

Fund State Requirements at Actual Cost: Basic Costs

Funding the basic operating costs the state recognizes in law at what they actually cost districts

Legislative Priority

FUND THE GAP BETWEEN WHAT THE STATE REQUIRES AND WHAT IT PAYS

The 89th Legislature made historic investments in public schools. TSC members are asking the 90th Legislature to build on that work by funding the state's requirements at what they actually cost, so every dollar of that investment reaches students.

Background

House Bill 2 (89th Legislature, 2025) created the Allotment for Basic Costs (ABC). Beginning in 2025-26, each school district receives \$106 for each enrolled student, and the money may be used only for six categories of costs:¹

- Transportation
- Hiring retired teachers
- Health insurance, employee benefits, and payroll taxes
- Teacher Retirement System (TRS) contributions and related costs
- Utilities
- Property and casualty insurance

The ABC is funded per enrolled student rather than per student in average daily attendance, because these costs do not change when a student is absent. The Legislature also raised the basic allotment by \$55, from \$6,160 to \$6,215, its first increase since 2019.²

Several of these costs are driven by the state. TRS contribution rates are set in state statute, and state requirements such as the minimum teacher salary schedule and class-size limits in kindergarten through fourth grade determine much of the payroll on which benefits and payroll taxes are paid.

When state funding falls short of the cost of a state requirement, the difference is paid from district general operating funds. Those are the same funds that pay for teachers, instruction, and operations for all students. For districts subject to recapture, it is local revenue that remains after recapture payments are made to the state.

How Much These Costs Have Grown

To test whether \$106 per student covers the growth in these costs, TSC compared statewide school district spending in the six ABC categories in two years: 2019-20, the first school year the basic allotment was set at \$6,160 under House Bill 3 (2019), and 2024-25, the most recent year of actual spending and the last year before the ABC took effect. The figures are General Fund expenditures reported by every Texas school district to the Texas Education Agency (TEA).³

¹[Texas Education Code §48.161](#), Allotment for Basic Costs, added by HB 2, 89th Legislature (2025).

²[Fiscal Note, HB 2](#), Legislative Budget Board, 89th Legislature (2025).

³[PEIMS Financial Data Downloads](#), Texas Education Agency: District 2019-2020 and 2024-2025 Financial Actual Data and District 2025-2026 Financial Budget Data.

Statewide spending

Statewide District Spending on ABC Categories, General Fund (\$ millions)				
ABC Category	2019-20	2024-25	Increase	% Change
Transportation	\$1,540.5	\$2,049.5	\$509.0	33%
Health insurance	\$2,037.1	\$2,332.1	\$295.0	14%
TRS contributions	\$1,093.0	\$1,655.5	\$562.5	51%
Payroll taxes and other benefits	\$800.5	\$947.8	\$147.3	18%
Utilities	\$1,175.6	\$1,537.4	\$361.8	31%
Insurance and bonding (incl. property and casualty)	\$369.3	\$880.4	\$511.1	138%
Total	\$7,015.9	\$9,402.7	\$2,386.7	34%

Spending per enrolled student

District enrollment was nearly the same in both years: 5,157,040 students in 2019-20 and 5,108,224 in 2024-25.⁴ The growth in spending reflects higher costs, not more students. Each per-student amount is statewide spending divided by district enrollment. For example, total 2024-25 spending of \$9,402.7 million divided by 5,108,224 students equals \$1,841 per student.

Spending per Enrolled Student Compared with the ABC			
ABC Category	2019-20	2024-25	Increase
Transportation	\$299	\$401	\$102
Health insurance	\$395	\$457	\$62
TRS contributions	\$212	\$324	\$112
Payroll taxes and other benefits	\$155	\$186	\$30
Utilities	\$228	\$301	\$73
Insurance and bonding	\$72	\$172	\$101
Total	\$1,360	\$1,841	\$480
Allotment for Basic Costs	—	—	\$106
Growth not covered by the ABC	—	—	\$374

⁴[Enrollment in Texas Public Schools, 2019-20](#) and [2024-25](#), Texas Education Agency. District enrollment equals statewide enrollment minus state-authorized (open-enrollment) charter school enrollment: 5,493,940 – 336,900 = 5,157,040 (2019-20) and 5,544,255 – 436,031 = 5,108,224 (2024-25).

