

March 19, 2025

Major Drop in Economically Disadvantaged Student Counts Will Create “At-Risk” Funding Cliff for Schools Next Year

In a Nutshell

- Collectively, Michigan school districts experienced a massive 7.5 percent decline in the number of economically disadvantaged students counted across all public K-12 schools this year; a decline that is attributed to two factors, 1) changes to pandemic-era federal Medicaid eligibility rules in 2024, and Michigan’s adoption of a universal free school meals policy in 2023.
- Because schools receive state at-risk funding based on the number of economically disadvantaged students counted in enrollment, those experiencing above-average enrollment losses will see substantial year-over-year state funding reductions in their at-risk budgets.
- This analysis provides Michigan schools with a “first look” at the fiscal impact of Governor Whitmer’s K-12 state budget proposal on changes in state at-risk funding allocation for public schools’ 2025-26 budgets.

The annual State of Michigan budget process officially kicked off on February 5 when Governor Whitmer presented her executive budget proposal for Fiscal Year (FY)2026 to the Michigan Legislature. The total \$83.5 billion spending plan includes \$21.2 billion in K-12 public education appropriations to finance above-inflationary increases to several major state funding streams that support local school districts’ operations. The headline item in the governor’s K-12 education budget is a proposed 4.1 percent bump (\$392 per student) to the general foundation allowance, raising it to \$10,000 per student for the upcoming 2025-26 school year. This is certainly welcomed news for public schools following a year when state budget writers decided not to increase the minimum funding guarantee for FY2025.

To match the increase in the foundation grant, the governor’s budget also recommends a modest 4.1 percent increase in the total “at-risk” appropriation for services and programs for high need learners. But, because of a massive reduction in the number of students eligible for this funding, the state per-pupil payments for “at-risk” students will increase by almost 14 percent year-over-year under the governor’s spending plan. From the perspective of the annual School Aid budget, more money combined with fewer eligible students means higher state per-pupil payments.

Under the governor’s budget, the minimum at-risk student payment would increase by \$162, jumping from \$1,182 this year to \$1,344 in FY2026. But, in Michigan’s highest poverty districts, payments would rise \$218 per student, from \$1,587 to \$1,805 next year. That is because the state funding formula provides higher per-student funding to districts with higher concentrations of poverty.

Notably, for Michigan districts currently developing their 2025-26 school year budgets, this “good news” will be tempered by the effects that the massive ED student decline will have on the amount of total funding they receive. The 7.5 percent drop in ED students is unevenly spread across the state’s 800-plus school districts with three-quarters of all districts experiencing some amount of year-over-year enrollment decline among ED

students. State data shows that several traditional and charter public schools saw ED student declines of 20 percent or more in last fall's official student count, three times the statewide drop.

Because a district's total at-risk funding is a function of the state-determined per-student amount and the number of eligible students enrolled, those schools experiencing above-average ED student enrollment declines next year will see year-over-year state funding reductions in their at-risk budgets. For many districts, the resultant funding reductions will present local budgets with a serious and abrupt funding cliff. Given the scale of the estimated funding cliff in several districts, local school officials will have to tackle the upcoming budget shock through permanent adjustments in their FY2026 spending plans. Those adjustments could include program eliminations, staff cuts to reading interventionists and teachers, and reductions in other at-risk programming.

This analysis explores the primary reasons behind the seismic shift in the fall 2024 ED student count statewide. It examines the impact of the count drop for Governor Whitmer's proposed FY2026 K-12 state budget and at-risk per-pupil payments. Also, the analysis provides Michigan local school officials and state policymakers with a "first look" at the district-level funding impacts resulting from ED student count changes.

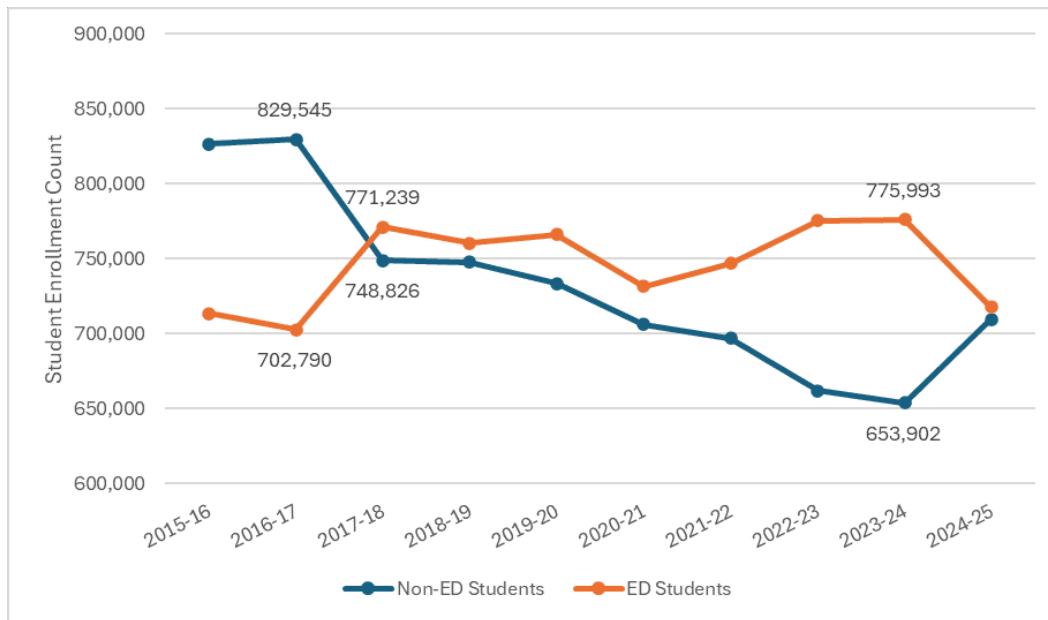
End of Federal Medicaid Enrollment Policy Causes Major Statewide Drop in "At-Risk" Students

