

KAROUB

ASSOCIATES

KAROUB REPORT

| OCTOBER 2025

Michigan's \$81 Billion Budget Passes After Long Stalemate

After months of partisan gridlock, Michigan lawmakers approved a nearly \$81 billion state budget on October 3, narrowly avoiding a government shutdown. The final plan boosts funding for roads and schools, trims vacant government jobs, and omits controversial items such as funding for a proposed Upper Peninsula mine or new hunting and fishing fees.

Key Investments

The budget includes nearly \$2 billion for roads, marking Governor Gretchen Whitmer's biggest bipartisan win on her long-promised effort to "fix the damn roads." About \$1 billion will flow to local roads this fiscal year, with additional funding for rail grade separation, local transit, and airport improvements.

K-12 schools will receive a record \$10,050 per pupil, up from \$9,608, and free meals will continue for all students. Lawmakers also added \$321 million for school safety and mental health grants.

continued on page 2



Karoub.com | 517.482.5000

Our experience. Your results.

continued from page 1

Tax and Revenue Changes

The plan enacts a new 24% wholesale marijuana tax beginning in January, expected to raise about \$420 million annually for road work. Business groups opposed the move, arguing it could push consumers toward the black market. Corporate income taxes will also contribute another \$688 million to transportation funding this year.

Major Cuts and Omissions

The budget eliminates the \$500 million annual deposit into Whitmer's Strategic Outreach and Attraction Reserve (SOAR) Fund, signaling an end to the Governor's signature corporate incentive program. It also reduces funding for 1,700 vacant state jobs, trims \$22 million from the Going PRO Talent Fund, and cuts \$9 million from the Pure Michigan campaign.

Additional Highlights

- Earmarks: \$160 million in community grants, including \$10 million for flood mitigation in Midland and \$10 million for a Trenton bridge project.
- Selfridge Air Base: \$26 million for a new fighter mission and \$14 million for northern Michigan ice storm recovery.
- Arts Funding: More than \$12 million preserved for Michigan's Arts and Cultural Program despite calls to eliminate it.
- Higher Education: All 15 public universities will see funding increases between 1.9% and 4.7%.
- Dropped Proposals: Fee hikes for hunters, anglers, and waste disposal were removed, as were GOP-backed "anti-DEI" provisions.

The final deal passed the House 101-8 and the Senate 31-5. Whitmer is expected to sign it this week, capping one of the most contentious budget negotiations in recent memory.

Diving deeper into School Aid

Michigan's new \$24.1 billion education budget marks a significant milestone for the state's K-12 and higher education systems, establishing record investments in student funding and safety while continuing universal free school meals.

For the 2025-26 school year, districts will receive \$10,050 per student, a \$442 increase and the highest foundation allowance in state history. The increase applies equally to cyber charter schools, which will now receive full per-pupil funding for the first time. The plan gives local districts broad discretion in how they spend the new dollars—an approach intended to address regional and demographic differences across Michigan's 1,200 public school systems.

Universal School Meals

The budget sustains the Michigan School Meals program for a third consecutive year, ensuring free breakfast and lunch for every student in public and private schools. Lawmakers set aside \$201.6 million for the effort—slightly more than last year's \$200 million appropriation—to prevent service interruptions and ease administrative burdens on districts.

Support for At-Risk Students

Funding for at-risk and economically disadvantaged students will rise by 25%, providing additional resources for tutoring, behavioral supports, and smaller class sizes. Districts may now allocate up to 30% of their at-risk funds to reduce classroom ratios.

continued on page 3



continued from page 2

Mental Health and School Safety

Lawmakers approved \$321 million for mental health counselors, secure facilities, and school safety initiatives, including continued support for the state's anonymous reporting system for potential threats. The funding represents a rebound from last year's cuts and restores stability to a program educators say has become essential to student well-being.

Higher Education and Funding Shifts

Michigan's 15 public universities will receive increases ranging from 1.9% to 4.8%, totaling \$2.34 billion statewide, while community colleges will also benefit from a continued transfer of School Aid Fund dollars. Roughly \$1.3 billion from that fund will support postsecondary institutions this year—a larger diversion than in previous cycles and a continuing concern among K-12 leaders who argue it dilutes classroom resources.

Early Literacy Program Ends

One item missing from the final deal is the \$4 million state allocation for the Dolly Parton Imagination Library, which had mailed free books to children under five across Michigan. Advocates warn the cut may scale back access to the early-literacy program, which served 16% of eligible children last year.

Governor Whitmer is expected to sign the education budget this week.



Reviewing key budget elements for health and human services

The MDHHS appropriation totals nearly \$8.9 billion in state funds (excluding federal aid), with more than \$2 billion distributed directly to local units of government. The plan sustains funding for core safety-net services—public assistance, child welfare, and behavioral health—while layering new investments in opioid recovery, community mental health, and local public health capacity.

Key Program Areas

Behavioral Health and Substance Use

Behavioral health remains a major focus, with more than \$1.05 billion for Medicaid mental health services and \$33.7 million for Medicaid substance use disorder services. Additional allocations include:

- \$201.5 million for the Certified Community Behavioral Health Clinic Demonstration, expanding integrated mental health and substance use treatment statewide.
- \$150.7 million for autism services, a continued commitment to early intervention and specialized care.
- \$8.7 million for community substance use disorder prevention and treatment, and \$2.4 million for opioid response programs.
- The budget also dedicates \$76.75 million from the Michigan Opioid Healing and Recovery Fund for local recovery initiatives.

Public Health and Local Services

Essential local public health services are funded at \$75.9 million, with additional resources for cancer prevention, AIDS testing and care, immunizations, and PFAS contamination response. These investments bolster Michigan's public health infrastructure after several years of pandemic-related strain.

continued on page 4

Our experience. Your results.

continued from page 3Children and Families

Child welfare services account for roughly \$1.56 billion, including:

- \$357.9 million for foster care payments and \$233.5 million for adoption subsidies.
- \$307.9 million in the Child Care Fund to support county-level protection and placement services.
- Increased staffing for Children's Protective Services, with more than 1,460 caseworkers and 387 supervisors funded statewide.

Community Support and Housing

The Community Services and Outreach division receives \$179 million for programs addressing homelessness, energy assistance, and weatherization. Key line items include \$34.8 million for homeless programs, \$13 million for housing and support services, and \$40 million for weatherization under the Infrastructure Investment and Jobs Act.

Implications for Michigan's Health and Human Services Sector

Health providers, behavioral health agencies, and social-service organizations can expect continued stability in Medicaid reimbursement and a major infusion of funds for integrated care and opioid recovery. Local health departments and human-service nonprofits stand to benefit from targeted grants for behavioral health coordination, public health modernization, and community safety-net programs.

The budget signals a sustained bipartisan commitment to Michigan's health infrastructure, prioritizing prevention, mental health access, and family preservation, while emphasizing fiscal restraint through targeted investments and vacancy elimination.

