



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Financing Special Education: Analyses and Challenges

Citizens Research Council of Michigan
Report 378 Webinar

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www.crcmich.org



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- Relies on charitable contributions of Michigan foundations, businesses, and individuals
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Outline

- An overview of special education in Michigan
- Analyses of significant fiscal matters
- Financing challenges today and tomorrow
- Final thoughts and public policy considerations



Special Education

Complex Web of Federal and State Laws

- Mandate-driven public service; federal and state
- Rehabilitation Act of 1973 and Individuals with Disabilities Education Act – free appropriate public education (FAPE)
 - Individualized education plan (IEP) – non-homogenous plan designed to meet each student's unique needs
- Mix of service providers, including local and intermediate school districts (ISDs)
 - ISDs mandated by state law to provide special education through a locally-determined plan
 - Plans vary statewide – roles, responsibilities, programs and services offered



Profile of Michigan's SE Population

- Around 227,000 students (ages birth through 26) have IEPs, about 14% of total K-12 education, enrolled in traditional public schools, public school academies, and ISDs
 - Approx. same number as 2000 (peak 251,000 in 2005)
 - Mirrors general K-12 population with a couple notable exceptions – more males, slightly more poor students
- Largest disability categories – learning disability (34%), speech (25%), cognitive (9%), other health (9%), and autism (7%)
 - Mix has changed considerably since 2000, autism (tripled), learning disability (18% decrease), and cognitive (16% decrease)
 - Report doesn't examine mix at individual district level



Diverse Educational Settings

Two-Thirds of Students Spend 80% of Time in Gen. Ed. Setting

Student Head Count by Type of Public School: 2000 and 2010				
School Type	2000		2010	
	Special Education Students	As % of Total K-12 Enrollment	Special Education Students	As % of Total K-12 Enrollment
Traditional Public Schools	209,581	13.0%	184,869	12.8%
Charter Schools	2,961	5.4%	10,297	9.7%

Source: CEPI

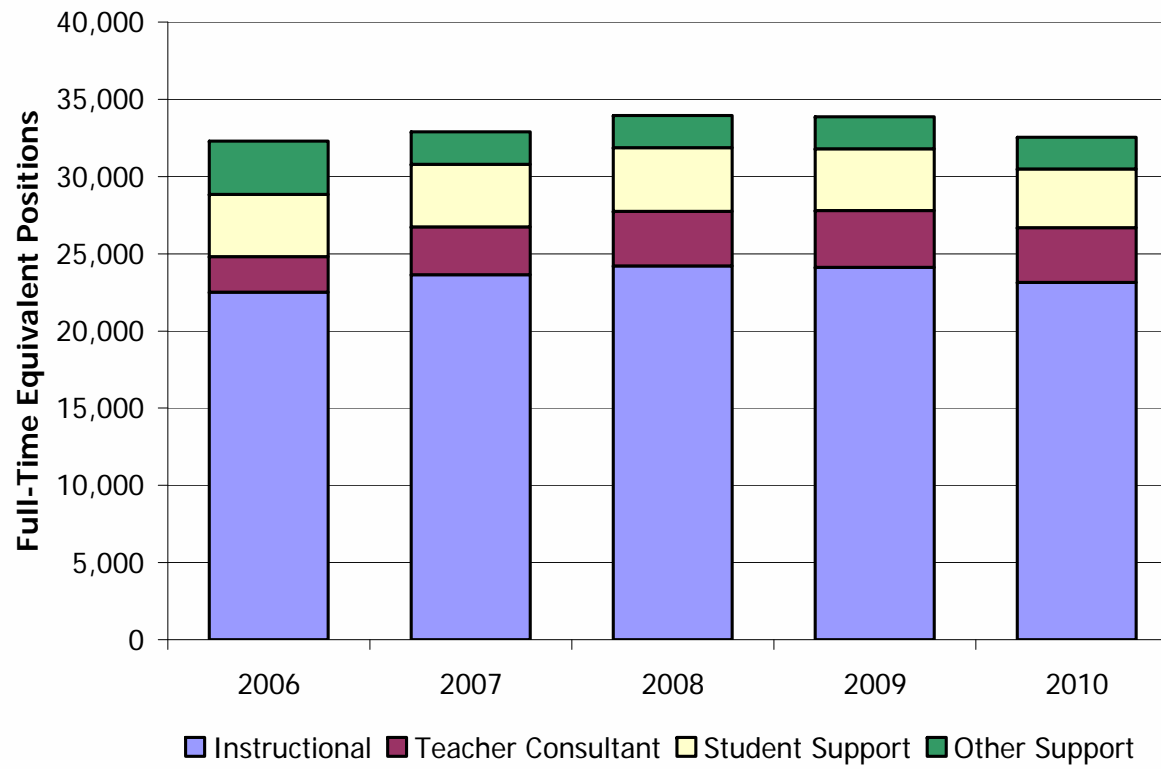
*Enrollment Growing in Charter Schools -
Stable in Traditional Public Schools*