Since Michigan adopted its K-12 school funding system nearly three decades ago, the annual state School Aid budget has included categorical funding for at-risk students. Districts receive these supplemental state per-pupil payments to help serve students who need additional educational programs and support to succeed in the classroom. Total state at-risk funding doubled from \$517 million in FY2019 to \$1,035 million in FY2025.

The state School Aid budget directs the allocation of at-risk funds among school districts based on the number of students counted as "economically disadvantaged" in the prior school year (fall student count). So, for instance, FY2025 at-risk allocations covering the 2024-25 school year are based on fall 2023 ED student counts. For most students, their eligibility is based on qualification for free/reduced-price school meals and/or other federal public assistance benefits. Each fall, districts update their student records to reflect changes in students' eligibility for free/reduced-price lunch. Existing students can see a change in their eligibility for school meals because of economic reasons or due to changes in state/federal eligibility rules. Following the updated fall ED student counts, Michigan releases the district-level data files early in the new year. The ED student identification is used for various state reporting and funding purposes.

This most recent data release shows a massive shift in the numbers of ED students statewide, disrupting a relatively stable trend. Other than the COVID-19 enrollment dip in FY2021, the chart below shows that statewide ED student counts have been growing since FY2018. This has occurred while Michigan's total K-12 student enrollment has continued its long-term slide; statewide K-12 enrollment dropped by 7.3 percent since FY2016. Eligibility for at-risk funds was expanded in FY2018 to include students receiving reduced-price school meals. This expansion increased the statewide ED student count from 703,000 in FY2017 to 771,000 in FY2018, a 10 percent increase.

Public K-12 Student Enrollment Trends, FY2016 – FY2025



Source: Center for Educational Performance and Information

The ED student trend, however, is not mirrored in the enrollment trend for non-ED students. The number of non-ED students declined from 749,000 in FY2018 to 653,000 in FY2024, a nearly 13 percent drop. Given the stark differences in enrollment trends over the six-year period, the demographic composition of Michigan's K-12 student population shifted from 50 percent ED students / 50 percent non-ED students in FY2018 to 54 percent / 46 percent, respectively, in FY2024.

Notably, the most-current student enrollment numbers reveal an abrupt change to these trends. State data released in February 2025 show the number of ED students dropped 7.5 percent from 776,000 in fall 2023 to 718,000 in fall 2024. To be clear, nearly all these students are still enrolled in Michigan schools this school year; it is just that they are no longer identified for state reporting purposes as economically disadvantaged. This is true because there is a corresponding 8.5 percent increase in the number of non-ED students this year, from 654,000 to 710,000. For perspective, the sharp change in enrollment composition from FY2024 to FY2025 mirrors the scale of the enrollment shift following the state's decision to expand at-risk eligibility seven years ago.

This sharp enrollment shift is directly tied to changes in federal Medicaid eligibility policy during the COVID-19 public health emergency. Since early 2020, federal policy directed states to automatically re-enroll families and children in lieu of annual eligibility checks in return for COVID-enhanced federal Medicaid matching funds. During this period, newly eligible K-12 students could be added to Michigan's Medicaid program, while the state was prohibited from closing Medicaid access to all current students receiving benefits. Through the state's "direct certification" program, K-12 students receiving Medicaid and other federal benefits (administered by the Michigan Department of Health and Human Services) are directly certified as "economically disadvantaged" for district-level funding allocations as well as many other state reporting purposes (e.g., student subgroupings for achievement and educational attainment). The state's direct certification process is, by far, the leading method for ED student identification.

