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What Will It Take to Achieve Funding Adequacy for All Michigan Students?

\$4.5 BILLION NEEDED TO CLOSE FUNDING GAPS

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Summary

School funding in Michigan is inadequate and inequitable. Michigan does not provide a sufficient base per-pupil amount, nor does the state properly address the cost of educating students with additional needs, especially students with disabilities, English learners, and low-income students. It would cost \$4.5 billion to bring districts to funding adequacy based on estimates updated from the 2018 Michigan School Finance Research Collaborative (SFRC) adequacy study. This cost includes an estimated \$1.6 billion to introduce universal, no-cost preschool.

This report emphasizes the importance of the SFRC's adequacy recommendations by highlighting current needs and potential benefits:

- Most Michigan districts need substantial increases in revenue to reach adequate funding.
- ▶ 77% of all Michigan public school students attend schools in districts that are more than \$2,000 per pupil below adequacy.
- ▶ 30% attend schools in districts that are more than \$4,000 per pupil below adequacy.
- Certain districts, especially those serving significant numbers of low-income students, are more severely under-resourced.
 - ▶ Districts with less than 25% low-income students have an adequacy gap of \$1,570 per pupil on average; those with 25% or more low-income students need over \$3,000 more per pupil to be considered adequately funded.
 - ▶ Districts in rural areas are on average \$857 per pupil further from adequate funding than nonrural districts.

Introduction

Between 2015 and 2022, seven studies in seven years concluded that Michigan does not provide enough funding for the state’s public schools, and the funding currently provided is not targeted to address the additional costs associated with certain student populations.¹

If Michigan’s education funding is currently inadequate, what is the right amount of funding and how should it be distributed? In 2018, the Michigan School Finance Research Collaborative (SFRC) published the first high-quality adequacy study providing an answer to that question: “[Costing out the Resources Needed to Meet Michigan’s Standards and Requirements](#).” Researchers used both a professional judgment (PJ) and an evidence-based (EB) approach to estimate the resources necessary to provide students in a typical district with the opportunity to achieve state standards as codified in the Michigan Merit Curriculum. They assumed districts allocate their resources “as efficiently as possible without sacrificing quality.”

The study identified specific school resources necessary to meet the state’s academic proficiency standards, including small class sizes; student supports, such as counselors, paraprofessional aides, and social workers; health professionals; school libraries; career and technical education (CTE); special education; and preschool. But because of limitations in the original adequacy study design (discussed in more detail in the [Limitations of Adequacy section](#) below) on which the cost estimates in this report are based, the numbers in this report fall on the

conservative side, underestimating the true cost of adequately educating Michigan’s students.

The SFRC recommended adopting a weighted funding system, which provides a base funding level for each pupil in the state with additional funding for certain student populations calculated as a percentage of the base cost. In 2018, the base cost needed to adequately fund all students was \$9,590. In 2021, the inflation adjusted base cost would have been \$10,413 per pupil.

The SFRC adequacy study recommended “weights” for students from low-income backgrounds, students with disabilities, and English learners. For example, the recommended poverty weight was 0.35, meaning that for every student in poverty a district would receive \$14,058: the base cost of \$10,413 plus an additional 35% of that cost. Adequate funding is the base cost plus weights for every student in a district.²

While the SFRC study provided a strong, research-backed adequacy formula, it did not estimate the cost to implement the recommendations. In 2019, “[Michigan School Finance at the Crossroads: A Quarter Century of State Control](#)” put a price tag on the SFRC adequacy study’s recommendations at the state level. This report updates and improves upon the methods in the Crossroads study to cost out the recommendations at the district level. Our findings are consistent with the consensus view that Michigan’s education system is inadequately funded and that a higher proportion of state aid should be targeted to students with greater need.

1 Augenblick, Palaich & Associates. “Michigan Education Finance Study.” (2016). Koenigsknecht, et al. “Special Education Funding Subcommittee Report, Submitted to Lt. Governor Brian Calley.” (2017). Michigan School Finance Collaborative, “Costing Out the Resources Needed to Meet Michigan’s Standards and Requirements.” (2018). Arsen, David, Delpier Tanner, and Nagel, Jesse. “Michigan School Finance at the Crossroads: A Quarter Century of State Control.” (2019). Nagel, Jesse. “Special Education Finance in Michigan: Implications for Equity.” PhD diss., Michigan State University, 2021. Hollenbeck, Kevin, Timothy J. Bartik, Randall W. Eberts, Brad J. Hershbein, and Michelle Miller-Adams. “The Road Toward K-12 Excellence in Michigan: How an Upgraded Financing System Can Better Support Enhanced Student Achievement.” (2015). Morgan, Ivy, Reetchel Presume, Mary Grech, and Ary Amerikaner. “Michigan’s School Funding: Crisis and Opportunity.” Education Trust-Midwest (2020).