Staff Trending Down with Population

Represents 17% of Total School Employment

Special Education Personnel: 2006 to 2010



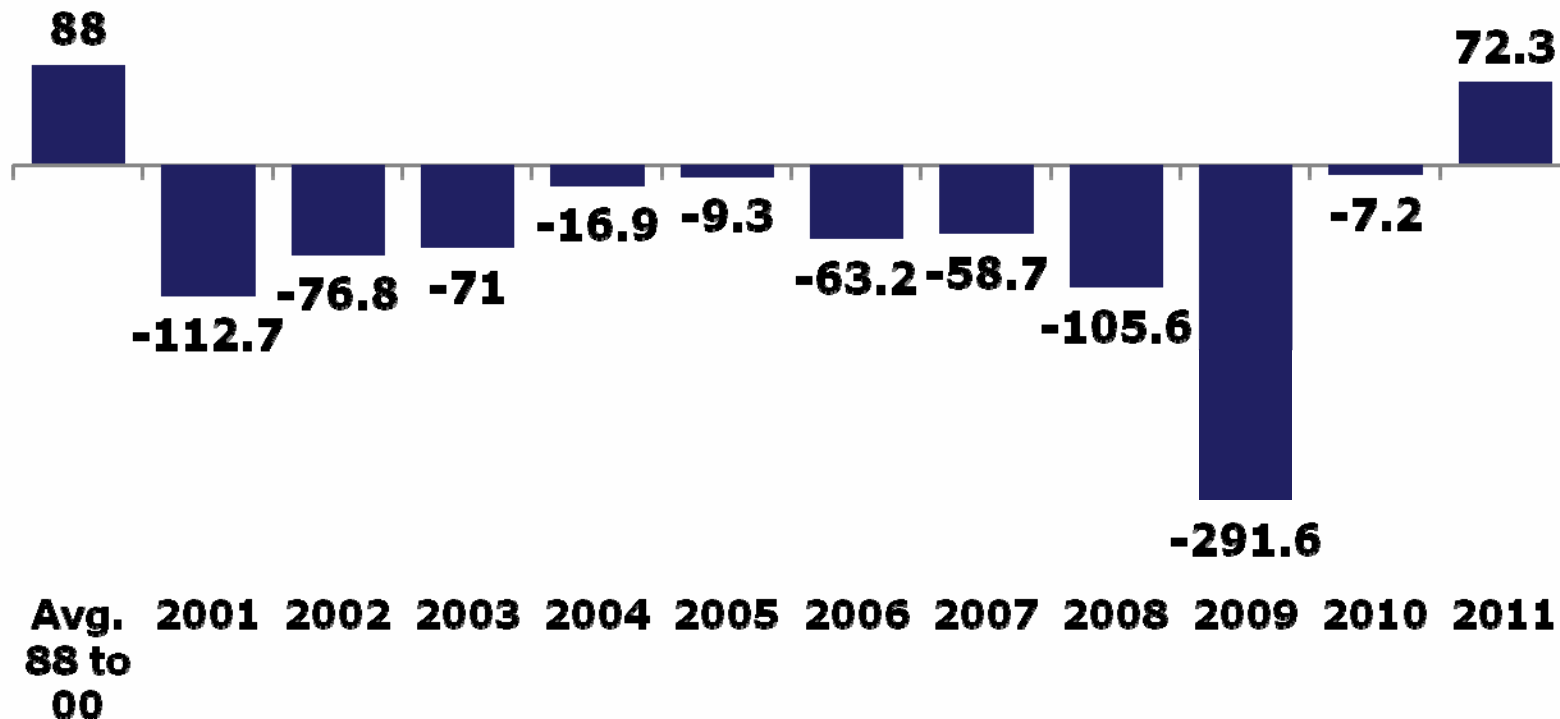


Special Education Finances: Analyses



Michigan Suffered Decade of Job Losses

Annual Change in Payroll Employment (thousands)





