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Michigan FY26 Budget: Negotiations Enter Critical Phase

Michigan began the new fiscal year on October 1 without a finalized FY26 budget. Instead, lawmakers approved a one-week continuation budget to keep state government open while negotiations continue. The stopgap measure provides stability for now, but the difficult work of crafting a comprehensive plan is still underway.

Key Issues
At the heart of the delay is the challenge of balancing constrained revenues with competing demands in education, infrastructure, health care, workforce, and local government. One of the biggest sticking points is the sales tax/gas tax swap. Without a backfill, schools and municipalities could face significant funding shortfalls. Education groups, local leaders, and business organizations have been increasingly vocal, warning that cuts could have immediate and far-reaching consequences.

Adding to the complexity, the House has approved a series of tax increases aimed at shoring up revenues and avoiding the steepest spending cuts. While details are still being debated in the Senate, the package highlights just how difficult it will be to balance Michigan's fiscal challenges without additional revenue. Supporters argue the tax changes are necessary to protect core services, while critics warn they could dampen economic growth and place new burdens on businesses and families.

Rumors of steep reductions in other areas—including higher education, workforce development, and human services—underscore how tough this cycle may be. Stakeholders across the board are pressing lawmakers to protect their priorities, making for one of the most contentious appropriations environments in recent years.

Legislative Dynamics
The House and Senate Appropriations Committees are meeting this week, with leadership signaling that a final deal is possible by Thursday or Friday. The observance of Yom Kippur midweek complicates scheduling, leaving a narrow window before the continuation measure expires. Behind the scenes, negotiations remain fluid, as legislative leaders and the Governor's office work to reconcile spending priorities with lower-than-expected revenues.

What's at Stake
For K-12 and local government advocates, the risk of inadequate backfill looms large. Without it, districts and municipalities could be forced to cut staff, services, or programs. Workforce and economic development groups see the FY26 budget as a chance to strengthen Michigan's competitiveness, but only if investments are preserved.

Outlook
Most observers expect a budget deal before the week is out, but the path is narrow. Every decision will carry ripple effects, and the pressure to balance fiscal reality with policy priorities is intense. For all stakeholders, the message is clear: the next few days are critical. Advocacy and engagement will shape the final outcome.