2 Adequacy estimates are based on Michigan School District data from FY 2021, the most recent year with full revenue and expenditure files available when this research was conducted.

As of FY 2021, Michigan needed \$4.5 billion additional dollars to fully implement the SFRC adequacy recommendations. We aim to highlight the consensus view of inadequate funding and

provide a reproducible yard stick with which to evaluate Michigan's education funding system on an ongoing basis.

Michigan's Education Finance System

Proposal A, a referendum that passed in 1994, remains the foundation of Michigan's education finance system. In an effort to lower property taxes and equalize per-pupil funding across districts, Proposal A limited the ability of districts to raise property taxes to fund local schools, replacing that option with a per-pupil foundation allowance system determined and controlled by the state. In FY 2021, 71% of district revenues came from state funds, 22% from local funding, and the remaining 7% from federal funds.³

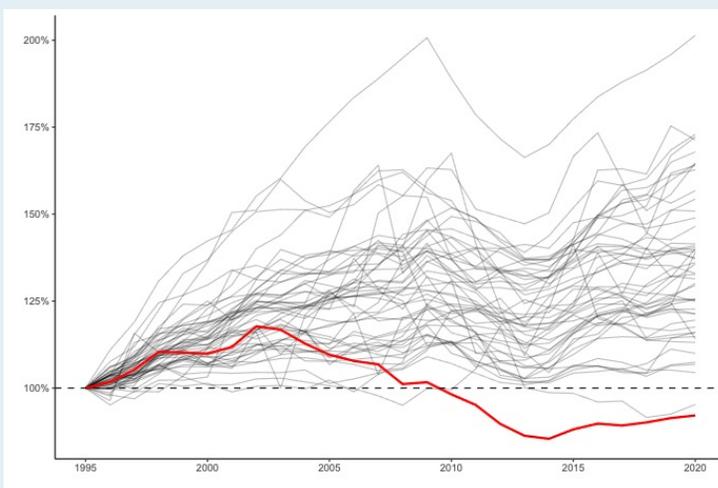
For the first seven years after Proposal A was enacted, K-12 funding steadily increased. But since 2002, state disinvestment has reversed those gains.

Figure 1 shows inflation adjusted education revenue as a percent of state revenue for all 50 states in 1995. If a state maintained constant revenue, the corresponding line would be straight across the 100% marker. Between 1995 and 2020, funding for education in Michigan declined in real terms, ranking the state 50th out of 50 in funding growth nationwide.⁴

Under the Proposal A system, state funding has not provided sufficient base funding nor additional funding properly adjusted to the cost of educating students with additional needs.

Instead, year after year, state aid has been based on how much revenue was available and the political interests of the moment.

Figure 1: Michigan Last in School Funding Growth: Inflation Adjusted Total K-12 Education Revenue as Percentage of 1995 Revenue, 50 States



³ Most local funds help pay for the foundation allowance system, which is controlled by the state. Most local districts do not have authority to raise taxes to increase operating revenue. Consequently, the state effectively controls approximately 90% of operating funding. All percentages omit one-time federal stimulus revenue.

⁴ Data for this figure come from the National Center for Education Statistic's [F-33 finance data](#). FY 2020 was the most recent data available.

Adequacy Findings

The SFRC study recommended providing base per-pupil funding as well as additional funding for low-income students, students with disabilities, and English Learners. Thus, a district serving many students with additional needs would be funded at a higher overall per-pupil rate than a district serving fewer high-need students. In addition, the study recommended introducing universal preschool.

One of the benefits of a weighted funding formula is that only base funding needs to be adjusted for inflation over time as prices increase, as long as the standards that form the basis for adequacy do not change.

The weights built into the funding formula automatically scale proportionally bringing more stability to the system overall.

