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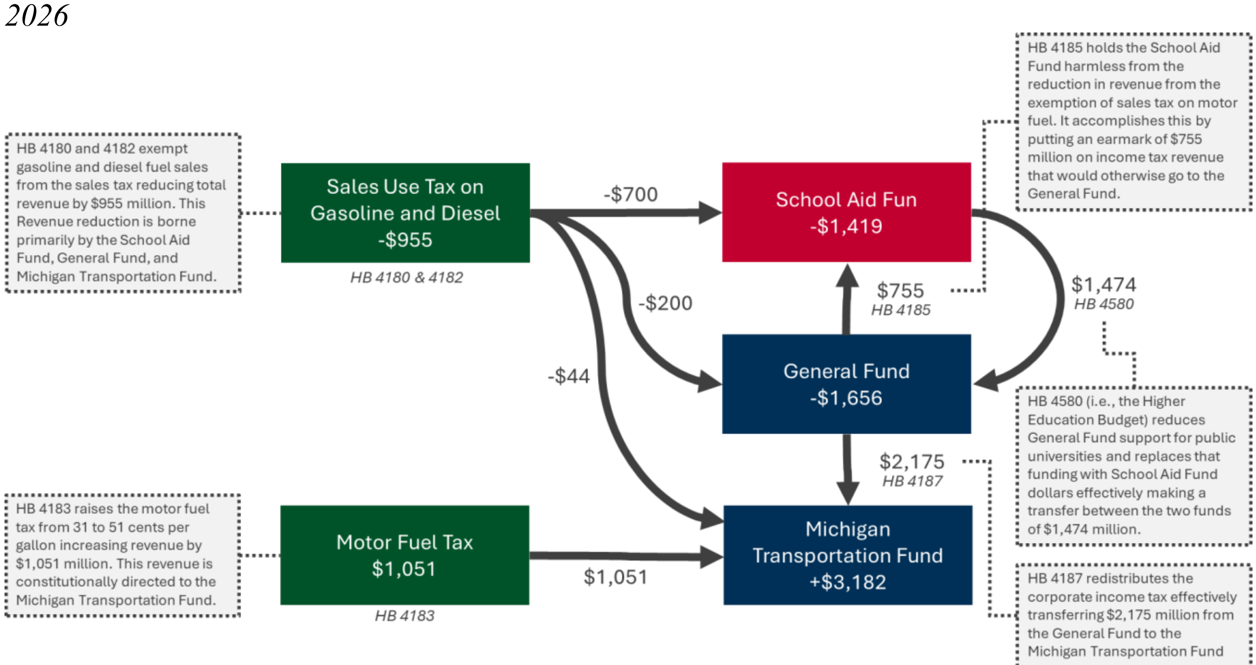
**Analysis of House Roads Plan**

On August 26th, the House released the final piece of their FY 2026 state budget and roads funding plan. The proposal effectively diverts about $1.4 billion from the School Aid Fund (SAF) and $1.6 billion from the General Fund (GF) to the Michigan Transportation Fund (MTF). The complete set of changes to accomplish these ends are spread across 15 bills. While the policy mechanisms are complicated the result is not; the plan redirects about $1,000 per pupil away from schools to pay for roads.

*Figure 1* shows the estimated net impact of the roads package and budgets proposed by the House on three major funds (i.e., the GF, SAF, and MTF). The source of these estimates come from the House Fiscal Agency's (HFA) analysis of the House's roads package and higher education budget.[1]

*Figure 1. Combined impact of House roads plan and education budget on major state funds, FY 2026*




[1] For visual clarity, *figure 1* simplifies some of the transactions proposed in the House's roads package and does not report the net impact for non-major funds (the State Aeronautics Fund, Qualified Airport Fund, Revitalization and Placemaking Fund, and Strategic Outreach and Attraction Reserve Fund). For example, the reduction of sales and use tax revenue (in HB 4180 and 4182) reduces constitutional revenue sharing by $95 million and cuts GF revenues by about $105 million. In HB 4185, however, the GF reimburses the revenue sharing program dollar-for-dollar. The effect is that the GF loses $200 million, which is reported in *figure 1*.

The first part of the plan is to exempt gasoline and diesel fuel from the sales and use tax (HB 4180 and 4182). This reduces funding for the SAF by $700 million, for the GF by $200 million, for the MTF by 44 million, and 11 million across other funds (for total of $955 million). Next, HB 4185 "holds harmless" the SAF on the revenue side by reimbursing the $700 million in lost sales tax revenue with an earmark on the income tax for $755 million (a net increase of $55 million).

To replace the lost revenue from the elimination of the sales tax on gas, HB 4183 would increase the motor fuel tax from 31 to 51 cents per gallon, raising $1,051 million and directing those dollars to the MTF. Additionally, HB 4187 earmarks the corporate income tax, revenue that would otherwise go to the GF, directing most of those dollars to the MTF.

