

Michigan Special Education Finance: A Blueprint for Reform

This document provides an overview of the MI Blueprint approach to developing a proposal for comprehensive finance reform that will more effectively and equitably fund special education. This brief also includes an outline of the research plan, the values and principles for reform guiding the work, as well as potential limitations.

Overview of the State of Special Education in Michigan

In 2024, nearly 15 percent of Michigan's public-school students had an IEP, up from 13 percent a decade earlier.ⁱ In some districts, the share is greater than 20 percent.ⁱⁱ Although students with disabilities in Michigan's public schools face many challenges, the most significant is structural: The state's underfunded and inequitable special education finance system.ⁱⁱⁱ For decades, the opportunities, resources, and support available to students with disabilities too often depends on where they live.

Special education in Michigan is underfunded in two ways. First, there are not enough resources in the system.^{iv} Second, the state spends too little of its own funds on special education. Michigan is one of only a handful of states that disburses special education funding to districts through a percentage-based reimbursement system.^v At only 28.6 percent,^{vi} Michigan's reimbursement rate is the lowest or second lowest in the country.^{vii} As a result, the bulk of special education funding is pushed down to the local level.

The problem is that many communities cannot raise enough revenue due to property tax limitations imposed by Proposal A. Intermediate School Districts (ISDs), which are responsible for levying local taxes for special education, may only increase their special education tax to 1.75 times the rate levied in 1993. This leads to significant wealth-based inequities across the state. Additionally, restricted local revenues combined with modest state investment leave many school districts without enough special education funding to meet their costs. In these instances, districts must draw down their general education budgets to finance special education. This problem is most severe in low-wealth communities.

Michigan's special education finance system contributes to some of the poorest academic achievement outcomes and graduation rates in the nation.^{viii} To be sure, some districts and students are performing well under the current system. Yet, the typical student with a disability in Michigan lacks access to the resources and opportunities they need to be successful.

Underfunding special education harms all students in Michigan. It clearly and directly harms students with disabilities by restricting access to the supplemental resources and opportunities they need to access the full curriculum and educational experience. Consequently, underinvesting in special education affects the general education classroom as well because districts must redirect funds to meet special education costs. This means fewer resources for all students, including students with disabilities, since more than three-quarters of them spend at least 80 percent of their school day in the general education context.^{ix} Simply put, all students urgently need Michigan to reform how it funds special education.

The good news is that there is momentum for meaningful reform. In Michigan, the 2018 adequacy study by the School Finance Research Collaborative (SFRC) proposed a weighted student funding structure for special education.^x The recent reform ensuring all students with disabilities receive their full foundation allowance (FA) separately from their Durant reimbursement was critical. Additionally, in 2023 Michigan passed the Opportunity Index, a weighted student funding formula that provides greater resources as a district's concentration of poverty increases.^{xi} These offer models for how special education finance can be improved. Similarly, Tennessee,^{xii} Colorado, and Mississippi recently overhauled their statewide school funding systems by moving to weighted student funding models.^{xiii}

The Michigan state legislature took an important step to advance special education finance reform last session. They authorized a project to develop a proposal for a funding system that will more effectively and equitably fund special education. The project will estimate the costs of implementing such a model and how funds should be shared among state and local revenue sources. See the Appendix for the legislative language authorizing and funding this work.

MI Blueprint Approach to this Work

The objective of this project is to develop a comprehensive special education finance reform package that is unconstrained by the existing structures (e.g., separate and modest guaranteed tax base fund, and the local levy cap). This “north star” approach will propose moving from a reimbursement structure to a weighted student funding model that is more closely aligned with student needs.

This project is not intended to discourage ongoing efforts to improve aspects of how Michigan currently funds special education. For example, MAISA's proposal to restructure the guaranteed tax base in Sec. 56 would result in a meaningful improvement to existing policy.

In short, the vision for this project is a proposal for coherent, comprehensive structural reform of Michigan's special education finance system that is better funded, aligned with actual student needs, and more equitable.

The MI Blueprint Project is Guided by Three Core Values

1. **With proper resources and support, all students with disabilities can learn and achieve state standards.** The consistently poor academic achievement and low graduation rates for Michigan's students with disabilities are driven in large part by the state's inadequate and inequitable finance system. The fact that students with disabilities in other states are far more successful makes clear that a critical limiting factor is how Michigan structures and finances special education and not an innate limitation of the students themselves or a failure on the part of the educators.
2. **Students with disabilities themselves should be at the heart of special education finance reform.** Student-centered finance reform means developing a system that allocates resources based on student needs and reduces or eliminates the regressive consequences of property wealth on educational opportunities.^{xiv}
3. **Reforming Michigan's special education finance system is a civil rights imperative.** This work recognizes that students with disabilities require and indeed are entitled to additional

resources and support to realize their right to a free and appropriate public education. The need to improve special education in Michigan is made more urgent by the suddenly uncertain federal role in funding special education and in maintaining long-standing civil rights protections.