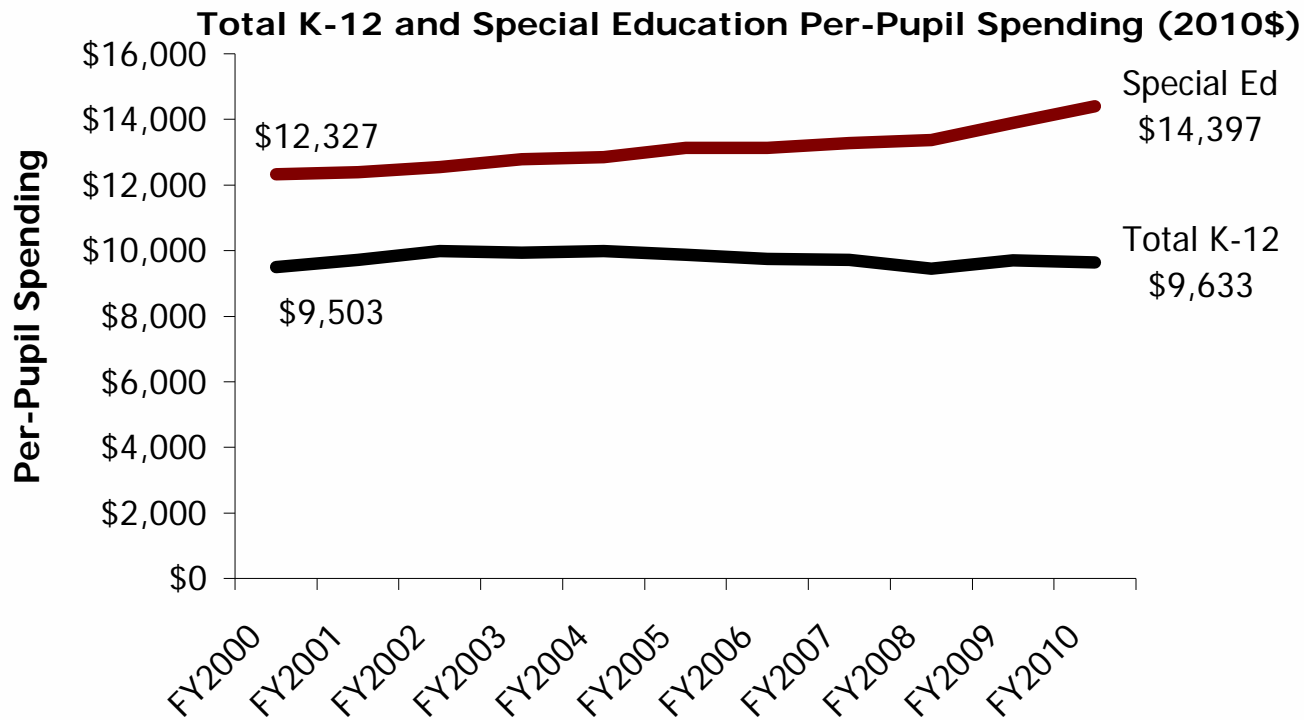
State Spending From State Resources Down in Most Categories

	FY 2002 <u>(millions\$)</u>	FY 2012 <u>(millions\$)</u>	Nominal % <u>Change</u>
Medicaid/DCH	\$3,066	\$4,901	59.8%
Corrections	\$1,653	\$1,927	16.6%
Human Services	\$1,230	\$1,155	-6.1%
K-12	\$11,221	\$10,550	-6.0%
Community College	\$320	\$284	-11.3%
Universities/Fin Aid	\$1,941	\$1,264	-34.9%
Revenue Sharing	\$1,517	\$959	-36.8%
All Other	<u>\$5,139</u>	<u>\$5,219</u>	<u>1.6%</u>
Total	\$26,087	\$26,260	0.7%
U.S. CPI - U	178.9	229.1	28.1%



Statewide Spending Picture

Per-Pupil Spending Growth Exceeds Inflation and Total K-12



Total Spending Totaled \$3.4 Billion in 2010



Reasons for Spending Growth

- Nature of special education services – additional and specialized staff, services and programs, smaller class sizes, transportation
 - Per-pupil spending 1.9 times greater for special education vs. general ed student (SEEP, 2004)
- Rising student population accounts for total spending growth between 2000 and 2010
- Property tax revenues strong until recently
- State aid system (cost reimbursement) does not incentivize cost control at local level
- Federal stimulus funding in 2010 (temporary increase)
- Federal law penalizes states that reduce spending year-over-year (unless specific exceptions met)



Transportation Spending

Expensive Service

Transportation Spending: FY2007 to FY2010

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>Miles</u>	<u>Riders</u>	<u>Cost per Rider</u>	<u>Cost per Mile</u>
Special Education					
2007	\$247,579,938	58,180,650	44,561	\$5,556	\$4.26
2008	262,113,198	55,488,897	40,962	6,399	4.72
2009	253,350,540	55,425,993	41,125	6,160	4.57
2010	248,598,494	55,397,416	38,888	6,393	4.49
General Education					
2007	\$521,622,993	128,822,947	991,425	\$526	\$4.05
2008	537,657,776	122,425,122	735,184	731	4.39
2009	516,199,309	119,271,738	733,809	703	4.33
2010	504,453,710	115,795,696	702,420	718	4.36

