

KAROUNB

ASSOCIATES

KAROUNB REPORT

I JULY 2025

Michigan Budget Showdown: What's at Stake and What Happens Next

Michigan lawmakers missed the July 1 deadline to complete the state's fiscal year 2026 budget, leaving key components—including the multi-billion-dollar School Aid Fund—unresolved as partisan tensions continue in Lansing.

While progress was made on parts of the general government budget, including infrastructure and health spending, no comprehensive agreement has been reached. The breakdown in negotiations reflects deep divisions over fiscal priorities, education funding formulas, and the appropriate use of one-time revenues amid a softening economy and an unpredictable political climate.

continued on page 2



Karoub.com | 517.482.5000

Our experience. Your results.

continued from page 1

Lawmakers entered a high-stakes standoff over the state's \$21.8 billion education budget, with the Democratic-led Senate advancing a plan that prioritized mental health, school safety, free school meals, and early literacy, while House Republicans countered with a framework that boosted per-pupil funding to \$10,025 but removed many earmarked line items in favor of greater local control.

The most contentious sticking point came when House leadership proposed redirecting approximately \$2.5 billion from the School Aid Fund to support higher education and road repairs—an approach Senate Democrats argued would fundamentally undermine the fund's purpose.

The impasse has left school districts across the state in limbo. Without an enacted education budget, districts have been forced to adopt conservative local budgets, freezing hires, scaling back programming, and delaying decisions on mental health staffing, student meals, and curriculum investments.

Superintendent of Public Instruction Michael Rice criticized the House proposal as “duct-taped together,” warning it erodes guarantees for essential student supports. Additionally, the delay has placed hundreds of millions in federal funds—including Title I-IV grants—on hold, threatening services such as afterschool programs, migrant education, and professional development.

Partisan finger-pointing followed the breakdown in negotiations. House Republicans accused Senate Democrats of walking away from talks too early, while Senate leaders countered that the House refused to provide complete budget offers and was attempting to rush through critical decisions without adequate detail. Legislative



leaders now hope to restart negotiations by mid-July, but with just weeks remaining before the October 1 start of the new fiscal year—and the threat of a shutdown if no agreement is reached—the pressure is intensifying.

The broader budget discussions have been further complicated by updated projections from the May Consensus Revenue Estimating Conference (CREC), which revealed softer-than-expected revenues. The Senate-passed budget was more than \$300 million out of balance, and House proposals face even larger structural challenges. With economic uncertainty persisting and key assumptions in flux, legislative leaders have floated the possibility of convening a rare third CREC later this year to reassess revenue projections and adjust spending plans accordingly.

As budget talks stretch into summer, the stakes remain high for schools, local governments, service providers, and Michigan families. Karoub Associates will continue to monitor negotiations, track appropriations developments, and provide timely updates as lawmakers work toward finalizing the state's next spending plan.

Michigan Leaders Assess Impact of ‘One Big Beautiful Bill’ Act

Michigan is now grappling with the real-world implications of the newly enacted “One Big Beautiful Bill” (OBBBA)—the sweeping federal tax and spending package signed by President Trump on July 4. While the bill’s implications are still being sorted, the legislation is reshaping state finances, social safety nets, and long-term economic planning.

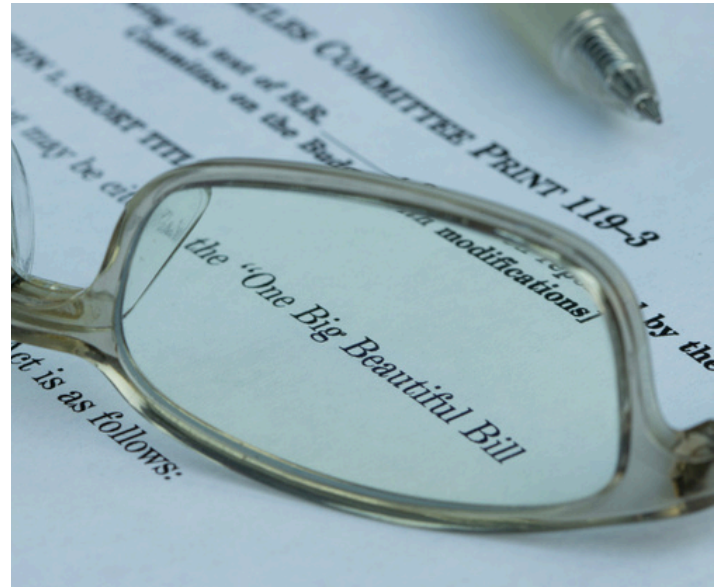
According to projections from Michigan’s state budget office, OBBBA delivers a mixed financial picture: the permanent extension of Trump-era tax cuts could boost take-home pay for many Michigan families—particularly tipped and shift workers—while deeper cuts to Medicaid and SNAP are anticipated to strain state and local resources. Early estimates suggest Michigan could bear nearly \$900 million in annual costs stemming from tightened work requirements and new administrative burdens for federal benefit programs.

Speaker Hall has praised the bill as a win for working-class Michiganders. He emphasized that “tipped and shift workers will no longer pay taxes on tips or overtime,” and said the legislation delivers more value for taxpayer dollars by eliminating waste and fraud.

Speaker Hall also reiterated strong backing for enhanced border security and bolstering the American military—even as he acknowledged the need to offset these commitments with reductions in other areas of spending.

Democratic leaders in Michigan have been quick to highlight what they see as the bill’s negative consequences. Governor Gretchen Whitmer condemned the cuts to Medicaid and SNAP as threats to healthcare access and food security for hundreds of thousands of Michiganders. She emphasized that these provisions put vulnerable residents—such as nursing home residents, pregnant women, and low-income families—at risk. The governor also noted that her office received nearly 15,000 messages from residents expressing concern about the legislation.

Michigan’s Senate Democratic leaders echoed Whitmer’s criticism, stating that the bill undermines the balanced, people-centered budget they had already



advanced at the state level. Senate Majority Leader Winnie Brinks warned that OBBBA shifts financial responsibilities to Michigan taxpayers, destabilizes critical public programs, and undercuts state autonomy. Democrats in the Legislature have pledged to use every available tool to protect Michiganders from what they view as the bill’s most harmful provisions.

At the same time, city and county officials are sounding the alarm about the broader fiscal fallout. The state budget office’s updated projections now show a significant drop in expected general fund revenues for FY 2026, partly due to federal changes.

Lawmakers are now weighing how to maintain services with fewer resources, brace for increased demands on safety-net programs, and navigate the tension between tax relief and long-term fiscal stability.

As the political debate continues, one thing is clear: the “Big Beautiful Bill” is forcing Michigan to confront hard choices. Whether those choices lead to opportunity, austerity, or further gridlock remains to be seen. Karoub Associates will continue to monitor the evolving policy landscape and provide guidance as Michigan adjusts to this new federal reality.