AASA
THE SCHOOL SUPERINTENDENTS ASSOCIATION

ONE BIG BEAUTIFUL BILL ACT

AND ITS IMPACTS ON K-12 EDUCATION

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THE IMPACTS OF OBBB ON K-12 PUBLIC SCHOOLS

The One Big Beautiful Bill Act (OBBB), officially known as Public Law 119-21, is a sweeping piece of legislation passed by the 119th United States Congress and signed into law by President Donald Trump on July 4, 2025. The legislation—which serves as the cornerstone of President Trump's domestic policy priorities in his second term—was passed through the budget reconciliation process, allowing it to bypass the Senate filibuster and pass with a simple majority in both chambers.

This whitepaper provides an overview of the key policy and funding shifts for public education resulting from the passage of OBBB. Specifically, this document describes the legislative changes enacted through budget reconciliation that will directly affect school district finances, student services, and operational frameworks. This analysis breaks down the key provisions of OBBB to help policymakers, superintendents, and other education stakeholders understand the potential changes ahead and the strategic adjustments that may be required to continue delivering high-quality educational opportunities for all students.

K12 TAX CREDIT PROGRAM

OBBB includes a permanent, uncapped dollar-for-dollar tax credit program for individuals who donate up to $1,700 annually to support private school tuition and select expenses for public school students. To be eligible for these tax credits, individuals must donate to scholarship-granting organizations (SGOs). SGOs are 501c3 organizations approved by the state that would collect and distribute funding to eligible students for elementary and secondary education expenses including tuition for private schools.

There are very few statutory requirements for a SGO in the OBBB. Any SGO accepting donations must:

- be tax-exempt under 501c3 of the Internal Revenue Code;
- not be a private foundation;
- keep funding for the tax credit donations separate from other contributions;
- serve 10 or more students in two different schools;
- take no more than 10% for administrative expenses;
- accurately verify the household income to determine eligible students[1]; and
- spend at least 90% of donations on expenses in connection with enrollment at, or for students attending, elementary or secondary public, private, or religious school.

While the intention of the program was to exclusively support payment for private school tuition and there is no cap or floor to the amount that can be spent per child on tuition in the bill, there is also language that confers some financial benefits for students in public schools. Specifically, the law permits SGOs to collect donations for "expenses in connection with enrollment at, or for students attending, elementary or secondary public, private, or religious school." Specifically, the SGO can help students pay for the following:

- Tuition and fees
- Academic tutoring
- Special needs services for a student with a disability
- Books, supplies, or other equipment
- Expenses for room and board
- Uniforms
- Transportation
- Supplementary items and services, including afterschool and extended day programs
- Expenses for the purchase of any computer technology or equipment or internet access

Any taxpayer can contribute to an eligible SGO in any state and receive the federal tax benefits. If a state chooses to opt into the federal tax credit program, it must create a list of SGOs that are eligible to receive donations for federal tax credits in the state and make that list available by January 1, 2027. Donations can begin to be received by January 1, 2027, and taxpayers are eligible to receive the federal tax credit when they file their 2027 federal income tax return. It is unknown if SGOs will begin to distribute the money they receive immediately in 2027 or use it for the 2027-2028 school year.

[1] Students in private and public schools can benefit from the federal tax credit program, but their families must make less than 300% of the Average Gross Median Income (AGMI).

ENERGY TAX CREDITS

OBBB has accelerated the phase-out schedule for many clean energy projects that schools were able to utilize. Solar projects must be placed into service by December 31, 2027. OBBB also shortens the timeline for districts that wish to claim energy tax credits up to $40,000 for purchases of electric school buses. The tax credit for electric school buses and other clean commercial vehicles will end on September 30, 2025. Schools can continue to claim energy tax credits for EV charging equipment placed into service at eligible locations by June 30, 2026, up to $100,000 per charger.

Solar energy, energy storage, and thermal storage projects are also subject to new Prohibited Foreign Entity (PFE) rules. These rules will make it significantly more challenging for districts to be able to receive the credit as the rules impact both the sourcing of materials and other transactions to which school districts are a party (e.g. municipal debt issuances, licensing agreements). Schools that commence construction before December 31, 2025, and place systems into service before June 30, 2026 (assuming a July 1 - June 30 fiscal year), can receive full credit and avoid many of the new rules.

The tax credit for ground-source heat pumps (Investment Tax Credit, Section 48) remains intact. This tax credit is not subject to any of the new Prohibited Foreign Entity (PFE) rules that apply to solar energy, geothermal energy, and storage systems.

For more information about the changes to these tax credits, AASA recommends you reach out to our friends at UndauntedK12 who can advise you on how to best maximize your opportunities to take advantage of these tax credits.

CHANGES TO SNAP

OBBB makes substantial changes to the Supplemental Nutrition Assistance Program (SNAP). Notably, OBBB changes the split for administrative costs from 50 federal/50 state to 25 federal/75 state – beginning in 2027. Starting in 2028, states will also have to cover a portion of the cost of benefits depending on the state's payment error rates, which measures the accuracy of each state's eligibility and benefit determinations:

- Below 6 percent error rate: 0 percent match
- 6 percent–8 percent: 5 percent match
- 8 percent–10 percent: 10 percent match
- Over 10 percent: 15 percent match

States with extremely high error rates will have the option to delay their cost-sharing obligation but only for one year. An interactive map of current error rates by state can be found here. The Congressional Budget Office (CBO) estimates that a total of almost $66 billion will be shifted to states over the next 10 years as a result of these policies.