Findings

- Spending in the six categories grew by \$2.39 billion per year, or \$480 per enrolled student. The ABC provides \$106 per student, about 22% of that growth ($\$106 \div \$480$), leaving \$374 per student unfunded.
- TRS contributions grew more than any other category, by \$112 per student (51%). Part of that growth was set directly by the state: Senate Bill 12 (86th Legislature, 2019) raised the required district contribution rate in steps from 1.5% of compensation in 2019-20 to 2.0% beginning in 2024-25.⁵
- Insurance costs more than doubled (up 138%), rising \$101 per student. The increase was not limited to a few districts: 98% of districts paid more in 2024-25 than in 2019-20, and the 10 districts with the largest increases account for 17% of the statewide increase.
- TRS (\$112 per student) grew by more than the entire ABC, and transportation (\$102) and insurance (\$101) each grew by nearly as much.

The first year of the ABC

School districts budgeted \$2.14 billion for transportation in 2025-26, or \$427 per enrolled student.⁶ That is \$128 more per student than in 2019-20, which by itself exceeds the \$106 ABC. TEA budget data does not separate the other five categories, and actual 2025-26 spending will not be published until spring 2027.⁷

These figures also predate cost increases that HB 2 itself creates. The Teacher Retention Allotment and Support Staff Retention Allotment raise salaries, which increases district TRS contributions and payroll taxes, two of the costs the ABC is meant to cover.⁸ TRS-ActiveCare premiums rose an average of 9.7% for 2025-26.⁹

Funding Options

The following concepts would align the Allotment for Basic Costs with what these costs actually are.

Option A: Set the ABC at the Amount These Costs Have Grown

Concept: Raise the Allotment for Basic Costs from \$106 to an amount equal to the statewide growth in per-student spending in the six ABC categories since 2019-20, about \$480 per enrolled student.

Example: A district with 10,000 enrolled students would receive \$4.80 million per year at \$480 per student, compared with \$1.06 million at \$106.

Advantages:

- Uses the cost categories and the per-enrolled-student method the Legislature adopted in HB 2.
- Based on actual spending that districts report to TEA.
- Allows more of the basic allotment and the HB 2 compensation funding to reach classrooms.

⁵[Texas Government Code §825.4035](#), as amended by SB 12, 86th Legislature (2019).

⁶[Enrollment in Texas Public Schools, 2025-26](#), Texas Education Agency: 5,467,642 – 446,633 charter school students = 5,021,009 district students. Transportation spending is from the District 2025-2026 Financial Budget Data (note 3).

⁷[PEIMS Financial Standard Reports](#), Texas Education Agency (2025-26 actual financial reports listed as available spring 2027).

⁸[Tell Your District's ABC Story](#), Texas Association of School Boards (July 6, 2026).

⁹[What passed, what didn't during session](#), Texas Classroom Teachers Association (2025).

Cost Formula: Estimated Cost = Statewide Enrollment $\times$ (Target ABC – \$106), using 2025-26 statewide enrollment of 5,467,642, including charter schools (at \$480: $5,467,642 \times \$374 \approx \$2.04$ billion).¹⁰

Estimated Annual State Cost — Option A		
ABC per Enrolled Student	Increase over \$106	Estimated Additional Cost
\$300	\$194	\$1.06 billion
\$400	\$294	\$1.61 billion
\$480	\$374	\$2.04 billion

Policy Rationale: The Legislature identified these six costs as basic costs of operating a school district. At \$106, the ABC covers about one-fifth of their growth since 2019-20, and the remaining \$374 per student is paid from the basic allotment and local funds.

