



Launch and Learn

The ABCs of Michigan's Special Education Finance System

(Part 2 of a 3-part series)

March 19, 2025

Agenda

- Session 1 recap & overview of Session 2
- Federal Special Education Law and Funding
- The evolution of special education finance in Michigan: State Funding
- Local funding for special education
- Strengths of how Michigan funds special education
- Shortcomings of how Michigan Funds special Education
- Wrap-up and Q&A

Review of Session 1: Students with disabilities in Michigan are struggling.

In 2024, **14.5 percent of public-school students in Michigan receive special education services**. Yet, Michigan's special education system does not provide the resources and support necessary for most students with disabilities to reach their maximum potential. The **system's structural flaws** are evident in the state's consistently poor outcomes for students with disabilities. For **more than a decade**, students with disabilities in Michigan:

- ▶ Reach proficiency at rates **below the national average** and significantly behind leading states.
- ▶ Graduate on time at a rate **among the lowest** in the country.
- ▶ Graduate at a rate **22 points below** the statewide average.
- ▶ Achieve proficiency on the M-STEP **at one-third the rate** of their peers.
- ▶ **Rarely reach** critical postsecondary readiness benchmarks on the SAT.

The goal of this learning series is to build support for meaningful special education finance reform in Michigan.

Although the status quo may work well for some of Michigan's students with disabilities, **most remain poorly served by it.** The achievement of students with disabilities in other states (indeed in most of them), makes clear that **Michigan can and must do much better** for its students. Reforming how we fund special education is a critical step in ensuring all students with disabilities can access the opportunities and resources they need.

This **session will focus on** history and mechanics of special education funding in Michigan. We will cover:

- Federal special education law and funding.
- The history and structure of state-level special education funding.
- Local special education funding.
- The strengths and shortcomings of these structures.

The learning series will take place over 3 sessions:

Session 1: Enrollment and achievement trends for Michigan's students with disabilities.

Session 2: The ABCs of Michigan's special education finance system.

Session 3: Alternative Funding Structures.

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Quick poll question #1

Please select the response below that best represents your answer to the following question:

How familiar are you with the funding structure of the Individuals with Disabilities Education Act (IDEA)?

(1) Very familiar

(2) Somewhat familiar

(3) Not at all familiar

Uncertainty at the federal level makes state finance reform more urgent

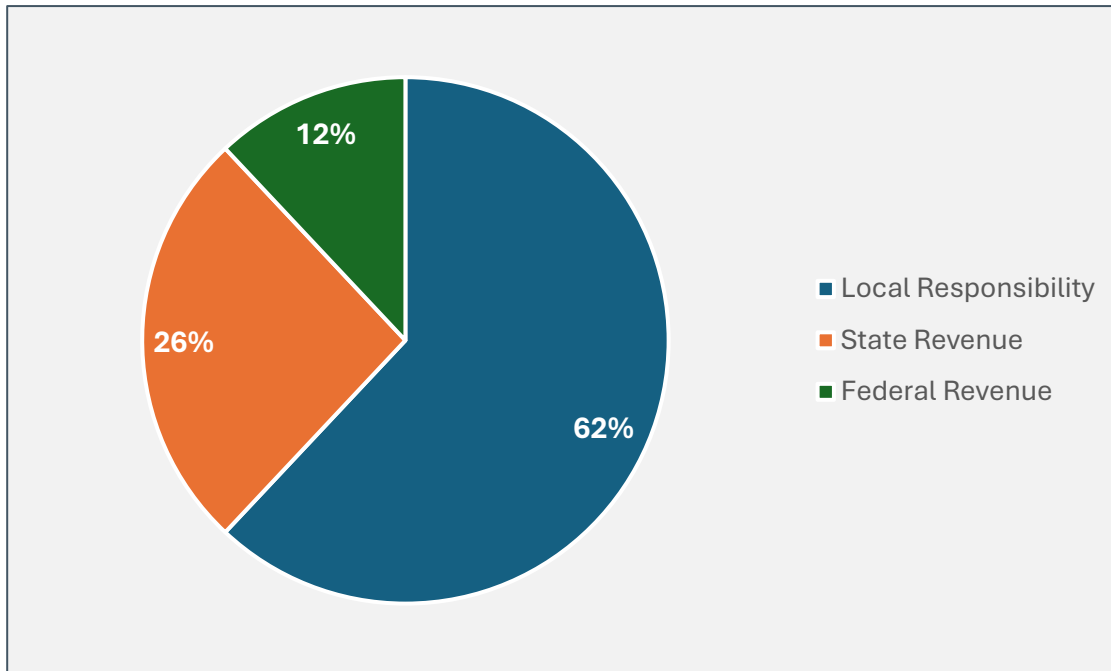
Roughly half of the workforce at the U.S. Department of Education was recently let go. Funding for research is paused, data collection has been undermined, and the team focused on civil rights enforcement has been reduced and refocused. There may be dramatic changes to federal education funding and the corresponding requirements and protections.