In 2021, we estimate it would have cost \$24.2 billion to fully fund the SFRC’s adequacy recommendations, \$4.5 billion more than was actually allocated that year.⁵ The \$24.2 billion for funding includes \$14.5 billion in base costs, \$2.6 billion for low-income students,⁶ \$0.5 billion for English learners, \$1.7 billion for students with disabilities, and \$1.6 billion for preschool students.⁷

Also included in our estimate is \$3.3 billion in retirement benefits and transportation costs,⁸ which the SFRC did not originally include.

Table 1: Michigan Revenue Required to Fund Adequacy Study Recommendations

FUNDING CATEGORY	WEIGHTS	WEIGHTED COST	ENROLLMENT	COST
Base	1	\$10,413	1,390,745	\$14,481,827,685
Poverty	0.35	\$3,645	706,800	\$2,575,967,940
ELL				
- WIDA 1-2	0.7	\$7,289	27,700	\$201,908,070
- WIDA 3-4	0.5	\$5,207	39,799	\$207,213,494
- WIDA 5-6	0.35	\$3,645	22,187	\$80,861,631
Special Education				
- Mild	0.7	\$7,289	127,336	\$928,164,838
- Moderate	1.15	\$11,975	23,621	\$282,860,294
- Severe	3	\$31,239	15,451	\$482,673,789
Preschool		\$15,099	106,206	\$1,603,588,463
Retirement				\$2,729,229,982
Transportation				\$610,214,734
Adequacy Estimate				\$24,184,510,919

⁵ Our funding estimates include state, local, and federal dollars. Actual funding amounts in state aid alone are not calculated here, but any legislation to revise Michigan’s funding formula would need to consider how much new state revenue would be needed for districts beyond expected local contributions and federal revenue.

⁶ In addition to the 0.35 weight for low-income students, the SFRC adequacy report also recommended further research to study additional funding for “high need poverty.” While the adequacy study did not support a concentration weight formula, it did suggest that an additional 0.15 weight for “high need poverty” students may be necessary. An additional 0.15 weight for all students living below the federal poverty line would cost about \$480 million. This “high need poverty” weight is not included in our adequacy cost estimates.

⁷ The SFRC adequacy study recommended universal preschool for three- and four-year-olds. This study costs out universal preschool for four-year-olds only using actual enrollment in kindergarten as a proxy. The inclusion of universal preschool for three-year-olds would cost an additional \$1.2 billion, assuming an 80% participation rate.

⁸ The SFRC recently released an additional study providing recommendations on transportation funding. Our cost estimates do not include that additional policy proposal. Instead, we use current transportation costs.

Figure 2 shows that average school funding was \$13,125 per pupil in 2021; the amount needed to reach adequate school funding was \$16,156 per pupil. The \$3,031 gap to reach full adequacy would have meant a 23% increase in per-pupil spending.⁹

As seen in Figure 3, 90,542 students, or 6% of all Michigan public school students, attend districts that are currently adequately funded.¹⁰

On the other end of the spectrum, 1,150,934 students, or 77%, attend schools in districts that are more than \$2,000 per pupil under adequacy. In addition, 31% of students attend schools in districts that are more than \$4,000 per pupil under adequacy. The majority of school districts in Michigan need substantial increases in revenue to reach adequate funding.

