state spending. To be sure, this analysis says nothing about whether state government is "too big", "too small," or "just right". But it does suggest the state budget has come back to a "normal" level.

Evaluating Budget Transparency

An early and very appropriate theme of this budget cycle was enhancing budget transparency. The focus of that effort was budget "earmarks" – dollars allocated to specific entities at the behest of individual lawmakers, or what some might call "pork". The Citizens Research Council analysis of earmarks within the FY2024 budget highlighted the problem.[7] With billions of one-time GF/GP revenue available, the enacted budget included over $1.3 billion in legislatively directed appropriations. Of the greatest concern, almost two-thirds of those earmarks were "eleventh-hour" earmarks that appeared in the final budget bill without ever being considered or vetted as part of any previous budget proposals from the House, the Senate, or the Governor.

To its credit, the Republican-led House leadership pursued reforms to enhance earmark transparency and ensure that such earmarks are more fully vetted earlier in the budget process. While that process will provide no assurance that any approved earmarks are good public policy, it will at least ensure that they see the light of day and can be evaluated against other policy priorities. This path should eventually help reduce – if not entirely eliminate – eleventh-hour earmarks.

At the same time, this budget process also demonstrated a strong disregard for transparency in other ways. In August, the Research Council urged the Governor and legislature to call for a special Consensus Revenue Estimating Conference to address sudden changes to the state's GF/GP revenue picture brought about by the enactment of the federal OBBBA.[8] This appeal was largely ignored. For the first time in decades, there was no public information available on the GF/GP revenue assumptions being used ahead of these critical deliberations. Michigan's well-conceived revenue estimating process is a strength of the state's budget development framework; one that helps ensure the state budget is built on reasonable, independent revenue estimates. Sidestepping that process is not transparent. Neither is publicly releasing over 1,500 pages of budget conference reports in the evening and holding final votes on those reports less than 12 hours later.

Assuming that future legislatures maintain and abide by the new transparency rules, the end of "eleventh-hour earmarks" is a welcome change to the budget process. However, policymakers should work to ensure transparency across the whole budget process in the future.

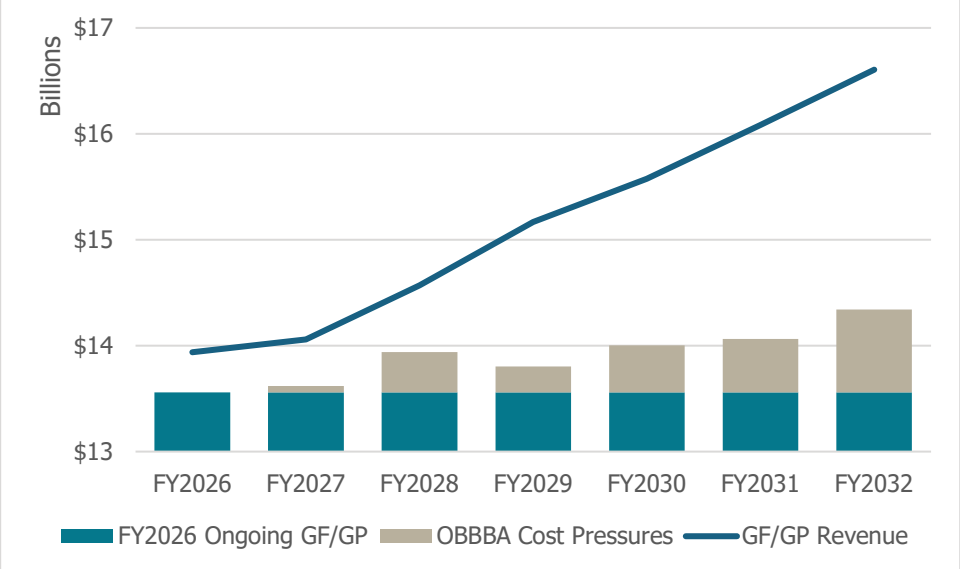
Looking Ahead to the FY2027 Budget

With FY2027 budget deliberations set to begin in just 4 months, it's also important to assess next year's budget outlook. The good news is that the legislature wisely approved a FY2026 budget that is structurally balanced. Assuming that current economic assumptions hold, there will be no "budget hole" to address next February, as ongoing GF/GP revenues and approved ongoing spending are aligned. However, the state will face tight budgets for the next two budget cycles as new cost pressures related to the OBBBA begin to take effect in FY2027.

OBBBA provisions will increase state GF/GP spending in two ways. First, the state will begin incurring greater cost-sharing within the Supplemental Nutrition Assistance Program (SNAP), which provides food assistance benefits to low-income families. Starting in FY2027, states will be responsible for 75 percent of SNAP administrative costs (e.g., eligibility determination, payment processing), up from the current 50-50 cost-sharing split between the state and the federal government. That will impose new GF/GP costs of nearly $100 million annually for Michigan.

Then, beginning in FY2028, states will be responsible for up to 15 percent of SNAP benefit costs, with each state's percentage determined by the extent to which its SNAP payment error rate exceeds six percent. Michigan's SNAP error rate was 9.5 percent in FY2024, down from a 13 percent peak in FY2022. The Research Council's July analysis on OBBBA impacts assumes the state's error will continue to decline but will remain above

Chart 6
Estimated GF/GP Revenue Growth and OBBBA Cost Pressures



Sources: GF/GP revenue through FY2029 reflects May Consensus Revenue Estimating Conference projections adjusted by the Research Council for the impacts of the various elements of the budget agreement (e.g., sales tax change, road earmarks, OBBBA-related income tax changes). The analysis assumes three percent annual growth after FY2029. OBBBA pressures reflect assumptions outlined in the Research Council's July report.

six percent until FY2031. Until that happens, the state could incur new annual costs of between $150 million and $300 million.