In short, the future of the federal role in education – particularly in enforcing civil rights – is in question.

Special education is funded by multiple revenue sources

All but a handful of states rely on federal, state, and local revenue to fund special education. There are a few states, such as Alabama, Iowa, Idaho, and West Virginia that invest little to no state revenues in special education.

**Special Education Expenditure Percentage by Source,
FY2020**



Source: <https://bellwether.org/publications/who-pays-for-special-education/?activeTab=1>

An analysis of 2020 revenues from 2 dozen states found that special education relies disproportionately on local revenue compared with total K-12 expenditures. How funding is apportioned across these three sources varies state-to-state.

Michigan was not one of the 24 states included in the analysis.

The Individuals with Disabilities Education Act (IDEA) governs special education

IDEA was first enacted in 1975 and it was called the Education for All Handicapped Children Act (EHA). The law committed to providing 40 percent of the average per pupil expenditure for special education. Regrettably, the government never fulfilled this promise.

The law has been reauthorized numerous times, including most recently in 2004. That update renamed it IDEA and authorized federal funding up to \$26 billion. The actual appropriation is roughly half of that.

The number of students served under IDEA is steadily increasing. During the 2022-23 school year, 7.5 million students were served under IDEA compared with 6.4 million in the 2012-13 school year.

See Appendix for additional information about IDEA

IDEA has four core grant programs

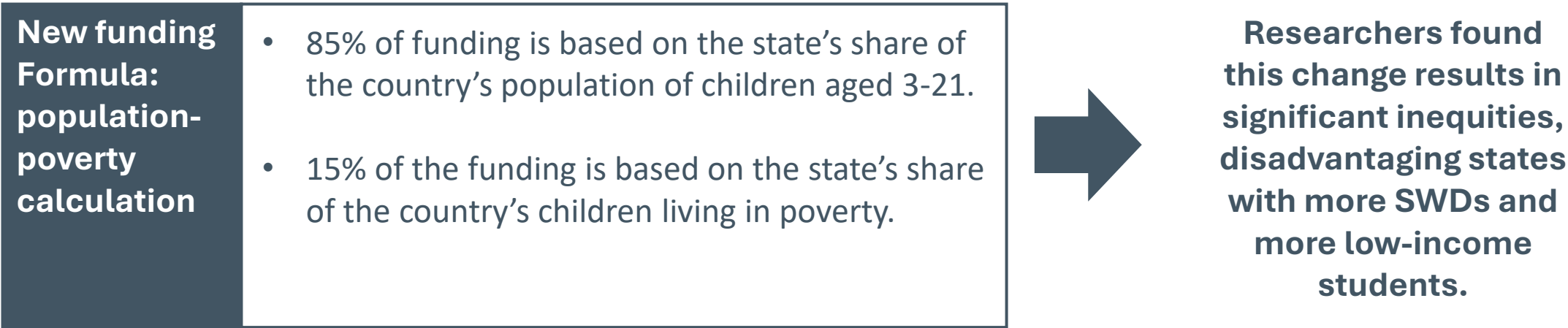
Federal special education funding is allocated primarily via four programs. The appropriations are based on FY 2022.

- 1 Part B – Grants to States** (\$13.3 billion): Formula-driven funding to the states. Funds are dispersed to local entities to support special education.
- 2 Part B – Preschool Grants** (\$409.5 million): Funding for services and programs for children aged 3 to 5.
- 3 Part C – Infants and Toddlers** (\$496.3 million): Funding for services and programs for young children and their families.
- 4 Part C – National Activities** (\$238.6 million): Funding to build state capacity

Inequities in IDEA Funding

How much funding a state receives under IDEA is primarily determined by the formula for the Grants to States, Part B(611). Originally, lawmakers worried that states would under-identify students for special education services, the formula allocated funds based on the count of eligible students.

