



FY 2026 Budget Analysis

After missing the [statutory deadline](#) of July 1st and the constitutional deadline of October 1st, Michigan's state government finally completed its budget on October 3rd, 2025. The FY 2026 omnibus education budget in [SB 166](#) (PA 15 of 2025) contains funding for PK-12 school, community colleges, and public universities. The circumstances that led to this budget were unique: a strong political need to achieve a “roads deal,” divided government, and fiscal curve ball from the federal government in the enactment of the One Big Beautiful Bill Act (OBBBA).

Across virtually any subject of analysis “compared to what” is an important and revealing question. The determined quality, and subsequent emotional valence assigned to, the FY 2026 budget largely depends on the point of comparison. Compared to the FY 2025 budget, the resulting FY 2026 omnibus education budget appears simply “good.” It retains many important programs and expands on the progress towards equity made in recent years. Yet, compared to what was possible, one might reasonably feel disappointed. Policy opportunities that could have been achieved were not. Finally, compared to the [House budget proposal](#), observers supportive of public education should be relieved. That budget threatened an unsustainable structural deficit, debt delinquency, and an unprecedented “raid” on the SAF. The final outcome was far superior to that proposal. Each of these responses above are reasonable depending on the point of comparison.

The FY 2026 education omnibus budget contains some aspects worthy of praise and others worthy of admonishment. Given the turbulent politics and policy of the moment, the final budget is perhaps the best that could have been achieved.

Despite acceptable policy outcomes, the process surrounding this budget was neither transparent nor deliberative. Negotiations were pushed to the very last moment and limited to a small number of leaders. This process prevented duly elected officials and knowledgeable stakeholders from bringing important issues to light and having their voices fully heard. Improving both the openness and timeliness of the process for next year's budget should be a priority.

The following report goes into detail on many aspects of the education omnibus budget and “roads deal.” It is divided into four sections:

1. [budget structure](#),
2. [School Aid budget](#),
3. [Community Colleges budget](#), and
4. [Higher Education budget](#).

For more information on budget terminology, see [Appendix A](#).

Budget Structure

The FY 2026 budget delivered on the stated priority of elected leaders, securing ongoing increases to transportation funding.¹ That priority received an additional \$1,183 million for FY 2026 and an estimated \$1,633 million for FY 2027. These policy choices, however, come with strict trade-offs. “New” funding for a program can come from only two places: new revenue or cuts to existing programs. In fact, most of the “new” funding for roads is not “new” at all.

While there are some complicated budget mechanics, only about 20% of the increased funding for transportation is derived from new revenue sources. The remaining 80% came from cuts to existing programs. On net, for FY 2026 these changes are expected to result in reductions of \$458 million from the General Fund (GF), \$70 million for local governments, and \$414 million from the School Aid Fund (SAF). *Table 1* breaks down the effective revenue source for the increased transportation allocation.

Table 1. Effective funding sources for increased transportation appropriation, FY 2026-2027

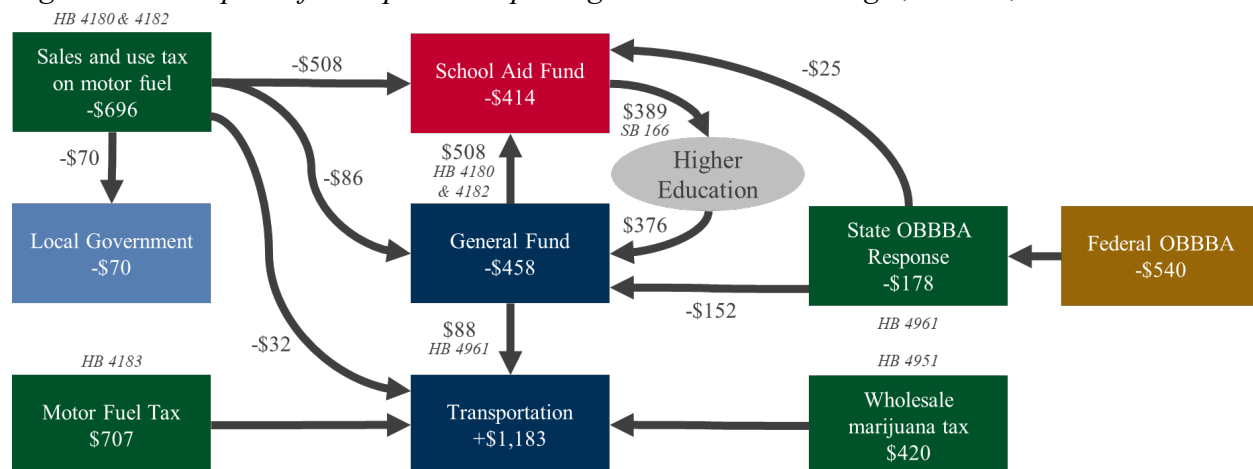
	FY 2026	FY 2027
School Aid Fund	35.0%	25.5%
General Fund	38.7%	46.7%
Local Governments	5.9%	5.7%
New Revenue	20.4%	22.1%

In FY 2026, 35.0% of the increase in transportation funding will effectively come from the SAF. In FY 2027, that proportion may decline substantially. Importantly, however, the reduction between FY 2026 and 2027 is contingent on the FY 2027 budget. Due to the Higher Education budget fungibility, the state has the power to increase the SAF’s contribution (discussed in greater detail below).

Figure 1 attempts to show the budgetary mechanisms behind the transportation funding package and budget bills. All changes are presented relative to the May 2025 CREC estimates. A more detailed version of *figure 1* is presented in *table 6* in [Appendix B](#) of this report.

¹ “Transportation” includes the existing Michigan Transportation Fund (MTF), newly created Neighborhood Roads Fund (NRF), and the Comprehensive Road Funding Fund.

Figure 1. Net impact of transportation package and education budget, million, FY 2026



The flow of resources presented in figure 1 can be understood as four distinct policy changes:

1. [State response to OBBBA](#)
2. [Motor fuel tax swap](#)
3. [Tax on marijuana](#)
4. [School Aid Fund supplanting General Fund](#)

The following subsections explain each policy change in turn.

State response to OBBBA

The federal One Big Beautiful Bill Act (OBBBA), which passed on July 4th of 2025, contained major negative fiscal consequences for the state of Michigan. The [Citizen's Research Council of Michigan](#) (CRC) estimated that OBBBA would require the state to reduce GF appropriations by about \$1.1 billion. Furthermore, these federal policy changes came down after the statutory deadline for the budget had already passed. That meant that any existing budget proposals were no longer balanced.