MI Blueprint: Principles for Reform

Overhauling a state funding system may take many forms. The approach to school funding reform matters. Based on research and ongoing stakeholder engagement, the MI Blueprint Project team developed the following five principles to guide their work.

1. **Increase overall investment in special education.** Michigan's special education system is underfunded. Much of the problem is rooted in the under-investment of state-level resources. However, simply shifting a greater share of the current costs to the state is not enough to redress the problem of systematically under-served and under-supported students with disabilities.^{xv}
2. **Increase state share of special education spending.** The state does not invest enough of its own revenues in special education. Covering less than a third of the cost of special education is inadequate and restricts student access to critical resources and opportunities. This will require new revenues as increasing the state's investment in special education cannot result in reducing state aid to other vulnerable students.
3. **Provide greater funding for greater student needs.** Unfortunately, there is no consensus on how best to fund special education. However, there is growing agreement that special education finance systems should be differentiated. Multiple weighted tiers allow state finance systems to be more responsive to the wide variety of diagnoses, needs, and level of services required by students with disabilities. There are trade-offs in how those tiers are structured. Additionally, a weighted system must strike a balance between differentiating tiers to meet differences in student needs without unintentionally creating a funding system that makes providing services overly complex.
4. **Advance fairness.** Property wealth disparities are a key driver of inequities in special education finance. Proposal A largely eliminated the impact of local property wealth on general education funding. However, it preserved the problem for special education. A fair funding system is designed to mitigate wealth disparities.
5. **Increase simplicity and transparency.** Michigan's current special education finance system is complicated. It is the result of a series of adjustments stemming from a court case in the 1990s. The reimbursement structure is administratively burdensome in that it requires considerable paperwork and accounting.

Limitations

The uncomfortable reality is that there is no precise, scientific answer to the question, "How much money is necessary to achieve the student outcomes we all want?" That said, current evidence offers important guidance and principles that lead to positive outcomes for students, such as the benefits of greater funding for concentrations of student poverty.^{xvi} Additionally, there is a strong body of evidence pointing to effective interventions and programs districts can purchase, such as high dosage tutoring to increase achievement and close gaps.^{xvii}

However, special education is particularly tricky. There is a wide variation of needs among students with disabilities. Students within the same eligibility category and who even spend the same amount of time in the general education context may require substantially different kinds and levels of services. Moreover, the literature base is less developed compared with the research on student poverty. That said, there is a growing body of evidence that finds positive relationships between increased funding and improved outcomes for students with disabilities.^{xviii} This makes sense intuitively. Students with disabilities require and are entitled to supplemental services and support, which cost money. Of course, the quality of those supports is vitally important, but districts and schools must have the necessary resources first.

There is also an inherent limitation to funding-based finance reform: A formula cannot address all the challenges in Michigan's special education system. A formula can improve resource equity and adequacy and better align funding with student needs. Yet, it is important to recognize that a funding formula does not make curricula and staffing decisions. A formula is decidedly not an accountability system. Those are valuable but distinct entities. This project will focus strictly on fiscal elements of special education funding.

Finally, there are data limitations. Michigan collects data about the FTE and headcount of its enrollment of students with disabilities. It also collects data on eligibility and time spent in a general education context. However, it does not collect the amount of time students receive direct service. Thus, it is more difficult to design a weighted student funding formula based on level or intensity of service.

MI Blueprint Research Plan

While there is no exact science that will produce a more effective and equitable special education funding arrangement, there is an effective approach that is evidence-based and has led to meaningful reforms across the country. The best method when constructing a blueprint for special education finance reform is to build upon the existing literature on effective funding structures and the available research on costs. That foundation is then applied to the state's political and fiscal context to develop a robust and achievable formula.

