Michigan’s
School
Funding:
Crisis and
Opportunity
Over the last decade, The Education Trust-Midwest (ETM) has been leading a major campaign to make Michigan a top ten education state for teaching and learning and educational performance for all groups of students, no matter who they are or where they live. The Michigan Achieves! Campaign has been hugely successful in many respects. In partnership with many public leaders, organizations and stakeholders, our organization has taken bold action, leading to policy change; effective coalitions; major new strategies and investments in critically needed levers for improvement such as third-grade reading; and new civic infrastructure designed to build educators’, parents’, policymakers’ and other stakeholders’ capacity to play a role in improvement efforts for all students to succeed. And we have inspired many others to take action, too.

The need for this campaign has arguably never been greater. Michigan ranks sixth from the bottom in improvement for 4th grade math among all students from 2003 to 2019, according to recently released data from the 2019 National Assessment of Educational Progress (NAEP). Compared to other states, Michigan ranks fifteenth from the bottom for improvement in 4th grade reading from 2003 to 2019, according to the NAEP, also known as the Nation’s Report Card. With such low rates of improvement, it will be difficult for Michigan to reach its top ten goals for both educational progress and performance. Gaps in achievement and opportunity continue to be stark between students in the state, as well. Average scores for low-income, Latino and Black students in Michigan are lower than their higher-income and White peers, according to the national assessment, and Michigan falls below the national average for low-income and Black students in 4th grade reading and 8th grade math.

Never before, though, has our organization focused so deeply on school funding as we do in this new report, Michigan’s School Funding: Crisis and Opportunity. And that has been for good reason: money alone is insufficient for educational transformation, as leading education states demonstrate. As a data-driven, research-based policy, research, advocacy and technical assistance organization, we follow the
data. And the data tell us that many factors — not simply money — are important for driving dramatic improvement in student learning outcomes, especially for low-income students and children of color.

Yet money matters. And that, too, is clear based on research. Money especially matters for students from low-income backgrounds. Increases in spending have been shown to improve educational attainment, lead to higher wages and reduce poverty in adulthood, particularly for students from low-income backgrounds. By one estimate, the lifetime earnings of Michigan’s current K-12 students could increase by $27 billion if their educational achievement matched the national average. In a state that is rebuilding and transitioning its economy and tax base from a manufacturing-based, old economy model to a robust knowledge-based economy, there is perhaps no more important investment to make to ensure our Great Lakes State becomes a Great Education and Great Economy State — and catches up with the rest of the nation and the world both economically and for talent.

It’s also increasingly clear Michigan’s high-poverty public schools and districts do not have the resources they need to educate and support their students to learn at high levels. A recent report from the Education Law Center gave Michigan a “D” for how well it targets funding to its high-poverty districts, relative to its low-poverty districts. Similarly, an analysis by The Education Trust — our organization’s respected national division — found that Michigan ranks in the bottom five states nationally for funding gaps that negatively impact students from low-income families. Michigan’s funding of special education is also highly underfunded as special education services are often times partially funded with dollars intended for all students. Despite Michigan having one of the highest rates of concentrated poverty in the country, the state’s current funding system does not provide funding specifically for districts with high concentrations of students from low-income backgrounds. What’s more, Michigan is one of only 16 states providing less funding to its highest-poverty districts than to its lowest-poverty districts.

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Michigan’s funding system is not only unfair and deeply inequitable; it’s also inadequate. Michigan’s system of school funding is, simply put, not designed to keep pace with the costs and realities of modern U.S. educational systems today. A report from Michigan State University (MSU) found that between 1995 and 2015, Michigan had the lowest total education revenue growth of all 50 states.\(^8\) MSU researchers found when adjusted for inflation, Michigan’s per-pupil funding declined by 22 percent between 2002 and 2015.\(^9\)

As the public dialogue about school funding has grown in the state, much of the conversation has been focused on adequacy. Yet fairness and equity in school funding also are central to the vital conversation about the state’s future — and the future of thousands of low-income and other vulnerable students, whether they live in the Upper Peninsula or the shores of West Michigan, Pinconning or Pontiac, Warren or Wyoming. Indeed, Michigan’s education crisis provides a rare historic opportunity to make the system more fair and equitable and to overcome decades of historic inequities.

It's clear Michigan needs to invest much more in all of its students statewide, while investing significantly more in the students who need it most whom we highlight in this report.

More than a year ago, Ed Trust-Midwest partnered with national organizations including our own national office to dig deeper into Michigan’s funding system and proposals to improve it. We are glad to share this report with the goal of providing stakeholders with a set of nonpartisan, research-based guiding principles which Michigan leaders, policymakers, families, educators and other stakeholders may use to evaluate funding systems and proposals. This report also shares analyses of the current funding system and how well it is structured to serve Michigan’s students, schools and districts — particularly vulnerable student groups and high-poverty schools — and provides important nonpartisan recommendations for Michigan at a crucial time in its history and the future of the state’s public school system. Finally, we highlight lessons learned from states around the country — including

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the nation’s leading education states — to inform the policy conversation in Michigan.

Indeed, the lessons learned from other states around the country are critical. Much important work has been done on equitable funding in other states for decades, as well as in recent years. Long heralded as one of the nation’s leading education states for performance for all students, recently Massachusetts leaders passed legislation that commits to significantly increasing state investment in the highest-need districts in coming years. In fact, when the law is fully implemented, the Commonwealth’s highest-poverty districts will be expected to — and receive state support to — spend about 100 percent more per low-income student than per non-low-income student. Importantly, the legislation also requires all districts to take steps to address disparities in opportunity and achievement between historically underserved student groups and more privileged students. A model for Michigan, it’s also taken landmark steps for the state to close the funding gap between districts by investing more state dollars into high-poverty, low tax base districts.

As with any policy change, the states leading work on equitable school funding show that great intentionality and caution are needed when exploring and making such reforms. In California, for example, some positive gains have been made yet there have also been consequences, which new data and a growing number of leaders say are harmful for vulnerable children, in particular.10

Michigan faces a unique opportunity as it faces a real school funding crisis in the state. If done right, an overhaul of its funding system would provide state leaders and stakeholders with a major opportunity to make the funding system adequate and equitable.

We hope you’ll join our growing efforts across the state to make Michigan a top ten state for all students — no matter who they are or their background. Visit michiganachieves.com/take-action to get more information about events and other opportunities to get involved.

To all of the Michigan educators, parents, partners and stakeholders who are working tirelessly to support children’s teaching and learning, many thanks! We appreciate you and we stand by your efforts.

Onward,

Amber Arellano
Executive Director
The Education Trust-Midwest
Summary: Principles for Fair and Equitable Funding Systems or Proposals

1. Provide funding according to student need.
   - Provide at least 100 percent more funding for students from low-income backgrounds.
   - Provide at least 75 to 100 percent more funding for English learners (ELs).
   - Provide additional funding to support students with disabilities.
   - Provide the full amount of additional funding for every category of need that students meet.
   - Target resources to high-poverty districts and schools.

2. Provide more funding to districts with lower fiscal capacity.
   - Provide equalization funding to low-wealth districts.
   - Provide additional funding for rural and sparse districts.

3. Ensure dollars are used well to improve student experience and outcomes.
   - Require districts to spend according to student need.
   - Require districts to develop and publish a plan for how they will use funding.

4. Be transparent about the system’s design and monitor funding districts actually receive.
   - Annually publish information about how the funding system is designed to work in clear, plain-language.
   - Publish easy-to-follow data on the amount of funding each district should receive according to the state funding system, compared to what it actually receives.
   - Review the funding system to understand patterns in which districts are being underfunded.

5. Provide transparent data on funding going to schools.
   - Develop, use and publish consistent rules for calculating spending for all schools in the state.
   - Report clear, timely and accessible school and district spending data alongside contextual information to enable equity-focused comparisons.
Michigan’s public education system is facing a crisis by many important measures. Compared to other U.S. states, Michigan ranks sixth from the bottom for educational improvement in 4th grade math among all students between 2003 to 2019, according to recently released data from the 2019 National Assessment of Educational Progress (NAEP). Michigan ranks fifteenth from the bottom for improvement in 4th grade reading from 2003 to 2019, according to the NAEP, also known as the Nation’s Report Card. If Michigan public schools continue to produce such low rates of improvement, it will be difficult for Michigan to reach its goal of becoming a top ten education state for learning outcomes. In addition, gaps in achievement continue to be stark between groups of students in the state. Average NAEP scores for low-income, Latino and Black students in Michigan are lower than their higher-income and White peers, and Michigan falls below the national average for low-income and Black students in 4th grade reading and 8th grade math.