Fearing overidentification, lawmakers changed the formula in 1997. That reform added a census-based structure based on state population and poverty rate. States are guaranteed to receive at least the Allowance of funding they received in FY 1999 in nominal dollars. In other words, a state that received \$100 million in 1999 would receive at least that Allowance in 2024. No adjustment for inflation is made.



IDEA's funding formula disadvantages states with greater concentrations of high-needs students

The components of IDEA's Part B funding formula interact to create significant disparities among states. As the researchers put it:

“On average, states with proportionally larger populations of children and children living in poverty, children identified for special education, and non-White and Black children receive fewer federal dollars per capita.”

This happens for a few reasons:

1. The formula holds states harmless at 1999 funding levels regardless of population change.
2. The population-poverty calculation is *not* based on the number of children with disabilities.
3. Child poverty accounts for only 15 percent of the new calculation.

IDEA Funding changes in Michigan

From FY99 to FY21, the per pupil funding increased 312%. On a per student receiving services basis, the increase was 268%. Each are among the highest in the country.

In FY23, Michigan received an average IDEA grant of \$2,701 per child compared with \$3,537 in Wyoming.

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Headlee Amendment & decision in *Durant v. Michigan* govern state special education funding

In a 1997 opinion, the state supreme court ruled that the state's special education funding system violated the state's constitution – specifically the Headlee Amendment.

The court ordered that the state must fund, as a share of the cost statewide of special education, at least 28.6% of operating costs and 70.4% of transportation costs.

There is some flexibility under *Durant* to reimburse districts at different levels provided the state's share of total costs meets the constitutional requirement. In practice, however, the state reimburses all districts at the court-mandated minimum level.

1978 Headlee Amendment

Sets a limit on specific taxes, required voter approval to raise new taxes, and limits the Allowance of revenue those levies can generate.

Furthermore, the amendment prohibits the state from reducing its share of required funding at the time of the law's adoption.

Michigan special education funding is reimbursement based

Michigan is one of only eight states that use strictly a percentage-based reimbursement system for state special education revenues. Michigan reimburses:

- **28.6138% of approved special education operating costs**
- **70.4165% of special education transportation costs**

School districts provide special education support and services (e.g., teachers, paraprofessionals, therapists, etc.), and submit cost reports to the state. However, most, but not all costs are reimbursable. The state's reimbursement is applied strictly to "approved costs."

For decades, the foundation Allowance (FA) was considered part of the state's special education funding obligation

The Foundation Allowance (FA) is the base level of funding all students receive in Michigan. However, for years the state counted the FA payment for students with disabilities towards the 28.6% it is required to contribute for special education.

In other words, if the FA was equivalent or greater than the 28.6% of approved special education costs, the district would not receive any supplemental funding.

This was reformed in 2023. The FA and *Durant* reimbursements were separated. Beginning in 2024, districts receive the full FA for each student with a disability they serve, as well as 28.6% of approved special education costs.

Example of the impact of FA and *Durant* reform

Student A: Durant Reimbursement of \$5,000

	Prior to Reform	After Reform
Foundation Allowance	\$9,608	\$9,608
Durant costs paid by FA	\$5,000	\$0
Additional Durant payment	\$0	\$5,000
Total District Payment	\$9,608	\$14,608

This student has approx. \$17,500 in approved special education costs. The Durant reimbursement is therefore \$5,000

An additional 52% in funding

Student B: Durant Reimbursement of \$10,000

	Prior to Reform	After Reform
Foundation Allowance	\$9,608	\$9,608
Durant costs paid by FA	\$9,608	\$0
Additional Durant payment	\$392	\$10,000
Total District Payment	\$10,000	\$19,608

This student has approx. \$35,000 in approved special education costs. The Durant reimbursement is therefore \$10,000

An additional 96% in funding

The FA reform was critical and marked a significant improvement in Michigan special education finance. The figures shown in purple represent the state’s share of the student’s special education cost, their *Durant* reimbursement.