Fortunately, Michigan has a costing-out study from 2018 that recommended moving to a weighted student funding formula.^{xix} The project team will use that as the starting point for this analysis. The modeling will be conducted at the state, ISD, and district levels. They will be based on the most recent FTE and enrollment data^{xx} from the Michigan Department of Education, as well as the current Foundation Amount and the FA proposed in the Governor's budget.^{xxi} The core components of the MI Blueprint study are:

1. Model and analyze Michigan's current special education finance system.
2. Model the cost and implications of the 3-tier, FTE-based, SFRC weighted student funding model.
3. Evaluate the conversion of the SFRC to be based on headcount rather than FTE so that the formula can integrate more easily with the FA, as well as the Opportunity Index.
4. Examine other costing-out studies to identify alternative models and structures, such as different weights and alternative ways to differentiate among students.^{xxii}

5. Study how other states fund special education. The project team will pay close attention to the most recent reforms in Colorado and Mississippi, as well as those states whose students with disabilities are among the highest performing in the country.^{xxiii}
6. Study how states determine how much of a district's entitlement (the total amount of funding a district is eligible for based on the profile of students it serves) must come from state sources, and how much from local and ISD sources.^{xxiv} Model those structures using Michigan property wealth and, if available, income data.
7. Study and compare the models, including:
 - a. Total cost of full implementation
 - b. Change in aggregate special education spending at the state, ISD, and district levels
 - c. Impact on districts and ISDs by wealth, student demographics, and urbanicity
 - d. Distribution of state revenues
 - e. Effect on local revenues and tax effort
 - f. Interaction with the Opportunity Index

To offer critical guidance throughout the project, the MI Blueprint team will convene a strategic planning group. This group will provide insight on representative engagement, suggest approaches to collecting stakeholder feedback, and offer different levels of perspective and experience in the education sphere. We will also convene a technical planning group to discuss key decision points, including the trade-offs between an FTE-based and a headcount-based system, basing the weights on eligibility or another criterion, as well as striking an appropriate balance between differentiating among students and providing sufficient flexibility at the point of service for educators to meet student needs.

Throughout this work, the project team will continuously engage with stakeholders. This includes a high-level survey to gather perspectives on which aspects of Michigan's special education system are working and which areas need improvement. The survey also seeks to gauge attitudes on related finance topics such as the reimbursement model and local taxes. In addition, the project team will conduct regular interviews with practitioners, advocates, and policy experts.

The project team's goal is to be as inclusive and as transparent as possible.

Conclusion

Rather than working within the complex and ultimately inadequate structures of Michigan's current special education finance system, the project team is working toward a comprehensive, structural funding reform. The goal is to build a system that will enable students with disabilities to reach their maximum potential. Although there is no perfect system, by adopting a formula that allocates greater resources to students with greater needs and increases state support to low-wealth communities, Michigan will better support its students with disabilities.

Appendix

Legislative language authorizing the study:^{xxv}

Sec. 51h.

(1) From the general fund money appropriated in section 11, there is allocated for 2024-2025 only \$500,000.00 to Clinton County RESA to partner with an independent entity that has extensive experience in school finance, including the opportunity index, to conduct research, interviews, data collection, analysis, and financial modeling to develop an implementation framework that outlines the cost of fully providing special education services and supports to students with disabilities through the application of an equity-driven model.

(2) The study described in subsection (1) must include key areas of school finance related to the education costs of students with disabilities. The study must provide objective guidance to the legislature regarding both of the following:

(a) Modeling analysis of a weighted funding formula related to students with disabilities to determine accurate cost estimates to fully fund special education according to consensus-built weighted multipliers.

(b) Policy and implementation recommendations based on an equitable framework that considers the intersection with the opportunity index and that will improve how this state funds students with disabilities.

(3) Within 30 days after the completion of the study, the independent entity shall issue a report with its findings to the department, the house and senate fiscal agencies, the state budget director, the senate appropriations subcommittee on pre-K to 12, the house appropriations subcommittee on school aid and education, and the house and senate standing committees responsible for education legislation.

(4) Within 60 days after the completion of the study, the independent entity shall make its findings available on a publicly available website.

(5) Notwithstanding section 17b, the department shall make payments under this section on a schedule determined by the department.

ⁱ MI School Data, “Special Education Counts,” Michigan Department of Education, available at: <https://www.mischooldata.org/special-education-counts-data-files/>.

ⁱⁱ MI School Data, “Special Education Counts,” Michigan Department of Education, available at: <https://www.mischooldata.org/special-education-counts-data-files/>. Eleven LEAs, some of which are Academies, have enrollments of students with disabilities greater than 20 percent. For example, Garden City Public Schools (23.5%), School District of the City of Lincoln Park (20.9%), and Taylor School District (24.7%).