The state’s crisis is not isolated to student learning outcomes, however. A report from Michigan State University found that between 1995 and 2015, Michigan had the lowest total education revenue growth of all 50 states. MSU researchers found when adjusted for inflation, Michigan’s per-pupil funding declined by 22 percent between 2002 and 2015.

The impact of the state’s relative lack of investment arguably has been felt most by Michigan’s most vulnerable children, schools and districts. A recent report from the Education Law Center gave Michigan a “D” for how well it targets funding to its high-poverty districts, relative to its low-poverty districts. Similarly, an analysis by The Education Trust — the Education Trust-Midwest’s respected national division — found that Michigan ranks in the bottom five states nationally for funding gaps that negatively impact students from low-income families. Michigan’s funding of special education is also highly underfunded as special education services are often times partially funded with dollars intended for all students.
It’s clear Michigan needs to invest much more in all of its students statewide, while investing significantly more in the students who need it most whom we highlight in this report.

The good news, many leaders and organizations are taking an interest in improving Michigan’s public education funding system. Governor Gretchen Whitmer is among the leaders who have identified this policy issue as a central one to the state’s future. More recently, Launch Michigan — a new collaborative of organizations anchored by Michigan’s business, K-12 and philanthropic communities of which The Education Trust-Midwest organization is part — released recommendations in December which highlighted the need for a more equitable school funding system in the state.16

Given the critical importance of this issue to Michigan’s students, educators and other stakeholders, our organizations brought together their expertise to produce this report: The Education Trust, a leading national education nonprofit, which has more than two decades of expertise in equitable educational resources and outcomes, and The Education Trust-Midwest, a nonpartisan research, policy and advocacy organization with a decade of expertise in Michigan education policy. We consulted with two leading national organizations with deep expertise in the area of equitable school funding and state funding systems, whom we gratefully acknowledge in the Appreciations section of this report.

This report outlines a set of nonpartisan, research-informed guiding principles and a framework for policymakers, families, educators, community leaders and other stakeholders to evaluate the state’s current funding system. It also analyzes Michigan’s current funding system and how well it is structured to serve Michigan students, schools and districts — particularly vulnerable student groups and high-poverty schools. It also provides nonpartisan recommendations — and guideposts — for Michigan at a crucial time for the state’s public school system. Finally, it highlights lessons learned from states around the country — including the nation’s leading states on equitable school funding — to inform the policy

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conversation about school funding reform in Michigan.

The following questions undergird most conversations about state funding formulas, and are critical for Michigan to consider when designing or changing its school funding system. While all of these questions are important, this report focuses on the three questions most critical for advancing the interests of our most historically underserved students: equity, transparency and accountability.

- Is the system allocating adequate funding to provide a high-quality education?
- Is the system equitable, and does it prioritize funding that truly addresses all students’ needs?
- Is the system predictable and stable so district leaders can anticipate funding levels from one year to the next, enabling thoughtful multi-year planning processes?
- Is the system flexible to allow district leaders to operate school systems in the ways that work best for their local context (while also ensuring that the students with greatest needs are prioritized within districts)?
- Is the system transparent to allow stakeholders to understand whether dollars targeted for students who experience vulnerabilities actually reach them?
- Is the system designed with levers for monitoring and accountability for the effectiveness of the state’s investments to ensure vulnerable children are actually being reached and well-served by greater investment?

As we outline in this report, there are specific actions stakeholders in Michigan can and should take to fully embed these ideals in the state’s funding system.

Starting on page 16, we outline a set of equitable funding principles — which are informed by research and national best practices — and we provide corresponding criteria for evaluating how effectively any state funding system or proposal adheres to these principles.

Please see the Appendix on pages 46-47 for more information and background on this topic.

Beginning on page 17, we evaluate the current Michigan funding system against these principles and provide recommendations for Michigan to improve equity in its funding system.

Equity is not the only focus of the report, but a central one for good reason: funding inequities contribute to major gaps in learning opportunities for students from different communities and backgrounds. State and local funding allocations can have major impacts on the learning conditions in each district, including the availability of student support and extracurricular activities, the amount of instructional
time, the quality of instructional materials, the level of professional support and compensation teachers receive, and much more. Specifically, increases in spending have been shown to improve educational attainment, lead to higher wages and reduce poverty in adulthood, particularly for students from low-income backgrounds.¹⁷ By one estimate, if the student achievement of Michigan’s current K-12 students matched the national average, this could represent over $27 billion greater lifetime earnings for these students.¹⁸

Michigan faces a unique opportunity as it addresses a real school funding crisis in the state. An overhaul in its funding system would provide state leaders and stakeholders with a major opportunity to make the funding system adequate and equitable — and to overcome decades of historic inequities that have had harmful impacts on vulnerable students across every geographic area of the state. If done right, an equitable funding system could have dramatic benefits for all Michigan stakeholders, from students to parents, to educators and the state’s economy. If properly invested and utilized, students would be better equipped through better trained teachers, high-quality instructional materials and needed supports that can help a struggling student excel.

Through the guiding principles and policy priorities described through this report, Michigan can begin taking steps in the right direction to provide more fair funding to Michigan schools and a far brighter future for Michigan students and their public schools.

Guiding policy principles for improving Michigan’s funding system include:

1. Provide funding according to student need.

Researchers estimate that funding systems should provide at least 100 percent more funding for students from low-income backgrounds than for students from higher income backgrounds.¹⁹ Students in Michigan from low-income backgrounds are supported by an additional 11.5 percent of the statewide average foundation allowance,²⁰ which, in FY20, was about $960 in additional funds per eligible student.²¹ That 11.5 percent is well below what is recommended by research to close opportunity gaps.²²

Other student groups also have additional needs for greater investment and support, whether a student is an English learner, has a disability or faces another major barrier to learning, such as attending a geographically isolated public school. These students are found across the state, no matter if the community and school district is an urban, rural, working class or suburban one.

Consider Burt Township School District, located on the shores of Lake Superior in Michigan’s Upper Peninsula. The small school district of about 30 students is rural, isolated and 70 percent low income.²³
Consolidation with another school district is not a viable option, as the nearest neighboring district is more than 50 miles away in an area that receives an average snowfall of 148 inches. Achieving equity in educational opportunity is far more difficult in a community like Burt Township because of its demographics and geography, yet the need for its students to receive an excellent education is just as great as anywhere else in the state.

Or take Wyoming Public Schools, where almost one in every five students is an English learner – students with limited English proficiency. In addition to the typical course of study, these students also must learn a new language, requiring significantly more assistance and support than a student who is a native English speaker. These supports and instruction deserve and need adequate investment to be done well.

Finally, consider Michigan’s funding of special education, which also is highly inequitable and inadequate. State (and federal) lawmakers have shifted most of the funding responsibility to the local and county levels, yet Michigan’s funding structure precludes local districts from levying taxes to cover additional special education costs. Under federal law, public school districts are required to provide a “free appropriate public education” to students with disabilities, in the least restrictive environment. Meeting the needs of students with disabilities is both important and expensive. A Michigan State University study found that, in order to fully fund special education costs, Michigan districts use more than $500 per pupil from general education funds, on average. This even exceeds $1,000 per pupil in some districts. This affects both special education and general education students because diverting general education dollars to cover the needs and requirements of special education dollars leaves fewer dollars for pupils overall.

“An overhaul in its funding system would provide state leaders and stakeholders with a major opportunity to make the funding system adequate and equitable — and to overcome decades of historic inequities.”
2. **Provide more funding to districts with lower fiscal capacity.**

Michigan’s current funding formula specifies the state will carry a larger share of education funding burden for districts with lower fiscal capacity. It is critical that the state take steps to fully implement this commitment. State equalization funding — meaning the state provides more dollars to low-wealth districts to close the gap between local revenue and the cost of meeting students’ needs — is important to counteract local funding inequities. State equalization funding is also particularly important to ensure that schools and districts serving the most students from low-income backgrounds and other historically underserved backgrounds are not shortchanged.

As this report outlines, Michigan does provide state equalization funding but there is major room for improvement. Over time, Michigan should move to a single, per student funding target that is consistent across every district while also ensuring funding stability and adequacy for all districts. Massachusetts provides a model for Michigan for this type of approach toward building a much more equitable funding system, as we highlight in the body of this report.

3. **Ensure dollars are used well to improve student experience and outcomes.**

Having the appropriate resources is necessary, but alone it is not enough. To improve student learning and outcomes, those resources must also be spent efficiently and effectively to drive improved learning outcomes.

An important first step toward more equitable student funding in Michigan is directing any new additional resources first towards high-needs schools and districts. The state must also ensure that the necessary legal and regulatory frameworks are in place to ensure these additional dollars get to the schools where vulnerable students attend and are spent in ways that improve classroom learning. State efforts to provide additional funding to support such students will have limited impact if the funds are not actually used on supports that effectively serve those students. Accountability for districts around how and where they spend their funds helps districts prioritize the schools and students who need the most support.