Amongst the most immediate problems to the state, caused by OBBBA, was the reduction of approximately \$540 million in corporate income tax (CIT) revenue for FY 2026. That federal policy threatened to upend budget discussions around transportation as well as other state programs. [HB 4961](#) (PA 24 of 2025) decoupled Michigan's CIT from OBBBA. While Michigan businesses will still experience unexpected tax benefits from the federal tax provisions under OBBBA, those benefits were prevented from extending to state taxes as well. This change will effectively cancel out the expected \$540 million reduction to the state's CIT revenue.

In addition to decoupling the CIT from OBBBA, HB 4961 extended certain personal income tax provisions in OBBBA to state taxes. Specifically, the changes allow Michiganders to deduct income earned on tips and overtime pay from their state income taxes. Additionally, the policy includes reductions to taxes on social security benefits in some cases. In total, the expected cost of these personal income tax provisions is \$178 million.

OBBBA also negatively impacts Michigan's Medicaid program by restricting the state's ability to raise revenue through provider taxes. [HB 4968](#) (PA 25 of 2025) charts a potential path forward for continued collection of this revenue and continuation of the program. The fiscal impacts of this policy change will likely mitigate the damage caused by OBBBA to Michigan's Medicaid program but is dependent on federal response.²

While OBBBA negatively impacts state resources, Michigan's response to those federal changes is generally in the correct direction. The state effectively made the tax provisions more progressive by denying extensions to businesses and extending personal income tax provisions to working class segments of the population. The net reduction to state resources, after these policy changes, is smaller than what it would have been with no state intervention.³

Motor fuel tax swap

To ensure all taxes paid at the pump are directed to transportation funding, the state eliminated the sales tax on motor fuel and increased the wholesale tax by a commensurate amount. [HB 4180](#) & [4182](#) (PA 17 and 19 of 2025) eliminate the sales and use tax on motor fuel. This reduces funding for the SAF, GF, local governments, and transportation. Additionally, these acts earmark sales tax revenue to hold harmless the SAF from the motor fuel tax exemption. This results in zero net impact on the SAF and a larger reduction in GF resources. This policy change is expected to reduce total state resources by \$696 million and \$928 million for FY 2026 and 2027 respectively.

[HB 4183](#) (PA 20 of 2025) increases the current wholesale tax on motor fuel by 20 cents per gallon (from 31 to 51). All the revenue under this tax is dedicated to transportation. This policy change is expected to increase total state resources by \$707 million and \$1,080 million for FY 2026 and 2027 respectively.

Taken together, the elimination of the sales and use tax on motor fuel and subsequent increase in the wholesale motor fuel tax is slightly revenue positive. They are expected to raise \$11 million and \$152 million for FY 2026 and 2027 respectively. The most notable effect, however, is diversion of revenue from the GF and local governments to state transportation funding.⁴

Tax on marijuana

[HB 4951](#) (PA 25 of 2025) is set to impose a 24% wholesale tax on marijuana. This is expected to generate \$420 million, all of which is directed to transportation.

The cannabis industry has challenged the legality of this policy change. The state constitution requires a supermajority vote in the legislature to alter an act approved directly by the voters. Although the sale and taxation of marijuana was approved by such a process, the 24% wholesale

² For more information on the changes made by HB 4968 see the [HFA's analysis](#).

³ For more information on OBBBA see: [HFA's analysis of OBBBA](#) and [CRC's analysis of OBBBA](#).

⁴ For more information on motor fuel taxes from before the "roads deal" see: [HFA's analysis of current taxes on fuel](#) and [HFA's analysis of current Michigan Transportation Fund](#).

tax does not directly amend that policy. Those policies remain unchanged. Instead, it creates a new tax on marijuana. Regardless, the increased tax on marijuana is the only major revenue raising measure contained in the “road deal.” If this policy is found to be invalid, all the increase in transportation funding will be borne by cuts (or reduced increases) to other programs including education.

School Aid Fund supplanting General Fund

While the SAF was held harmless from the elimination of the sales and use taxes on motor fuel, it is still effectively paying for a large portion of the increased funding for roads. Rather than reducing revenue to the SAF, the package pushed nearly \$400 million of higher education costs, previously paid for by the GF, onto the SAF. This is possible because the GF historically paid for all higher education costs. The SAF, however, is constitutionally permitted to fund these costs. This creates fungibility between the SAF and GF. In practice, this budgetary maneuver allows state policymakers to claim that schools are held harmless while also siphoning educational resources to balance the budget.

The state began to pay for public community colleges and universities with the SAF in FY 2010 in the depths of the Great Recession. At the time, the move was considered temporary and framed as a “loan” that would be paid back. Although Michigan’s economy recovered the “loan” was never paid back. Even worse, the state has continued to supplant GF support for higher education with SAF dollars. This practice reduces state resources directed at public education in Michigan. In nominal terms, the FY 2026 budget represents the 2nd largest “raid” on the SAF since the practice began.⁵

Admittedly, even with the increased supplanting, the FY 2026 School Aid budget still represents a meaningful increase to school districts across the state. Perhaps of greater concern is how this act undermines confidence in future state support. It displays a willingness by state policymakers to take money out of the classroom to support other policy priorities.

⁵ For more information on the use of SAF resources in the Community Colleges and Higher Education budgets see: [HFA 2025 report](#) and [MLPP 2018 report](#).

School Aid Budget

Despite budget proposals that would have radically altered the structure of School Aid in Michigan, the final FY 2026 education budget built upon the existing foundation. This section includes description and discussion of the following School Aid budget topics:

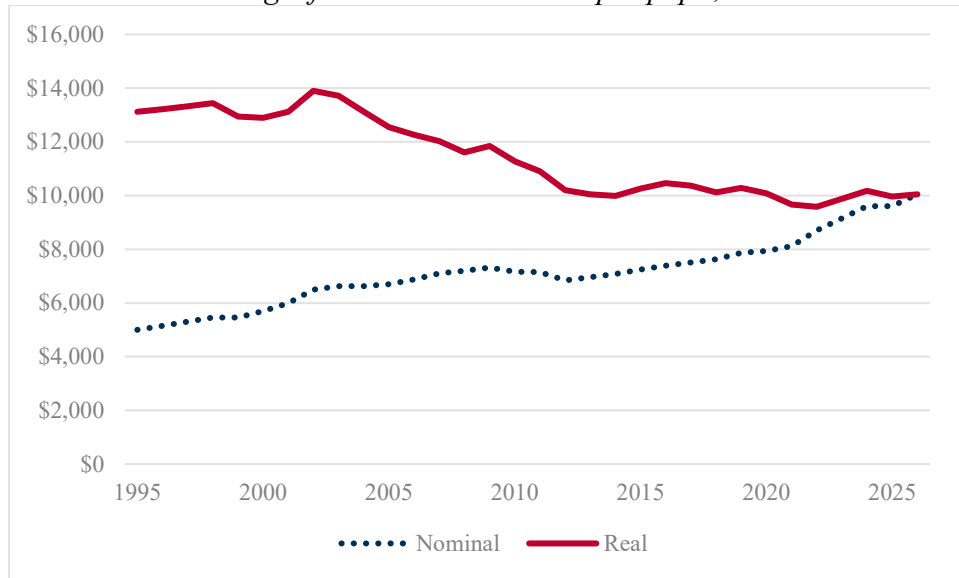
1. [Foundation allowance and other base allocations](#),
2. [Improvements to equity](#),
3. [MPSERS](#),
4. [Prefunding](#),
5. [Private school funding](#),
6. [Other](#), and
7. [District impact analyses](#).