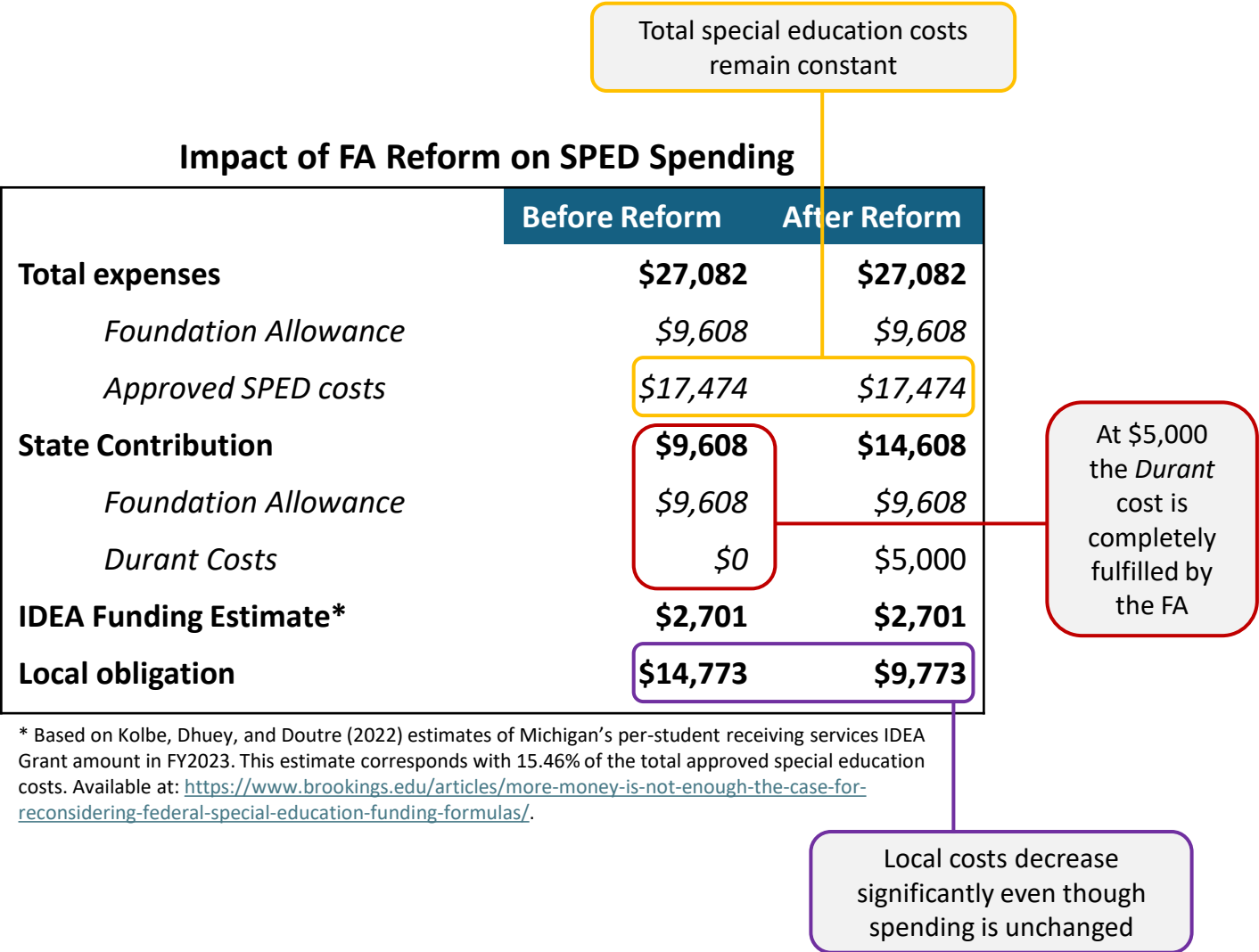
Prior to the reform, For Student A, the reimbursement is subsumed by the FA so she did not receive any additional funding. For Student B, he received an additional \$392 beyond the FA.

After the reform, each student receives their full FA and their full *Durant* reimbursement. This leads to the state assuming a larger share of the cost.

While a critical and positive change, total spending on special education did not change

Consider Student A from the previous example. She has a *Durant* cost of \$5,000. Given the state reimburses at 28.6 percent, this means she receives \$17,474 of special education services. **Critically, these services are supplemental.** They are layered on top of the base funding to which all students are entitled to support their education.