Michigan has some post-spending accountability measures in place that may help in efforts to ensure that funds intended to benefit students from low-income families and English learners (ELs) are used to improve student learning experiences and outcomes. The state’s system can be strengthened, including — though not only — by requiring districts to submit spending plans before the money is spent and that high-quality data is generated to enable evaluating the impact of investments on student learning outcomes. Much more work should be done on this front to ensure potential investments in vulnerable students actually reach them and serve them well.
4. Be transparent about the system’s design and monitor funding districts actually receive.

Parents, community leaders and educators should be able to monitor the amount of funding each district actually receives compared to what it should receive according to its state funding system. Additionally, regular reviews of the funding system to detect patterns and inequities between districts and schools across the state should be conducted and could help state leaders continuously improve the system.

Indeed, accessible and jargon-free information about state funding systems allows more stakeholders to meaningfully engage and understand how Michigan funds its schools, how the funding system reflects the state’s values, and how it meets the needs of students. Improving the funding system’s public reporting, accessibility and data monitoring could improve public and stakeholder ability to ensure that schools are being funded as intended, which could increase their confidence in the state’s education system. Transparency and accessibility should be prioritized at both the district and school levels.

5. Provide transparent data on funding going to schools.

Education funding accounting systems are complicated. States have wide discretion for deciding how they will categorize expenditures to calculate school-level per-pupil spending numbers. If the decisions that are made are not documented clearly and shared widely, the public will not be able to use the data that are reported with confidence and will lack information about funding patterns between districts and schools in the state.

In this report, we outline the start of recommendations for improved transparency and accountability. By requiring improved public reporting on how local, state and federal funds are spent by schools — and strengthening the state’s data, monitoring and accountability systems for school funding — Michigan would empower parents and other stakeholders to be more involved in school funding decisions. It also would better reveal ongoing funding gaps and inequities within districts and inform future spending.
Principles for Equitable Funding

Funding Systems Reflect Values

A state’s school funding system is the backbone of its education system. Intentional funding strategies that are aligned with Michigan’s academic goals for all students, no matter who they are or where they live, is critical for meeting those goals.

The following questions undergird most conversations about state funding formulas, and are critical for Michigan to consider when designing or changing its school funding system, including:

- Is the system allocating *adequate* funding to provide a high-quality education?
- Is the system *equitable*, and does it prioritize funding that truly addresses all students’ needs?
- Is the system *predictable* and stable so district leaders can anticipate funding levels from one year to the next, enabling thoughtful multi-year planning processes?
- Is the system *flexible* to allow district leaders to operate school systems in the ways that work best for their local context (while also ensuring that the students with greatest needs are prioritized within districts)?
- Is the system *transparent* to allow stakeholders to understand whether dollars targeted for students who experience vulnerabilities actually reach them?
- Is the system designed with levers for monitoring and *accountability* for the effectiveness of the state’s investments to ensure vulnerable children are actually being reached and well-served by greater investment?
The answers to these questions paint a clear picture of the values that a state holds for its education system, its children and its future vitality.

Yet when making difficult decisions about school funding, it can be easy for policymakers to lose sight of equity-oriented goals when faced with the reality of revenue constraints, or get lost in the details through negotiation and reconciliation processes. It can be easy to forget to take a step back and assess whether the system is allocating dollars in a way that will truly support the students who we know have historically been underserved and support the schools that have the greatest needs.

However, staying focused on equity-oriented goals and honestly assessing our state’s current funding system, as well as any emerging proposals to revamp it, are exactly what’s needed to ensure all Michigan children have the opportunity to have a bright future and that Michigan remains competitive in a 21st century global economy.

That’s why the principles and analyses in this report are intended to support Michigan leaders and stakeholders to engage in these ways — to zero in on the importance of equitable funding for our state’s future and to take an honest look at the current system and key policy levers for improving equitable funding for vulnerable students across the state.

While all of the foundational questions are important, this report focuses on the three questions most critical for advancing the interests of our most historically underserved students: equity, transparency and accountability.
Guiding Principles for State Systems

What follows is a set of principles which Michigan policymakers, district leaders, families and educators can use to evaluate funding systems and proposals. Focusing on these principles can help make sure that any new funding system keeps opportunity for all students front-and-center and prioritizes improving educational experiences and outcomes for students from low-income families, English learners, students with disabilities, students of color, and students in rural and sparsely populated communities. In particular, state funding systems should:

1. **Provide funding according to student need;**
2. **Provide more funding to districts with lower fiscal capacity;**
3. **Ensure dollars are used well to improve student experience and outcomes;**
4. **Be transparent about the system’s design and monitor funding districts actually receive; and**
5. **Provide transparent data on funding going to schools.**

As stakeholders in Michigan continue conversations to change the state’s funding system, it is critical to understand how the current system measures up against these recommendations.
Analysis: Does Michigan’s Current School Funding System Meet Principles for Fair and Equitable Funding?

Background on Michigan’s Current Funding System

Michigan schools receive dollars predominately through the School Aid Fund in addition to the General Fund, which are funded through taxes and lottery revenue. After these dollars are collected, they are distributed through a student-based formula to intermediate school districts (ISDs), districts and charter management organizations which ultimately allocate the dollars for schools.

Proposal A was passed in 1994 and laid the groundwork for Michigan’s current funding system. With Proposal A, Michigan moved away from a funding system primarily based on local property taxes tied to the property wealth of a school district, towards a system more reliant on state revenues for schools. However, current per pupil foundation allowances are largely based on the funding levels districts received prior to Proposal A’s adoption (which were primarily based on local property taxes), therefore the impact of property wealth gaps between districts persists under the system today.

Michigan now largely allocates state and local dollars based on enrollment. The state’s current system specifies a per-pupil “foundation allowance” for each district, which is a standard dollar amount assumed to cover basic costs for all students. On top of the foundation allowance, Michigan provides some additional state funding for students and districts with additional needs. There are several major components that determine the amount of state and local funding a district ultimately receives, including the foundation allowance, the state and local contribution, and additional needs.
• **Foundation allowance**: The foundation allowance is the standard dollar amount, set by the state, assumed to cover basic costs for all students. For FY20, the foundation allowance minimum was set at $8,111, while the maximum was $8,529 per pupil. In FY20, the foundation allowance for most districts in Michigan (about 84 percent of districts including all charters) was at the minimum foundation allowance. Meanwhile a small number of “hold harmless” districts (districts that received state and local revenues higher than the maximum allowance under Proposal A when it was adopted in 1994) are funded above the maximum foundation allowance. The total amount of foundation allowance funding each district receives is calculated by multiplying a district’s foundation allowance by the number of students enrolled in the district.

• **State and local contribution**: In most school districts, funding from both local and state sources combine to provide the total amount of foundation allowance funding; districts with more property tax wealth are generally expected to contribute a greater share of this amount, and districts with less property tax wealth rely more heavily on the state. Specifically, districts are expected to contribute the lesser of $18 for every $1,000 of assessed local non-homestead property wealth or what they contributed in 1993 (before Proposal A was passed), and the state makes up the difference. Additionally, there are some “out-of-formula” districts that generate enough local revenue to meet or exceed the maximum foundation allowance and therefore do not receive any funds from the state.

• **Additional needs**: On top of the foundation allowance funding, the state provides supplemental funding for additional district and student needs, such as funding for at-risk students, English learners, students with disabilities, and rural and sparse districts, often distributed through categorical grants.

Please note: Michigan also receives federal aid each year, which is distributed through separate federal formulas and programs, intended to be supplemental and targeted, and does not play a role in the allocation of state and local funding described above. In FY20, 11.5 percent of total district budgets in Michigan were dollars from federal sources. All analyses and recommendations in this report are focused on state and local revenues, the dollars which Michigan leaders and stakeholders oversee.

While Michigan has made small tweaks to its system over the years, such as typically increasing the foundation allowance, the state’s last overhaul of the school funding system was through Proposal A in 1994. Since that landmark change, Michigan has made some progress towards reducing funding...
disparities between districts, but has not yet closed the gaps between districts that were funded at the highest and lowest levels, much less addressed research-based funding gaps that would provide substantially more funding in the highest need districts. Michigan is still among the worst states in the nation for funding equity, ranking among the bottom five states according to national research, spending 5 percent less in its highest poverty districts than its lowest poverty districts.41 See chart on page 30.

