

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1436
Appropriations

(Delegate Miller)

Public School Construction - Projections and Funding - Inflationary Adjustments

This bill amends uncodified language in Chapter 32 of 2022 as amended by Chapter 354 of 2024 to require that the State’s goal for public school construction spending be recalculated with an inflationary adjustment that uses a cost of construction inflation index. The Interagency Commission on School Construction (IAC) must include an inflationary adjustment using a cost of construction inflation index in its projections of school capital improvement needs for the Capital Debt Affordability Committee. Finally, IAC must provide its projections of school capital improvement needs to the Governor for consideration when setting the annual allocation of school construction funds in the capital budget. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: The bill has no direct effect on total spending under the capital budget, as that amount is determined annually by the Governor and General Assembly through the capital budget process. To the extent that additional capital budget funds are allocated to public school construction as a result of the bill, funding for other capital projects is either reduced or delayed. Revenues are not affected

Local Effect: Local revenues for public school construction may increase to the extent the bill results in increased State funding for public school construction. No effect on local capital expenditures, as any reductions in the local share of public school construction projects are reallocated to other local capital projects.

Small Business Effect: None.

Analysis

Current Law: For an overview of State support for public school construction, including a discussion of State funding levels, please see the **Appendix – State Funding for Public School Construction**.

The Capital Debt Affordability Committee is required to review the size and condition of State debt on a continuing basis and to submit to the Governor, by October 20 of each year, an estimate of the total amount of new general obligation debt that prudently may be authorized for the next fiscal year. Although the committee's estimates are advisory only, the Governor is required to give due consideration to the committee's findings in determining the total authorizations of new State debt and in preparing a preliminary allocation for the next fiscal year. In making its estimates, the committee must consider, among other things, capital improvement and school construction needs during the next five fiscal years as projected by IAC.

State Fiscal Effect: IAC advises that the agency already incorporates inflation indexes for purposes of adjusting construction cost calculations in IAC's projections for the Capital Debt Affordability Commission. Thus, the bill's requirement to include a cost of construction index in IAC's projections largely codifies current practice and is anticipated to have no overall effect on IAC projections or resultant Capital Debt Affordability Committee recommendations. IAC can provide its projections to the Governor for consideration when setting the annual allocation of school construction funds in the capital budget with existing resources. Such action is further assumed to have no impact on State funding for school construction as the Governor must already give due consideration to the recommendations of the Capital Debt Affordability Committee in preparing a preliminary capital budget proposal.

Adding an inflation adjustment to General Assembly's goal for public school construction funding has no direct effect on State capital funding as the intent language is not a mandate and State funding is determined annually by the Governor and General Assembly through the capital budget process. To the extent the annually recalculated funding goal results in higher discretionary State support for school construction through general obligation bond funding in the capital budget, funding for other capital projects is either reduced or delayed. To the extent the General Assembly chooses to meet the intended funding language through the State operating budget, pay-as-you-go (PAYGO) general or special funds must be used, thereby increasing PAYGO spending by up to the difference in intended funding levels.

Under the bill, increases in the General Assembly's goal for State funding for public school construction from its current \$450 million level depends on annual changes in the cost of construction in future years. An exact estimate of the growth in construction costs in future years is not feasible at this time. However, IAC advises that the agency incorporates

adjustments to inflation into its [cost-per-square-foot calculations](#). Assuming the bill raises the intended State funding level at a rate similar to the average growth in IAC cost-per-square-foot calculations since 2017, about 4.4% annually, the intended level of State funding for public school construction may grow to \$534.6 million by fiscal 2030.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Interagency Commission on School Construction; Department of Budget and Management; Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2025
km/mcr

Analysis by: Michael E. Sousane

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – State Funding for Public School Construction

School Construction Review and Approval Process

The Interagency Commission on School Construction (IAC) manages State review and approval of local school construction projects. Each year, local systems develop and submit to IAC a facilities master plan that includes an analysis of future school facility needs based on the current condition of school buildings and projected enrollment. The master plan must be approved by the local school board. Subsequently, each local school system submits a capital improvement plan to IAC that includes projects for which it seeks planning and/or funding approval for the upcoming fiscal year, which may include projects that the local system has forward funded. In addition to approval from the local school board, the request for the upcoming fiscal year must be approved by the county's governing body. Typically, the submission letter to IAC contains signatures of both the school board president and either the county executive and county council president or chair of the board of county commissioners.

Based on its assessment of the relative merit of all the project proposals it receives, and subject to the projected level of school construction funds available, IAC determines which projects to fund through the Public School Construction Program (PSCP). By December 31 of each year, IAC must approve projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school systems may appeal these preliminary decisions by IAC. By March 1 of each year, IAC must recommend to the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC approves projects comprising the remaining school construction funds included in the enacted capital budget, no earlier than May 1. The final allocations are not subject to appeal.

Built to Learn Act

The Built to Learn Act (Chapter 20 of 2020) authorizes the Maryland Stadium Authority (MSA) to issue up to \$2.2 billion in revenue bonds, backed by annual payments from the Education Trust Fund (ETF) beginning in fiscal 2022, for public school construction projects in the State, including to support a public-private partnership (P3) agreement to build six new schools in Prince George's County (the P3 agreement in place is actually for eight schools). Proceeds from the revenue bonds are in addition to funding available from PSCP and are allocated among local school systems as shown in **Exhibit 1** (based on MSA's most recent projection of anticipated revenues of \$1.7 billion given increases in interest rates since the program's enactment).