After the reform, the financial obligation on local districts is lessened considerably since the state provides the full FA in addition to their *Durant* cost. As a result, the district accounts for 56 percent of special education costs compared with 85 percent previously. **However, the total spending on special education does not change.**



Michigan attempts to address wealth disparities through a modest guaranteed tax base program

Section 56 of the State School Aid Act is designed to address property wealth disparities among ISDs. The Section guarantees a minimum property tax base per pupil. For 2024-25, the guaranteed base is set at \$260,200. Those ISDs that fall below receive a portion of the \$40 million appropriated to the program this year.

An analysis of FY22 found that only 16 ISDs qualified for the program, and more than 60 percent of the available funds were allocated to a single ISD.¹

In FY 2022, the Michigan legislature added 56(7) and appropriated \$34 million to this new guarantee. There are two formulas based on the amount of revenue ISDs generate. Unfortunately, the structure risks increasing inequities. Provided ISDs meet certain millage requirements, they can receive additional state funds. For FY2024-25, the two tiers are defined as follows:

- ISDs generating less than \$251 per pupil and levying at 46.2% to 60% of its millage cap.
- ISDs generating less than \$296 per pupil and levying at least 60% of its millage cap.



In effect, the state invests more in wealthier ISDs that already generate more revenue through their own taxes.

¹<https://csrcmich.org/michigans-new-effort-to-equalize-special-education-property-tax-levies-is-poorly-designed-and-does-little-to-reduce-funding-disparities> . Source: <https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-388-1656>

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Chat question #1

What stood out to you most about Michigan's special education funding history?

Proposal A overhauled school finance in Michigan

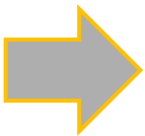
Proposal A, passed in 1994, was designed to lower property taxes and improve school funding equity. Limits were placed on local taxes for general education. Revenue generated from those taxes were collected at the state level and distributed to districts across the state.

Proposal A also changed how special education finance works. However, the funding structure differs significantly from general education.

Local communities have a limited ability to levy taxes for special education

Proposal A significantly changed how local communities generate revenue for special education. Local levies for special education funding are tied to taxing decisions made more than 3 decades ago. Communities are also restricted from raising those taxes too much. This policy preserves inequities from the early 1990s and limits the ability to redress them.

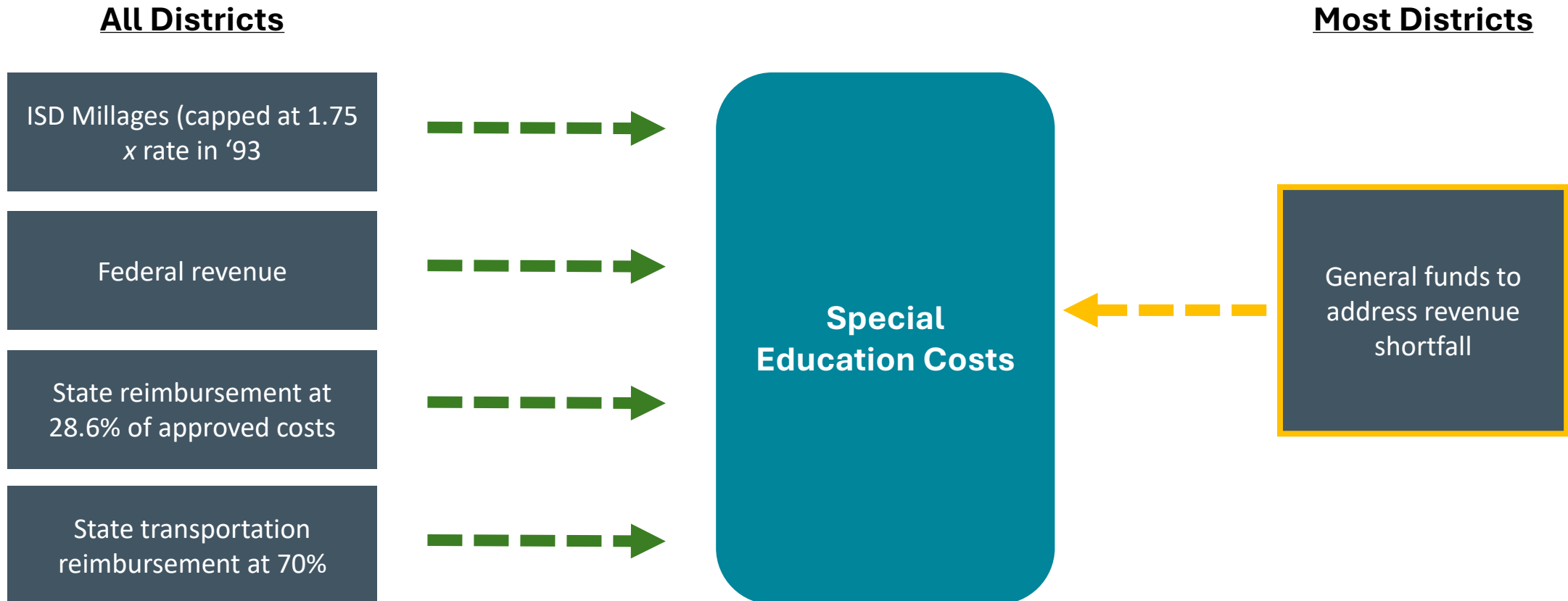
Tax Changes	Current State
<ul style="list-style-type: none">Local school districts are no longer permitted to levy their own special education taxesThe special education taxing authority was relocated to ISDsSpecial education tax levies are limited to a maximum of 1.75 times the rate levied in 1993.	<ul style="list-style-type: none">In 2023, 3 ISDs levied taxes at their cap, and 21 had levies within 1 mill of their cap.That year, the millage rates ranged from 0.7298 to 6.2391.The revenue generated ranged from \$1.4 million to 178.4 million. Statewide 1.3 billion was raised.¹



