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Legislature Wraps Leaner FY27 Budget in Marathon Overnight Session

Michigan lawmakers finished the Fiscal Year 2027 budget early Friday morning, July 3, capping a session day that ran nearly around the clock and landed several days beyond the July 1 statutory deadline. On paper, the \$75 billion plan comes in well under the current year's \$81 billion mark — though observers note the topline excludes roughly \$9 billion in Medicaid provider tax revenue held in a contingency fund, putting effective spending closer to \$84 billion. Either way, the numbers signal how much the state's fiscal landscape has changed.

Two forces shaped this budget. First, the pandemic-era federal aid that inflated recent spending plans has run its course. Second, Washington's 2025 reconciliation law eliminated Michigan's ability to use provider taxes to leverage extra federal Medicaid dollars — a financing tool the state has depended on for decades, as Senate Majority Leader Winnie Brinks (D-Grand Rapids) acknowledged. Together, those pressures left negotiators staring down a roughly \$1 billion hole.

With House Speaker Matt Hall (R-Richland Township) ruling out both a tax increase and a Budget Stabilization Fund draw, the gap was closed through belt-tightening: trimming federal spending authority the state wasn't actually using, sweeping dormant fund balances, winding down one-time programs and pilots, and eliminating unfilled positions. How to characterize that work became its own partisan flashpoint. Speaker Hall put the figure at \$3 billion in "waste, fraud and abuse" eliminated; Senate Appropriations Chair Sarah Anthony (D-Lansing) flatly rejected that label, describing the changes instead as "meaningful efficiencies" and emphasizing that no Medicaid or food assistance benefits were reduced in the process.

Little room existed for new initiatives, though the budget does include \$10 million to help Medicaid and SNAP recipients meet anticipated federal work requirements. Member-directed project funding was a fraction of recent years — about \$125 million spread across 135 items, against billions in requests.

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The path to passage was rocky. Despite each chamber approving its own version in April, real movement didn't come until June, and subcommittee chairs received their final targets with only about a day to negotiate before decisions moved up to leadership. Conference committees convened in the middle of the night, with final floor votes coming after 8 a.m. Friday. State Rep. Alabas Farhat (D-Dearborn) called the process "broken," noting subcommittee recommendations were largely set aside.

Both SB 878 (the departmental omnibus) and HB 5630 (education) cleared each chamber with solid bipartisan support. Looking forward, Sen. Anthony offered a warning about the state's structural picture, predicting next year's budget will be even tougher and that a larger conversation about state revenue is coming.



School Aid Budget Deepens Michigan's Commitment to Need-Based Funding

The FY27 education budget accelerates a multi-year trend in Lansing: tying school funding to the characteristics of the students a district actually serves, rather than headcount alone.

At the center of the \$19.8 billion K-12 plan is a \$250 boost to the foundation allowance, bringing per-pupil support to a record \$10,300. Layered on top is a \$1.7 billion allocation — up \$258.7 million from last year — targeted at districts educating students from low-income households, English learners, and students receiving special education services. Senate K-12 budget lead Darrin Camilleri (D-Trenton) stressed that the beneficiaries span urban, suburban, and rural communities.

That targeted money now carries accountability requirements. Companion legislation (SB 903) obligates recipient districts to adopt integrated academic and behavioral support systems, conduct comprehensive student screening, base decisions on ongoing data review, submit to state monitoring and potential audits, and report literacy outcomes to parents each year.

The topline is \$1.5 billion below FY26, but about \$1 billion of that stems from a bookkeeping shift rather than reduced services: the budget stops authorizing federal school meal and special education revenue the state doesn't expect to receive, while boilerplate still permits officials to capture "all available federal funding." House Republicans championed the change as honest budgeting; some school advocates worry it introduces uncertainty around special education dollars. Casualties of the leaner environment include Detroit Public Schools Community District's dedicated \$124 million line item, a class-size reduction pilot, and preschool programming for 3-year-olds.

Universities and community colleges each see 1% operating increases. Notably, universities are now funded more heavily from the School Aid Fund than the General Fund — a structural shift driven by General Fund constraints. Michigan Reconnect's tuition-free community college benefit extends downward to residents ages 21-24, and Macomb Community College's maritime manufacturing training program receives \$3.5 million.

Policy Bills Ride Along: Revolving-Door Ban, Brownfield Revival, Housing Credits

With November's election looming and control of the House uncertain, budget week effectively served as this term's last big window for policy — and lawmakers used it, sending more than 50 bills through both chambers overnight.

The headline for the advocacy community is a new set of lobbying restrictions now awaiting the Governor's signature. HB 4062 bars legislators serving after January 1, 2027 from registering as lobbyists until two years after they leave office. HB 4063 extends the same cooling-off period to the Governor, Lieutenant Governor, and department directors, while HB 4064 makes it illegal for sitting legislators to accept lobbying compensation. Speaker Hall claimed the package as part of his ethics agenda; Sen. Ed McBroom (R-Vulcan) voted no and argued the restrictions unfairly punish term-limited members who leave office with relevant expertise and few comparable career paths.

Economic development interests scored a major win with the return of the transformational brownfield program (SB 721-723), which lets qualifying redevelopment projects retain employee income tax withholdings. The rebooted program — of particular interest to backers of a Renaissance Center overhaul in Detroit — is tighter than its predecessor: only genuinely new positions qualify (jobs shuffled from elsewhere in Michigan don't count), per-project awards top out at \$80 million, aggregate tax capture is capped at \$3.2 billion, construction-period capture is limited to \$300 million, and expanded disclosure rules apply.

Housing developers gained a new tool as well: MSHDA can now reserve up to \$42 million per year in Housing Opportunity Tax Credits for qualified low-income projects (SB 966, HB 5806-5807).