Source: MDE, Report SE-4094; CRC calculations

SE Cost/Rider 9 Times More Expensive



ISD Property Tax

Fuels Revenue Growth and Per-Pupil Spending Differences

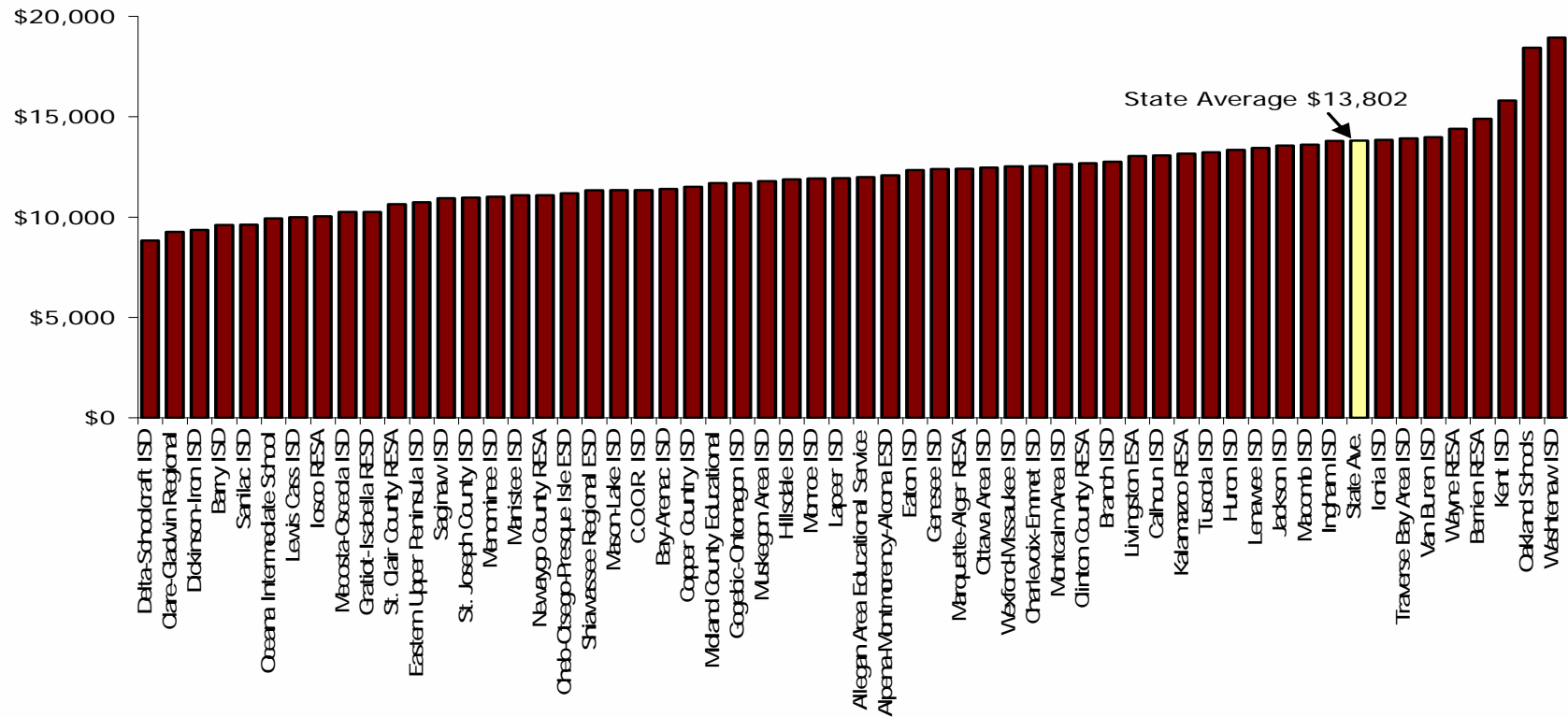
- Proposal A retained role of dedicated property tax, establishing a cap of 1.75 times 1993 tax rate
- Accounts for 30% of total revenue – largest piece
- In 2010, \$1 billion generated (\$4,300/pupil)
- Growth very strong - yield doubled since 2001
- Per-pupil variation substantial across ISDs
 - Range from \$8,500 per pupil (Washtenaw) to \$1,400 per pupil (Midland)
 - Combination of tax base and rate differences
 - Wealthier districts also tax at higher rates



