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FY '26 Minus 5: Leaders say they've struck a deal but devil remains in the details as House passes revenue for roads

The two legislative leaders and [Gov. Gretchen Whitmer](#) on Thursday announced a budget agreement as the House was finishing votes on new revenue – including a marijuana wholesale tax – to go toward roads.

Although Whitmer, Senate [Majority Leader Winnie Brinks](#), D-Grand Rapids, and House [Speaker Matt Hall](#), R-Richland Township, released a joint statement that all sides had agreed to a budget plan, there's still little in the ways of details.

The three leaders issued a statement Thursday night saying they have a deal to complete the 2025-26 fiscal year budget before the Oct. 1 start of the fiscal year and "nearly" \$2 billion more per year for roads.

The statement – with just 125 hours remaining until the start of the fiscal year – was the first signal from the three leaders that the pieces were coming together to avert the first state government shutdown in 16 years. Still, there is an enormous amount of work to do, some negotiations remain unfinished and both chambers called off attendance at sessions they had hastily scheduled days earlier for Friday.

"Today's agreement in the Legislature puts us on a path to lower costs, fix the damn roads, and pass a balanced, bipartisan budget by October 1," Whitmer said. "I am grateful to Majority Leader Brinks, Speaker Hall, and legislators on both sides of the aisle for working hard to move this budget forward. In Michigan, we've proven again and again that we can work together to get things done by staying

focused on the kitchen-table issues that make a real difference in people's lives. Amid so much national economic uncertainty, I am proud that we are taking action to lower costs, cut taxes for seniors and working families, create jobs, fund schools, fix roads, keep people safe and healthy, and so much more."

During a press conference after session, Hall put the total number for local roads at \$1.5 billion, which would go up to more than \$1.8 billion over the next five years.

The topline for the budget will be smaller than last year, but it's unlikely to have the \$5 billion in cuts proposed by House Republicans.

"Topline isn't 100% confirmed yet, but I have enough information on what we're doing to know it's going to be smaller than last year," Hall said after session.

None of the leaders shared details about per-pupil funding in the School Aid Fund budget, either.

Hall said as part of the framework, the budget will have no state income tax on tips, overtime or Social Security, which matches changes made at the federal level.

"This is a great win for Michigan workers, and it's also finally starting to achieve some value for your dollars," he said.

The House passed legislation Thursday to pave the way for finalizing a state budget including a 24% wholesale tax on cannabis, decoupling state and federal business taxes and trying to preserve some type of insurance provider tax.

The three bills the House passed – [HB 4961](#) , [HB 4951](#) and [HB 4968](#) – appear to be key pieces to a long-term increase in road funding and the 2025-26 fiscal year budget.

"This is one big step we've just taken today to avoid a potential shut down next week," [Rep. Alabas Farhat](#), D-Dearborn, said. "The budget's still not fully baked. It's still not fully done. The total number for roads is something we're working on. We don't want anybody to lose their job as a result of the funding cliff that we're heading towards, and we also want people in Michigan to have high-quality roads that they can depend upon."

In the joint statement, Hall said there is still work to go, but it's an important step that all leaders agree "to implement meaningful tax relief for Michigan workers and seniors, bring transparency and accountability to the earmark process for the first time, and eliminate ghost employees." Government has grown far too much in recent years, and we need to trim the waste, fraud and abuse in Lansing. That's how we can afford the real priorities of Michigan families – like education, public safety, and fixing our local roads and bridges. This agreement puts us in position to do just that."

Brinks, who did not speak with reporters during Senate session Thursday, said in the statement that the framework on which they have agreed "reflects the priorities of Michiganders from every region, and while no budget will be a perfect product, I am confident that the final result we vote on next week will have features that benefit every resident."

There are still a lot of details to work out, though. Farhat, the former minority vice chair of the [House Appropriations Committee](#), said many of details are still being ironed out.

"It's a thousand-page document that gets drafts," he said.

"Boilerplate gets written, money gets decided on how it's spent."

Rob Coppersmith, executive vice president of the Michigan Infrastructure & Transportation Association, celebrated the announcement of a roads deal in a statement.

"After decades of inaction, we finally have an agreement on a road funding deal that marks a historic step forward for Michigan. This bipartisan agreement is not only a significant investment in repairing and rebuilding our roads and bridges, it is also an investment in saving good-paying jobs and strengthening Michigan's economy," he said. "While this is a historic step in the right direction, we know the work is not finished. Michigan must continue to make long-term, sustainable investments to keep our roads in good and fair condition for decades to come. This agreement lays the foundation for that future."

A key part of the road funding proposal is the \$420 million estimated to come from a new 24% wholesale tax on cannabis through [HB 4951](#). The bill creates a new Comprehensive Road Funding Tax Act, which would go toward road construction, preservation and maintenance in Michigan.

The House Fiscal analysis estimates the bill would generate about \$420 million based on current wholesale sales. During the next fiscal year, the bill would allocate \$3 million of the revenue into the Comprehensive Road Funding Fund for implementation and administration costs. In subsequent years, the allocation would be reduced to \$500,000, with the remaining balance – by far the bulk of the new revenue – deposited into the Neighborhood Road Fund.

