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CRC: K-12, local governments hit hardest by funding shift for roads plan

K-12 schools and local governments took a revenue hit in the long-term road funding plan passed by the Legislature earlier this month, the Citizens Research Council of Michigan said in a report released Thursday.

The state also largely addressed a \$1.1 billion projected shortfall due to federal tax and spending changes while maintaining overall spending almost identical to the last fiscal year, the group stated.

Citizens Research Council members on Thursday discussed with reporters the highlights of its [State Budget Note](#) covering the 2025-26 fiscal year budget.

The group also noted that taking into account the \$9.3 billion in contingency monies authorized in boilerplate language, the total budget comes to about \$84 billion, down only slightly from \$84.1 billion from the previous fiscal year.

A key part of the budget was a long-term road funding plan that will enact a 24% wholesale tax on cannabis, which has drawn significant pushback and prompted a lawsuit by industry. The plan required legislation to be passed to implement a fuel tax swap, redirecting all revenues generated at the pump to roads while seeking to backfill the money historically provided to other areas, including schools.

Robert Schneider, senior research associate with the CRC, said the road funding plan will generate about \$1.1 billion in new funding for roads in the current fiscal year, growing to \$2 billion by 2030.

K-12 schools and local governments are most affected by the fund shift, he said.

Exempting fuel from sales tax reduces funding at the pump by \$680 million per year. Local governments stand to lose \$93 million from the constitutionally earmarked revenue sharing that they otherwise would receive.

The Legislature as part of the budget ensured additional sales tax revenue equal to the estimated School Aid Fund revenue loss due to the exemption of fuel from the sales tax would be placed into the School Aid Fund to offset the loss.

"If you're in the K-12 schools, there was another important element of the budget agreement that probably is causing some consternation for school groups while the School Aid Fund is held harmless," Schneider said.

Due to increased School Aid Fund appropriations to colleges and universities totaling \$400 million in the latest budget, the available funding for K-12 schools was reduced by that amount.

Schneider said about \$280 million of the estimated \$680 million hit to the School Aid Fund was backfilled for K-12 schools.

No provisions were included in the budget to backfill the \$93 million in lost revenue sharing monies for local governments. The \$35 million for a new public safety revenue sharing program and \$7.5 million in one-time funding based on average annual violent crime counts for each jurisdiction partially offsets the lost revenue.

Schneider said the roughly \$1.1 billion budget hole the CRC had projected over the summer due to federal tax and spending changes (See [Gongwer Michigan Report, July 30, 2025](#)) was addressed by the Legislature this month.

A roughly \$450 million hit to the state's insurance provider assessments that support Medicaid was averted legislatively as well as codifying federal business tax changes on the state level, which addresses a potential \$670 million effect on the budget.

Schneider added that the budgets over the next few years will be tight.

"If the Legislature wants to add significant new public investments to programs, it's probably going to have to come from something already funded in the budget," Schneider said. "The inflationary

pressures from caseload costs and state employee costs will probably eat up a good chunk of our future growth."

Total General Fund appropriations in the fiscal year 2025-26 budget are at \$14.1 billion, down about \$760 million from the previous fiscal year.

The main sources of the reduction were about \$400 million reduction in General Fund for higher education, about \$100 million less for the Department of Labor and Economic Opportunity and other scattered cuts throughout the budget.

– By Nick Smith

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