In addition to forcing budget cuts elsewhere, this cost shift may also force states to make other SNAP changes to reduce costs. States could remove Broad Based Categorical Eligibility (BBCE), which allows households to become categorically eligible for SNAP if they qualify for non-cash Temporary Assistance for Needy Families (TANF) or other state benefit programs. Removing BBCE would make it more challenging for families to easily enroll in SNAP and increase the administrative burden to participate in the program. There are also concerns that these increased costs will limit states' abilities to participate in other programs that address nutrition insecurity like Summer Electronic Benefit Transfer for Children and healthy school meals for all.

OBBB also amends eligibility requirements for SNAP, which is expected to negatively affect direct certification. In every state, schools rely on SNAP eligibility to directly certify students for free school meals. Additionally, eligibility for the Community Eligibility Provision (CEP) is determined by the Identified Student Percentage (ISP) which is based on the number of students directly certified for SNAP, TANF, and in many states, Medicaid. The OBBB policy changes to eligibility and/or enrollment in SNAP are expected to reduce the number of directly certified students and increase the administrative burden for families and schools, who will need to pick up the slack to ensure that students remain enrolled and continue to receive the meals they need. Declining direct certification will also place CEP in jeopardy for many schools. Even if schools remain eligible for the program, ISP also determines the reimbursement, therefore districts may no longer be able to cover the additional cost of the program with less reimbursement from the federal government.

OBBB also changes eligibility to SNAP for other populations that could lead to a decline in school-aged children maintaining their benefits:

- Eliminates eligibility for non-citizens who previously had access including refugees, individuals granted asylum, and victims of trafficking.
- Expands work requirements by raising the exemption age from 54 to 64 and narrows the definition of "dependent children" from age 18 to below 14, which will increase the number of parents and caregivers subject to the work requirements. If individuals cannot meet the new work requirements, they can only participate for three months. However, the children would remain eligible. While this change may not result in a family losing their entire SNAP benefits, it is likely to reduce benefits to an insufficient amount where families may no longer choose to navigate the administrative process for little return.

Although these changes are effective immediately, school districts should expect to see the impact on the next school year's (SY26-27) direct certification numbers. Implementation for these eligibility changes will take time and once a child is directly certified, they remain so for the entire school year. This school year it is important that districts utilize robust and comprehensive direct certification systems to capture as many students as possible through direct certification. This includes extending free meal eligibility to all children in SNAP or TANF households, working to identify children who are experiencing homelessness, are in foster care, are from migratory families, are runaways, or are enrolled in Head Start, and conducting matches as frequently as possible. Schools are required to data match three times a year, but many do it weekly or even daily. (For more information, see School District Strategies to Improve Direct Certification from the Food and Research Action Center.)

Additionally, participation in CEP is a four-year cycle—using the ISP determined at the time of application. Districts should assess their ISPs next spring (2026) to determine whether recertifying for a new four-year CEP cycle would be advantageous given the anticipated cuts to SNAP and subsequent negative impacts.

CHANGES TO MEDICAID

OBBB makes significant cuts and changes to federal spending on Medicaid that will impact public education. While K-12 education is the largest expenditure for states, Medicaid is the second largest share of state spending. At the same time, federal Medicaid funding is the single largest source of federal funds for states (about half of all federal funds that states receive). Combined, that means that Medicaid represents about 30% of total state expenditures from all sources, and 18.7% of general fund spending, second only to K–12 education. This large share means Medicaid spending directly affects how much states can allocate to other priorities like K-12 education.

Specifically, OBBB mandates a new federal cost-sharing requirement for adult beneficiaries who earn just above the federal poverty limit and prevents states from increasing taxes on healthcare providers to help cover costs. This will result in some states experiencing significant cuts in their Medicaid financing that will create budget shortfalls they will need to close, likely with Medicaid cuts. The bill also reduces the federal cost-share for Medicaid expansion if the state allows undocumented immigrants to receive healthcare—even if the state uses their own revenues for this purpose. States would also be prohibited from raising the revenue they need to finance their share of Medicaid costs over the long run, which makes them less able to make substantial improvements to their Medicaid programs.

CBO estimates that, over 10 years, these and other changes to the Medicaid program included in OBBB will cut federal spending on Medicaid by $911 billion. Significant portions of the cost-shift will be absorbed by states beginning January 1, 2027, but other key pieces will not go into effect until 2029. As a result, states will have to cover substantial costs previously paid by the federal government which will likely lead to pressure on states to cut their largest state expenditure—K-12 education funding. According to the Kaiser Family Foundation, federal cuts over 10 years would represent 14% of federal spending on Medicaid over the period. The spending cuts vary by state; Louisiana, Illinois, Nevada, and Oregon are the most heavily affected with spending cuts of 19% or more over the period. Data on how every state is impacted is available here.

Similar to the direct-certification concerns highlighted in the previous section, districts could also see their own Medicaid reimbursement impacted by the loss of Medicaid coverage for students and a reduction in direct certification. If fewer children are eligible for Medicaid, then that would also reduce districts' ability to bill Medicaid for healthcare services they were providing to students via their school-based Medicaid program. Read this report from March to learn more about the school-based Medicaid program and the potential for cuts to direct healthcare services and special education services in schools.

AASA's advocacy team will continue to track OBBB implementation and its impact on public schools across the United States and advise our members of how various states are responding to the OBBB. For the latest information on all policy and advocacy analysis and news, access the Leading Edge blog.