Michigan's Medicaid caseload grew by more than 700,000 people during the COVID-19 pandemic. The end of the COVID-19 public health emergency in mid-2023 required states to re-engage their annual Medicaid re-determination process beginning in mid-2024. Media reports suggest that nearly 500,000 Michigan residents previously receiving Medicaid were not re-enrolled once the redetermination process was restored in 2024. Effectively, the policy allowed schools to continue counting students as economically disadvantaged who otherwise might not qualify for Medicaid. The impacts of the policy are clearly seen in Michigan student enrollment

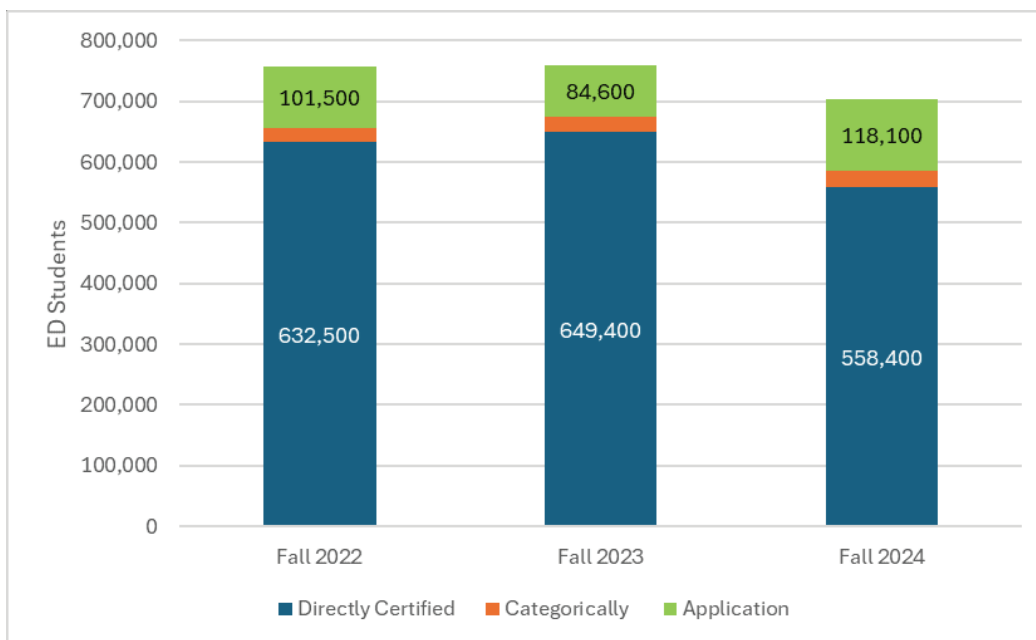
trends – during the period of Medicaid expansion the share of ED students grew from about 50 percent of total K-12 enrollment in FY2020 to 54 percent in FY2024. The effects from the end of Michigan’s expanded Medicaid program show up in the K-12 student enrollment numbers from fall 2024.

Although state officials expected some decline in the ED student count for fall 2024 resulting from scheduled changes in federal Medicaid policy, some local school officials feared that Michigan’s move to universal no-cost school meals in 2023 would contribute further to the decline. Public schools also identify students as economically disadvantaged if they qualify for free/reduced-price meals via a paper application process. Notably, this process occurs at the individual district level through the completion of parent-authorized Education and Nutrition Benefits applications.

However, state data shared as part of this analysis suggests that Michigan’s transition to universal no-cost school meals in 2023 was not a contributing factor in the fall 2024 ED student decline. But, the new free-meals policy did play a role in the fall 2023 student count – the count immediately following policy adoption. That year, there was a 17 percent decline in the number of students identified via the paper application process. It is likely that many families did not see the importance of completing the requested applications and failed to do so in fall 2023 once the state’s free schools meal policy took effect.

To be clear here, the main reason behind the massive ED student decline statewide last fall was the change in federal Medicaid eligibility policy. State data shows a 14 percent decline (91,000 students) via direct certification last fall; this loss was partially offset by a 33,500 student increase via the paper application process as districts engaged with families to complete applications. The chart below illustrates the number of ED students identified via these different methods (students experiencing homelessness, migrant students, and those in foster care are “categorically” eligible for free lunch). Notably, state and local school officials were aware of the coming changes in Medicaid eligibility and engaged in public outreach efforts last fall to inform parents of the broader importance of completing the paper application so their local schools may be eligible for additional educational funding.

Method of ED Student Identification by Fall Count, 2022-2024



Source: Center for Educational Performance and Information

Governor’s Fiscal 2026 Budget Provides Huge Increase in Per-Pupil At-Risk Payments

Currently, the final FY2026 state K-12 budget is far from complete. Governor Whitmer introduced her executive budget proposal last month and legislators are just now digging into it with an eye towards a September 30

deadline for completion. While many state K-12 funding decisions remain to be made, including funding for the \$1.0 billion at-risk program, others are settled. Regardless of the final amount appropriated, next year's at-risk funding will be directly impacted by the massive ED student decline reported in fall 2024. That is because next year's budget, by law, must use fall 2024 student counts when distributing at-risk dollars.

Governor Whitmer's budget proposal increases total at-risk funding to \$1.1 billion, a 4.1 percent bump meant to mirror the 4.1 percent increase in per-pupil foundation funding. From a state budget perspective, the proposed increase in total funding combined with the substantial enrollment shifts allows the state to increase its per-pupil payments substantially. We estimate that per-pupil at-risk payments will increase 13.7 percent from their FY2025 amounts. This is over three times the governor's recommended 4.1 percent increase in base per-pupil funding for next year.