Per-Pupil Spending Variation

Highest Twice as Much as Lowest

Per-Pupil Spending by ISD in FY2010





Property Tax Plays Major Role in Growth

Differences Significant

Special Education Property Tax Revenue in 2010

ISD	Tax Revenue	Special Education Pupils	Per-Pupil Revenue	Tax Rate (mills)	Taxable Value Per Pupil*
Five Highest Per-Pupil Amounts					
Washtenaw	\$57,942,247	6,791	\$8,532	3.8761	\$317,920
Ottawa	49,805,239	6,078	8,194	4.3750	241,658
Huron	5,495,463	766	7,174	3.2886	350,579
Charlevoix-Emmet	10,032,765	1,399	7,171	1.8313	544,485
Oakland	157,503,945	23,751	6,631	2.5456	314,186
Five Lowest Per-Pupil Amounts					
Sanilac	\$1,079,084	997	\$1,082	0.7298	\$202,044
Lapeer	2,219,587	1,795	1,237	0.8310	190,289
Iosco	1,025,456	791	1,296	0.6371	355,467
Eastern UP	1,645,724	1,245	1,322	0.7727	277,182
Midland	3,177,171	2,228	1,426	0.9797	243,621
State Average			\$4,354	2.5621	\$223,778

* Includes general and special education students.

Source: MDE; Department of Treasury; CRC calculations



Per-Pupil Spending Gap Widening

- Since 2007, per-pupil spending gap increased
 - Ratio (high to low) increased from below 2.0 to 2.2
 - Little effort by state to reduce disparities
- Contrasts with experience in general education funding (foundation allowance)
 - Over same period, ratio fell from 1.74 to 1.7
 - State policies aimed directly at reducing spending disparities (since Proposal A)



Challenges: Today and Tomorrow



Strength of Property Tax Growth Wanes

ISD Special Education Property Tax for Selected Years

Tax Year	Average Rate (mills)	Tax Yield (\$millions)	Dollar Change	Percent Change	Dollars per Pupil	Dollar Change
2001	2.3978	\$531.3			\$2,346	
2005	2.5137	862.4			2,135	
2007	2.5059	964.3	\$55.3	6.1%	3,873	
2008	2.5418	1,026.2	61.9	6.4%	4,205	\$332
2009	2.5409	1,037.8	11.6	1.1%	4,320	115
2010	2.5621	1,026.7	(11.1)	(1.1%)	4,354	34
2011*	2.5551	956.0	(70.7)	(7.0%)	4,217	(142)

* preliminary

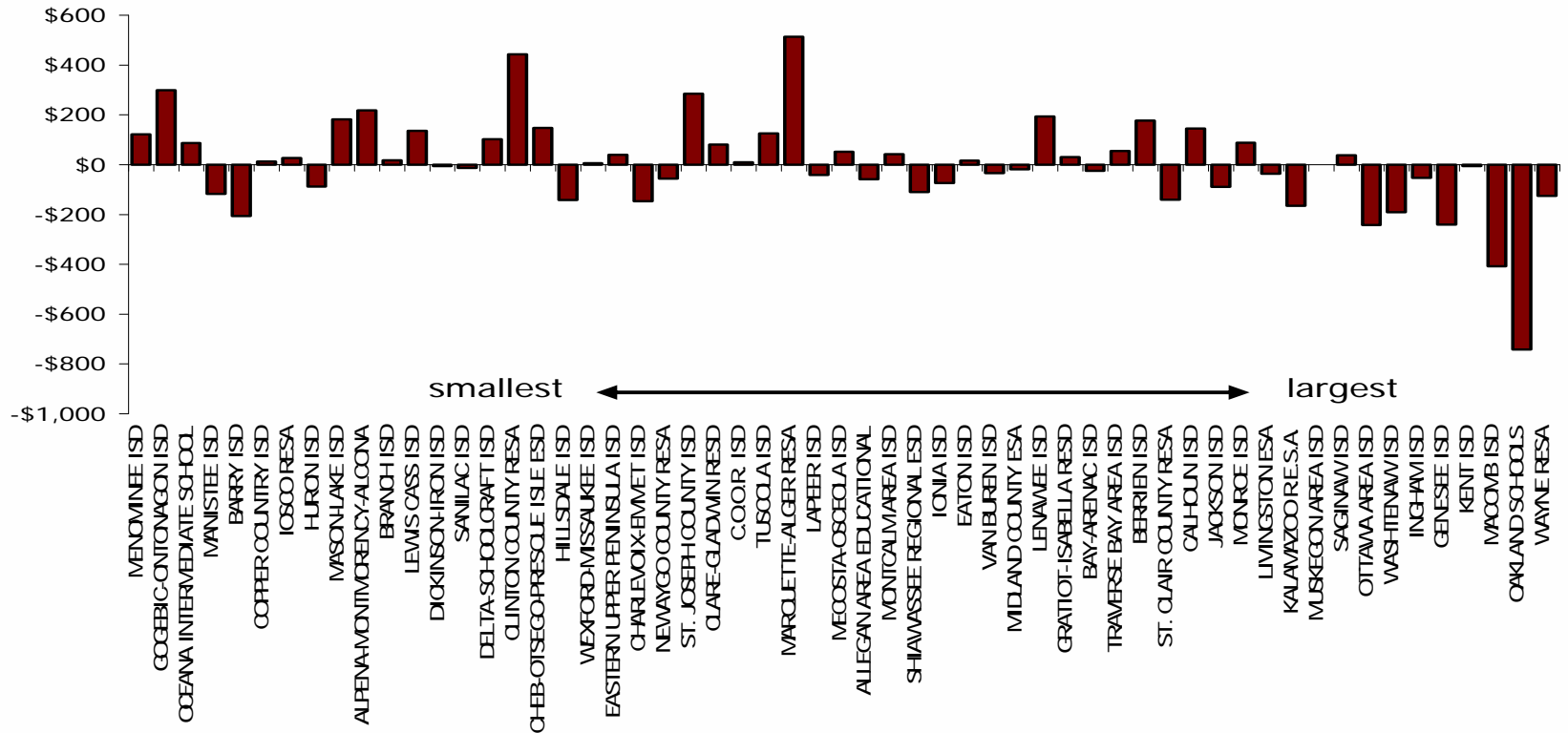
Source: MDE; Department of Treasury; CRC calculations