¹https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_Special_Education_Dec2023.pdf

Overview of Michigan's special education funding streams

Multiple revenue streams fund special education in Michigan: Federal funds, state reimbursements, and ISD millages. Nevertheless, many districts do not have sufficient funding to meet their special education costs. As such, they must draw down their general funds to fill the budget gap. This is called encroachment or shortfall funding. The problem is inequitably distributed across the state.



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Quick poll question #2

Please select the response below that best represents your answer to the following question:

Do you recall ever seeing an ISD millage on your local ballot?

- (1) Yes
- (2) No
- (3) I'm not sure

Core strengths of Michigan's special education finance system

1. Reimbursement systems are directly linked with what districts spend on special education.
2. Despite its design flaws and low level of investment, the Sec. 56 guaranteed tax base provides modest supplemental funding to address wealth disparities.
3. From strictly a taxpayer perspective, the system restricts property taxes.
4. Although not a strength of the system since students with disabilities should have always received the base funding level, the recent reform requiring the state to fully fund the FA for students with disabilities in addition to their *Durant* reimbursement was a positive and critical change.

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Challenges of a reimbursement system

- Potential misalignment between payment for services and revenue
- They can be administratively burdensome.
- Reimbursement rates may be too low to meet cost of services.
 - Michigan's reimbursement rate is the lowest or second lowest in the country.
- Single reimbursement rates do not adjust for regional differences.

4 interconnected problems with Michigan's special education finance system

1. **Encroachment** – Many districts do not have enough special education revenue to meet their current costs.
2. **Restricted local revenue** - The ISD levy cap limits the ability to raise the necessary revenues and leads to significant inequities.
3. **Inequities** – The reimbursement rate does not address wealth inequities, and the GTB, which is designed to redress disparities is insufficiently funded and poorly structured.
4. **Insufficient investment** – A reimbursement system does not require districts to spend more than they currently do on support and services for students with disabilities.

Encroachment: Most districts do not receive sufficient revenue to fund special education costs

