

FISCAL BRIEF

SPECIAL EDUCATION FUNDING

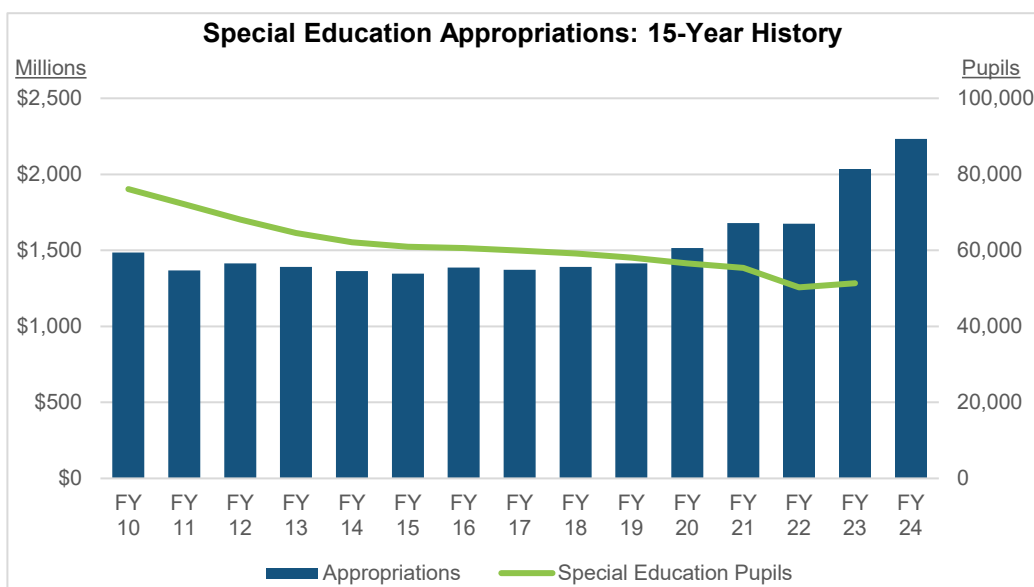
Jacqueline Mullen, Senior Fiscal Analyst
 Noel Benson, Fiscal Analyst
 December 21, 2023

FAST FACTS

- Special education funding supports programs, services, and personnel for students with disabilities, largely by reimbursing districts and ISDs for their special education costs.
- The FY 2023-24 budget includes \$2.2 billion for special education purposes, including \$1.8 billion SAF and \$461.0 million Federal.
- An additional estimated \$1.3 billion is levied through local ISD special education mills.
- Districts and ISDs incur \$655.0 million in uncompensated special education costs (FY 2020-21), which must be paid through general education funds.

INTRODUCTION

Special education funding in Michigan comes from federal, state, and local sources and supports programs, services, and personnel for students with disabilities. The state’s FY 2023-24 budget appropriates a total of \$2.2 billion for special education purposes, including \$1.8 billion School Aid Fund (SAF) and \$461.0 million Federal. An additional estimated \$1.3 billion in local intermediate school district (ISD) special education millage revenue (not included in the state appropriations process or the graph below) brings total special education revenue for school districts and ISDs to \$3.5 billion.



Note: This graph includes only state and federal funding. Local funding is not included.

STATE AND FEDERAL MANDATES

In 1997, the Michigan Supreme Court ruled in *Durant v. State of Michigan* that the state was funding special education and special education transportation below the 1978 levels mandated under the Headlee Amendment.¹ As a result of the court case, the state is required to fund 28.6138% of total approved special education costs and 70.4165% of total approved special education transportation costs. Sections 51a(2) and 51c ensure ISDs and school districts receive these minimum amounts, commonly called the *Durant* percentages.

¹ See this 1999 HFA Fiscal Forum for more information on the *Durant* court case: "[Durant: What Happened and Implications for the Future.](#)"

The federal Individuals with Disabilities Education Act (IDEA) guarantees all students with special needs (i.e., students with an individualized education program, or IEP) a free and appropriate public education in the least restrictive environment. While IDEA mandates special education services be provided, federal funds cover only a portion of total approved special education costs in Michigan. Districts and ISDs must then use state special education funds, ISD special education millage revenue, and funds for general education to make up the difference. In FY 2020-21, 80.7% of Michigan's approved special education costs were covered by federal, state, and local special education funds, leaving a shortfall of \$655.0 million for general education.]

STATE FUNDING

Total state funds for special education are appropriated in the School Aid Act under Sec. 51a(1). The state funding is then allocated through nine line items in Secs. 51a, 51c, 51e, 53a, 54, and 56. The FY 2023-24 budget appropriates a total of \$1.8 billion in state funding, which include the following state funding allocations:

- **Sec. 51a(2) – ISD *Durant* Costs (\$368.0 million):** reimburses the *Durant* costs for ISDs (28.6138% of special education costs and 70.4165% of special education transportation costs). Prior to FY 2023-24, this section also funded ISD special education pupils' foundation allowances, which were counted toward fulfilling *Durant* costs (see *Durant* Funding Revision [below](#) for more details).
- **Sec. 51a(3) – ISD Hold Harmless Payment (\$1.0 million):** previously ensured ISDs were held harmless after *Durant*, meaning their funding would not decline from the FY 1996-97 amount. Beginning in FY 2023-24, while the budget maintains \$1.0 million under this subsection, the expected allocation is \$0 due to increased special education funding exceeding hold harmless levels.
- **Sec. 51a(6) – Administrative Rules Changes (\$2.2 million):** reimburses costs incurred by districts and ISDs related to administrative rule changes made in 1987.
- **Sec. 51a(11) – ISD Sec. 53a Foundations (\$2.0 million):** funds 100% of foundation allowances for court-placed pupils described in Sec. 53a.
- **Sec. 51c – District *Durant* Costs (\$820.0 million):** reimburses the *Durant* costs for districts.
- **Sec. 51e – Foundation Allowances (\$491.2 million):** funds district and ISD special education pupils' foundation allowances.² This section was introduced in FY 2022-23 at 75% funding and is fully funded beginning in FY 2023-24. See *Durant* Funding Revision [below](#) for more details on this formula change.
- **Sec. 53a – Court-Placed Pupils (\$10.5 million):** reimburses 100% of the total approved costs of special education for pupils in certain situations (for example, those placed in community or institutional settings).
- **Sec. 54 – Michigan Schools for the Deaf and Blind (\$1.7 million):** reimburses instructional costs for ISDs that have pupils enrolled in the Michigan Schools for the Deaf and Blind.³
- **Sec. 56 – Millage Equalization and Incentive (\$74.2 million):** provides a millage equalization, which guarantees ISDs a minimum level of revenue per pupil for each special education mill levied, and a millage incentive, which encourages ISDs to increase their special education millage rates.

While district special education pupils are also included in the calculations under Secs. 51a(2), 51a(3), and 51a(11), districts are not paid under these sections but through a formula that adds total foundation and special education costs (including these three subsections) and then subtracts payments under Sec. 22a (constitutionally required part of the foundation) and Sec. 51c (*Durant* costs) to arrive at the payment for Sec. 22b (discretionary part of the foundation).

² While Sec. 51e could be considered a foundation allowance payment rather than special education, it is included here as a special education cost because its separation from double-counting toward *Durant* requirements allows districts and ISDs to receive their full *Durant* payment separately from foundation obligations.

³ The Michigan School for the Deaf remains an on-campus program in Flint, Michigan. The Michigan School for the Blind now operates as the Michigan Department of Education - Low Incidence Outreach (MDE-LIO) and provides services but does not enroll pupils. Therefore, Sec. 54 currently only reimburses ISDs for pupils enrolled in the Michigan School for the Deaf.

DURANT FUNDING REVISION

Prior to FY 2022-23, the foundation allowance received for a special education pupil was used toward fulfilling the *Durant*-required percentages in Secs. 51a(2) and 51c. Therefore, if a pupil's *Durant* reimbursement did not exceed the district's foundation allowance, that district received no additional funding beyond the foundation allowance for that pupil.

In an effort to increase compensation for special education costs, the funding formula for special education foundation allowances and *Durant* costs was revised in FY 2022-23 so that 75% (rather than 0%) of a special education pupil's foundation allowance would be paid separately from the *Durant* percentages. In FY 2023-24, the transition to fully fund foundation allowances separately from the *Durant* percentages was completed and 100% of special education foundation allowances are now paid under Sec. 51e.

The table below compares how two districts would be paid in FY 2023-24 based on the formula pre-FY 2022-23 and the 100% funding formula enacted for FY 2023-24.

Pupil A: \$5,000 <i>Durant</i> Reimbursement		
	Before Revision	After Revision
Foundation Allowance	\$9,608	\$9,608
<i>Amount of Durant Costs Paid under Foundation</i>	\$5,000	\$0
Additional <i>Durant</i> Payment	\$0	\$5,000
Total District Payment	\$9,608	\$14,608

Pupil B: \$10,000 <i>Durant</i> Reimbursement		
	Before Revision	After Revision
Foundation Allowance	\$9,608	\$9,608
<i>Amount of Durant Costs Paid under Foundation</i>	\$9,608	\$0
Additional <i>Durant</i> Payment	\$392	\$10,000
Total District Payment	\$10,000	\$19,608

FEDERAL FUNDING

The FY 2023-24 budget appropriates a total of \$461.0 million in Federal funding for special education, which includes the following allocations:

- **Sec. 51a(1) – Federal Reimbursement (\$390.0 million):** appropriates federal reimbursements to districts and ISDs under sections 611-619 of part B of IDEA.
- **Sec. 51d – Other Federal Grants (\$71.0 million):** appropriates three federal grants from the U.S. Department of Education Office of Special Education and Rehabilitative Services (DED-OSERS).

LOCAL ISD SPECIAL EDUCATION MILLAGE REVENUE

All 56 ISDs levy a local special education millage, which must be approved by local residents. Millage revenue varies for each ISD depending on the number of mills levied and the taxable value of the property being taxed. Special education millage rates are capped at 1.75 times the ISD's approved 1993 rate. Three ISDs currently levy at their cap and 21 levy within one mill of their cap. Overall, ISD millage rates span from 0.7298 to 6.2392, generating millage revenue from \$1.4 million to \$178.4 million, and totaling \$1.3 billion statewide.