ⁱⁱⁱ Tanner Delpier and Mary McKillip, “What will it take to Achieve Funding Adequacy for All Michigan Students?” Education Law Center, April 2023, available at: https://edlawcenter.org/assets/Michigan/2023_ELC_MichiganReport_Final.pdf.

^{iv} Augenblick, Palaich and Associates, and Picus, Odden and Associates, “Costing Out the Resources Needed to Meet Michigan’s Standards and Requirements,” January 2018, available at:

<https://static1.squarespace.com/static/64f225b2b502d42a84dd1d88/t/64f2321fa833080bf0ee0376/1693594149114/School-Finance-Research-Collaborative-Report.pdf>; Delpier and McKillip, 2023.

^v Krista Kaput and Jennifer O’Neal Schiess, “How Do School Finance Systems Support Students with Disabilities?” Bellwether, May 2024, available at: https://bellwether.org/wp-content/uploads/2024/05/SplittingtheBill_16_Bellwether_May2024.pdf; EdBuild, “FundEd: National Policy Maps, A National Overview of State Education Funding Policies,” available at: <http://funded.edbuild.org/national#special-ed>.

^{vi} Durant v. State of Michigan, 1997, available at: <https://law.justia.com/cases/michigan/supreme-court/1997/104458-8.html>.

^{vii} Depending on appropriations, Wisconsin may reimburse LEAs at a lower rate than Michigan.

^{viii} Michigan students with disabilities consistently score below the national average on the National Assessment of Educational Progress’s (NAEP) 4th and 8th grade reading and math assessments. Source: National Assessment of Educational Progress, U.S. Department of Education, accessed February 4, 2025, available at: <https://www.nationsreportcard.gov/ndecore/xplore/NDE>. According to the latest MDE data, 13.6% of students with disabilities reached M-Step ELA Benchmarks (all grades), and 12.8% reached M-Step Math Benchmarks. Students with disabilities 4-year cohort graduation rate in 2022-23 was 59.6%. Bring all of the data on performance here into a mega footnote. Source: MI School Data Report Builder – K-12, MI School Data, MDE, accessed January 15, 2025, available at: <https://www.mischooldata.org/report-builder/>. For comparison, the National average 4-year adjusted cohort graduation rate was 71% in 2022. Source: Four-Year Adjusted Cohort Graduation Rate, SEA level, Ed Data Express, U.S. Department of Education, accessed February 3, 2025, available at: <https://eddataexpress.ed.gov/>.

^{ix} MI School Data, “Special Education Counts,” Michigan Department of Education, accessed January 15, 2025, available at: <https://www.mischooldata.org/special-education-counts-data-files/>.

^x Augenblick, Palaich and Associates, and Picus, Odden and Associates, 2018

^{xi} Jen Mrozowski, “Michigan Makes History with New School Funding Formula to Account for Needs of Students Living in Areas of Concentrated Poverty,” Education Trust Midwest, June 2023, available at: <https://midwest.edtrust.org/2023/06/28/michigan-makes-history-with-new-school-funding-formula-to-account-for-needs-of-students-living-in-areas-of-concentrated-poverty/>.

^{xii} Carrie Hahnel, Max Marchitello, and Titilayo Tinubu Ali, “From Antiquated to Equitable: How Tennessee Overhauled Its State School Funding Formula,” Bellwether, February 2023, available at: <https://bellwether.org/publications/antiquated-to-equitable/>.

^{xiii} Chris Duncombe, “Colorado and Mississippi Make Big Moves in K-12 Finance Reform,” Education Commission of the States, November 2024, available at: <https://www.ecs.org/colorado-and-mississippi-make-big-moves-in-k-12-finance-reform/>.

^{xiv} Biko McMilan et al., “Designing Change: A Toolkit for State Education Finance Reform,” Bellwether, October 2024, available at: https://bellwether.org/wp-content/uploads/2024/10/DesigningChange_Bellwether_October2024.pdf. Aaron Garth Smith and Christian Barnard, “A Student-Centered Funding Roadmap for Policymakers,” Reason Foundation, October 2020, available at: <https://reason.org/policy-brief/student-centered-funding-roadmap-for-policymakers/>.

^{xv} Citizens Research Council of Michigan, “A Big Boost in Special Education Funding Does Not Mean More Services,” CRC, July 2022, available at: <https://crcmich.org/a-big-boost-in-special-education-funding-does-not-mean-more-services>.