Foundation allowance and other base allocations

Base funding for the foundation allowance for K-12 general education, special education, and the great start readiness program (GSRP), as well as ISD operational funding, all increased by approximately 4.6%.

The target foundation allowance increased by \$442 per pupil from \$9,608 to \$10,050 ([sec. 20](#)).⁶ *Figure 2* shows the nominal foundation allowance per pupil as well as the real (inflation adjusted) value over time. While the foundation allowance has seen nominal increases in most years, adjusted for inflation, it has not meaningfully changed since FY 2013.

Figure 2. Real and nominal target foundation allowance per pupil, FY 1995-2026



The special education foundation allowance ([sec. 51e](#)) was maintained at the same level as the K-12 target foundation allowance—\$10,050 per pupil. Other funding for special education was either maintained at the current level (i.e., [51d](#), [51g](#), [53a](#), [54](#), [54d](#), [56](#)) or saw changes

⁶ The target foundation allowance for cyber schools was increased by \$900 per pupil, from \$9,150 to \$10,050 in [sec. 20\(6\)](#).

proportional to cost (i.e., [51a](#) and [51c](#)). No major policy changes were made regarding special education funding.

Base funding per pupil for GSRP (sec. [32d](#) and [39](#)) also increased by approximately 4.6%. Starting with the FY 2025 School Aid budget, school-day GSRP programs have received a foundation allowance about 6% higher than the K-12 target foundation allowance to account for smaller class sizes. *Table 2* shows the per pupil allocation for GSRP by program type. The program was also restructured to eliminate the family income eligibility requirements thereby making it a fully universal program. Despite the lack of attention, this represents a major accomplishment for the provision of pre-kindergarten in Michigan.

Table 2. Nominal K-12 and GSRP foundation allowances per pupil, FY 2021-2026

FY	K-12 Foundation Allowance	GSRP Program			
		School-day	Extended	Part-day	Blended
2021	8,529	7,250	NA	3,625	NA
2022	8,700	8,700	NA	4,350	NA
2023	9,150	9,150	NA	4,575	NA
2024	9,608	9,608	11,530	4,804	NA
2025	9,608	10,185	12,222	5,093	6,111
2026	10,050	10,650	12,780	5,325	6,390

Finally, the operational allocation for ISDs ([sec. 81](#)) also increased by 4.6% (\$79 million to \$83 million).

Improvements to equity in sec. 31a and 41

Perhaps the clearest triumph of the FY 2026 School Aid budget is its improvement to the equitable distribution of funding. Both funding for at-risk pupils ([sec. 31a](#)) and English learners ([sec. 41](#)) increased by 25%. The appropriation in sec. 31a increased by more than \$250 million (from \$1,034 million to \$1,293 million) and sec. 41 increased by more than \$12 million (from \$50 million to 62 million).

Figure 3 shows the real and nominal sec. 31a appropriation. After adjusting for inflation, funding for at-risk pupils has more than doubled (an increase of 118%) since FY 2022 (from \$592 million to \$1,293 million in real terms).

Figure 3. Real and nominal 31a appropriations, million, FY 1995-2026

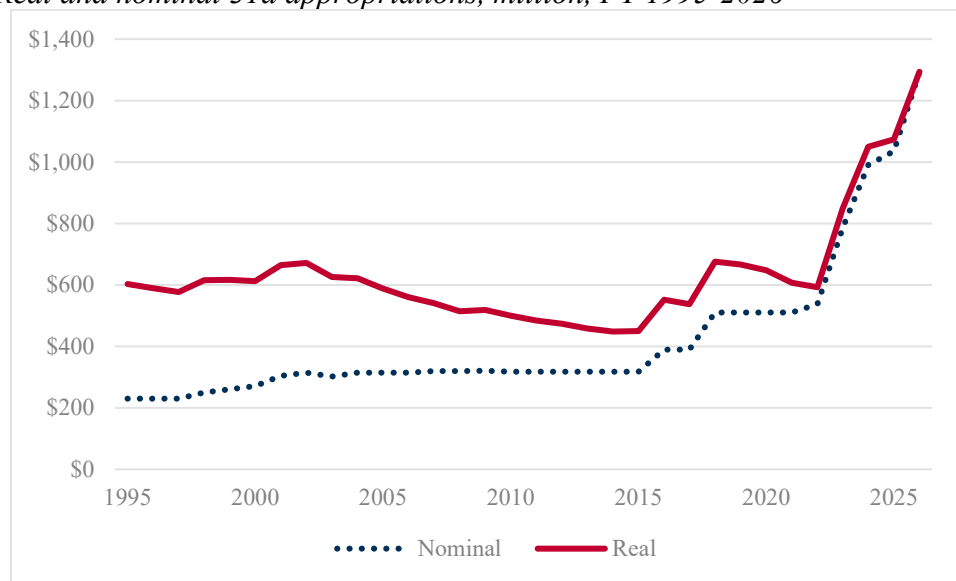
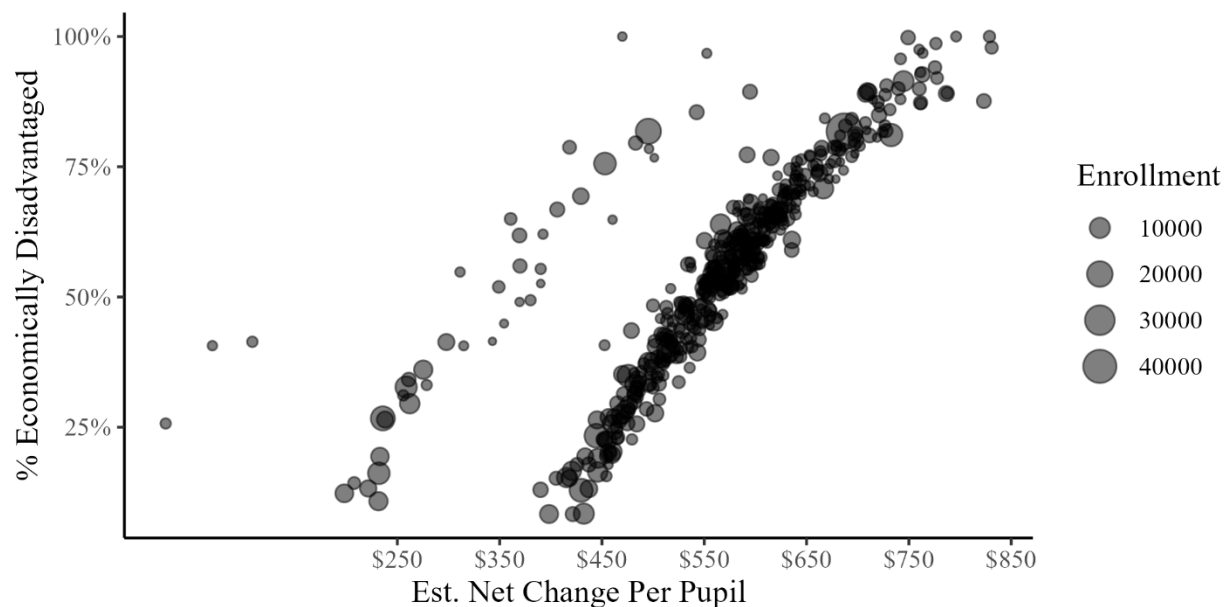