Finally, the state will face GF/GP cost pressures as its current Medicaid hospital provider tax is gradually phased down beginning in FY2029. While savings attributable to other Medicaid changes initiated by OBBBA (e.g., work requirements, more frequent eligibility redetermination) will likely offset the initial GF/GP cost pressure in FY2029, those pressures grow as the phase-down is fully implemented in FY2032. The state will need to draw an estimated additional $650 million in GF/GP that year to avoid billions in reductions to Medicaid payments to hospitals.

Chart 6 illustrates what these OBBBA cost pressures would mean to Michigan's GF/GP budget in the next few years. For FY2027 and FY2028 in particular, new SNAP costs will take a bite out of anticipated GF/GP revenue growth. The bottom line: the state GF/GP budget will be tight for the next two budget cycles.

An Assessment Following a Contentious Budget Cycle

The FY2026 budget cycle was clearly a very unconventional one with one legislative chamber not approving the majority of its budget plan until late August. Further, with the final budget not approved until October 3 – two days after the beginning of the new fiscal year, only a last-minute temporary budget extension helped to avoid a shutdown of state operations. In short, the timeline used to create the FY2026 is not one that state policymakers should repeat in future years.

And yet, it's clear that the legislature and the Governor really did achieve some significant accomplishments within their final budget agreement. They approved a substantial ongoing increase in revenue for road maintenance and repairs, and that plan included legislation ensure that all taxes paid at the fuel pump benefit road work. That concept had proven to be a "bridge too far" for many prior legislatures and administrations.

Beyond the roads plan, faced with an unanticipated revenue decline tied to the federal OBBBA legislation, lawmakers approved legislation to help mitigate those impacts and the budget reductions that would have followed them. The agreement required votes on "decoupling" the state's corporate income tax from OBBBA's federal business tax relief and on creating a new marijuana excise tax – votes that certainly came with some political risk.

And all of this occurred within a year that reintroduced Michigan to the dynamics of divided government with a Republican-led House and Democratic-led Senate that had very different views of how a state budget should look. With more road revenues on their way and the revenue challenges brought by OBBBA behind them, perhaps the FY2027 budget cycle – like the budget itself – will move back toward "normal".

We shall see in February.

Endnotes

1 Citizens Research Council of Michigan, *Fixing the Damn Roads: It's Time to Eliminate the Sales Tax on Motor Fuel*, December 1, 2022, https://crcmich.org/fixing-the-damn-roads-its-time-to-eliminate-the-sales-tax-on-motor-fuel.

2 Citizens Research Council of Michigan, *The One Big Beautiful Bill Act and Its Impact on Michigan's Budget*, State Budget Note 2025-01, July 2025, https://crcmich.org/publications/the-one-big-beautiful-bill-act-and-its-impact-on-michigans-budget.

3 Citizens Research Council of Michigan, *A "First-Best" Path to Bringing Oversight and Transparency to Legislative Earmarking*, February 6, 2025, https://crcmich.org/a-first-best-path-to-bringing-oversight-and-transparency-to-legislative-earmarking.

4 Citizens Research Council of Michigan, *The One Big Beautiful Bill Act and Its Impact on Michigan's Budget*, State Budget Note 2025-01, July 2025, https://crcmich.org/publications/the-one-big-beautiful-bill-act-and-its-impact-on-michigans-budget.

5 Citizens Research Council of Michigan, *Fixing the Damn Roads: It's Time to Eliminate the Sales Tax on Motor Fuel*, December 1, 2022, https://crcmich.org/fixing-the-damn-roads-its-time-to-eliminate-the-sales-tax-on-motor-fuel.

6 Citizens Research Council of Michigan, *The One Big Beautiful Bill Act and Its Impact on Michigan's Budget*, State Budget Note 2025-01, July 2025, https://crcmich.org/publications/the-one-big-beautiful-bill-act-and-its-impact-on-michigans-budget.

7 Citizens Research Council of Michigan, *A "First-Best" Path to Bringing Oversight and Transparency to Legislative Earmarking*, February 6, 2025, https://crcmich.org/a-first-best-path-to-bringing-oversight-and-transparency-to-legislative-earmarking.

8 Citizens Research Council of Michigan, *The One Big Beautiful Bill Act and Its Impact on Michigan's Budget*, State Budget Note 2025-01, July 2025, https://crcmich.org/publications/the-one-big-beautiful-bill-act-and-its-impact-on-michigans-budget.

A Fact Tank Cannot Run on Fumes

Do you find this report useful and want to support analysis that will lead to better policy decisions and better government in Michigan? Your support of Citizens Research Council of Michigan will help us to continue providing policy makers and citizens the trusted, unbiased, high-quality public policy research Michigan needs.

You can learn more about the organization at www.crcmich.org/about. If you found the contents of this report useful and wish to help fill the fact tank so we can carry on our mission, please visit www.crcmich.org/donate or fill out the form below and send it to:

Citizens Research Council of Michigan
38777 Six Mile Road, Suite 208
Livonia, MI 48152-3974

YES! I want to help fill Michigan's Fact Tank and support sound public policy in Michigan!

NAME _____

ADDRESS _____

EMAIL / PHONE _____

- I wish to make a one-time, tax-deductible gift of: $ _____
- I wish to pledge a total of $ _____ with an initial payment of $ _____ .
- I would like my contribution to support: _____ Annual Fund _____ Endowment
- I would like to plan a gift for the Citizens Research Council from my estate _____
- Please mark my gift:
  - ☐ Anonymous
  - ☐ In Honor Of: _____
  - ☐ In Memory Of: _____
- Gift will be matched by: _____

Or donate online at www.crcmich.org/donate