While the estimated percentage increase applies to all state per-pupil payments, it is important to note that districts (traditional and charter) receive different per-pupil funding amounts based on their concentration of poverty (i.e., share of ED students of district's total enrollment). Beginning in FY2024, the state moved to a new tiered student-weighting/funding model based on district poverty concentration thresholds. Under the new funding mechanism, districts with higher concentrations of poverty now receive larger per-pupil at-risk payments.

For state funding purposes, the new "opportunity index" mechanism assigns every district to one of six categories (bands) based on the state-determined poverty thresholds – each category has a minimum and maximum per-pupil funding "weight" (expressed as a percentage of the foundation allowance). The maximum funding weight (47 percent) for the highest-poverty districts (band 6) is 34 percent larger than the minimum weight (35 percent) for low-poverty districts (band 1). Currently, all funding weights are pro-rated to meet the available at-risk appropriation. Under the governor's FY2026 budget proposal, the massive drop in ED student counts will directly reduce the proration factor – we estimate that all at-risk funding weights will be 38.4 percent of their statutory targets in FY2026, up from 35.2 percent in FY2025. These weighting adjustments are illustrated in the table below.

Estimated State Per-Pupil "At-Risk" Payments, FY2025 and FY2026

Band	Target Weight (% of FndAllow)	FY2025		FY2026		Per-Pupil	
		Adj. Weight	Adj. Amount	Adj. Weight	Adj. Amount	\$ Change	%Change
1 - low	0.35	0.123	\$ 1,182	0.134	\$ 1,344	\$ 162	13.7%
2	0.36	0.127	\$ 1,216	0.138	\$ 1,383	\$ 167	13.7%
3	0.375	0.132	\$ 1,266	0.144	\$ 1,440	\$ 174	13.7%
4	0.39	0.137	\$ 1,317	0.150	\$ 1,498	\$ 181	13.7%
5	0.42	0.148	\$ 1,418	0.161	\$ 1,613	\$ 195	13.7%
6 - high	0.47	0.165	\$ 1,587	0.181	\$ 1,805	\$ 218	13.7%

Source: Citizens Research Council calculations

Note: FY2025 adjusted per-pupil funding based on \$9,806 foundation allowance; FY2026 per-pupil amount based on \$10,000 allowance recommended in governor's budget.

For example, in FY2025 an ED student attending a district assigned to band 1 (lowest poverty) generates

\$1,182 in at-risk funding (e.g., \$9,608 foundation allowance X 12.3 percent = \$1,182). Based on the \$10,000 per-student foundation the governor proposes for FY2026, the same student will generate \$1,344, based on an adjusted funding weight of 13.4 percent. We estimate that the 13.7 percent increase in payments statewide will generate an additional \$162 per ED student for the lowest-poverty districts and \$218 per ED student in the highest-poverty districts next year (table).

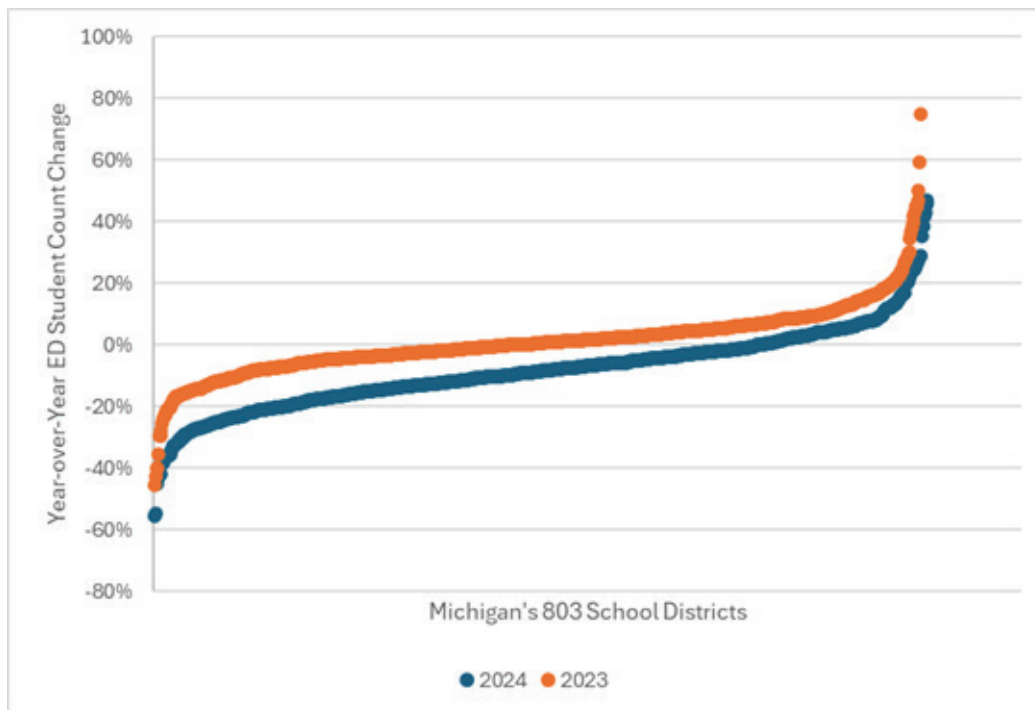
From a local school budget perspective, it is certainly “good news” that state per-pupil at-risk payments are expected to jump. However, that is only part of the fiscal equation facing an individual district next year. A district’s total at-risk budget is largely determined based on the number of funding-eligible ED students it enrolls.