Figure 4 shows the estimated net impacts of the FY 2026 School Aid budget for each publicly operated district by the percentage of economically disadvantaged (ED) students enrolled. Notably, the change in funding from the FY 2026 budget is expected to be highly progressive. While districts with no ED students are expected to see an average increase of \$450 per pupil, districts near 100% ED students should see an increase of about \$750 per pupil.

Figure 4. Estimated net change in state aid per pupil by percentage of economically disadvantaged students



Taken together, the ongoing expansion of funding for ED students and the dramatic year-over-year increase in progressivity is remarkable. These improvements deserve praise.

Educator compensation and MPERS reimbursement in sec. 27l

[Section 27l](#) is a revised categorical originally appropriated in the FY 2024 budget designed to improve educator compensation. It is better understood as two separate policy provisions bundled into one section. The first part, sec. 27l(2), appropriates \$203 million in equal amounts per pupil (about \$140-150 per pupil). These dollars are to be bargained for increases to educator compensation “in addition to any existing compensation negotiated in a collective bargaining agreement.”

The second part, sec. 27l(4), appropriates \$147 million to reimburse districts for their increased cost of the Premium Subsidy retirement benefit. The distribution formula is proportional to sec. 147g as distributed in the FY 2025 budget.

More detailed analysis and guidance on both parts of sec. 27l is provided in a separate MEA memo: “Section 27l: Educator Compensation and MPERS Reimbursement.”

Mental health and school safety in sec. 31aa

The per pupil mental health grant provided in [sec. 31aa](#) was increased by 32.4% (from \$151 million to \$200 million) for publicly operated schools. This is expected to increase the per pupil allocation from roughly \$110 to \$145 per pupil.⁷

In addition to the increased per pupil amount, subsections 4 and 5 of 31aa created two new programs. Sec. 31aa(4) provides \$50 million to hire school resource officers (SRO). Similarly, sec. 31aa(5) provides \$50 million for mental health services. Both allocations are structured as competitive grants with preference given to district applicants that “include a spending plan to sustain salaries after grant funding has concluded.”

The state also added new boilerplate language requiring compliance with investigations following mass casualty events on school grounds. Specifically, to receive funding under sec. 31aa, districts will be required to “waive any privilege that may otherwise protect information from disclosure in the event of a mass casualty event and must agree to comply with a comprehensive investigation.” The full text is provided in [Appendix C](#).

This language is undoubtedly a response to the events and subsequent investigation that occurred surrounding the Oxford school shooting. This change, however, has created a tension between state and local interests. On one hand, the state holds a reasonable position that in the event of a mass casualty event, school districts should cooperate with the state’s investigation. On the other hand, school districts rationally want to limit legal liability to their institution. While individual rights, retained by school employees, cannot be reduced under this waiver, it may limit a district’s governmental authority to withhold information from the state.

The resulting choice for districts is a tradeoff between a definite asset (of about \$145 per pupil) and a probabilistic liability. Moreover, that liability exists only where a mass casualty event occurs and the district would otherwise decide not to comply with a state investigation. Districts

⁷ In FY 2026, Sec. 31aa also includes allocations for nonpublic schools, which are not included in the calculations of this subsection.

can either deny the money to limit potential future legal liabilities or accept the money and provide services that might help prevent a mass casualty event from occurring in the first place. While this change in policy is understandably frustrating for school districts that seek to protect their institution, the decision for most should be clear: accept the additional funds.

MPSERS

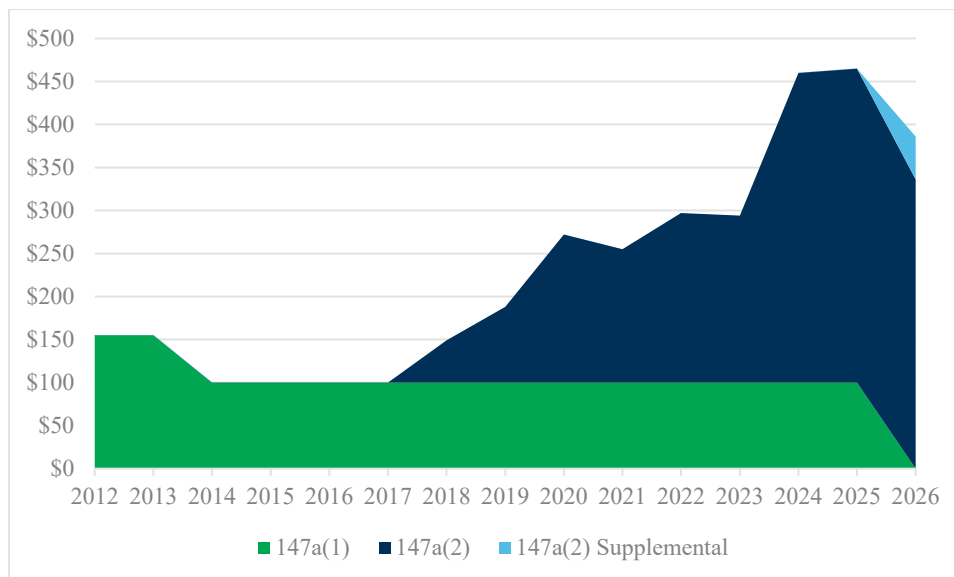
The FY 2026 budget contains several separate policy changes impacting MPSERS funding. Those include: a reduction to the normal cost offset, a new subsidy for increased costs associated with retiree healthcare benefits, and a swap between the section paying for the MPSERS UAAL cap.