^{xvi} C Kirabo Jackson, Rucker Johnson, Claudia Persico, “The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms,” National Bureau of Economic Research, January 2015, available at: <https://www.nber.org/papers/w20847>. C. Kirabo Jackson, “Does School Spending Matter? The New Literature on an Old Question,” Fall 2018 Bronfenbrenner Center for Translational Research Conference, December 2018, https://www.nber.org/system/files/working_papers/w25368/w25368.pdf. Julien Lafortune, Jesse Rothstein, and Diane W. Schanzenbach, “School Finance Reform and the Distribution of Student Achievement.” American Economic Journal: Applied Economics, 2018, available at: <https://www.aeaweb.org/articles?id=10.1257/app.20160567>; Christopher A.

Candelaria, Kenneth A. Shores, “Court-Ordered Finance Reforms in the Adequacy Era: Heterogeneous Causal Effects and Sensitivity,” *Education Finance and Policy*, 2019, available at: <https://direct.mit.edu/edfp/article-abstract/14/1/31/10303/Court-Ordered-Finance-Reforms-in-the-Adequacy-Era>; Jesse Rothstein, Diane Schanzenbach, “Does Money Still Matter? Attainment and Earnings Effects of Post-1990 School Finance Reforms,” *National Bureau of Economic Research*, 2021, available at: https://www.nber.org/system/files/working_papers/w29177/w29177.pdf.

^{xvii} Monica Bhatt, et al., “Realizing the Promise of High Dosage Tutoring at Scale: Preliminary Evidence for the Field,” The University of Chicago Education Lab, March 2024, available at: <https://educationlab.uchicago.edu/resources/realizing-the-promise-of-high-dosage-tutoring-at-scale-preliminary-evidence-for-the-field/>.

^{xviii} Rebecca Cruz et al., “The Effect of School Funding on Opportunity Gaps for Students with Disabilities: Policy Context in a Diverse Urban District,” *Journal of Disability Policy Studies*, 2022, available at: <https://journals.sagepub.com/doi/full/10.1177/1044207320970545>. Chris Needham, “Can, and Should, an Outcomes-Based Approach Be Used to Determine Funding for Special Education?” *Journal of Education Finance*, 2023 available at: <https://muse.jhu.edu/pub/34/article/928646/summary>.

^{xix} Augenblick, Palaich and Associates, and Picus, Odden and Associates, 2018

^{xx} Whenever possible this data will be disaggregated by student demographics, district characteristics, etc.

^{xxi} This is subject to change as the budget process evolves.

^{xxii} See: Picus Odden and Associates and APA Consulting, “A Comprehensive Review of State Adequacy Studies Since 2003,” Augenblick, Palaich and Associates, 2014, available at: https://www.marylandpublicschools.org/Documents/adequacystudy/AdequacyReviewReport_rev_091214.pdf. Jason Willis, et al., , “A Study of Cost Adequacy, Distribution, and Alignment of Funding for North Carolina’s K-12 Public Education System,” WestEd, 2019, available at: <https://www.wested.org/resource/cost-adequacy-distribution-and-alignment-of-funding-for-north-carolinas-k-12-public-education-system/>.

^{xxiii} According to the 2024 NAEP, the proficiency rates for students with disabilities is consistently among the highest in the country for the following states: Connecticut, Indiana, Louisiana, Massachusetts, and New Jersey. Note: given state effects it is not as simple as looking at the states with the highest performing students with disabilities and correlating that to their finance system. Massachusetts’s schools, for example, are historically high-achieving, well-funded, and the state has long standing finance equity policies in place. In other words, the high achievement of students with disabilities in the state may be the result of attending school in the state with perhaps the most effective education system in the country.

^{xxiv} As an example, see the Base Aid Ratio of Connecticut’s Education Cost Sharing Formula: <https://schoolstatefinance.org/issues/ecs-formula>. Our citation is not an endorsement of this specific approach. Also see, although an older resource, “Who Pays the Tab for K-12 Education? How States Allocate their Share of Education Costs,” Education Commission of the States, August 2013, available at: <https://www.ecs.org/clearinghouse/01/08/47/10847.pdf>.

^{xxv} State of Michigan 102nd Legislature Regular Session of 2024, Enrolled House Bill NO. 5507, available at: <https://www.michigan.gov/budget/-/media/Project/Websites/budget/Fiscal/Final-Signed-Budget-Bills/FY25-Education-Omnibus-HB-5507-PA-120-of-2024-Includes-2024-Supplemental-Funding.pdf?rev=39a84bdbc107466193557746d2f92901&hash=3D88CE60A4A576AEB237CBF879425756>.