Figure 2: Michigan School Funding Revenue Per Pupil

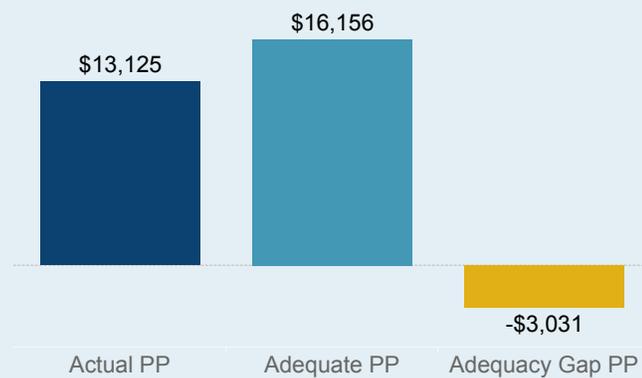
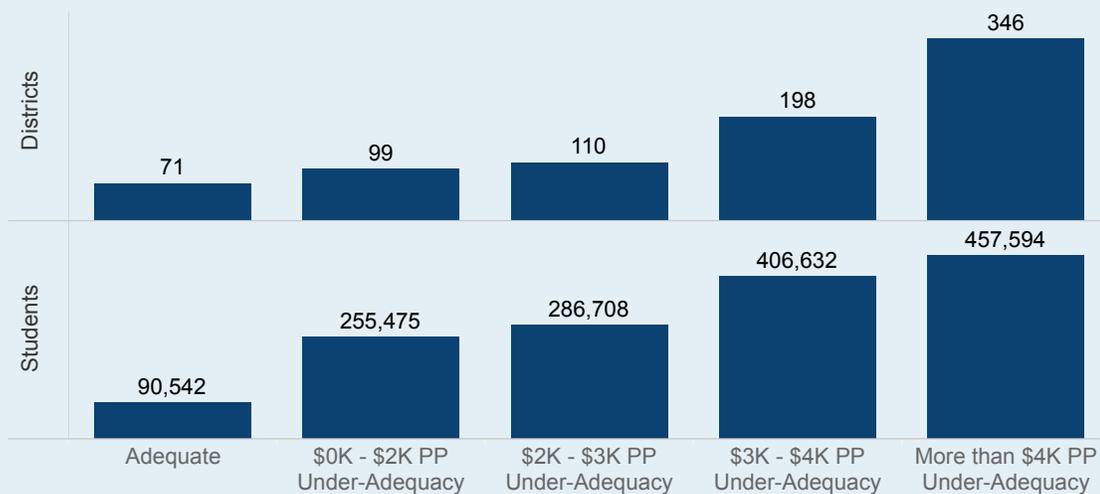


Figure 3: Number of Districts and Students Enrolled by Funding Gap Categories



⁹ Because we are including an estimate of universal preschool for 4-year-old students in the denominator, our per-pupil funding calculations will be lower than those typically reported for K-12 students.

¹⁰ Adequate funding refers to the funding necessary to provide students with reasonable opportunities to achieve state standards. Some districts are spending above their adequacy target, but that does not mean that funding is excessive or wasteful. Further discussion of the interpretation of these adequacy estimates can be found in the Limitations of Adequacy section of this report.

The SFRC adequacy study recognizes that students from low-income backgrounds need [additional in-school resources](#) to have a reasonable chance of achieving state academic standards. Unfortunately, Michigan's current funding system does not allocate enough revenue to districts with more low-income students.

Figure 4 shows average per-pupil funding by poverty groupings. Currently, there is no consistent relationship between funding and student poverty. As the percent poverty of a district increases, current revenue per pupil does not consistently increase. For example, the lowest poverty grouping, districts with 25% or fewer students in poverty, average \$13,377 per pupil, while districts with 25-50% of students in poverty average only \$12,564. In contrast, using adequacy estimates, funding increases as district poverty increases. Adequacy for the lowest poverty group would be an average of \$14,947 per pupil,

Access [interactive data views](#) for district-level details on school funding gaps in Michigan.

increasing to \$15,742 in districts with 25-50% students in poverty. The poorest districts require an average of \$17,628 per pupil, 18% higher than the lowest poverty districts. In general, districts from all poverty groupings would see their funding increase.

Figure 5 shows the gaps between actual and adequate funding from Figure 4. Districts with more low-income students are further away from their adequacy targets. Districts with less than 25% low-income students have an adequacy gap of \$1,570 per pupil on average, while districts with 25% or more low-income students need over \$3,000 more per pupil to be considered adequately funded.

Figure 4: Michigan Actual and Adequate School Funding Per Pupil by District Percent Low-Income

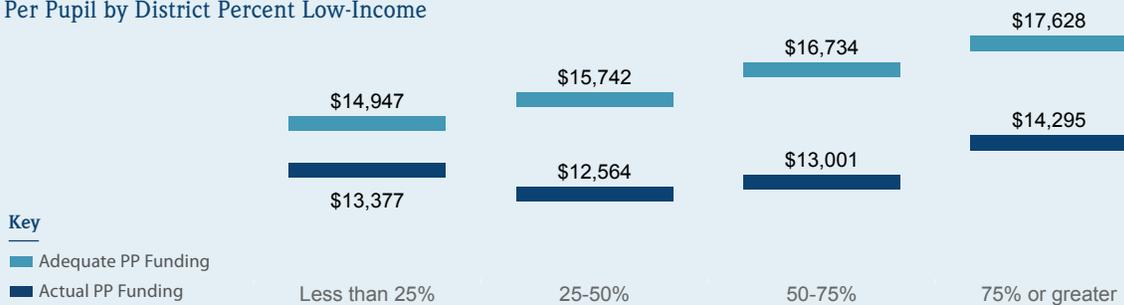


Figure 5: Michigan School Funding Adequacy Gaps Per Pupil by District Percent Low-Income