Normal cost offsets in 147a(1) and 147a(2)

As MPSERS costs began to climb for districts in the 2000's, the state started a program to help offset those costs. One of the first programs was [sec.147a\(1\)](#), which first provided \$155 million to districts. That amount was later revised down to \$100 million starting in FY 2014. Then the appropriation stayed at that nominal amount for 12 years. By contrast, [sec. 147a\(2\)](#) is a relatively new program starting in FY 2018. Unlike the first subsection, however, 147a(2) climbed rapidly in nominal terms helping offset increases in the normal cost of MPSERS. In nominal terms, 147a(2) grew from about \$49 million in FY 2018 to \$365 million in FY 2025. *Figure 5* shows sec.147a(1) and 147a(2) appropriations since FY 2012.

In the FY 2026 budget, sec. 147a(1) was eliminated. In FY 2025, sec. 147a(1) represented less than 1% of state aid for most publicly operated school districts. Still, from a distributional standpoint, the elimination of sec. 147a(1) is perhaps the worst aspect of the state's FY 2026 School Aid budget.

Figure 5. Nominal MPSERS normal cost subsidies in sec. 147a(1) and 147a(2), millions, FY 2012-2026



Fortunately, the budget also contained a one-time partial offset to the elimination of 147a(1). The light blue area depicted in *figure 5* represents a \$50 million upward adjustment to sec. 147c(2). While this adjustment was technically made for the state's FY 2025 budget, the timing of the appropriation means the effect for districts will take place in FY 2026. While the legislative intent is unclear, this unexpected \$50 million increase appears to be a one-time partial offset to the elimination of 147a(1).

Retiree health offset in 147g and 271(4)

In the FY 2025 budget, the state created a new program through sec. 147g. That program was designed to pay districts to reimburse employees for their 3% salary contribution toward the Premium Subsidy (PS) retiree healthcare benefit. Starting with FY 2026, the employee contribution towards this benefit was eliminated. This move effectively increased district MPSERS costs by 2.58 percentage points for those employees enrolled in the PS.

To offset the increased district cost of the PS, both the Executive and Senate budgets for FY 2026 proposed rewriting sec. 147g as a subsidy to districts. While the revised sec. 147g did not make it into the final budget, the idea did. Sec. 271(4), discussed [earlier](#), appropriates \$147 million and distributes those dollars proportionally based on sec. 147g payments in FY 2025. Consequently, the increased costs to districts taking on the full normal costs of the PS will be offset by roughly 80%.

UAAL cap swap between 147a(4) and 147c

Large changes to the appropriations in [sec. 147a\(4\)](#) and [sec. 147c](#) are designed to offset. In FY 2025, sec. 147a(4) reimbursed districts for 5.75% of MPSERS payroll effectively lowering the MPSERS UAAL cost districts were responsible for from 20.96% of payroll to 15.21%. [PA 127 of 2024](#) went into effect at the start of FY 2026. This law lowered the district share of MPSERS UAAL to 15.21%. Consequently, as sec. 147a(4) was eliminated in the FY 2026 education budget, sec. 147c increased to fully fund the increased state share. Where 147a(4) represented a temporary reimbursement for 5.75% of MPSERS payroll, the increase to 147c is the permanent reduction required by law.

Additionally, community colleges were removed from the list of “participating entities” subsidized by sec. 147c. The MPSERS UAAL cap subsidy for community colleges was transferred to [sec. 201\(5\)](#), which saw a 44.1% increase (from \$62 million to \$89 million).

Prefunding programs and one-time funding

In recent years, the state has had a “good” problem. Since FY 2021, the state has maintained a relatively large fund balance in the SAF, as Michigan’s economy outperformed economic projections. While having more revenue than expected is “good”, committing one-time resources to ongoing programs is unsustainable. Moreover, one-time or temporary educational appropriations are often inefficient and less valuable to educational institutions than dependable funding.

To mitigate this problem, the state has begun to prefund ongoing programs with one-time money. This is a prudent solution to a difficult policy problem. The state accomplishes this by creating a

reserve fund and depositing enough one-time resources to continue to finance the program in question for one or multiple years into the future. While this practice has limitations, it enables the state to realistically fund ongoing programs with one-time money. This provides more stability to state initiatives than simply allocating one-time resources but also allows the state to meet the constitutional requirement of a balanced budget.

This prefunding strategy expanded in FY 2024 when the state set up reserve funds for school meals ([sec. 30e](#)), transportation ([sec. 22k](#)), and enrollment stabilization ([sec. 29](#)). The FY 2026 budget continues and extends this practice. [Sec. 22r](#) creates the State School Aid Pupil Support Reserve Fund and deposits \$326 million one-time. Throughout the budget, these dollars are used to prefund several programs including partnership districts ([sec. 21h](#)), before and after school programs ([sec. 32n](#)), pre-college engineering ([sec. 65](#)), FAFSFA completion grants ([sec. 67f](#)), and robotics ([sec. 99h](#)) for FY 2026, FY 2027, and FY 2028.

In addition to the expanded prefunding strategy, the state also moved several programs from ongoing funding to one-time funding including payments to Flint ([sec. 11s](#)) and CTE incentive payments ([sec. 61d](#)). Of course, “one-time” does not always mean the categorical will not be funded in the following year. For example, the per pupil mental health grant ([sec. 31aa](#)) has been paid with “one-time” funding for four years running.

Funding private schools

[Article VIII Section 2 of the Michigan Constitution](#) expressly prohibits the use of public resources to support nonpublic schools. Regardless of that constitutional prohibition, the FY 2026 School Aid budget appropriates more than \$24 million to private schools. Specifically, the budget allocates \$1.6 million for free breakfast and lunch ([sec. 30d](#)), \$21 million for per pupil mental health grants ([sec. 31aa](#)), \$600,000 for Lego robotics ([sec. 99h](#)), and \$1 million for compliance with state health and safety mandates ([sec. 152b](#)). Additionally, [sec. 22s](#) creates the General Pupil Support Reserve Fund and deposits \$1.8 million to be used to prefund the nonpublic appropriations for Lego robotics (in [sec. 99h](#)) through FY 2028.