The Neighborhood Road Fund would be new and is included in [HB 4230](#) . That passed the House earlier this year and targets funds to locally owned roads and bridges.

The bill passed 78-21.

Cannabis was legalized in Michigan by a ballot proposal, and under Michigan law, a three-fourths majority is needed to amend an initiated act passed by voters. [HB 4951](#) fell five votes short of that margin, but lawmakers said the bill is on solid legal footing.

The bill creates a new act instead of amending Proposal 18-1, the Michigan Regulation and Taxation of Marihuana Act.

"We've got some great lawyers here," Farhat said. "They've looked at this, and they've made it clear that this will withstand a legal challenge, being that it's at the first point of sale and not at the retail side."

The cannabis industry, however, promised a legal challenge.

Robin Schneider, executive director the Michigan Cannabis Industry Association, said if the Legislature attempts to implement the new tax without getting the three-fourths majority required to amend an initiated act, there will be a lawsuit.

"If they raise the prices this much, they send the customers back to the illicit market and put everyone out of business," she said in a statement. "We will lose 30% of our customers from our border states plus cannabis tourism because this makes us the highest tax rate in the Midwest."

Schneider said if the tax increase is implemented, Michigan will become the national example of "what not to do," citing California. Just this week, the state's governor signed a bill rolling its excise tax back to 15% after it had earlier this year increased the tax to 19%.

Michigan charges a 10% excise tax along with the 6% sales tax on marijuana purchases.

Lawmakers defended the 24% wholesale tax, saying it would put Michigan on par with other states.

"Every time I drive on the highway, all I see is these (marijuana) billboards everywhere. So, I don't think they're doing as bad as they're saying they're doing. ...There is some saturation that we're seeing, but at the same time, we are heavily behind our peer states on where we out to be on a wholesale tax," Farhat said. "The people of Michigan deserve their fair share to be able to go toward roads, and that's what we're doing here today. And maybe we see a few less billboards, but that's fine."

Hall said the agreed upon 24% is lower than the 32% Whitmer proposed in her executive budget recommendation.

"We want to have an industry," he said. "But ultimately, we wanted to dedicate the money to roads. Michigan has among the lowest marijuana prices in the country ... and we think this (tax) is lower than a lot of other states because it's a wholesale tax."

[HB 4961](#) would allow Michigan to "decouple" state and federal business taxes.

Under President Donald Trump's One Big Beautiful Bill Act, which was enacted in July, businesses are set to pay less in taxes federally, and because of how the state code is aligned with the federal code, they would also pay an estimated \$677 million less to the state.

The federal changes could immediately and significantly affect state revenue and the General Fund, as they act as "timing shifts" that increase deductions in the short term without changing businesses' total liability over time. Decoupling would avoid that.

"It's just decelerating what the federal government gave an acceleration to," [House Finance Committee Chair Rep. Mark Tisdell](#), R-Rochester Hills, said. "The credits will still be there. The advantages will still be there. It's just spread out over more time, so we're not experiencing that upfront crunch when we're trying to come up with billions of additional funds for roads."

The bill passed 95-4. [Rep. Steve Carra](#), R-Three Rivers; [Rep. James DeSana](#) R-Carleton; [Rep. Phil Green](#), R-Watertown Township; and

[Rep. Jaime Greene](#), R-Richmond, voted against it.

The National Federation of Independent Business expressed disappointment that the Legislature approved the decoupling plan.

"Unfortunately, the tax savings small businesses experience on their federal taxes will be wiped out when filing their state taxes, as well as making state taxes more confusing," Amanda Fisher, state director of NFIB, said in a statement.

[HB 4968](#) directs the Department of Health and Human Services to ask the federal Center for Medicare and Medicaid Services for a waiver that allows Michigan to continue to collect its insurance provider tax while the state figures out how to comply with new federal rules. The OBBBA is expected to result in the federal disqualification of that provider tax, which raises considerable funds for Medicaid.

This legislation would save the state \$2.4 billion in federal fines, Tisdell said.

[HB 4968](#) passed 95-4. Carra; DeSana; Rep. Jaime Greene, R-Richmond; and [Rep. Brad Paquette](#), R-Niles, voted no.

The three discharged bills are all tie-barred to each other – and to [HB 4183](#). That's a bill the House passed earlier this year that would raise the fuel tax from 31 cents per gallon to 51 cents per gallon.

A fuel tax increase would move in tandem with a bill removing the 6% sales tax from fuel – a revenue-neutral change that would assure all taxes paid at the pump go to roads. It would mean about \$1 billion more for roads each year.

Lawmakers didn't provide information about how they plan to remove the sales tax from fuel without affecting the School Aid Fund.

"It's the intent to make schools whole," Hall said. "I don't know everything that we're allowed to say, but I'll just say we make schools whole as part of the plan."

Once the principals set targets for the budget, the final push to get the budget across the finish line can begin.

"We haven't agreed to the exact details of how we'll get this thing through," Hall said. "I would expect you may see the budget put into

a big bill and move through the chambers, but we haven't finalized that."

Although both chambers have session scheduled for Friday, neither will have members in attendance to conduct business.

Session is also scheduled in both chambers for Monday, but it is unclear whether attendance will be taken.

– By Elena Durnbaugh, Alethia Kasben contributed

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