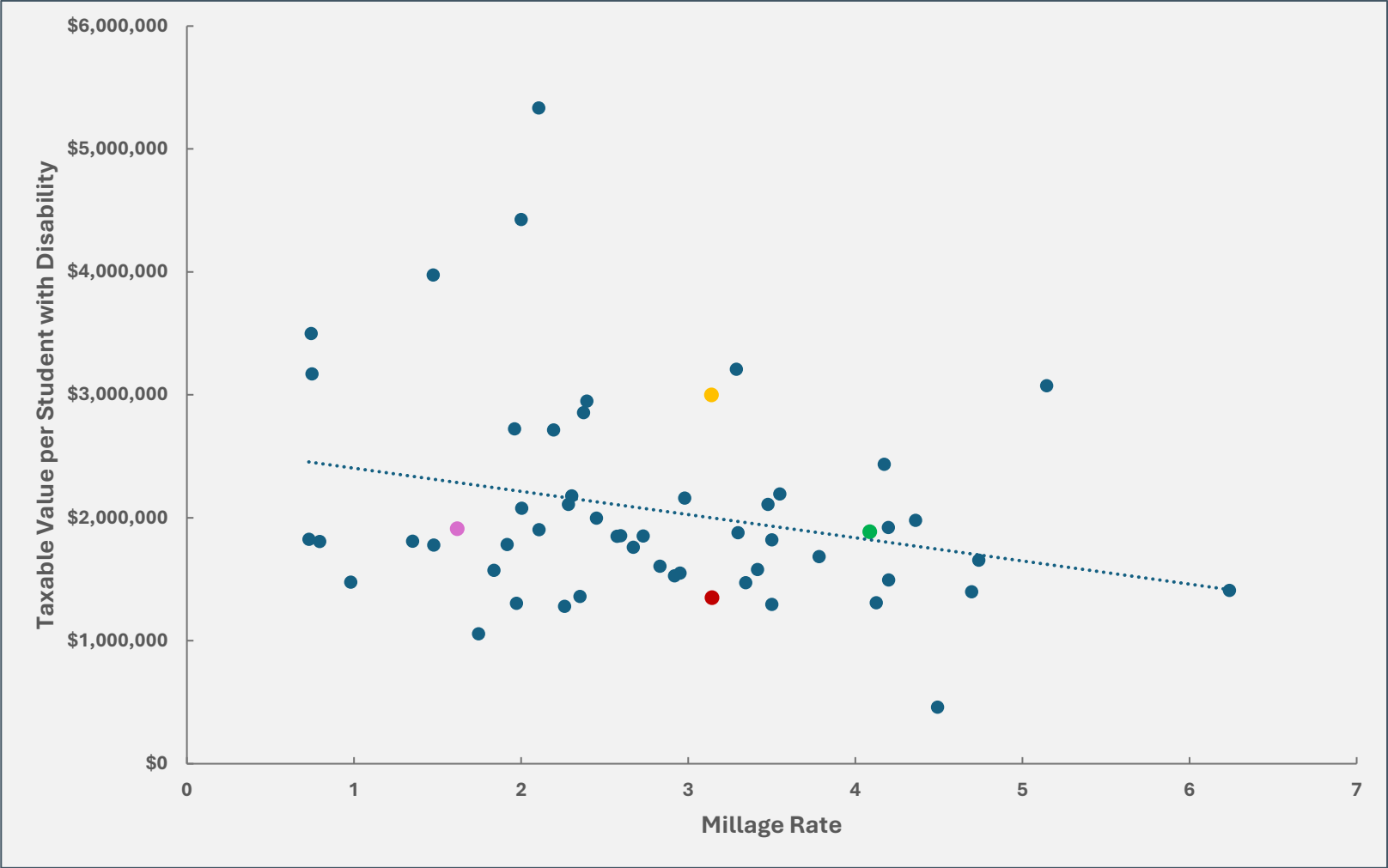
Current spending on special education in Michigan contributes to some of the poorest academic and graduation outcomes for students with disabilities in the country. Yet, most of Michigan's districts spend *more* on special education than revenue they receive. To cover those costs, districts draw down their general budget. This is called “encroachment.”

The statewide encroachment is estimated to be hundreds of millions of dollars. The level of encroachment varies, sometimes significantly, from district-to-district. Indeed, A 2019 analysis found some districts spent more than \$1,200 per pupil, or 15 percent of their foundation grant funding to address encroachment.¹ The problem of encroachment is inequitably distributed.

Eliminating encroachment is certainly important. Addressing it brings special education revenue in alignment with current special education costs. However, removing encroachment does not increase spending on special education.

Restricted local revenue: Cap on property taxes limits local fiscal capacity and produces inequities

Per Pupil Taxable Value by ISD Millage Rates, 2024



Wexford-Missaukee ISD and Livingston ISD levy 3.14 mills. Yet, with more than twice the taxable value, Livingston generates \$1,343 per SWD compared with \$705 in Wexford-Missaukee. To match this, Wexford-Missaukee would need to double it millage, which is prohibited.