Other

In addition to the analysis of the School Aid budget provided above, several other points are worthy of note:

- The universal school meals program ([sec. 30d](#)) was retained.
- Several important allocations providing additional funding for district context were retained including transportation ([sec. 22l](#)) and enrollment decline ([sec. 29](#)).
- The budget retained the most important components of the educator pipeline initiatives including the Michigan Educator Fellowship ([sec. 27a](#)) and the Michigan Educator Student Teacher Stipend program ([sec. 27c](#)). [Section 27b](#) was rewritten to aggregate several of the other educator pipeline initiatives that had started over the last few years.
- CTE funding increased. Vocational education ([sec. 61a](#)) and the middle college program ([sec. 61b](#)) each saw a 4.6% increase. Meanwhile, CTE incentive payments ([sec. 61d](#)) nearly tripled (from \$5.3 million to \$13.4 million). A new program was created providing \$70 million for “CTE Pathways to Success” ([sec. 61v](#)).

- Literacy programs in [sec. 35a](#) were once again restructured. While the core components of this section have been maintained through many budget cycles, smaller programs have routinely been added and dropped. In total, sec. 35a received a 37.2% reduction (from \$83 million to 52 million) setting the section back to FY 2021 levels of funding. Several components were eliminated including literacy district grants (\$19.9 million), literacy and math essentials (\$6 million), and reading corps (\$5 million). Funding for literacy coaches and professional learning early literacy in sec. 35a was maintained. Similarly, new funding for literacy supports ([sec. 35m](#)), first enacted in the FY 2025 budget, was reduced by 19.5% (from \$87 million to \$70 million).
- Adult education ([sec. 107](#)) received a reduction in funding of 18.7% (from \$40 million to \$33 million).
- A competitive grant program allocating \$100 million for school infrastructure projects was created ([sec. 12e](#)).
- A new small class size pilot program for grades K-3 ([sec. 31c](#)), which appropriated \$65 million, may have a big impact on a handful of districts. Muskegon Heights Academy, Benton Harbor, Flint, and Wayne-Westland will receive funds under this section. All other districts must apply to receive funding.
- New boilerplate in [sec. 164k](#) imposes a penalty of 5% of a district's 22b payment (or sec. 81 payment for ISDs) if they are out of compliance with new state requirements. The new rules include that all school food complies with federal regulations, all student households must complete the child nutrition and education application for free and reduced-price school meals, districts may not provide financial incentives for students attending count day, district wide student survey questions and results must be posted publicly and parents must be notified, and districts must use an evidence-based curriculum or else notify parents if it is not evidence-based.

District impact analyses

In addition to the major changes to the School Aid budget described above, it is important to understand how those changes are expected to impact the financial capacity of each district. District impact estimates calculate the change in state aid for each district based on appropriations made in the School Aid budget. While these estimates are inherently imperfect, they provide an early look into how the state budget may change financial resources in individual districts. Both the HFA and SFA provide district impact estimates for the FY 2026 School Aid budget:

1. [HFA district impact estimates](#), and
2. [SFA district impact estimates](#).

In addition to the district impact estimates produced by the HFA and SFA, MEA analysts also estimated the impact of the School Aid budget on districts. The MEA *net* estimate, which aligned very closely with the SFA district impact estimates, showed an average per pupil change to state aid of \$554 (and a median of \$570). The *total* MEA estimate, including several categoricals that flow through districts, showed an average per pupil change of \$617 (and a median of \$638).⁸

⁸ All statistics and figures in this section exclude ISDs and charter schools

Community Colleges Budget

The Community Colleges budget in Article II of the School Aid Act received a 6.7% increase over FY 2025 appropriations (from \$462 million to \$493 million). Most of that \$31 million increase in funding went to reducing the MPERS UAAL cap from 20.96% of payroll to 15.21% appropriated under sec. [201\(5\)](#) and described in [sec. 207b](#). *Table 3* shows the total state appropriation for each community college in FY 2025 and 2026.

Table 3. Change to community college state appropriations, FY 2025-2026

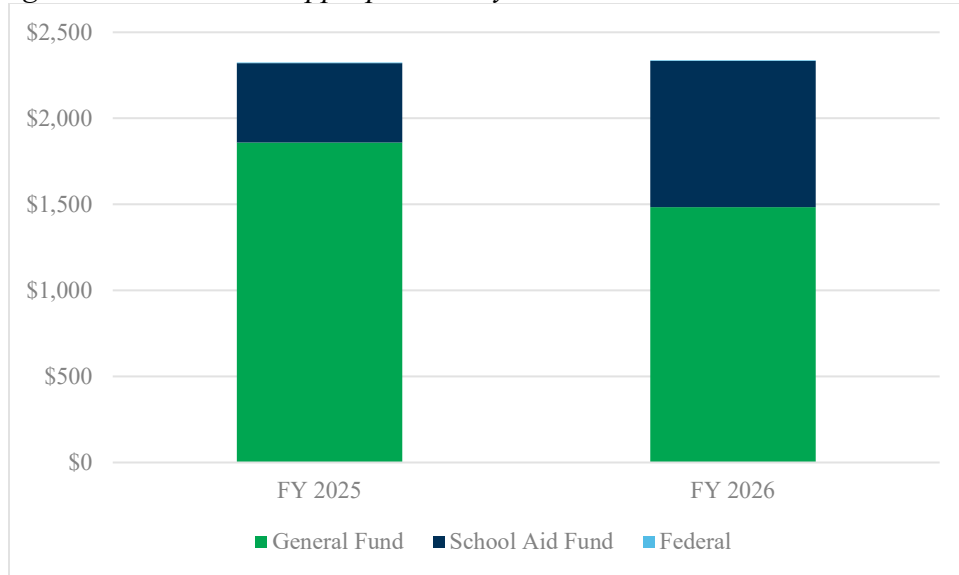
College	FY 2025 Total	FY 2026 Total	Change	% Change
Alpena	6,493,500	6,687,900	194,400	3.0%
Bay de Noc	6,473,100	6,568,200	95,100	1.5%
Delta	17,067,300	17,427,500	360,200	2.1%
Glen Oaks	3,016,000	3,078,200	62,200	2.1%
Gogebic	5,493,600	5,578,600	85,000	1.5%
Grand Rapids	21,521,800	22,022,800	501,000	2.3%
Henry Ford	25,554,400	26,056,100	501,700	2.0%
Jackson	14,193,900	14,424,500	230,600	1.6%
Kalamazoo Valley	14,889,900	15,185,000	295,100	2.0%
Kellogg	11,567,100	11,777,800	210,700	1.8%
Kirtland	3,902,200	4,027,900	125,700	3.2%
Lake Michigan	6,474,300	6,619,800	145,500	2.2%
Lansing	36,512,400	37,141,200	628,800	1.7%
Macomb	38,534,400	39,342,100	807,700	2.1%
Mid Michigan	5,975,200	6,113,400	138,200	2.3%
Monroe County	5,426,200	5,575,500	149,300	2.8%
Montcalm	4,086,000	4,157,300	71,300	1.7%
Mott	18,174,300	18,519,800	345,500	1.9%
Muskegon	10,480,500	10,702,000	221,500	2.1%
North Central	4,162,800	4,254,400	91,600	2.2%
Northwestern	10,914,300	11,163,900	249,600	2.3%
Oakland	25,428,100	25,984,900	556,800	2.2%
Schoolcraft	15,166,400	15,500,500	334,100	2.2%
Southwestern	7,885,300	8,016,100	130,800	1.7%
St. Clair County	8,453,900	8,613,500	159,600	1.9%
Washtenaw	16,503,100	16,941,200	438,100	2.7%
Wayne County	19,642,700	20,063,700	421,000	2.1%
West Shore	2,939,100	2,999,300	60,200	2.0%