Analysis and Recommendations for Michigan

We analyzed Michigan’s current funding system against key equity principles that should be embedded into every state’s funding system, as described on page 16. Below is an overview of how Michigan’s funding system measures against 14 indicators aligned with those principles. We use a color-coded system: full alignment with an indicator earns a “green” rating, partial alignment earns “yellow” and complete lack of alignment earns “red.”

Our major finding: Michigan’s funding system earns a “green” rating for just one of the 14 indicators, indicating that it is falling short on almost all metrics of what a high-quality, equity-focused state funding system should do.

Please see the Appendix on pages 46-47 for the rubric used to determine ratings in the analysis and a summary of Michigan’s ratings.
LEARNING FROM THE LESSONS OF OTHERS AS MICHIGAN IMPROVES SCHOOL FUNDING

When The Education Trust-Midwest (ETM) launched the Michigan Achieves! Campaign in 2015, we began calling for an overhaul of Michigan’s school funding system to be weighted for students’ needs. Others, including the School Finance Research Collaborative (SFRC) and Launch Michigan, have called for this approach, as well.

Weighted student funding, also known as student-based budgeting, fair student funding or student-centered funding, is a funding model that allocates dollars instead of staff or materials based on the number of students being served.

This approach is increasingly used across the U.S. to distribute dollars at the school district level. Thirty-eight states, including Michigan, also have adopted this approach to guide at least some part of their funding system at the state level.

Weighted student funding systems can often improve equity, transparency and flexibility in a funding system. However, if Michigan is going to make a large-scale move towards providing substantial additional funding through a needs-based, weighted student funding formula, Michigan leaders and stakeholders must ensure that the right legislative and regulatory frameworks are put in place as a part of the potential funding change’s initial design and blueprint. This would help avoid the tough lessons learned in other states who have made major shifts to their funding systems in recent years, such as in California.

Another way for Michigan to avoid California’s pitfalls is to pilot new systems of accountability, data collection and monitoring investments for effectiveness at improving student outcomes, especially for higher needs students, in Michigan.

For recommendations on how Michigan can begin to lay this critical policy groundwork, please see the report’s funding principles 3, 4 and 5 beginning on page 36, which focus on accountability, transparency and public reporting.

For more details on the challenges around accountability and transparency faced in California, please see page 39.
PROVIDE AT LEAST 100 PERCENT MORE FUNDING FOR STUDENTS FROM LOW-INCOME BACKGROUNDS

Why this matters: If Michigan is serious about closing opportunity gaps, it must provide sufficient funding for schools to meet all students’ needs. Researchers estimate that systems should provide at least 100 percent more funding for students from low-income backgrounds than for students from higher income backgrounds.45

Analysis: Michigan provides increased funding for students from low-income backgrounds.46 The funding formula provides a per-pupil payment of 11.5 percent of the statewide average foundation allowance for each student from a low-income background.47 That 11.5 percent is well below what is recommended by research to close opportunity gaps,48 and equated to about $960 in additional funds per eligible student in FY20.49 In previous years, districts have not received the full 11.5 percent per eligible student due to insufficient revenue. Please see page 26 for more information.

LESSONS FROM OTHER STATES:

Massachusetts recently enacted a change to its funding system that will provide substantially more funding to districts to support students from low-income families. The Student Opportunity Act will use a student-based formula to provide additional funding in increments up to about 100 percent more depending on the level of student need in the district.50

Maryland currently has a funding formula that also allocates about twice as much for students from low-income families.51 Unfortunately, the state undercuts this great start by falling short on other principles. See page 42 for more information about how Maryland leaders and stakeholders are working to build upon this system to better serve students from low-income backgrounds.
Recommendations:

- Substantially increase the amount of additional funding for Michigan students from low-income families, so that students from low-income families are supported by at least 100 percent more funding as other students, as recommended by research.54

- Continue to use a definition for students from low-income families that is at least as broad as the definition currently in use, to ensure that additional funding is allocated for all students with additional need.

- Ensure that legal and regulatory frameworks are in place to ensure these dollars actually reach the schools where students from low-income backgrounds attend, are used to directly serve students from low-income backgrounds, and are spent in ways that improve student learning. Please see Principle 3 on page 36 for more details.

**RESEARCH SPOTLIGHT:**

**Upjohn Institute Study Suggests that Students from Low-Income Families Need More than Double Current Per Pupil Spending**

In a 2015 report on Michigan’s funding system, the Kalamazoo-based Upjohn Institute found that in order to close achievement gaps between students from low-income backgrounds and their more affluent peers, Michigan would need to provide at least 100 percent more funding for students from low-income backgrounds, and up to 150 percent more funding in districts with the highest poverty rates.52 Please see page 27 for more information and recommendations on weighting for concentrated poverty.

This recommendation is in line with other research.53

**Provide at least 75 percent to 100 percent more funding for English Learners (ELs)**

Why this matters: English learners have particular programmatic and resource needs (i.e. Bilingual certified teachers) that require more state investment. Research suggests that states should provide as much as 100 percent to 150 percent more for English learners, so that schools may be equipped to meet the learning needs of English learners.55
**Analysis:** Michigan provides increased funding for English learners. In FY20, the funding formula allocated additional funds on a sliding scale ranging from $100 to $900 for each English learner, depending on the student’s level of proficiency on the state’s English language proficiency (ELP) assessment. The ELP assessment measures whether a student qualifies for language assistance program services and students’ progress in English language development. Students with lower scores are allocated more funding to address their greater learning needs.

However, this additional $100 to $900 represents only about 1-11 percent more funding. This is substantially lower than what research recommends. Furthermore, unlike funding for students from low-income families, which is provided as a weight, funding for English learners is provided through flat allotments, which, in some cases, can be less transparent and less adaptable to changes in base funding than weights.

**Recommendations:**

- Substantially increase the amount of additional funding for English learners, so that English learners receive at least 75 percent to 100 percent more funding as students who are not English learners.

- Continue to differentiate additional English learner funding based on students’ level of English proficiency.

- Move from an approach that provides funding for English learners as a flat allotment toward an approach that provides funding for English learners via weight, just like students from low-income background receive.

- Ensure that legal and regulatory frameworks are in place to ensure these dollars actually reach the schools where English learner students attend, are used to directly serve English learner students and are spent in ways that improve student learning. *Please see Principle 3 on page 36 for more details.*

**Lessons from Other States:**

- **Maryland**’s current funding system allocates about twice as much funding for English learners.

- **Georgia** provides about 2.5 times more for English learners.
**PROVIDE ADDITIONAL FUNDING TO SUPPORT STUDENTS WITH DISABILITIES**

**Why this matters:** Students with disabilities are mandated services by federal and state law regardless of the cost and districts ability to pay. Districts need additional funding to support students with disabilities and maintain the programs that serve their unique needs. Many states provide additional funding for students with disabilities, largely based on the severity of the disability. While the funding mechanism for special education varies from state to state, more than half of all states allocate funds through some form of per-pupil weight.\(^{63}\)

**Analysis:** Michigan’s funding of special education is highly inequitable and grossly inadequate.\(^{64}\) State and federal lawmakers have shifted most of the funding responsibility to the local and county levels. Yet Proposal A precludes local districts from levying taxes to cover additional special education costs.

In Michigan, districts receive funding for special education students through partial reimbursements (up to 75 percent) of the district’s approved special education costs (including no more than 28.6 percent for total approved costs i.e. personnel costs as well as 70.4 percent for transportation costs).\(^{65}\) Michigan is one of only seven states that uses a reimbursement system to fund special education.\(^{66}\)

Often, these partial reimbursements are provided as a part of, not in addition to, the foundation allowance. Districts only receive additional special education funding if the state reimbursement amount exceeds the district’s foundation allowance. Because of Proposal A, districts’ are limited in their ability to fund the remaining special education costs.

“Michigan’s funding of special education is highly inequitable and grossly inadequate. State and federal lawmakers have shifted most of the funding responsibility to the local and county levels. Yet Proposal A precludes local districts from levying taxes to cover additional special education costs.”
costs because they cannot raise local revenue to do so and ISDs, which comprise one or more counties, meanwhile, have very unequal ability to raise revenues for special education services. As a result, districts with higher special education costs may have to rely on general fund revenues to make up the difference.\textsuperscript{67} An MSU study found that, in order to fully fund special education costs, Michigan districts use more than $500 per pupil from general education funds, on average. This even exceeds $1,000 per pupil in some districts.\textsuperscript{68} This affects both special education and general education students because diverting general education dollars to cover the needs and requirements of special education dollars leaves fewer dollars for pupils overall.\textsuperscript{69}

**Recommendation:**

- Guarantee the full foundation allowance for each student, plus supplemental funding for students with disabilities that is based on the actual, full cost of additional supports that the student needs. This recommendation aligns with recommendations in a MSU report that calls for greater funding commitment from the state and/or better state equalization funding for special education.\textsuperscript{70}
In recent years, Michigan has reduced (prorated) funding used to support students, schools and districts with additional needs. For example, in FY19, total population-specific funding was capped at $499 million for students from low-income families. Because the number of eligible students has increased, this amount was not sufficient to cover the 11.5 percent weight for those students. As a result, districts only received approximately 9 percent more per student – even less than the already insufficient 11.5 percent provided for in statute in FY19.