The overnight flurry also delivered final passage of a youth indigent defense expansion (SB 81), restrictions on corporate purchases of residential property (HB 6074), single-staircase design flexibility for some multi-family buildings (HB 5570-5571), chip-enabled bridge cards (HB 4746), a physical therapy licensure compact (HB 4101, SB 501), and critical infrastructure status for the Mackinac Bridge (SB 71).

What didn't move: medical debt relief and property tax reduction, both of which the Speaker had floated during negotiations. Expect continued activity on both fronts this fall.



Medicaid Math: How Lansing Answered Washington's Funding Squeeze

Beneath the budget's topline sits the year's biggest fiscal story: how Michigan absorbed the health care funding hit from the federal One Big Beautiful Bill Act without cutting benefits or raising taxes.

The federal law's prohibition on provider-tax financing knocked out a tool Michigan has used for decades to draw down extra federal Medicaid match. Some analysts project the combined federal changes could cost the state more than \$1.1 billion annually by 2032. Governor Whitmer's answer, proposed back in February, was roughly \$800 million in new revenue from taxes on smokeless nicotine products, sports betting, and digital advertising, plus a Budget Stabilization Fund transfer, with proceeds directed to a Medicaid Benefits Trust Fund.

None of it survived. In an election year, House Republicans refused to entertain new taxes, and the final deal contains neither the sin-tax package nor a rainy day fund draw. Instead, negotiators stabilized Medicaid through efficiency savings — roughly \$185 million — and structural maneuvers. Chief among them: some \$9.3 billion in Medicaid provider tax revenue now lives in

budget boilerplate as a contingency fund rather than in the appropriated topline, one reason the "\$75 billion" budget understates actual state activity.

The budget also begins girding for federal work requirements. It adds \$10 million in employment assistance for Medicaid and SNAP recipients, though analysts note an awkward wrinkle: the state projects roughly \$71 million in savings as SNAP caseloads decline under the new rules, while standing up the verification and administrative machinery to enforce them is expected to cost nearly as much. Lawmakers also declined to fund a new eligibility database that federal law requires for safety-net programs — a decision that will need revisiting.

For the health care community, the bottom line is stability now, uncertainty later. Benefits were held harmless this cycle, but the structural gap remains, and Senate Appropriations Chair Sarah Anthony has signaled openly that a revenue debate is unavoidable. Expect Medicaid financing to dominate next year's budget conversation — and potentially the lame duck session before it.



Local Governments Left Wanting as Revenue Sharing Stays Flat

One constituency emerged from budget week with little to celebrate: Michigan's local governments.

The budget makes no changes to statutory revenue sharing, and total payments to locals will actually dip by roughly \$10 million from the current year as a result of softening state revenue projections. For counties — which, unlike cities, villages, and townships, receive no constitutional revenue sharing and depend entirely on annual appropriations — a flat year is effectively a cut against rising costs for courts, jails, public health, elections, and other mandated services. The Michigan Association of Counties had pressed for growth throughout the budget cycle and came away disappointed.

The frustration wasn't limited to local advocates. Senate Appropriations Chair Sarah Anthony told reporters after the vote that the state's failure to do more for local governments was among her disappointments in the final deal — a notable admission from one of the budget's lead negotiators.

Local communities did pick up targeted dollars through the budget's \$125 million in legislatively directed spending. Among the larger local items: \$6 million for security enhancements at the Jewish Federation of Detroit, \$3.73 million for water main replacement in Utica, and \$3.5 million for road work on Rivergate Drive in Macomb County. But with member-directed funding at a fraction of prior-year levels, far fewer communities saw project dollars than in the COVID-era budgets.

Local officials are also watching the federal work-requirement rollout closely, since counties share responsibility for delivering many Medicaid- and SNAP-connected services. With state revenue projected to stay tight and Sen. Anthony predicting a harder budget next year, the revenue sharing conversation is unlikely to get easier — making a sustained local government advocacy presence in Lansing all the more important heading into 2027.

On the Cutting Room Floor: Programs Trimmed, Proposals Abandoned

Every budget tells two stories — what's in it, and what fell out along the way. This year's casualty list is worth a close read.

Among programs losing ground: the Pure Michigan tourism campaign drops from \$17 million to \$11 million. Rx Kids, the direct cash assistance program for new mothers that began in Flint and drew months of Republican scrutiny, loses a \$20 million federal allocation. A proposed \$43 million statewide grant for new voting machines didn't make the final deal, even as fiscal agencies note much of the existing equipment is reaching end of life. In the schools budget, a \$45 million "grow your own" educator

State government itself takes a haircut: roughly 250 vacant positions are eliminated, and departments are directed to develop return-to-office plans for their workforces.

Just as consequential is what negotiators abandoned. House Republicans had passed a budget cutting university operations by 27% — some \$470 million, aimed largely at the University of Michigan and Michigan State — but the final deal delivers those institutions a 0.9% increase

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instead. Also dropped: House-passed provisions that would have docked up to 20% of funding from districts spending state dollars on DEI initiatives, allowing transgender athletes in girls' sports, or maintaining multi-stall unisex restrooms. None survived conference.

A few additions round out the picture: long-negotiated dam safety legislation cleared both chambers alongside the budget, a new public-service student loan forgiveness

incentive aims to help state government recruit, and a wildlife-feeding bill Whitmer previously vetoed is back on her desk after DNR politics shifted this term.

The through-line is discipline born of necessity — and an election year that made bold strokes in either direction untenable. With the Governor's signature expected in the coming weeks, attention now turns to implementation and to the priorities left waiting for lame duck.