In-district tuition and fee increases are limited to the greater of 4.5% or \$227 for FY 2026 and 4.0% or \$199 for FY 2027.

Higher Education Budget

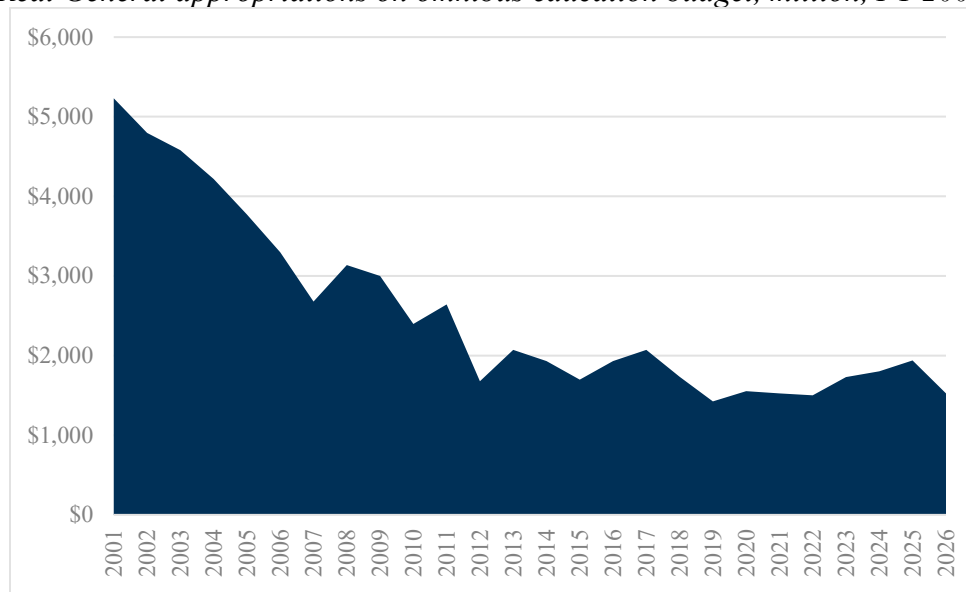
The Higher Education budget in Article III of the School Aid Act received a 0.5% increase over FY 2025 appropriations (from \$2,324 million to \$2,336 million). Despite the small change in total funding, the Higher Education budget included a large change in funding source. Specifically, appropriations from the SAF increased by \$389 million and those from the GF were reduced by \$376 million. This change effectively freed up \$376 million of GF revenue to be used on the “roads deal.” *Figure 6* shows the change in funding source for the Higher Education budget between FY 2025 and FY 2026.

Figure 6. Higher education total appropriation by source, million, FY 2025-2026



The funding source swap that occurred in the FY 2026 budget is greatly concerning not just because it reduces SAF available for the School Aid budget. Rather, the state has reduced GF appropriations on all public education, including PK-12 schools, community colleges, and public universities. *Figure 7* shows GF appropriations on public education over time.

Figure 7. Real General appropriations on omnibus education budget, million, FY 2001-2026



In FY 2001, the state dedicated nearly 3.5 times more GF revenue to public education than they will in FY 2026. Moreover, the FY 2026 budget marks a steep reversal in trend. While GF appropriations on education had been on an upward, albeit slow, trajectory since FY 2019, the most recent budget wipes away nearly all the progress made since then.

Regardless of the funding source, and despite the small total increase in revenue, public universities should expect to see increases of state appropriations between 1.9% and 4.8%. Table 4 shows the total state appropriation for each public university in FY 2025 and 2026.

Table 4. Change to public university state appropriations, FY 2025-2026

University	FY 2025 Total	FY 2026 Total	Change	% Change
Central	97,771,900	102,351,100	4,579,200	4.7%
Eastern	85,208,400	89,193,400	3,985,000	4.7%
Ferris	61,137,700	64,034,100	2,896,400	4.7%
Grand Valley	99,837,200	101,727,400	1,890,200	1.9%
Lake Superior	15,981,300	16,739,700	758,400	4.7%
Michigan State	326,827,700	333,766,200	6,938,500	2.1%
Michigan Tech	55,781,900	58,309,000	2,527,100	4.5%
Northern	54,783,700	57,289,300	2,505,600	4.6%
Oakland	74,047,200	75,574,300	1,527,100	2.1%
Saginaw Valley	34,731,400	35,415,000	683,600	2.0%
UM-Ann Arbor	365,681,400	373,432,700	7,751,300	2.1%
UM-Dearborn	32,033,000	32,662,700	629,700	2.0%
UM-Flint	26,955,700	27,684,500	728,800	2.7%
Wayne State	229,975,400	234,673,800	4,698,400	2.0%
Western	123,039,800	128,919,500	5,879,700	4.8%

It is worth noting how different the final budget is from the House proposal. That budget threatened huge cuts to the University of Michigan (UM) as well as Michigan State University (MSU) of 65.4% and 18.9% respectively. Those reductions to UM and MSU would have been reapportioned to the other public universities resulting in increases of 28.1% to 31.0%. Additionally, that proposal considered major boilerplate changes. By contrast, the final budget made relatively modest changes.

Despite a total funding increase of only 0.5%, every university will receive growth of at least 1.9%. This is possible because funding for scholarships was reduced significantly—a decline of 4.3%. *Table 5* shows the appropriation for each scholarship program for FY 2025 and FY 2026.