When revenues are not sufficient to provide the amount of funding prescribed by the system or cuts must be made, the needs of students from low-income families, English learners and students with disabilities should be prioritized. States should not cut funding across all districts in a way that punishes high-need districts and students, for example, by cutting supplemental funds for students from low-income families, English learners or special education students. Instead, states should first ensure that the highest need districts receive the full amount of funding they are owed and prorate funding to districts with lower levels of need and greatest ability to raise local revenue.
PROVIDE THE FULL AMOUNT OF ADDITIONAL FUNDING FOR EVERY CATEGORY OF NEED THAT STUDENTS MEET

Why this matters: Student needs are intersectional and compounding. For example, a student who is both from a low-income family and is an English learner has more — and different — needs than a student who has just one of those characteristics. Research documents well that educational costs are associated with student characteristics and needs. Students from low-income families and English learners need different supports to meet those unique learning needs — and those supports cost money for districts and schools. Therefore, each student should be fully funded for every category of need that he or she meets.

Analysis: In Michigan’s current funding system, districts do receive all of the additional funding allocations for students with multiple categories of need. This means, for example, that if a district enrolls a student from a low-income background who is also an English learner, the district receives additional dollars from both at-risk funding (because of the student’s low-income status) and English learner funding.

Recommendation:

- Continue to provide full additional funding for each category of need a student experiences.

TARGET RESOURCES TO HIGH-POVERTY DISTRICTS AND SCHOOLS

Why this matters: Schools and districts with particularly high concentrations of poverty face compounded challenges in helping their students succeed and consequently require more resources.

Analysis: Despite Michigan having one of the highest rates of concentrated poverty in the country (see map on page 29), in its current funding system, Michigan does not provide additional funding to
districts with high concentrations of students from low-income backgrounds on top of the foundation allowance and any other additional funding received because of student need.\textsuperscript{78} In practice, the highest poverty districts in the state receive, on average, $567 or 5 percent less \textit{state and local} funding than lower poverty districts, when adjusting for regional differences in cost of living.\textsuperscript{79} This is in part due to the fact that state funding to districts is not targeted to high-poverty districts to sufficiently counter-balance inequities in local funding.

**Recommendations:**

- Provide additional funding to districts with especially high concentrations of students from low-income families.
- Ensure dollars intended for low-income students are allocated equitably within the district.

**LESSONS FROM OTHER STATES:**

Currently, 23 states use funding formulas that consider the concentration of students from low-income backgrounds within a district.\textsuperscript{80} \textit{Please see page 21 for more information on Massachusetts funding model for districts with concentrated poverty.} For example, \textbf{Texas} uses a five-tier model to provide districts additional funding for concentrated poverty. Each “census block group” in the state is sorted into one of five tiers based on several factors, such as household income, household composition and rates of home ownership, among others.\textsuperscript{81} The five tiers are assigned different weights, ranging from 22.5 percent of the base per-pupil amount for the lowest level of disadvantage to 27.5 percent of the base per-pupil amount for the highest level of disadvantage.\textsuperscript{82} While these percentages are not high enough \textit{(see Principle 1 on page 21, calling for at least 100 percent additional funding for students living in poverty)}, the idea of generating more additional funding for each student living in poverty in districts where more students are living in poverty is smart. This model is just one of many ways to target state dollars to address the additional costs of concentrated poverty.
Below, the Education Law Center’s visual depiction of concentrated poverty by state demonstrates that 37 percent of Michigan’s poor students live in high-poverty districts. This is one of the highest rates of poor students living in high-poverty districts nationwide, which is especially concerning because these high-poverty districts “often lack the essential education resources for low-income students to succeed in school” (page 13).

**CONCENTRATED STUDENT POVERTY, 2017**

*Percentage of Poor Students Living in High-Poverty (>30%) Districts*

Source: Danielle Farrie, Robert Kim and David G. Sciarra, “Making the Grade 2019: How Fair is School Funding in Your State?,” (Newark, NJ: Education Law Center, November 2019, Figure 5*).

*The figure comes from the Education Law Center’s analysis of Census’ Small Area Income and Poverty Estimates (SAIPE), 2017.*

**Note:** Map represents the percentage of poor students in the state who live in high poverty (>30% Census poverty) school districts. In orange states, at least 1 in 4 students (≥25%) lives in a high poverty district.
MICHIGAN CONTEXT:

MICHIGAN IS ONE OF ONLY SIXTEEN STATES PROVIDING LESS FUNDING TO HIGHEST POVERTY DISTRICTS THAN TO LOWEST POVERTY DISTRICTS

Funding Gaps Between the Highest and Lowest Poverty Districts, By State

Reading this figure: In Utah, the highest poverty districts receive 21 percent more in state and local funds per student than the lowest poverty districts (not adjusted for additional needs of low-income students). In states shaded in green, the highest poverty districts receive at least 5 percent more in state and local funds per student than the lowest poverty districts; in states shaded in red, they receive at least 5 percent less. Grey shading indicates similar levels of funding for the highest and lowest poverty districts. Note that although all displayed percentages are rounded to the nearest percentage point, states are ordered and classified as providing more or less funding to their highest poverty districts based on unrounded funding gaps.

Source: The Education Trust, Funding Gaps, 2018

Notes: Hawaii was excluded from the within-state analysis because it is one district. Nevada is excluded because its student population is heavily concentrated in one district and could not be sorted into quartiles. Alaska is excluded because there are substantial regional differences in the cost of education that are not accounted for in the ACS-CWI. Because so many New York students are concentrated in New York City, we sorted that state into two halves, as opposed to four quartiles. Though included in the original publication, data from Ohio are now excluded from this chart because of subsequently discovered anomalies in the way Ohio reported its fiscal data to the federal government.
2 Provide more funding to districts with lower fiscal capacity

**PROVIDE EQUALIZATION FUNDING TO LOW-WEALTH DISTRICTS**

**Why this matters:** Districts have different abilities to raise revenue for schools due to differences in local property wealth. When local property wealth forms the foundation of school funding systems, it can compound historical inequities that, over decades, have been documented to underserve low-income communities and communities of color.

It is important for states to equalize funding between low- and high-wealth districts by providing more dollars to low-wealth districts to close the gap between local revenue and the cost of meeting students’ needs. State equalization funding is also particularly important to ensure that schools and districts serving the higher needs student groups described throughout this report are not shortchanged.

In Massachusetts, for example, state leaders have not only made a commitment to dramatically raising the amount the state invests in its districts and schools over the next several years. They have also committed to directing that investment primarily to high-poverty, low tax base communities to help eliminate funding disparities between these districts and their wealthier counterparts. Post-industrial communities such as Springfield and Worcester, for example, expect to receive significantly more state dollars under the new state funding system. The state’s investment will be based on school district’s concentrations of poverty so that communities with far higher rates of poverty will be funded at higher levels — and vice versa.

**Analysis:** Twenty-five years after the passing of Proposal A, it is clear that Michigan’s approach to equalization funding has maintained gaps between student groups and communities throughout the state. While state leaders have taken steps to close gaps over the last decade, those approaches are not fully closing funding and resource gaps. Across Michigan school districts there are large variations in per-pupil foundation allowances and a troubling gap remains between the 84 percent of districts funded at the state minimum and districts funded at or above the maximum foundation allowance.86

Two of the primary mechanisms that Michigan uses to equalize funding are:87

1. **State Contributions to Total Foundation Allowance Funding:** After determining the total
amount of foundation allowance funding a district will receive, the state determines an expected local contribution (which factors in local property wealth). The local contribution is then subtracted from the total foundation allowance funding amount and the difference is provided in the form of state education aid. This is good practice because the state is filling the gap between the total foundation allowance funding amount (i.e., a portion of what the state determines a district needs to educate its students) and what local revenues can provide; however, inequities persist because the total foundation allowance funding is calculated using each district’s foundation allowance, which vary widely and are based on district funding in 1993. For more information on the allocation of state and local dollars to districts, please see the background on Michigan’s current funding system on pages 17-19.