WARNING – Funding Cliff Ahead for Several Schools

Local school leaders across Michigan are just now in the early stages of developing their 2025-26 school year budgets that take effect July 1. While district financial officers will pay close attention to the ongoing development of the state FY2026 School Aid budget with an eye towards appropriation changes to the base per-pupil foundation allowance, they should also take notice of the major shifts in student enrollments noted here. The distribution of the statewide ED student enrollment decline resulting from the pandemic-era federal policy will pose serious funding cliffs for several districts’ at-risk programs next year.

A deeper dive into the fall 2024 student count data shows that the 7.5 percent statewide decline masks considerable variation across Michigan’s 800-plus districts. The chart below illustrates the range of district-level enrollment changes in fall 2023 (orange) compared to fall 2024 (blue). For presentation purposes, each dot in the chart represents a single school district’s year-over-year percentage change in its ED student numbers. The data is arranged from largest decline (left side of chart) to largest increase (right side chart). In fall 2023, the statewide ED student count was basically flat (0.01 percent increase). As such, just under one-half of all districts experienced some degree of enrollment decline in the ED student count, while the remainder saw a year-over-year increase.

Michigan School Districts’ Year-over-Year Change in ED Student Enrollment, Fall 2023 and Fall 2024

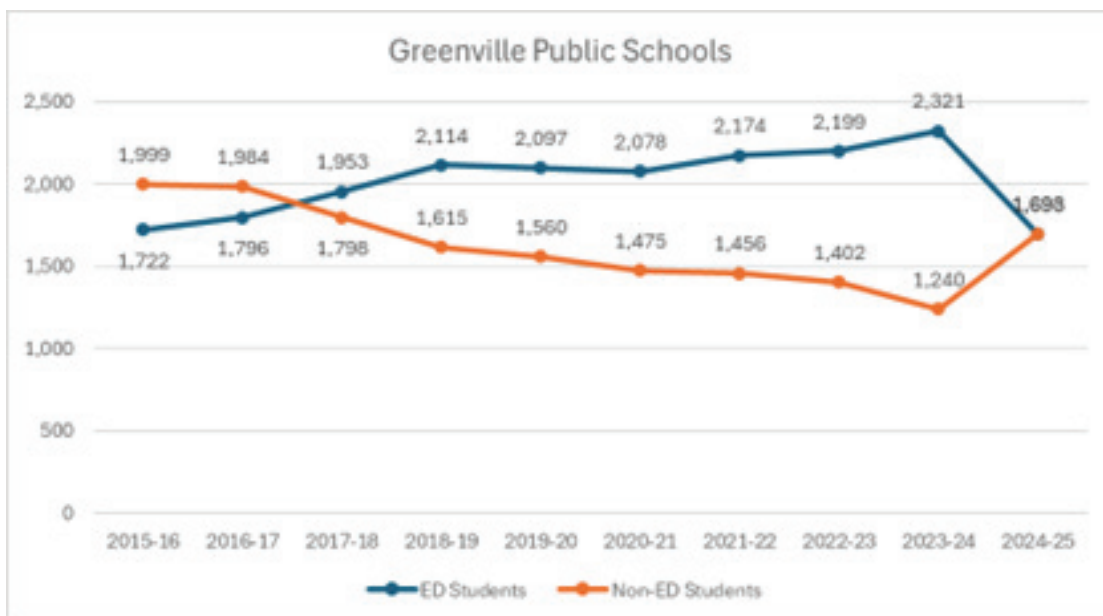
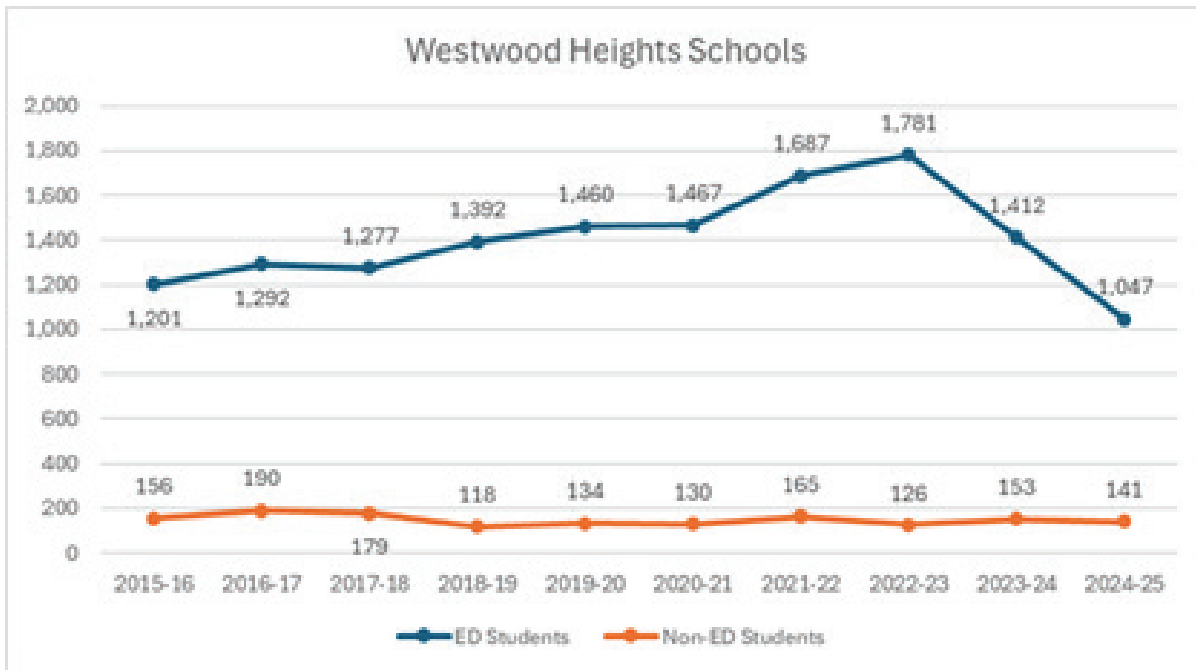


