

House School Aid Subcommittee Testimony 03-18-2021

Chairman Paquette and Members of the Committee:

My name is Ben DeGrow, director of education policy at the Mackinac Center for Public Policy. I have come to share a few observations on special education funding in Michigan, based on our research. These observations are guided by the belief that every child deserves access to quality education options. The state's roughly 200,000 students with disabilities represent great diversity and great potential. Yet results for these students have lagged, earning Michigan a uniquely low "needs intervention" rating from the U.S. Department of Education in 2018.

We should not be deterred by the formidable challenge to helping every child succeed. Our students with disabilities remind us of the unique skills and learning needs that all children bring to their schooling years, and – most importantly – why we need to move beyond a one-size-fits-all educational delivery model to provide students statewide with more personalized learning options.

Unfortunately, constraints built into our state's system funding for special education pose an obstacle to meeting these important goals. The core of K-12 funding in Michigan shows us a better way forward. The **foundation allowance** guarantees a significant basic funding floor for each student, regardless of where they are enrolled. The foundation allowance gap has closed significantly among districts over the past quarter century. In 1994, before Proposal A, the highest allowance was 3.7 times greater than the lowest allowance. Today, all charter schools and 75% of conventional districts stand on level ground at the minimum foundation allowance level, with a small number of outliers as much as 50% higher.

These results were achieved by avoiding a heavy dependence on local property taxes. **Public charter schools** can't raise property taxes at all. More than 75% of their funds come through the per-student foundation allowance. **Conventional school districts** raise 62% of their operating dollars through the foundation allowance, with a proscribed ability to ask voters for additional local tax funds for limited purposes.

But special education services depend much more on local property taxes. That brings us to Michigan's 56 **intermediate school districts**, which oversee special education funding and services in their respective regions. Last year ISDs received nearly \$1 billion in state tax funds and spent over 10% of all funds spent by Michigan K-12 public education agencies. Nearly half of ISD revenues come through local taxes. And the largest local tax by far is the Special Education Millage, which varies widely across the state in terms of funds generated due to taxable property values and regional millage rates.

The most recent such data analyzed by the Mackinac Center comes from 2019, when the 56 ISDs combined to collect about \$1.05 billion in local special education taxes. This represents a significant portion of the funds set aside for these services. The current School Aid budget includes nearly \$1.6 billion in state and federally funded line items for special education purposes, much of which is provided to local districts and agencies on a percentage reimbursement of actual costs.

While state and federal dollars generally reach fairly across the state, the story with local ISD special education funds is different. Compared to the number of students with individualized education programs, the amount of these local tax dollars varies widely, especially when compared with the shrinking disparities among district foundation allowances. Washtenaw ISD collected

about \$13,000 in special education property taxes per IEP student, more than 10 times the per-student rate of Lapeer and Sanilac.

At the same time, there are questions about how those funds are reserved at the regional level, and how fairly and effectively they are shared. [Wayne RESA](#), the largest ISD in the state, raises most of the money for its Special Education Fund through its local millage. Spending about \$160 million a year, the district's ever-growing fund balance reached \$265 million last June.

ISD special education plans dictate how fund dollars are distributed, including both the local millage and other funds used to pay for special education services. Some of these plans unduly limit choice by putting funds in a proverbial lockbox. In all, 24 of the 56 plans explicitly state that these local tax dollars cannot be used to support students who are not residents of the ISD. Notably, the ISDs with locally restrictive plans tend to be higher-funded. On average, the restrictive ISDs collect nearly twice as many special education tax dollars per student as those without these provisions. In all, they brought in about \$660 million in local special education taxes last year – funds not available to a non-resident student who might benefit from a program.

The state allocates about \$40 million a year through a categorical grant to help “equalize” special education mill levies. Ultimately, it's an ineffective approach to solving the disparity, even if it may provide some benefit at the margins. The ideal funding mechanism would be a fully equalized, family-run flexible spending account that directs scarce dollars to the materials and services needed by a student with disabilities.

In lieu of that, the Legislature should explore a Proposal A-style mechanism that equalizes tax dollars among different regions, and makes revenue more broadly and fairly available based on the individual needs of a student, regardless of where he or she lives. That should also strengthen the incentive for individual districts and ISDs to focus on providing needed services and to receive IEP students through Schools of Choice more freely.

While careful attention would be needed to craft an effective policy solution that uplifts families and honors taxpayers, the evidence is clear. When it comes to fairly funding opportunities for students with disabilities, Michigan can do better.

Thank you. I am free to answer questions.