2. **2x Formula**: Currently, when the state increases school funding, it provides twice as much funding to districts that are funded at the minimum foundation allowance as districts that are funded at the maximum allowance. This is known as the “2x formula” and is designed to gradually reduce the gap...
between districts funded at the minimum and districts funded at the maximum over time. While this implementation strategy does move the needle in the right direction, it is far too gradual, as evidenced by the 84 percent of districts that continue to be funded over $400 below the maximum foundation allowance a quarter century later.89

**Recommendations:**

- Move to a uniform foundation allowance to eliminate the funding inequities between districts that are currently built into the funding system.

- Provide equalization funding based on property wealth and income to send additional state funding to districts that need it most — and ensure that funding is sufficient to fully counteract difference in local revenue. For example, Massachusetts is now implementing strategies to close funding gaps between high-poverty, low tax base communities and high tax base, affluent communities by investing more state dollars in its high-need districts over time, and ensuring that funding is sufficient to fully counteract differences in local revenue. In the meantime, Michigan state leaders should prioritize state investments to vulnerable student groups outlined in this report, as well as high-need districts, in order to close funding gaps and better serve all vulnerable student groups across the whole state.

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**DECLINING ENROLLMENT**

Providing funding based on the numbers of students in particular student groups is the most direct and transparent way to provide districts with funding to meet its students’ needs. However, in a state like Michigan where districts face declining enrollment, population and property values, it can become impossible to manage legacy infrastructure costs based on funding for the current student population.

Currently, rural districts with declining enrollment (if not eligible for additional funding for sparse or remote/rural districts) receive funding in proportion to a slightly inflated enrollment only if they have less than 1,550 pupils and the district has 4.5 or fewer pupils per square mile.90

In 2015, the Upjohn Institute recommended that the state provide additional aid to districts that experience reductions in enrollment greater than 2 percent in a single year. The report suggests that state aid should include 50 percent of the foundation allowance that these districts lost due to declining enrollment.91
PROVIDE ADDITIONAL FUNDING FOR RURAL AND SPARSE DISTRICTS

**Why this matters:** Rural and sparse districts lack of economies of scale and have high transportation costs, which lead to high resource and operation costs. All else equal, these districts require additional funding to provide the same services to students. In addition, these districts often face compounding resource challenges related to teacher recruitment and retention, and school facilities, among others.92

**Analysis:** Michigan provides increased funding through various mechanisms: sparse districts receive additional funding based on per-student allocations set through annual appropriations; small and remote districts receive additional funding based on predicted costs developed through local spending plans; and in sparse districts that do not qualify for small and remote district funding and that have low and decreasing enrollment, enrollment counts are slightly inflated to generate additional funding.93

**Recommendations:**

- Continue to provide additional funds to all low-density and rural districts to account for their additional transportation needs and lack of economies of scale.

- Use a more transparent and consistent approach, rather than three different funding mechanisms.

- Expand the definition of small and remote districts to include districts outside the Upper Peninsula, as recommended in the School Finance Research Collaborative study,91 to allow more districts to receive the funding they need.

“Expand the definition of small and remote districts to include districts outside the Upper Peninsula, as recommended in the School Finance Research Collaborative study,91 to allow more districts to receive the funding they need.”
State Definitions of Rural and Sparse Districts

The state defines small and remote districts as those that serve grades K-12; enroll fewer than 250 students; and whose schools are located either on the state’s Upper Peninsula at least thirty miles from any other public school or on islands that are not accessible by bridge. The amount of additional funding allocated to each eligible remote district is determined under a spending plan developed cooperatively with an intermediate district superintendent and approved by the superintendent of public instruction.

Sparse districts are those with 10 students or fewer per square mile that are not eligible for small and remote funding. Michigan appropriated about $6 million for sparse districts for FY20 to be allocated in three tiers. Districts with fewer than 8 students per square mile received the most, followed by those with between 8 and 9 per square mile, followed by those with between 9 and 10 per square mile. As with other sources of supplemental funding, if the appropriation for a fiscal year is insufficient to fully fund payments to districts, the state will prorate payments to districts.

Currently, rural districts with declining enrollment (if not eligible for additional funding for sparse or remote/rural districts) receive funding in proportion to a slightly inflated enrollment only if they have fewer than 1,550 students and the district has 4.5 or fewer students per square mile.
REQUIRE DISTRICTS TO SPEND ACCORDING TO STUDENT NEED

Why this matters: State efforts to provide additional funding to support students with additional needs will have limited impact if the funds are not actually used in the schools or on supports that serve those students. State accountability systems should hold districts responsible for actually closing opportunity and achievement gaps, which in turn should help districts prioritize the schools and students who need the most support. At a minimum, states should require any districts that continue to produce these gaps to show that they are spending substantially more in schools with higher concentrations of student need.

Analysis: Michigan requires annual post-spending accountability reports, which may aid efforts to ensure that funds intended to benefit students from low-income families and English learners (ELs) are used well to improve student learning experiences and outcomes for those students. The funds are restricted for use on programs and services to serve the intended students, such as low-income students or English learners, and the misuse of these funds or failing to submit an annual report on the use of funds may result in the state withholding funds from a district. Michigan does not, however, actually require that the schools serving higher concentrations of English learners, students with disabilities and low-income students spend more money than other students who need the most support.”
schools — which means that there is no meaningful assurance that the dollars intended to serve these students aren’t just supplanting other general education funds.

**Recommendations:**

- Continue to require that districts submit reports explaining how funding for students’ additional needs — i.e., the funding distributed to support the needs of students from low-income backgrounds and English learners — was used to improve educational experiences for the intended students.

- Publish school-level expenditure reports that show that state and local spending is differentiated across districts and all schools within districts, such that spending increases substantially as student need increases.

- Pilot state-led accountability mechanisms for ensuring dollars intended for vulnerable students are actually spent in the schools where they attend, such as requiring more dollars are spent on schools with higher concentrations of low-income students within districts. If enacted, the Michigan Department of Education should also provide technical assistance and support to districts that fail to meet this requirement.
REQUIRE DISTRICTS TO DEVELOP AND PUBLISH A PLAN FOR HOW THEY WILL USE FUNDING

Why this matters: Accountability measures for how funds are used is important to ensure that funding is spent on evidence-based resources, supports and interventions, and to empower local parents, families, educators and equity advocates to engage in the conversation. By requiring spending plans, states can push districts to think strategically about how they will use funding to support students with additional needs to close opportunity and achievement gaps. Accountability, however, should always be balanced with flexibility to allow districts to respond to their local needs and contexts.

Analysis: Michigan requires districts to submit reports on how funds were used after they’re spent; it does not require budget or spending plans before funds are spent.

Recommendations:

• Commit to greater oversight and require that districts to develop and publish plans for how they’ll use all available funding to meet students’ needs and particularly to support students with additional needs. District plans should:
  □ Be based on a needs assessment and evidence and/or research.
  □ Be developed in consultation with families and students who have been historically underserved in the community and community advocates representing those groups, along with educators and school leaders.
  □ Be designed for a specified time period (e.g. 3 years) and be reviewed and revised at the end of the time period.
  □ Be based on a set of guiding questions or a template that is developed by the state, so they are generally consistent across districts.
  □ Include ambitious, time-bound targets for closing opportunity and achievement gaps.

• Publish reviews of district plans and guidance or interventions provided in districts with sub-par plans.
California made major changes to its school funding formula with the goal of improving equity and flexibility for districts. Some positive changes were made and yet, California is also quickly becoming a cautionary tale of hard lessons learned — and of policy change that has serious consequences for vulnerable students and communities in the state.

California’s Local Control Funding Formula (LCFF), enacted in 2013, changed the state’s outdated, complex and inequitable school funding system and increased funding for serving the state’s students with additional needs.97 The system also drastically reduced the number of categorical funding streams to reduce complexity of the system and increase districts’ flexibility for using funds.98

In addition to changing the way that school districts are funded, LCFF included a new strategy for accountability. Districts are now required to complete Local Control and Accountability Plans (LCAPs) that describe how they will serve historically underserved groups of students, and engage community members in the budgeting and planning process.99

LCFF is often cited as a model for other states as an example of a political bargain that provides both increased funding, increased equity and some oversight for how dollars are used. Some positive outcomes have been seen: early studies on the effects of the system have shown that increases in per-pupil revenue have led to increased graduation rates for all students; this effect was particularly prominent for students from low-income families.100

However — and this is a big however — policy change of such great magnitude comes with great risk — and California was not able to mitigate the impact of these significant risks for many vulnerable students and communities. The original policy blueprints did not put the necessary accountability systems — and appropriate regulatory and legal frameworks — in place up front to ensure the state department and local stakeholders could track if dollars intended for vulnerable students actually reached them, nor if they had an impact on student learning experiences and outcomes.