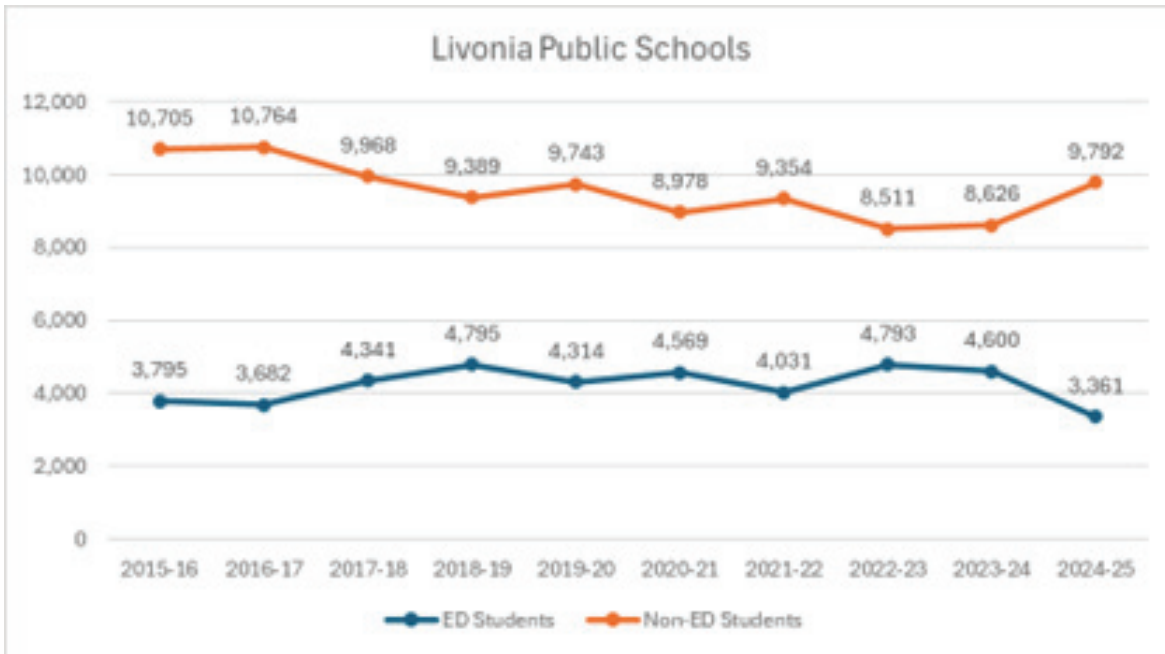
Source: Center for Educational Performance and Information

Note: Each dot represents a single school district for that year. The 2023 data sorts district-level ED student change from fall 2022 to fall 2023 student count; 2024 data covers changes from fall 2023 to fall 2024.

The story is much different in fall 2024 where about three-quarters of districts saw some degree of enrollment decline; with about half of all districts experiencing a decline greater than the change statewide. Notably, the change in federal Medicaid eligibility policy is causing similar enrollment shift impacts across different types of districts, including high-, medium-, and low-poverty ones. To illustrate, we highlight three districts that saw similar 27 percent reductions in their ED student counts in fall 2024, about three times the statewide decline. Westwood Heights in Genesee County is a high-poverty district where 88 percent of students are eligible for state at-risk funding. Greenville in Montcalm County is a medium-poverty district where 50 percent of students are funding eligible. Livonia in Wayne County is a low-poverty district where 25 percent of students are funding eligible (charts below).