Recent Tax Base Erosion

Disproportionate Impact on Large ISDs

Per-Pupil ISD Special Education Tax Yield Change: 2010 to 2011
(districts ordered by population)





General Fund Subsidy

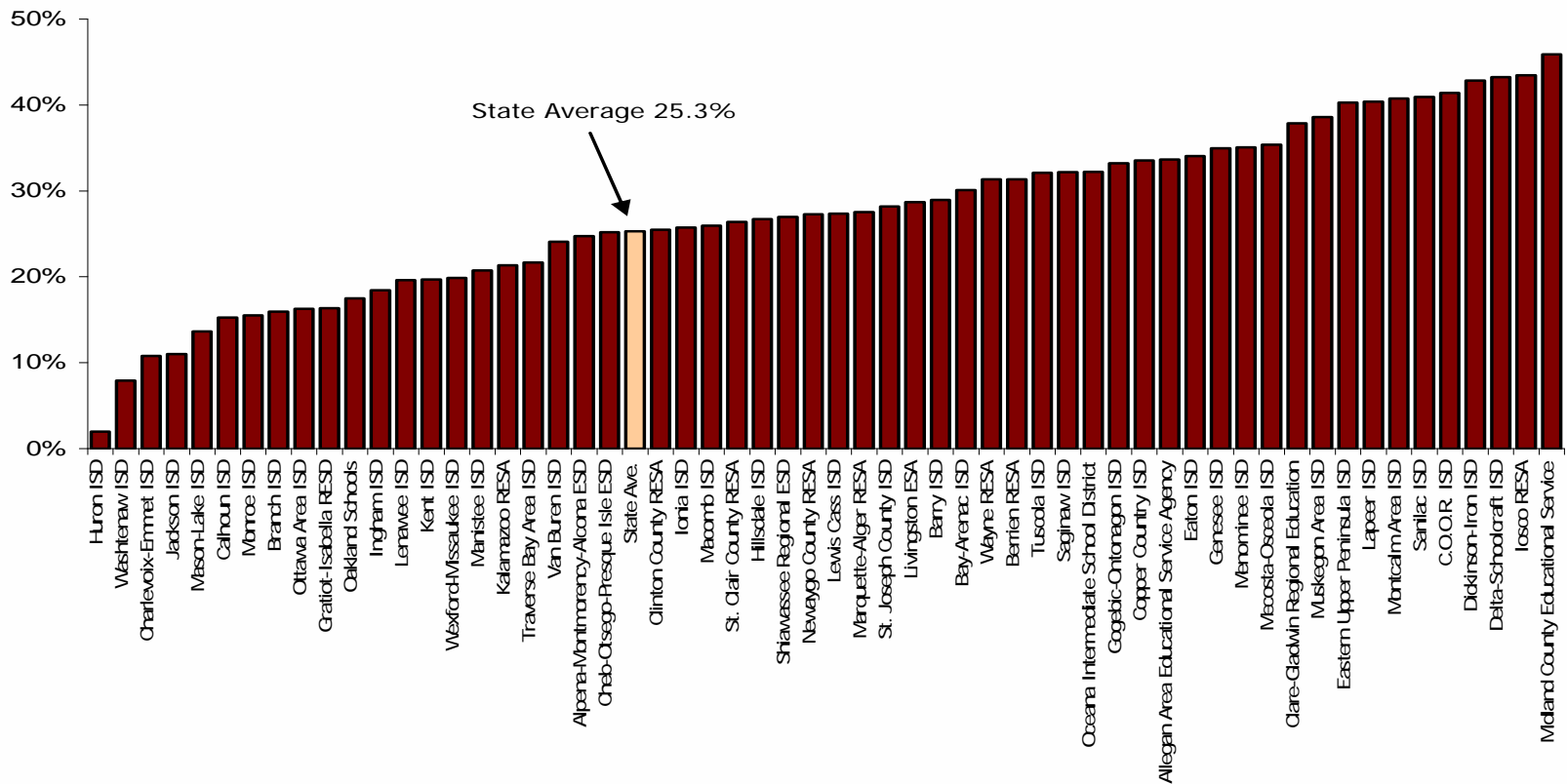
Funder of Last Resort

- Districts (local and ISD) must make up difference between mandated costs and dedicated revenues
- Local districts contribute through ISD property tax and allocations from their general funds
- General fund subsidy – not new
 - Amounts to 19% of total \$3.4 billion in 2010
- Tradeoff: raise ISD tax or larger GF contribution
