Texas Education Agency
Commissioner Mike Morath
1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • tea.texas.gov

To the Administrator Addressed

DATE:	**October 16, 2025**
SUBJECT:	**HB 2 Implementation: Repeal of 55% Spending Requirement for Compensatory Education Allotment**
CATEGORY:	**School Finance**
NEXT STEPS:	**Share with the appropriate staff**

This correspondence provides guidance on changes to spending requirements and related reporting implications for the Compensatory Education (Comp Ed) Allotment under Texas Education Code (TEC), §48.104, made by House Bill (HB) 2, 89th Texas Legislature, Regular Session, 2025.

Specifically, HB 2 repealed the statutory requirement mandating that school systems spend 55% of Comp Ed allotment funds only on direct instructional services for students identified as at-risk and/or economically disadvantaged, effective with the 2025–2026 fiscal year.

Implications and Transition Guidance

This legislative update grants school systems enhanced flexibility in the allocation of Comp Ed funds. School systems are no longer bound by a fixed spending threshold and may implement strategies tailored to their unique student populations. The repeal also reduces administrative burden by eliminating the requirement to complete Schedule J-4 of the annual financial and compliance report (AFR) and submit campus improvement plans for Comp Ed purposes via TEA Login (TEAL). Importantly, the Comp Ed funding formula remains unchanged, ensuring continued support for students identified as at-risk (TEC §48.104).

Reporting Updates

Program Intent Codes (PIC) 24, 26, 28, 29, and 30 will remain available for use in the Financial Accountability System Resource Guide (FASRG) during fiscal years 2024–2025 and 2025–2026. Beginning in fiscal year 2026–2027:

- PIC 26, 28, 29, and 30 will be removed from the FASRG.
- School systems are strongly encouraged to continue using PIC 24 internally for budgeting and tracking to maintain clarity and consistency in local documentation and reporting; however, the agency will consolidate the PIC 24 reported expenditures into PIC 11 for state reporting purposes and Public Education Information Management System (PEIMS) financial reports.

School systems should review and revise their Comp Ed spending plans to align with the updated guidelines. Despite the removal of the 55% spending requirement, school systems must continue to prioritize the needs of students identified as at-risk.

Implementation Priorities

In accordance with TEC, §29.081, school systems must implement targeted instructional strategies, including:

- Identification of students at risk of dropping out.
- Provision of compensatory, intensive, or accelerated instructional support.
- Delivery of accelerated instruction for students who fail end-of-course exams.
- Adequate budgeting and annual program evaluations, including public hearings.

Effective implementation of the Comp Ed program requires robust policies and procedures. These frameworks are essential for ensuring fidelity in service delivery and maximizing the impact of allocated resources. School systems should collaborate with campus leaders, educators, and community stakeholders to ensure the strategic use of Comp Ed funds. Refer to TEC, §§11.251–11.253, for guidance on campus and district improvement planning.

Support

Questions about this correspondence can be submitted to HB2@tea.texas.gov or financialaccountability@tea.texas.gov.