Student Enrollment Shifts in Three Illustrative Districts





Source: Center for Educational Performance and Information

To illustrate the financial implications for 2025-26 school year budgets, we modeled the impact of these district-level enrollment shifts for each district’s total state at-risk funding. Based on Governor Whitmer’s total at-risk appropriation (\$1.1 billion) for FY2026 and actual ED student enrollment from fall 2024, we estimate school year 2025-26 fiscal impacts of changes in state at-risk funding arising from two factors: 1) impacts of year-over-year enrollment decline, and 2) increase in state per-pupil payments, using the state’s tiered-funding model (opportunity index). Even after accounting for the 13.7 percent increase in state per-pupil payments (state budget impact), all three districts are expected to see sizeable per-pupil funding losses arising from the 27 percent ED student decline reported in fall 2024 (enrollment decline impact). We estimate the “net” total fiscal impact – representing a reduction from current-year state at-risk payments – as well as the per-pupil funding impacts for each district.

Estimated State At-Risk Funding Change, School Year 2025-26

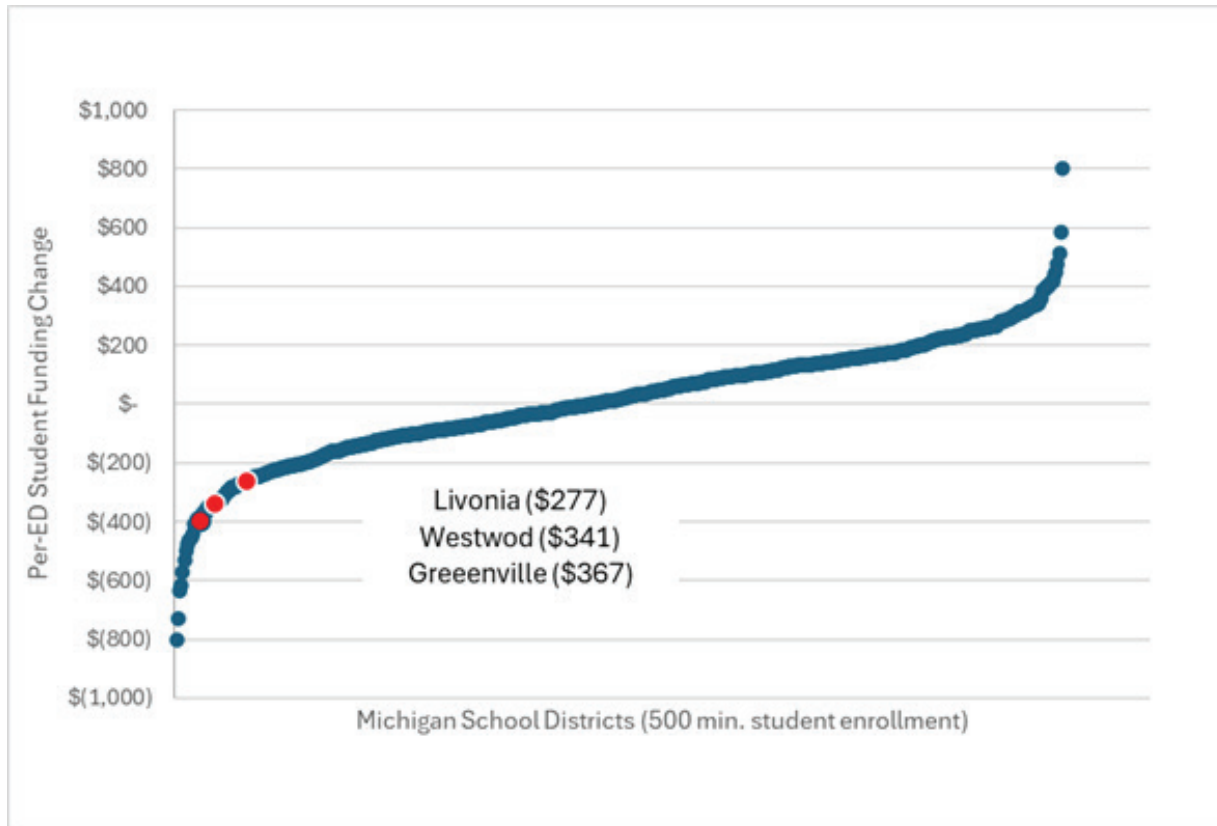
					Fiscal Impact Estimates			
	2024 ED Student	% ED	OI Band	ED Count Change	Enrollment Impact (1)	State Budget Impact (2)	Reduction in State At-Risk (1+2)	Per-Pupil
Livonia	3,361	26%	2	-27%	\$ (1,485,703)	\$ 553,590	\$ (932,113)	\$ (277)
Greenville	1,693	50%	3	-27%	\$ (828,464)	\$ 207,119	\$ (621,345)	\$ (367)
Westwood Heights	1,047	88%	6	-26%	\$ (584,123)	\$ 227,409	\$ (356,713)	\$ (341)

Source: Citizens Research Council of Michigan

Given Michigan’s tiered-funding model for at-risk payments, it is not surprising that, on average, a higher-poverty district (Westwood Heights) will see a slightly larger decrease in per-pupil funding relative to a low-poverty school (Livonia). Also of note, under the state’s opportunity index model, districts can shift from one funding band to another when they experience sizeable ED student enrollment shifts. That is exactly what happened with Greenville; its 27 ED student decline will drive down its overall poverty concentration from 65 percent in 2024-25 (band 4 funding) to 50 percent in 2025-26 (band 3). Next year, state per-pupil at-risk payments for band 4 districts (\$1,498) will be \$50 more than band 3 districts (1,440).

