

## **New state budget includes \$1.9B for roads, new weed tax and lots of cuts**

**By David Eggert, 10/2/25**

LANSING — Lawmakers early Friday finalized Michigan's new budget, days after missing the constitutional deadline and having to enact a one-week interim plan.

The 2025-26 spending bills include nearly \$1.9 billion for a long-term road-funding package, which also won approval during a marathon overnight session in the state Capitol, where Democrats control the Senate and Republicans lead the House. That funding will be supported by a hefty new tax on marijuana.

In total, the budget is about \$75.9 billion with an additional \$5 billion being held in contingency funds.

Gov. Gretchen Whitmer, a Democrat, is expected to sign the budget legislation, which includes cuts, before the continuation measure expires in the middle of next week.

"With this budget, we're locking in a significant, bipartisan investment to fix state and local roads for decades to come, creating and protecting thousands of jobs in the process," she said in a statement.

The general and education budget bills were passed overwhelmingly with bipartisan backing, 101-8 and 104-5 in the House and 31-5 in the Senate. The Senate adjourned a little before 4 a.m., the House around 4:15 a.m., after voting on roads legislation.

### **Roads**

The deal's centerpiece is a move to boost transportation funding by \$1.5 billion in the first year, nearly \$1.9 billion by year five. Almost all of the new funds will go toward fixing roads and bridges, primarily local ones, though there is also \$160 million more for transit.

The plan addresses warnings of a looming "cliff" when Whitmer's five-year bonding program to smooth state highways ends.

The components are:

- Removing the 6% sales tax on fuel and replacing it with a 20-cents-a-gallon increase in gasoline and diesel taxes, boosting yearly funding by \$1 billion. It ensures that all taxes paid at the pump go to roads and public transportation. The current sales tax revenue is sent to the school aid fund, the general fund and local governments. The additional revenue will largely go to state and local roads via the Michigan Transportation Fund.

- Levying a new 24% wholesale tax on marijuana to generate \$420 million annually for the new Neighborhood Road Fund. The tax hike barely cleared the Senate on a 19-17 vote, after 3 a.m., while facing [fierce opposition](#) from cannabis businesses and workers in the week since it cleared the House.
- Stopping a yearly \$600 million general fund deposit into the Michigan Transportation Fund and instead putting the funds, plus gradually more — \$88 million initially and an extra \$400 million by 2029-30 and later — into the Neighborhood Road Fund.

The marijuana tax drew criticism from Sen. Jeff Irwin, D-Ann Arbor, who said it will drive in- and out-of-state customers out of the legal market and lead to job losses and reduced revenue from other taxes on cannabis. Sen. Jonathan Lindsey, R-Coldwater, doubted it will raise \$420 million.

But Sen. Ed McBroom, R-Vulcan, said there are communities in the Upper Peninsula that are "overrun" with stores and dispensaries. He questioned what benefits have come from legalizing the drug and said more than doubling marijuana taxes is a "great way to help increase funding for roads."

"We have an industry that is out of control, is too large and is failing to deliver to the promises they gave to us when they'd come to our state," he said.

Sen. Jeff Irwin, D-Ann Arbor, speaks against a new cannabis tax that will be used to boost road funding during an overnight session at the state Capitol in Lansing.

## **Taxes**

Two other tax changes are in the budget agreement.

One separates the state from five federal business tax breaks in a law signed by President Donald Trump, preventing the loss of an estimated \$540 million this fiscal year. The other mirrors the Trump law so Michigan residents do not have to pay state taxes on overtime pay, tips and Social Security benefits, saving them \$158 million this budget year.

Business groups oppose "decoupling" and automatically carrying over the federal changes, some of which are retroactive, to the state code.

"That's a tax increase on us," said Mike Johnston, executive vice president of government affairs and workforce development at the Michigan Manufacturers Association. "The federal government gave us that tax cut, and the state is taking the state portion away."

Rep. Mark Tisdell, R-Rochester Hills, who chairs the House Finance Committee, defended the move.

"We're just trying to cobble together money for roads," he said. "It's one of those tradeoffs. Someone's going to feel like they were thrown under the bus."

Tisdell noted that Democrats had proposed a bill to raise the "already too high" 6% corporate income tax to 8.5%.

"Do you want status quo on your current depreciation schedules and credits? Or do you want 8.5?" he said, saying decoupling enabled Republicans to demand additional cuts.

Michigan Senate Majority Leader Winnie Brinks, D-Grand Rapids, speaks to reporters about the new state budget after the Senate adjourned around 4 a.m. Friday.

## **Cuts**

The budget cuts \$40.7 million, or about 41%, from \$100 million for the Michigan Economic Development Corp.'s Business Development and Community Revitalization programs. One program awards grants and loans to companies for creating jobs, making investments or both. The other gives incentives to developers for redeveloping brownfields and historic preservation sites.

The reduction coincides with legislators stopping a planned \$500 million deposit into the Strategic Outreach and Attraction Reserve Fund, a larger pot of business-attraction and site development incentives, and not reauthorizing future automatic deposits that began in 2023.

The distribution of \$50 million a year to the Revitalization and Placemaking Fund ends, too, because the SOAR funding law is not being extended.

A proposal to spend \$50 million on infrastructure improvements to open the Copperwood Mine in the western Upper Peninsula is not being funded a year and a half after the Michigan Strategic Fund authorized the grant.

The \$55 million Going Pro Talent Fund, which was launched a decade ago to give companies grants to help train and upskill their workers, is reduced to \$31.8 million.

Funding for 2,000 unfilled positions in state government is gone. Republicans call them "ghost" or "phantom" jobs.

"We're making cuts to the waste, fraud and abuse and we're dedicating it to roads," said Republican House Speaker Matt Hall, who successfully pushed for earlier transparency around legislative earmarks. "What we did, we met in the middle."

## **What is spared**

The Michigan Arts and Culture Council's funding, just less than \$12.4 million, stays intact after the House proposed zeroing it out.

Also spared is \$15.7 million for programs designed to commercialize universities' technology and research — the Tech Transfer Talent Network, also known as T3N, and the Michigan Translational Research and Commercialization program, or MTRAC, which have helped launch hundreds of startups. Seven universities benefit from one or both programs. The Senate and House had wanted to nix the funds.

Both the University of Michigan and Michigan State University get operations funding increases after facing huge cuts under the House plan. Increases at 15 public universities range between 2% and 4.8%, with 28 community colleges seeing 1.5% to 3.2% more.

Universal free meals at K-12 schools continue for a third year after a House bid to leave it up to districts on whether or not to provide breakfast and lunch to all students free of charge, regardless of their income.

"Obviously, roads are in there, but we have an incredibly strong K-12 budget as well," Democratic Senate Majority Leader Winnie Brinks said, noting lawmakers also took steps to "save Medicaid" following federal cuts.

An area that saw a meaningful increase was funding for after-school and out-of-school learning programs, with funding for competitive grants that go to educational nonprofits rising to \$75 million from \$57 million in 2025.

The governor had recommended cutting funding to \$50 million and the Senate to increase it to \$64.5 million. The House proposal would have rolled funding into the per-pupil allocation going to school districts, said Erin Skene-Pratt, executive director of the Michigan Afterschool Partnership.

The funding increase shows "clear momentum and growing recognition of the importance of these opportunities," she said in an email to stakeholders Friday morning.

About 90 percent of the funds, which are administered by the Michigan Department of Lifelong Education, Advancement and Potential, are awarded to community-based nonprofits. Intermediate School Districts, parks and local municipal programs typically benefit from the remainder, Skene-Pratt said.