For example, Grand Rapids Public Schools serves 15,071 students that are 78% low-income, 30% Black, 37% Hispanic, 24% English learners, and 14% students with disabilities. The district receives \$17,023 per pupil in funding. Adequate per pupil funding would amount to \$19,387, a \$2,365 gap.

In comparison, in East Grand Rapids Public Schools, a suburb of Grand Rapids, students are substantially more advantaged. Of 3,009 students, 7% are low-income, 78% white, 1% English learners, and 5% students with disabilities. This district receives \$13,248 per pupil in funding; adequate funding should be \$13,310 per pupil, meaning they are just \$63 per pupil under adequacy.

Table 2 shows adequacy estimates and a few key demographic details for 12 school districts that are below adequate funding and that have geographic and demographic diversity, sorted by the district's per-pupil adequacy gap.

Districts that are estimated to be under-adequacy in their funding can be found throughout the state. As might be expected, cities including Kalamazoo, Grand Rapids, and Saginaw have substantial adequacy gaps. Suburban districts like Zeeland and Grand Ledge also show gaps. In many instances, however, rural districts like Croswell-Lexington, Escanaba, and Mio-AuSable have larger adequacy gaps than those present in cities and suburbs. Achieving adequacy would have broad benefits for students across Michigan.

Table 2: Funding Estimates for Select Michigan Districts

DISTRICT	LOCALE	ADEQUACY GAP PP	STUDENTS	LOW-INCOME %	ENGLISH LEARNER %	STUDENTS WITH DISABILITIES %
Wayne-Westland	Suburb	-\$2,074	9,918	67%	4%	18%
Zeeland	Suburb	-\$2,150	6,544	22%	4%	9%
Kalamazoo	City	-\$2,324	13,392	64%	7%	11%
Grand Rapids	City	-\$2,365	15,071	78%	24%	14%
Grand Ledge	Suburb	-\$2,658	5,317	29%	2%	12%
Huron Valley	Suburb	-\$3,171	8,698	26%	2%	13%
Midland	City	-\$3,595	7,894	33%	1%	14%
Saginaw	City	-\$4,675	5,503	79%	4%	15%
Hillsdale	Rural	-\$4,732	1,404	52%	0%	12%
Croswell-Lexington	Rural	-\$4,742	2,086	46%	0%	13%
Escanaba Area	Rural	-\$5,298	2,434	52%	0%	12%
Mio-AuSable	Rural	-\$5,382	530	72%	0%	19%

Locale Disparities in District Adequacy Gaps

In Michigan, there are 416 districts considered rural based on federal locale codes, and 407 non-rural districts (cities and suburbs).¹¹ Rural districts have a similar proportion of students in poverty and students with disabilities as non-rural districts but have fewer English learners (2% v. 8%). Rural districts

are also more likely to be white (78%) compared to non-rural districts (53%).

Rural districts, as shown in Figure 6, are further from adequate funding than non-rural districts. Rural districts need \$3,630 more per pupil to reach adequate funding compared to non-rural districts that need an average of \$2,773 more.

¹¹ All districts are classified by federal locale codes.

Limitations of Adequacy

In many ways, the cost estimates in this report, based on SFRC adequacy recommendations, represent the lower limit of the resources needed to best serve Michigan public school students. This is because the SFRC adequacy study made conservative assumptions about cost and did not account for school choice. In addition, the modern concept of “adequacy” itself may not be enough to reach many of the goals we, as citizens, have for public education.