We ran this financial simulation for all Michigan school districts with at least 500 total students enrolled in the current year. Based on district-level ED student enrollment shifts between fall 2023 and fall 2024 we estimate the change in per-pupil at-risk funding for 2025-26. Of the 546 districts analyzed here, almost one-half (47 percent) are expected to see some amount of state funding reduction in their at-risk program budgets next year. However, as with the size of ED student enrollment shifts being driven by federal policy changes, there is considerable district-level variation in state at-risk funding changes for 2025-26. According to our estimates, Grand Rapids Public Schools will see a total ED student decline of 14 percent (1,500 students), resulting in a loss of nearly \$1.4 million in its total state at-risk payments next year. In terms of per-pupil funding losses statewide, those amounts range from a couple dollars in several districts to hundreds of dollars in others (chart).

2025-26 Estimated Changes in Per-Pupil At-Risk Funding for Schools with 500 Students



Source: Citizens Research Council of Michigan

The bottom line is that schools across Michigan need to prepare for the significant enrollment shifts arising from the end of pandemic-era federal Medicaid eligibility policy in June 2024. This massive ED student enrollment shift will directly impact the amount of state at-risk funding districts receive in 2025-26. This analysis illustrates the scale of those abrupt funding cliffs for district at-risk programs and services next year. Because these reductions will be on-going, districts will need to adjust their budgets permanently to reflect the new reality. This will likely require program eliminations and staffing reductions that directly impact Michigan’s high-need learners.

Conclusion

Local school leaders are just now starting to develop their 2025-26 school year spending plans. As that work continues over the next few months with an eye towards a June 30 deadline, they also will pay close attention to how final appropriations decisions for the FY2026 state K-12 budget impact key state funding streams. While a headline of Governor Whitmer’s budget proposal suggests that districts are likely to see modest funding increases in their per-pupil foundation allowance (4.1 percent) and their at-risk revenue stream (4.1 per-

cent), our district-level analysis of the governor’s budget reveals that several districts will face substantial year-over-year funding reductions when they sit down to write their at-risk budgets for next year. These abrupt, and in some cases severe, funding reductions are being driven by district-level student enrollment shifts between funding-eligible and non-eligible students. Statewide there was a 7.5 percent decline in the number of funding eligible students, but the enrollment shift is unevenly distributed across Michigan’s 800-plus local districts. These shifts are primarily fueled by federal policy, not state policy, and thus a permanent fixture of local budget development. The impending “at-risk” funding cliff will require districts to consider cutting programs, laying off teachers, and trimming nurses and reading interventionists, among other budgetary maneuvers, to balance their spending plans with estimated state revenue.

ABOUT THE AUTHOR

Craig Thiel - Research Director



Craig is the Research Council’s Research Director and primary researcher of education and school finance issues. Prior to becoming Research Director, Craig served as the Director of State Affairs and as a Senior Research Associate. During his graduate school studies, he worked for the Council as a Lent Upson-Loren Miller Fellow from 1993 to 1995. Before joining the Council in 2006, Craig worked for ten years as a fiscal analyst at both the Senate Fiscal Agency and the House Fiscal Agency. He previously worked for the Michigan Department of State, Office of Policy and Planning and the United States Environmental Protection Agency in Chicago.

Craig holds a B.A. in Economics and Political Science from Kalamazoo College and a Masters in Public Administration from Wayne State University. He holds positions on various professional, nonprofit, and local government boards/associations.

Founded in 1916, the Citizens Research Council of Michigan works to improve government in Michigan. The organization provides factual, unbiased, independent information concerning significant issues of state and local government organization, policy, and finance. By delivery of this information to policymakers and citizens, the Citizens Research Council aims to ensure sound and rational public policy formation in Michigan. For more information, visit www.crcmich.org.

Southeast Michigan

38777 Six Mile Rd. Suite 208, Livonia, MI 48152
(734) 542-8001

Mid Michigan

115 W Allegan St. Suite 480, Lansing, MI 48933
(517) 485-9444

Detroit (313) 572-1840

West Michigan (616) 294-8359

A Fact Tank Cannot Run on Fumes

Do you want to ensure better policy decisions and better government in Michigan? A donation to support our organization will help us to continue providing the trusted, unbiased, high-quality public policy research Michigan needs. We also accept charitable bequests. Click the gas tank to donate or learn more about planned giving.