 - Proponents of millage elections often frame tradeoff in these terms



Wide Variation Across Districts

General Fund Share of Total Special Education Revenue by ISD in FY2007

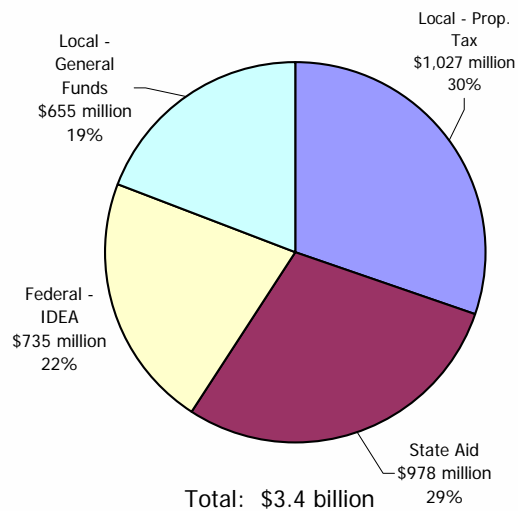




General Fund Subsidy Declines in 2010

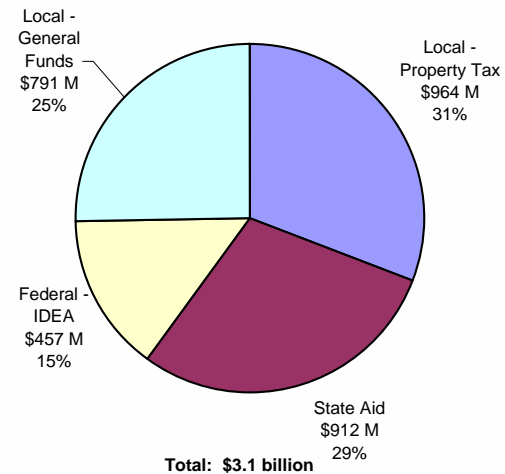
Federal Stimulus Relieves Pressure on General Fund Budgets

FY2010 Special Education Revenue



Source: MDE; Michigan Dept. of Treasury; CRC calculations

FY2007 Special Education Revenue



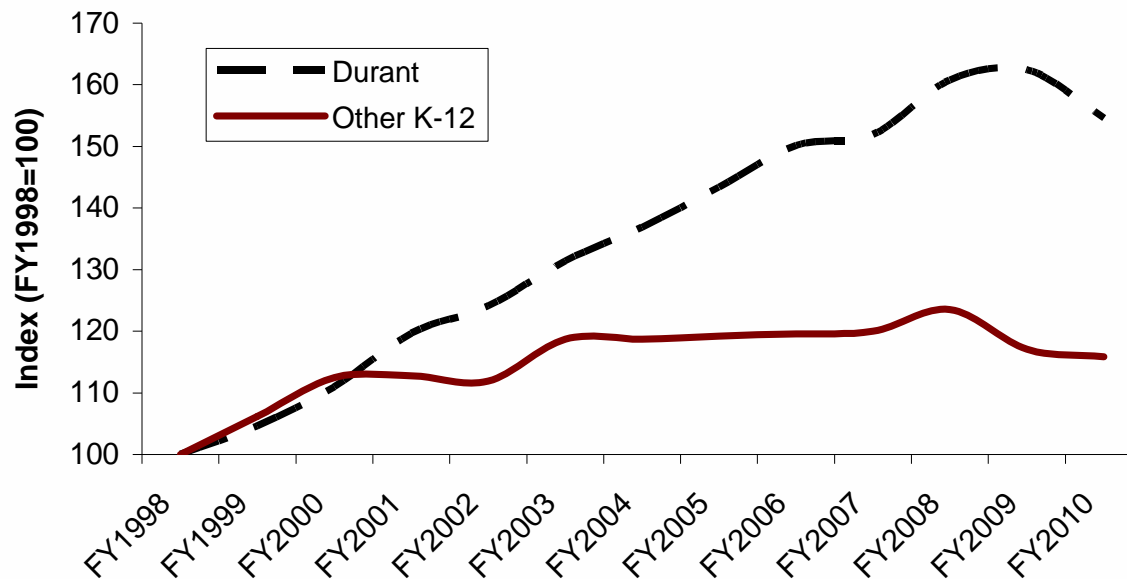
Source: MDE; Michigan Dept. of Treasury; CRC calculations