For years, key California leaders and stakeholders have raised concerns that the new accountability, data and public reporting structures are not strong enough to ensure additional funding is actually being used to serve the vulnerable students that it is intended to serve.101 An important recent report from the state auditor confirmed those suspicions:102

“We are concerned that the State does not explicitly require districts to spend their supplemental and concentration funds on the intended student groups or to track how they spend those funds; therefore, neither state nor local stakeholders have adequate information to assess the impact of those funds on intended student groups. … We also had difficulty determining the extent to which the districts used those funds to increase or improve services for intended student groups because of unclear descriptions in their local control and accountability plans.”

The state auditor recommends that the legislature both strengthen the rules for using funding meant to serve students with additional needs and increase transparency so that it is easier to track spending within schools and across districts.103
ANNUALLY PUBLISH INFORMATION ABOUT HOW THE FUNDING SYSTEM IS DESIGNED TO WORK IN CLEAR, Plain-LANGUAGE

Why this matters: Accessible and jargon-free resources on state funding systems allow more stakeholders to meaningfully engage and understand how Michigan funds its schools, how the funding system reflects the state’s values, and how it meets the needs of students.

Analysis: Michigan’s funding system is complex. The state publishes only a limited number of public documents and reports that summarize the system, and the summaries that exist are often not understandable by a general audience.104

Recommendation: 

- Provide a user-friendly description of how the state’s funding system is supposed to work to allow more stakeholders to understand how the state funds schools and engage in conversations about changing the system when necessary.

PUBLISH EASY-TO-FOLLOW DATA ON THE AMOUNT OF FUNDING EACH DISTRICT SHOULD RECEIVE ACCORDING TO THE STATE FUNDING SYSTEM, COMPARED TO WHAT IT ACTUALLY RECEIVES

Why this matters: Financial reports that are complete and easy-to-understand allow for cross-district comparisons and the identification of funding inequities. For example, financial reports can highlight whether a district is receiving a smaller portion of funding for its students from low-income backgrounds

LESSONS FROM OTHER STATES:

Alabama,105 Florida,106 Minnesota107 and Montana,108 have all created summaries of their school funding systems that are easier to read and intended for a general audience.
than it should be. This kind of transparent reporting allows stakeholders to see how the funding formula translates at the district level and to meaningfully engage in conversations about the school funding system and whether dollars are being distributed equitably across the state.

**Analysis:** Michigan publishes data on the amount of funding districts receive according to the state’s school funding system. However, it is often not presented in a way that is easy for many stakeholders to understand, and does not include comparisons between what a district should receive in state and local money and what it actually receives or spends. District funding reports often lack the definitions and context to make the information meaningful to a general audience.109

**Recommendation:**

- Commit to publishing transparent data on district funding levels, broken down by major sources of funds. The data should highlight expected revenue amounts according to the state funding system, actual district and school revenues, and reasons for any variations between the expected and actual revenues, such as proration or local funding issues.

**REVIEW THE FUNDING SYSTEM TO UNDERSTAND PATTERNS IN WHICH DISTRICTS ARE BEING UNDERFUNDED**

**Why this matters:** Thorough and recurring evaluations of a state’s school funding system facilitates continuous monitoring and improvement. Review processes can identify provisions in a state’s formula that produce unintended, equity-undermining consequences. They can also spur changes that correct for inequities and enhance a state’s school funding system.

**Analysis:** Michigan does not prescribe a process for reviewing how the state funding system is working or evaluating whether it is closing opportunity gaps.110 This is a missed opportunity to encourage state leaders to maintain a modern and functional system that meets the contemporary needs of the state’s students, schools and districts.

Michigan does have a review process for English learner categorical funds. Starting with FY20, the state has ordered reviews every three years to ensure funding levels are appropriate and inform recommendations to the legislature on appropriations.111 Unfortunately, this kind of review process has not been extended to targeted funding of other vulnerable student groups nor the funding system as a whole.
Recommendation:

- Commit to a regular review of the state funding system by expanding the process currently in place for evaluating funding for English learner supports to include all school aid funding. In its expansion, that process should continue to be timely and recurring. This review of actual revenue, student need and student achievement data, should measure whether funds targeted for specific student groups did reach the intended students and whether student outcomes are improving. The review should be conducted by the appropriate state agency or leadership and validated by an independent, nonpartisan external organization with school funding expertise.

LESSONS FROM OTHER STATES:
MARYLAND REVIEWS ITS FUNDING SYSTEM

In 2002, when the Maryland legislature passed the Bridge to Excellence in Public Schools Act, the state made dramatic changes to the state’s education system to simplify the funding system and provide increased and differentiated funding based on student need and school districts’ ability to meet those needs. The Act restructured Maryland’s public school finance system and increased state aid to public schools by $1.3 billion over six years. It also required the state legislature to re-evaluate the adequacy and equity of the funding system approximately 10 years after the law’s enactment.

Because a review process was put in place, there was a clear opportunity for the state to reflect on current practices and make necessary improvements. Despite allocating more money for students living in poverty and English learners than any other state, at least on paper, state leaders have work to do to actually deliver on the promise of the formula and to fix the loopholes that undermine that formula’s good intentions. An analysis by The Education Trust shows that most districts in Maryland do not receive the money the state says they need, and districts with the greatest numbers of students of color are shortchanged the most.

Maryland now has an opportunity to address these concerns. While a few years late, and not without opposition, stakeholders in Maryland (the Kirwan Commission) have finished that review process and have put forth a series of recommendations that will likely be used to inform sweeping legislation.
Provide transparent data on funding going to schools

**DEVELOP, USE AND PUBLISH CONSISTENT RULES FOR CALCULATING SPENDING FOR ALL SCHOOLS IN THE STATE**

*Why this matters:* Education funding accounting systems are complicated. States have wide discretion for deciding how they will categorize expenditures to calculate school-level per-pupil spending numbers. If the decisions that are made are not documented clearly and shared widely, the public will not be able to use the data that are reported with confidence.

*Analysis:* The Michigan Department of Education has publicly released information related to school-level financial reporting, including a per-pupil expenditure calculation methodology and definition document. This will potentially allow spending data to be transparent and comparable across schools.

*Recommendations:*

- Continue efforts to develop consistent calculation rules that will enable apples-to-apples comparisons of school spending data across all districts in the state.
- Publish those calculation rules in an easy-to-understand and easy-to-find way on the state’s website.

**REPORT CLEAR, TIMELY AND ACCESSIBLE SCHOOL AND DISTRICT SPENDING DATA ALONGSIDE CONTEXTUAL INFORMATION TO ENABLE EQUITY-FOCUSED COMPARISONS**

*Why this matters:* Clear and transparent data allows stakeholders to better understand whether schools serving high concentrations of certain student groups, for example, low-income students or students of color, are receiving equitable funding. Clear and comparable school-level spending data can push local education leaders to allocate and spend funds more fairly and help researchers further understand the relationship between funding and student outcomes.

*Analysis:* Not applicable; the Michigan Department of Education has not yet reported the data so we cannot assess the quality of this reporting. The Department will publicly report on school-level
expenditures for the first time in spring 2020, using data from the previous school year. If implemented well, this data can make a real difference and help stakeholders — families, advocates, district and school leaders — make more informed decisions on behalf of Michigan’s students.

**Recommendation:**

- When Michigan does report school-level spending data in Spring 2020, the state should do so in a way that enables equity-oriented comparisons, by allowing users to view spending data alongside school contextual information such as the percentage of students from low-income families, and facilitate comparisons between individual schools and groups of schools with similar and different levels of need.

**LESSONS FROM OTHER STATES:**

**ILLINOIS ENABLES EQUITY-ORIENTED COMPARISONS IN SCHOOL-LEVEL SPENDING DATA REPORTS**

To date, most examples of states’ ESSA-mandated school-level spending reports that we have seen are not promising. However, Illinois’ newly-released school report card includes spending data that makes it easier to make meaning of the data. Illinois’ reporting allows users to view school-level spending data in context with other information about students in the school, such as the percentage of students from low-income families and the percentage of English learners.
Conclusion

Michigan’s funding system is falling short for all students, especially Michigan’s most vulnerable children. This means that students who are in most need are not receiving the funding that would allow them to overcome barriers and opportunity gaps. The state must be committed to investing directly in under-resourced schools, students from low-income families, English learners and other student groups who experience vulnerabilities in order to boast positive outcomes for all students. As we outlined in this report, there are specific actions stakeholders in Michigan can and should take to fully embed equity in the state’s funding system. The time is now.

The Education Trust-Midwest works for the high academic achievement of all Michigan’s students, pre-kindergarten through college. Our goal is to close the achievement gaps in opportunity and achievement for all children particularly those from low-income families or who are African American, Latino or American Indian.