Finally, the SAF effectively transfers $1,474 million to the GF through the higher education budget partially offsetting losses in that fund (described in more detail in the next section).

In total the roads package would increase tax revenue by approximately $116 million in FY 2026. About 96% of the "new" funding for roads would come from existing resources in other funds. The effective net impact of the proposed changes is an increase to the MTF of $3,182 million, a reduction to the GF of $1,656 million, and a reduction to the SAF of $1,419 million.

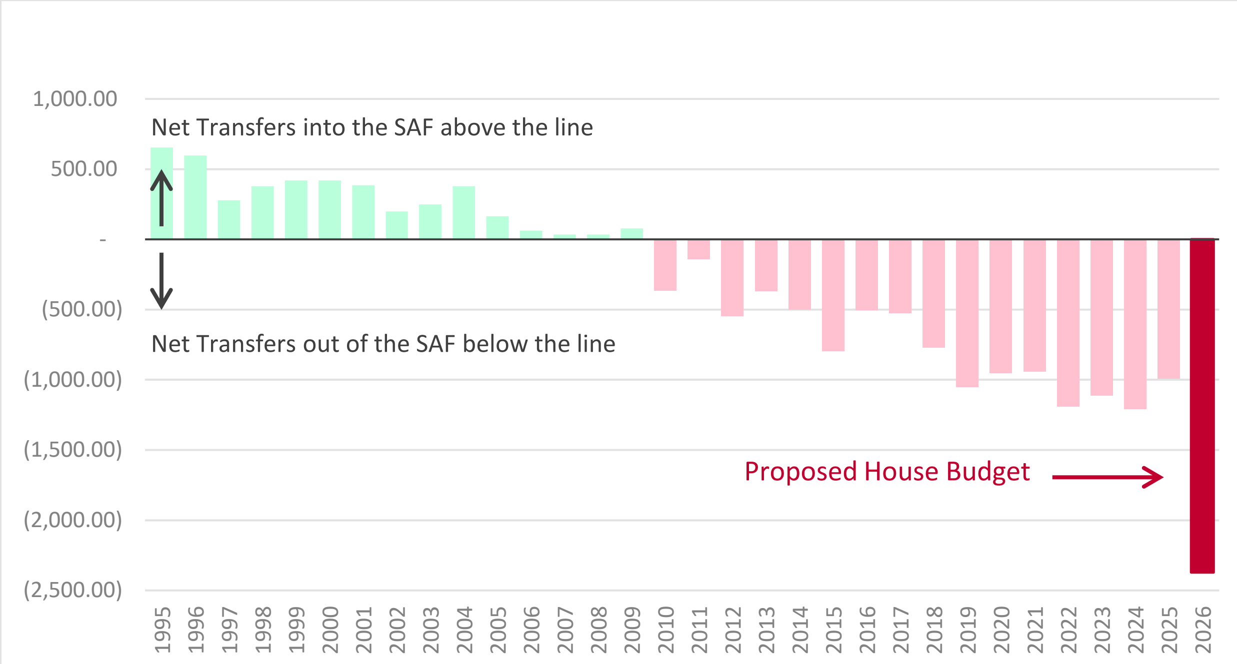
For additional information, see the relevant pieces of legislation and accompanying analysis from HFA and MEA linked below:

1. The roads funding package includes: House bills 4180, 4181, 4182, 4183, 4184, 4185, 4186, 4187, and 4230. For more information see HFA Roads Funding Package Analysis.
2. The education budgets including individual budgets for school aid (HB 4577), community colleges (HB 4579), higher education (HB 4580), the Michigan Department of Education (MDE; HB 4576), and the Michigan Department Lifelong Education Advancement and Potential (MiLEAP; HB 4578). For more information see Analysis of the Michigan House FY 2026 Education Budgets.
3. The general omnibus budget HB 4706. For more information see the HFA General Omnibus Budget Summary.
4. For more information on Michigan's current taxes on fuel see HFA Fiscal Brief.

**Net Transfers Between the General Fund and School Aid Fund**

The SAF was designed to pay for K-12 education. In the first decade after Proposal A's passage in 1994, the state used GF to support the SAF. Since FY 2010, however, net transfers have gone in the other direction as programs formerly funded by the GF were pushed into the SAF (most notably funding for community colleges and higher education). *Figure 2* tracks the nominal net transfers into and out of the SAF over time.

*Figure 2. Nominal net transfers between the General Fund and School Aid Fund, Actual and House Budget*




Since FY 2010, the state has effectively transferred $11.9 billion out of the SAF towards GF priorities. This equates to a reduction of resources for schools of more than $500 per pupil per year. The final bar in *figure 2* shows the proposed increase in net transfers out of the SAF. The House's roads plan is premised on a net transfer out of the SAF totaling more than $1,700 per pupil. That represents an increase in transfers out of nearly 140%, effectively reducing funding available to schools by about $1,000 per pupil.