GF Contribution Down \$150 million in 2010



State Funding to Satisfy *Durant* *Constrains Growth in Other K-12 Spending*

Growth of Durant Obligations Compared to Other K-12 Spending from School Aid Fund



Source: MDE; CRC calculations

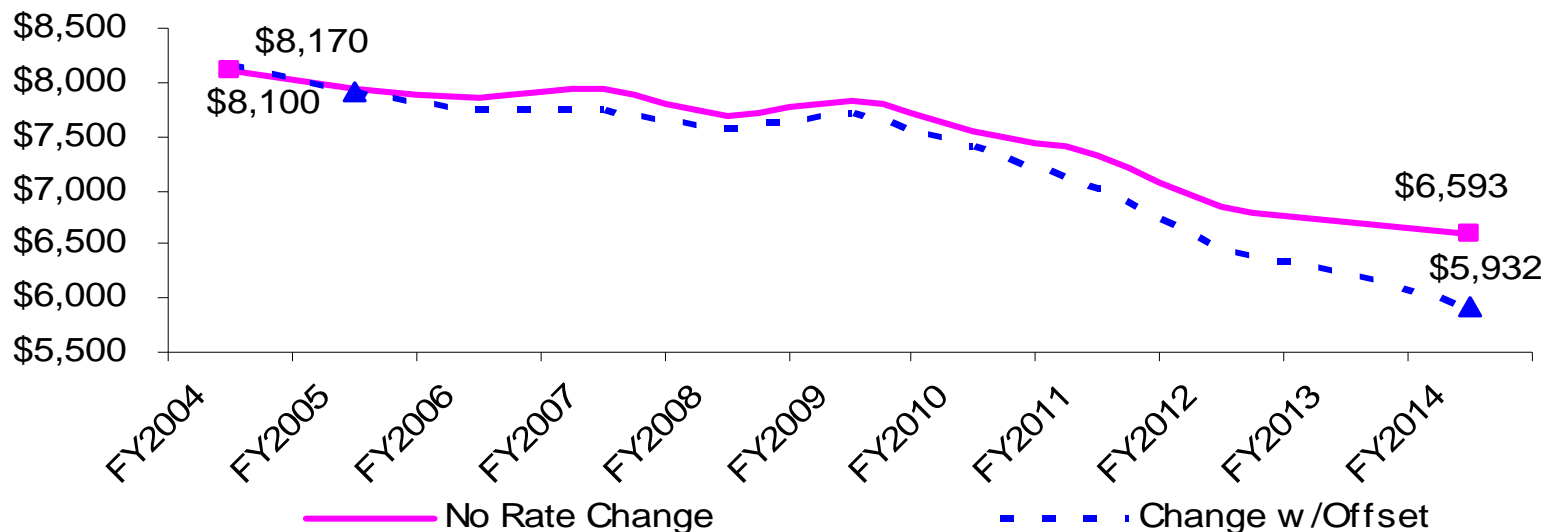
Spending Rose 3.7%/yr, Compared to 1.2%/yr



Retirement Costs Rising

Real Value of Foundation Grant Falling

**Effect of MPSERS Retirement Contribution Rate Increases
on Value of Foundation Grant***



* Basic/minimum grant adjusted for inflation (constant FY2012 dollars) and MPSERS rate changes since FY1995. Data for FY2004 to FY2014 (estimated) shown here. FY2012 to FY2014 includes MPSERS rate change offset funding.



Addressing Per-Pupil Spending Differences

- Centralize funding decisions is key
 - Reduce reliance on property tax (\$1 billion)
 - Large state tax increases required
- Method for equalizing per-pupil funding
 - “Raising the bottom”, similar to gen. education
 - Require additional resources
- Trade offs involved
 - Loss of local control
 - Depending on mix of revenues; stability and volatility concerns



Final Thoughts



What Did We Find?

- Complexity and wide variation across state – attempt to explain this variation at ISD level
- Special education finances not impacted to same degree by Michigan's economic and fiscal challenges
- Challenges do exist and unlikely to abate in near term
 - General Fund subsidy likely to return to 2007 levels with expiration of federal dollars
 - Some districts have already raised ISD tax rates
 - Foundation grant faced cuts three years in a row (2010-2012)
 - State budget decisions – shifting costs to the School Aid Fund



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