Table 5. Scholarship appropriations, million, FY 2025-2026,

Scholarship Name	FY 2025	FY 2026	Change	% Change
Michigan Achievement Scholarship	330	300	-30	-9.1%
Tuition Incentive Program	93.8	122.3	28.5	30.4%
Michigan Competitive Scholarships	19.9	0	-19.9	-100.0%
Tuition Grant Program	41.5	0	-41.5	-100.0%
Michigan Reconnect	52	42	-10	-19.2%
Michigan Competitive Scholarship and Tuition Grant Sunset	0	50	50	
Total	537.2	514.3	-22.9	-4.3%

Both the Michigan Competitive Scholarship and Tuition Grant Program were eliminated. To help end those programs, the state made a one-time \$50 million appropriation to “sunset” both. The Michigan Achievement Scholarship and Michigan Reconnect programs received reductions of 9.1% and 19.2% respectively. The only scholarship that received increased funding was the Tuition Incentive Program which grew by 30.4%.

Finally, in-state tuition and fee increases are limited to the greater of 4.5% or \$735 for FY 2026 and 4.0% or \$651 for FY 2027.

Appendix A: Education Budget Terminology

The **School Aid Fund** is a state fund created by [Article IX section 11](#) of the Michigan Constitution. This fund receives tax revenue from both constitutionally and statutorily directed sources. Appropriations out of this fund are constitutionally restricted to pay for “aid to school districts, higher education, and school employees' retirement systems.” This School Aid Fund is often abbreviated to “SAF.”

The **General Fund** can be understood as the state’s default fund. It receives all revenue not constitutionally or statutorily directed elsewhere. For the most part, General Fund dollars can be used for any legitimate state purpose if appropriated. This General Fund is often abbreviated to “GF” or “GF/GP.”

The **education omnibus budget** is a term used to describe the combined School Aid, Community Colleges, and Higher Education budgets. These budgets appropriate state resources from the School Aid Fund, General Fund, and several other smaller funds and sub funds. While the state could pass each of these budgets separately, in recent years it has been more typical for all the education budgets to be bundled together into one package, hence the education omnibus budget. The education omnibus budget is also sometimes referred to simply as the “education budget.”

The **School Aid budget** provides funding to publicly operated school districts, intermediate school districts (ISDs), and charter schools. Additionally, it appropriates some funding to the Michigan Department of Education (MDE) and the Michigan Department of Lifelong Education, Advancement, and Potential (MiLEAP), though these state departments receive the bulk of their funding through the General Fund budget. Historically, almost all the School Aid budget comes from School Aid Fund resources with only a very small percentage coming from the state’s General Fund. The School Aid budget is arguably the most important aspect of the education omnibus budget because PK-12 schools, unlike community colleges or public universities, are more highly dependent on state aid.

The **Community Colleges budget** provides state support to Michigan’s 28 community colleges. While this budget was once funded entirely by General Fund dollars, in recent years it has been completely funded by the School Aid Fund.

The **Higher Education budget** provides state support for Michigan’s 15 public universities and student scholarships. While this budget was once funded entirely by General Fund dollars, in recent years the state has increasingly shifted the revenue source to the School Aid Fund.

For more information see the State Budget Office’s [Glossary of Terms](#).

Appendix B: Net Impact of Budget

Table 6. Net impact of transportation package and education budget, million, FY 2026-2027

Description	Source	FY 2026					FY 2027				
		SAF	GF	Local Gov	Roads	Total	SAF	GF	Local Gov	Roads	Total
Federal policy change	OBBBA		(540)			(540)		(443)			(443)
Decouple CIT from OBBBA	HB 4961		540			540		443			443
Extend OBBBA personal income tax provisions	HB 4961	(25)	(152)			(178)	(28)	(170)			(198)
Earmark change	HB 4961		(88)		88	-		(176)		176	-
24% wholesale tax on marijuana	HB 4951				420	420				420	420
Exempt motor fuel from sales and use tax	HB 4180 & 4182	(508)	(86)	(70)	(32)	(696)	(677)	(115)	(93)	(43)	(928)
Hold SAF harmless from sales and use tax exemptions	HB 4180 & 4182	508	(508)			-	677	(677)			-
Increase motor fuel tax 20 cents per gallon	HB 4183				707	707				1,080	1,080
Replacing GF dollars with SAF in Higher Ed budget	SB 166	(389)	376			(13)	(389)	376			(13)
Net Impact		(414)	(458)	(70)	1,183	241	(417)	(762)	(93)	1,633	361

Source: HFA analyses of [transportation funding package](#) and [education budget](#)

Appendix C: 31aa Mass Casualty Event Language

Providing the full text of the sub-sections in question for reference, [sec. 31aa\(9,12\)](#):

(9) To receive funding under this section, a district, an intermediate district, a nonpublic school, or the Michigan Schools for the Deaf and Blind must agree to be subject to a comprehensive investigation, must affirmatively agree to waive any privilege that may otherwise protect information from disclosure in the event of a mass casualty event, and must agree to comply with a comprehensive investigation. All of the following apply to a comprehensive investigation described in this subsection:

(a) The comprehensive investigation will assess the circumstances surrounding the mass casualty event, including, but not limited to:

- (i) Emergency response effectiveness.
- (ii) Compliance with safety protocols.
- (iii) Communication procedures.
- (iv) Any factors contributing to the incident.

(b) The governor shall designate an appropriate person or investigative entity to conduct the comprehensive investigation. This person or investigative entity may include, but is not limited to, state law enforcement agencies, independent review boards, or specially appointed task forces. The person or designated investigative entity has the authority to do all of the following:

- (i) Access relevant records and data from the district.
- (ii) Interview witnesses and district personnel involved.
- (iii) Issue findings and recommendations based on the investigation.

(c) The person or investigative entity designated in subdivision (b) shall prepare a detailed report of its findings and submit the report to the governor and relevant legislative committees within 90 days following the conclusion of the investigation. The report must include recommendations for preventing future incidents and improving school safety protocols....

(12) As used in this section:

(a) "Mass casualty event" means any of the following that occur on school grounds or at a school-sponsored event:

- (i) An incident resulting in significant injuries to not fewer than 3 individuals.
- (ii) An incident resulting in fatalities.
- (iii) An incident that exceeds the normal resources for emergency response available in the jurisdiction where the incident takes place.
- (iv) An incident that results in a sudden and timely surge of injured individuals necessitating emergency services.

(b) "Safety dog" means a dog that is contracted by a law enforcement agency of this state, a local unit of government of this state, or a district or an intermediate district and that is trained for detection of firearms, explosives, narcotics, or vape substances.

(c) "School grounds" means all properties owned or operated by the district, including transportation vehicles owned or operated by the district.

(d) "School-sponsored event" means any activity organized or sanctioned by the district....

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The views expressed in this report are solely those of the author and do not necessarily represent the opinions of any organization. All errors and omissions are the author's alone.