Considerations: Costs vary across districts. Transportation costs are higher in large rural districts, and insurance costs are higher in coastal and storm-prone regions, so a statewide average does not fully cover districts with above-average costs. Actual 2025-26 spending data, expected in spring 2027, will allow the estimate to be updated during the session.

Option B: Index the ABC to Cost Growth

Concept: Adjust the Allotment for Basic Costs each biennium by the change in statewide per-student spending in the six ABC categories, as reported to TEA, so the allotment keeps pace with the costs it is meant to cover.

Example: From 2019-20 to 2024-25, per-student spending in the six categories grew an average of 6.2% per year (from \$1,360 to \$1,841 over five years). At that rate, a \$480 ABC would increase by about \$30 per student per year.

Advantages:

- Keeps the gap from reopening once it is closed.
- Uses data districts already report to TEA.

Cost Formula: Estimated Cost = Statewide Enrollment $\times$ ABC Amount $\times$ Annual Growth Rate (at \$480 and 6.2%: $5,467,642 \times \$29.76 \approx \$163$ million in the first year of indexing, compounding in later years).

Policy Rationale: The basic allotment was not increased from 2019-20 through 2024-25 while these costs continued to rise. Without an adjustment mechanism, the ABC will lose value the same way.

Considerations: Indexing to actual spending could reward cost growth that districts control. Indexing to a published price index, or to state-set rates such as the TRS contribution rate, would address that concern.

Impact on Recapture Districts

The Allotment for Basic Costs is part of each district's Tier One entitlement under Subchapter D, Chapter 48, Education Code.¹¹ Options A and B would increase each district's entitlement. For most districts, the increase would be paid as additional state aid. For districts subject to recapture under Chapter 49, a higher entitlement would reduce the amount

¹⁰Enrollment in Texas Public Schools, 2025-26, Texas Education Agency.

¹¹Texas Education Code §48.257 and §48.266. A district's local revenue is compared with its entitlement under Subchapters B, C, and D, which includes the ABC (§48.161), to determine whether it exceeds entitlement under Chapter 49.

of recapture the district owes, allowing more locally raised revenue to remain in the district to pay these costs. Because recapture payments are a method of finance for the state, the reduction in recapture is part of the state cost shown in the Option A and Option B estimates, not a cost in addition to it.

How the estimates were calculated: Spending figures are 2019-20 and 2024-25 actual General Fund (fund 199) expenditures and 2025-26 budgeted General Fund expenditures reported by all Texas school districts to TEA through PEIMS. Transportation is all spending in function 34. The other categories use the following object codes outside function 34, so no amount is counted twice: health insurance (6142); TRS contributions paid by districts (6146); payroll taxes and other benefits (6141, 6143, 6145, 6147, 6149); utilities (6259); and insurance and bonding costs (6429), which include property and casualty insurance along with other district insurance and bonds. TRS on-behalf payments made by the state (6144) are excluded. Per-student figures divide spending by district enrollment, which is statewide enrollment minus state-authorized (open-enrollment) charter school enrollment. Figures are not adjusted for inflation and may not sum due to rounding. School buildings closed in spring 2020 because of COVID-19, which lowered 2019-20 transportation and utility spending, so growth in those two categories is somewhat higher than it would be from a typical base year. Option estimates use 2025-26 statewide enrollment including charter schools and do not include effects on Tier Two funding. Actual fiscal notes would depend on legislative language and TEA implementation.

Contact

Missy Bender

Executive Director, Texas School Coalition

missy@txsc.org

Cell: 469-688-8774

About Texas School Coalition

The Texas School Coalition is a membership organization that was founded in 1997 to represent property-wealthy independent school districts whose local tax collections are subject to recapture. The mission of the Texas School Coalition is to advocate for the resources to provide all Texas public school students an excellent education and for a school finance system that balances sustainable state and local investments in the best interests of students and taxpayers.