Clare-Gladwin RESA and Lenawee ISD have virtually the same taxable value per SWD. Yet, Clare-Gladwin levies 1.62 mills compared with 4.09 in Lenawee. As a result, Lenawee generates 2.5 times as much revenue per SWD. Due to the levy cap, Clare-Gladwin cannot match that level of revenue.

Source: Author’s calculations based on 2024 State Aid Status Reports, <https://mdoe.state.mi.us/samspublic/Home/StatusReport>.

Inequities: State funding does not respond meaningfully to wealth disparities

Regardless of wealth, a district is reimbursed for 28.6 percent of its approved special education costs. Put another way, districts are responsible for nearly 72 percent (including federal funding), of the cost of special education services. **This places a greater burden on lower wealth communities.**

Consider Oakland ISD and Genesee ISD. Both have the same funding obligations, but Genesee has far less property wealth to generate the necessary revenue and serves a higher concentration of students with disabilities and students living in poverty.

	Student poverty rate	Enrollment of SWDs	Taxable value per SWD	Taxable value per Student
Oakland ISD	36.8%	14.22%	\$2,949,784	\$367,284
Genesee ISD	63.5%	18.11%	\$1,360,364	\$208,540

Source: July 2024 State Aid Status Reports, available at <https://mdoe.state.mi.us/samspublic/Home/StatusReport>.

Inequities (2): State policy does not sufficiently address wealth disparities



The guaranteed tax base (GTB) in Section 56, the Special Education ISD Millage Equalization is Michigan's attempt to redress wealth inequities. However, it has a limited impact because:

- It is funded only at \$40 million - too little to address the scope and consequences of wealth disparities in Michigan.
- The taxable value threshold is too low. It is set below statewide average.
- Only about a dozen ISDs qualify for these funds.
- Eligibility is calculated on a per student basis rather than on a per student with disability basis.



Section 56(7), the Special Education Millage Incentive works against equalization goals of the GTB.

- It is funded at \$34 million, or 85% of the GTB.
- It risks sending greater state funding to places generating more local revenue.
- Eligibility is calculated on a per student basis rather than on a per student with disability basis.

Insufficient Investment: Reimbursement doesn't require greater spending on special education

A reimbursement system refunds districts a portion of what they spent on special education that year. On its face, this is not necessarily a bad structure. However, in Michigan it is limiting: Current levels of special education spending contributes to academic achievement and graduation rates that are among the lowest in the country.

A reimbursement system neither requires ISDs and districts make greater investments in their special education system, nor provides additional resources to support those investments. A greater reimbursement rate, for example, would increase the state's share of special education costs without increasing aggregate spending.

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Summary

- Funding for Michigan's special education system comes from federal, state, and local sources.
- The state uses a percentage-based reimbursement system. At 28.6% of approved costs, it is among the lowest rates in the country.
 - This creates greater financial burden on low-wealth communities
 - No mechanism to push ISDs and districts to go beyond current spending levels to better support students with disabilities.
- Local revenue is levied at by ISDs and is limited to 1.75 times the rate levied in 1993.
 - Difficult to raise the necessary revenues and creates inequities
 - State equalization funding is unable to redress the disparities
- Many districts rely on general funds since they do not have enough special education revenue to meet costs.

Chat question #2

What do you conclude from these strengths and weaknesses in Michigan's special education finance system?

Questions?

Register for the next Launch and Learn session, taking place on
Wed. March 26 from 12:00 – 1:00 p.m.

<https://pscinc.co/launch-and-learn/>

Appendix

Core components of IDEA

IDEA is designed to ensure students with disabilities access a “free and appropriate public education,” or FAPE. Furthermore, the law requires schools to develop Individualized Education Plans (IEPs) for students with disabilities. The plans describe the support and services they will receive to meet the student’s learning and development goals. Other core components of IDEA include:

- **Protecting the education rights** of students with disabilities and their families. Parents have a private right of action to go to the legal system to enforce their children’s rights.
- **Funding state and local entities** (e.g., LEAs and ISDs) to support students with disabilities.
- **Supporting states and localities** to provides services and early interventions for families with infants and toddlers who have disabilities.