As a nonpartisan, data-driven education policy, research and advocacy organization, we are focused first and foremost on doing what is right for Michigan children, working alongside partners to raise the quality of teaching and learning in our public schools.

Find all of our reports, including examinations of what works in leading education states, as well as fact sheets and other information at edtrustmidwest.org.

In 2015, The Education Trust-Midwest launched the Michigan Achieves campaign to make Michigan a top ten education state by 2030. Since then, a growing number of partners around the state have come to work together to advance the best practices and strategies from leading education states to Michigan, in order to close achievement gaps and ensure every Michigan student is learning – and being taught – at high levels.

Join the movement at www.michiganachieves.com.
## Appendix: Rubric

<table>
<thead>
<tr>
<th>Provide at least 100 percent more funding for students from low-income backgrounds.</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>No consistent source of funding, no weights, or very low weights or additional funding (0-10% of base amount)</td>
<td>Low weights or additional funding is low compared to base amount (10-90%)</td>
<td>Weights in 2-3x range or additional amount is 2-3 times base amount (90%+ of base amount)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provide at least 75 percent to 100 percent more funding for English learners (ELs).</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>No consistent source of funding, no weights, or very low weights or additional funding (0-10% of base amount)</td>
<td>Low weights or additional funding is low compared to base amount (10-90%)</td>
<td>Weights in 2-3x range or additional amount is 2-3 times base amount (90%+ of base amount)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provide additional funding to support students with disabilities.</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>No consistent source of funding or very limited additional funding</td>
<td>Additional funding that is not based on student needs.</td>
<td>Generous additional funding that is differentiated based on student needs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provide the full amount of additional funding for every category of need that students meet.</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>State does not provide funding for multiple need categories</td>
<td>State provides partial/prorated funding for multiple need categories</td>
<td>State provides the full amount of additional funding for each need category</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Target resources to high-poverty districts and schools.</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>No consistent source of funding, no weights, or very low weights or additional funding (0-10% of base amount)</td>
<td>Low weights or additional funding is low compared to base amount (10-90%)</td>
<td>Weights in 2-3x range or additional amount is 2-3 times base amount (90%+ of base amount)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## 2. PROVIDE MORE FUNDING TO DISTRICTS WITH LOWER FISCAL CAPACITY.

<table>
<thead>
<tr>
<th>Provide equalization funding to low-wealth districts.</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>No equalization funding</td>
<td>Equalization funding based on property wealth</td>
<td>Equalization funding based on property wealth and income</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provide additional funding for rural and sparse districts.</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>No consistent source of funding, no weights or no additional flat amount</td>
<td>Flat weight or additional funding for sparse or rural districts</td>
<td>Additional funding that is differentiated based on district needs and allocated on per-student basis</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. ENSURE DOLLARS ARE USED WELL TO IMPROVE STUDENT EXPERIENCE AND OUTCOMES.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Require districts to spend according to student need.</td>
<td>No requirement</td>
<td>Requires reporting on use of funds</td>
<td>Requires reporting on use of funds that aims to ensure that that districts and schools with the most high-need students are getting their fair share of funding</td>
<td>▲</td>
</tr>
<tr>
<td>Require districts to develop and publish a plan for how they will use funding.</td>
<td>No requirement</td>
<td>Requires a plan without consequences for non-compliance</td>
<td>Requires a plan with consequences for non-compliance</td>
<td>▲</td>
</tr>
</tbody>
</table>

4. BE TRANSPARENT ABOUT THE SYSTEM’S DESIGN AND MONITOR FUNDING DISTRICTS ACTUALLY RECEIVE.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually publish information about how the funding system is designed to work in clear, plain-language.</td>
<td>System is not summarized (i.e., it’s only described through legislation language etc.)</td>
<td>System is summarized, but the language used is full of jargon and is not understandable by a lay audience</td>
<td>System is summarized in clear, accessible language</td>
<td>▲</td>
</tr>
<tr>
<td>Publish easy-to-follow data on the amount of funding each district should receive according to the state funding system, compared to what it actually receives.</td>
<td>There is no data available or it is not easy to find</td>
<td>There is some data available, but it is not easy to understand or does not provide a complete picture</td>
<td>Data are readily available that clearly show how much funding districts should receive according to the system and the amount they actually receive</td>
<td>▲</td>
</tr>
<tr>
<td>Review the funding system to understand patterns in which districts are being underfunded.</td>
<td>No prescribed process or requirement</td>
<td>There is a process, but it is not timely and/or does not aim to ensure that districts with the most students from low-income families, English learners or students of color are getting their fair share of funding</td>
<td>There is an equity-oriented, timely and recurring (less than 1 year-long, every 5 years) process to review actual revenue, student need and student achievement data</td>
<td>▲</td>
</tr>
</tbody>
</table>

5. PROVIDE TRANSPARENT DATA ON FUNDING GOING TO SCHOOLS.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Red</th>
<th>Yellow</th>
<th>Green</th>
<th>Michigan Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop, use and publish consistent rules for calculating spending for all schools in the state.</td>
<td>State does not require districts to calculate spending in a comparable way (i.e., there are no business rules)</td>
<td>State sets uniform business rules for calculating spending, but does not provide technical support to districts on reporting data</td>
<td>State sets uniform business rules for calculating spending and provides technical support to districts on reporting data</td>
<td>▲</td>
</tr>
<tr>
<td>Report clear, timely and accessible school and district spending data alongside contextual information to enable equity-focused comparisons.</td>
<td>N/A. Michigan does not report school-level spending data</td>
<td>N/A. Michigan does not report school-level spending data</td>
<td>N/A. Michigan does not report school-level spending data</td>
<td>▲</td>
</tr>
</tbody>
</table>
References

does-school-spending-matter-after-all/


9. Ibid.


12. Ibid.


20. MCL 388.1631a

21. Note: This figure is 11.5 percent of the FY202 statewide weighted average foundation allowance which was $8,362, State of Michigan, State Aid Foundation Allowance Parameters. Retrieved from https://www.michigan.gov/documents/sw_fdparms_11179_7.pdf


25. MDE Student Count 2018-19


28. Ibid.

29. MCL 388.1631a; MCL 388.1641


Note: Under Michigan law, districts receive this funding based on the number of pupils in their district who are determined to be economically disadvantaged. Students who are economically disadvantaged are those who are eligible for free or reduced-price lunch, food assistance (SNAP), or temporary financial support (TANF); who are experiencing homelessness, are migrant students, or are in foster care (MCL 388.1651a).

Note: An additional $100 to $900 is only about 1% to 11% of the FY20 statewide weighted average foundation allowance of $8,362, which would be equivalent to a weight of 0.01 to 0.11 of the FY20 statewide weighted average foundation allowance, State of Michigan, State Aid Foundation Allowance Parameters. Retrieved from https://www.michigan.gov/documents/sw_fndamts_11719_7.pdf


Note: An additional $100 to $300 is only about 1% to 11% of the FY20 statewide weighted average foundation allowance of $8,362, which would be equivalent to a weight of 0.01 to 0.11 of the FY20 statewide weighted average foundation allowance, State of Michigan, State Aid Foundation Allowance Parameters. Retrieved from https://www.michigan.gov/documents/sw_fndamts_11719_7.pdf


MICHIGAN'S SCHOOL FUNDING: CRISIS AND OPPORTUNITY
Appreciations

The Education Trust-Midwest is deeply appreciative of the philanthropic, policy, education and other leaders and partners who work every day to improve Michigan’s education system. We are especially thankful for our philanthropic partners including:

The W.K. Kellogg Foundation
The Ballmer Group
The Steelcase Foundation
The Mott Foundation
The Skillman Foundation

We are also grateful for the thought partnership and leadership on behalf of students — especially vulnerable children — with our many partners across sectors in the state and country, especially Zahava Stadler of EdBuild and Jonathan Travers and Nicole Katz of Education Resource Strategies who served as invaluable sources of expertise through the development of this report.

Finally, we are always thankful for the Michigan Achieves! Leadership Council and its leadership and championing of our work and the needs of vulnerable students in Michigan. They include:

Ken Whipple
Chair, Former CEO, CMS Energy and Executive Vice President Ford Motor Company

Deidre Bounds
President, Ignite Social Media

Brian Cloyd
Retired, Steelcase Inc.

Nolan Finley
Editorial Page Editor, The Detroit News

Ron Fournier
President, Truscott Rossman

Mike Jandernoa
Co-Founder, Jandernoa Foundation

Honorary Members:

Richard L. DeVore
Regional Vice President for Detroit and Southeastern Michigan, PNC Bank

David G. Mengebier
President and CEO, Grant Traverse Regional Community Foundation

Diana R. Sieger
President, Grand Rapids Community Foundation