Adequacy Assumptions

The SFRC adequacy study made conservative assumptions about the cost of providing necessary school resources. Perhaps the most questionable assumption of the SFRC study was that all additional staff necessary to meet adequacy standards could be hired at prevailing salaries. This assumption was

made despite the context of more than a decade of retrenchment, as teacher salaries fell relative to both inflation and other peer occupations, and the supply of educators plummeted. Between 2009 and 2019, teacher preparation programs in Michigan saw enrollees and completers fall by 56% and 59%, respectively. In short, the SFRC did not include the cost to pull labor back into public education.¹²

The original SFRC report also did not include the cost of transportation or school facilities. These educational costs fell outside of the scope of the original report. In 2023, the SFRC released a study on school transportation recommending specific resources to get students to school.¹³ In 2022, the SFRC received a grant from the state to start work on a facilities report.

Figure 6: Adequacy Gap Per Pupil by Locale



¹² *Educational Opportunities and Community Development in Rural Michigan* (2022).

¹³ Michigan School Finance Collaborative, *Cost of Transportation in Michigan* (2022).

None of the assumptions or study limitations listed above are unreasonable for an adequacy study to make. No one study can do everything. Still, these assumptions are conservative, likely resulting in an underestimate of the cost to achieve adequacy.

School Choice

The SFRC adequacy study assumed districts allocated resources efficiently. It did not account for the inefficiencies imposed by Michigan's expansive school choice policies. Michigan's mix of school choice policies is often referred to as the "Wild West" because of the lack of state oversight and accountability.¹⁴ In practice, this system has created extremely high choice penetration, especially in urban districts, and the highest proportion of for-profit charter schools in the country—85%.¹⁵

While early theory suggested that school choice might increase efficiency through market competition, in practice unrestrained choice in Michigan has led to substantial inefficiencies.¹⁶ Reasons for this inefficiency include:

- Competition induced by school choice directly incentivizes districts to spend money inefficiently. For instance, marketing or advertisements are expected to have no impact on student performance but are necessary in a competitive educational market.
- Declining enrollment introduces inefficiencies because educational costs are bundled. As students leave a district, revenue falls, but costs

do not decline as fast. This is because many educational costs are bundled at the classroom and building level. For example, if a single student leaves, a district cannot reasonably reduce its labor costs or heating bill proportionally. This problem becomes even more difficult with a physically large district because it is harder to consolidate services.

- Unpredictable enrollment results in unpredictable revenue. This unpredictability leads to inefficiency as district leaders and educators are unable to plan for the future. Additionally, educators likely prefer to work in a district where they know their job will exist in the future.

Detroit offers the most emblematic example with high choice penetration and declining enrollment across a physically large district.

Between 2000 and 2015, enrollment in the district declined by over two-thirds, with both charter schools and other traditional public districts fighting to peel off students in a fully unregulated system. What resulted was frenzied, inefficient, and inadequate. Importantly, this inefficiency was the result of state policy, not ineffective decision making at the district level. A similar argument can also be made for districts like Flint and others that have seen dramatic school choice-induced enrollment declines.

14 For more information on Michigan's school choice policies see: Arsen et al, "[School Choice Policies in Michigan: the Rules Matter](#)" (1999) and Citizens Research Council of Michigan, "[Improving Oversight of Michigan Charter Schools and their Authorizers](#)" (2020).

15 National Education Policy Center, "[Profiles of For-Profit and Nonprofit Education Management Organizations: Fifteenth Edition](#)" (2021).

16 Ni, "[The impact of charter schools on the efficiency of traditional public schools: Evidence from Michigan](#)" (2009).

Although the district-level cost estimates produced in this study find that Detroit and other districts are adequately funded, a broader understanding of state policy and district context make those results highly suspect. While it would be unreasonable to expect an adequacy study to account for inefficiency produced by school choice, it is important to understand the limitations of the estimates. In the case of Detroit and Flint, state policy introduced such inefficiency that adequate funding was unable to produce adequate results.

Scope of Adequacy

The concept of “adequacy” has been shaped by decades of litigation in the context of the standards and accountability movement. Consequently, the modern understanding of adequacy, and the approach taken by SFRC, is to calibrate funding to ensure all students have a reasonable opportunity to reach the state’s academic standards. Yet, adequacy was not always so narrowly defined.

Early in adequacy litigation, much broader goals of education were considered and ruled on. When asked, the public routinely cites many educational goals beyond academic achievement, including social skills, work ethic, citizenship, preparation for work, as well as physical and mental health.¹⁷

Furthermore, spending on particular school resources may not lead to progress towards all of these goals at the same time. For example, investing in test preparation may improve academic achievement scores but not student mental health or civic engagement. While adequacy studies do consider the social and emotional supports that are necessary for students to succeed academically, they often do not identify the full range of services that are needed to support students’ development beyond academics.

The pandemic has spurred a renewed discussion of the goals of education. What role should public education play in developing citizens, producing workers, or caring for the mental and physical health of students? These are important questions that are not always included in the scope of the adequacy framework. These aren’t failings of the SFRC adequacy study in particular. Rather, these points largely represent limitations of the modern concept of “adequacy” itself.

For the reasons listed above, the cost estimates in this report likely represent an underestimate of optimal funding for Michigan’s public schools.

¹⁷ Rothstein and Jacobsen *“The Goals of Education”* (2006).

Conclusion

Over the past two decades, Michigan has opted to reduce its tax effort rather than fund education adequately. The scope of services available at public schools in the state is reflective of that choice.

Specifically, the SFRC adequacy study identified the following school resources as part of an adequate education:

- Small class sizes;
- Student support services, such as counselors, paraprofessionals, social workers, librarians, psychologists, nurses, tutors, and behavioral interventionists;
- Funding for Career and Technical Education (CTE);
- Before and after school programs;
- Funding for extracurricular activities;
- Summer learning opportunities;
- Support for special education students;
- Universal preschool.

A relatively small proportion of Michigan students have access to these services. Yet, research has consistently shown that [money matters](#) in education, and that [low-income students benefit more from additional funding](#). Increasing school funding has [long-term economic benefits](#), such as greater educational attainment, improved wages, and reductions in adult poverty. These benefits are especially strong for low-income students. An adequate education funding system would substantially improve outcomes for Michigan students, particularly low-income students. Funding adequacy would benefit students in the classroom and the long-term prospects of Michigan's economy.

A State Policy Agenda

Fully implementing the recommendations of the SFRC study would require a substantial overhaul of Michigan's school finance formula, replacing Proposal A's foundation allowance and categorical grants with a unitary funding system including a base cost, weights for student needs, and adjustments for district characteristics. While this comprehensive reform would be ideal, there are certain policy changes that could be enacted within Michigan's existing school finance structure to achieve the study's adequacy goals:

Increase base funding – The foundation allowance should match the inflation-adjusted base foundation recommended by the SFRC. In FY 2021, the base foundation should have been \$10,413 per pupil to keep up with inflation. Inflation measurements for base funding should be based on the [State and Local Implicit Price Deflator](#) (S&L IPD), a measure that better reflects inflationary pressures on school systems than the often used consumer price index (CPI).

Increase funding for low-income students – Section 31a of the school aid budget currently provides an 11.5% weight for "at-risk" students (a group that is primarily comprised of low-income students). That weight should be increased to 35% and fully funded.

Increase funding for English learners – Section 41 of the school aid budget currently funds English learners, but the amount and distribution mechanism is inadequate and inequitable. This categorical currently provides a low dollar amount based on students' English proficiency and should be redesigned as a weight of the base foundation, as recommended by the SFRC, and appropriations should fully fund that weight.

Increase funding for special education – Unlike for students from low-income backgrounds and English learners, the current structure of special education finance makes it very difficult to establish a weighted funding system. This is because intermediate school districts (ISDs) raise a large portion of special education revenue and inequality is baked into the difference in taxable value across those districts. To bring Michigan’s special education funding system closer to the total amount and distribution of funds recommended by the SFRC, the state could start by providing a full foundation allowance for special education students, increasing the special education cost reimbursement rate, fully funding high-cost special education students, and improving the section 56 guaranteed tax base formula that helps equalize funding among ISDs.

Expand preschool – Preschool should become a universal program building off the state’s Great

Start Readiness Program (GSRP). Per-pupil funding for preschool students should exceed the target foundation allowance to fund smaller class sizes for Michigan’s youngest students.

Raise additional revenue – While state tax revenue has grown in recent years, it is still not enough to meet the adequacy targets estimated here. The amount of revenue required means increases in one or more of the state’s income, property, or sales taxes.

With recent, comprehensive, state-specific reports detailing the steps Michigan can take to improve school funding levels and school funding fairness, the state has been given clear direction on what can be done to address the lack of adequate resources available to far too many public education students. No time should be wasted in remedying this situation.



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