Exhibit 1
Allocation of Built to Learn Bond Sale Proceeds
(\$ in Millions)

	<u>Percent of Total</u>	<u>Proceeds</u>
Anne Arundel	12.5%	\$212.5
Baltimore City	21.0%	357.0
Baltimore	21.0%	357.0
Frederick	5.1%	86.7
Howard	6.6%	112.2
Montgomery	21.0%	357.0
Prince George's	*	*
All Other Counties	11.5%	195.5
Unallocated/Maryland Stadium Authority	1.3%	22.1
Total	100.0%	\$1,700.0

* Under Chapter 20 of 2020, as amended by Chapter 679 of 2023, Prince George's County receives \$27.0 million annually for up to 30 years to supplement local funds for an availability payment if it enters into a public-private partnership agreement, subject to other provisions in the Act.

Source: Department of Legislative Services

The Built to Learn Act also (1) extends mandated funding for the Healthy School Facility Fund (HSFF) by three years, through fiscal 2024, with Chapter 32 subsequently extending funding to at least \$90.0 million in fiscal 2024 through 2026; (2) raises the mandated annual funding level for the Enrollment Growth or Relocatable Classrooms (EGRC) program from \$40.0 million to \$80.0 million beginning in fiscal 2027; and (3) creates the Public School Facilities Priority Fund ((PSFPF), later renamed by Chapter 32 to be the Nancy K. Kopp Public Schools Facilities Priority Fund) to provide State funds to address the facility needs of the highest priority schools identified by the statewide facilities assessment completed by IAC. Under Chapter 354 and only for fiscal 2027, the purpose of PSFPF is to provide State funds to address the severity of issues in a school, including (among other things) air conditioning, heating, and plumbing. In accordance with funding amounts updated by Chapter 354, beginning in fiscal 2027, the Governor must appropriate at least \$70.0 million to the fund annually.

Prior to distributing funds under the Built to Learn program, MSA must enter into a program memorandum of understanding (MOU) with IAC (which is in place), and each county, local school board, and MSA must enter into a project MOU for each project seeking funding from the program. All projects receiving Built to Learn funds must be approved by IAC using the same process it uses for PSCP. As of December 2024, IAC has approved 52 projects and committed more than \$1.3 billion in funding to those projects.

Eligible School Construction Costs

IAC establishes a range of appropriate per-student, square-foot allocations for elementary, middle, and high schools as well as for special education students, career and technology students, and specialized programs. IAC updated the space allocations in 2019 and renamed them gross area baselines. IAC also establishes, on an annual basis, a *cost per square foot* that is applicable to major school construction projects. For fiscal 2026, the cost per square foot is \$416 for new construction *without* site development (up from \$404 in fiscal 2025) and \$495 for new construction *with* site development (up from \$481 in fiscal 2025). In general, multiplying the cost per square foot by the applicable gross area baseline for each proposed project (based primarily on the State-rated capacity of a building) yields the maximum allowable cost that is subject to the State/local cost-share formula. Thus, any portion of a project that exceeds the gross area baseline is not eligible for State funding and must be paid for by the local school system.

The cost of acquiring land may not be considered an eligible construction cost and may not be paid by the State. Otherwise, regulations specify public school construction-related costs that are eligible and ineligible for State funding. Chapter 20 expands the costs eligible for State funding. In general, the following costs are now included among *eligible* expenses:

- planning and design costs (including architectural and engineering fees);
- construction of a new facility, renovation of a new facility, an addition to an existing facility, or a replacement of an existing building or building portion (*i.e.*, “bricks and mortar”);
- building and site development;
- replacement of building systems, including roofs; windows; and heating, ventilation, and air conditioning (*i.e.*, “systemic renovations”);
- modular construction that meets specified standards;
- State-owned relocatable facilities and temporary facilities that are required to be on site during construction; and
- furniture, fixtures, and equipment with a median useful life of at least 15 years.

Among the major items explicitly *not eligible* for State funding under current law (besides site acquisition) are (1) master plans and feasibility studies; (2) projects or systemic renovations for buildings and systems that have been replaced, upgraded, or renovated within the last 15 years; and (3) items that do not have a useful life of at least 15 years.

State Share of Eligible Costs

The State pays at least 50% of eligible costs of school construction and renovation projects, based on a funding formula that takes into account numerous factors, including each local school system’s wealth and ability to pay. The 21st Century School Facilities Act requires that the cost-share formula be recalculated every two years (previously, statute required HB 1436/ Page 6

recalculation every three years). **Exhibit 2** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2023 and 2024; fiscal 2025; and fiscal 2026, as approved by IAC. Counties whose calculated State share would have been lower in fiscal 2023 than in fiscal 2022 were held harmless by Chapter 698 of 2021; Garrett County’s State share was adjusted in accordance with provisions of Chapter 698. When updating the cost-share calculations every two years, Chapter 32 requires IAC to limit the percentage decrease in the State share for any county to 5%.

Exhibit 2
State Share of Eligible School Construction Costs
Fiscal 2023-2026

<u>County</u>	<u>FY 2023 and 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Allegany	90%	89%	89%
Anne Arundel	50%	50%	50%
Baltimore City	96%	94%	91%
Baltimore	61%	59%	57%
Calvert	56%	56%	56%
Caroline	88%	94%	94%
Carroll	59%	57%	54%
Cecil	66%	64%	61%
Charles	65%	64%	64%
Dorchester	93%	98%	98%
Frederick	65%	67%	67%
Garrett	90%	89%	89%
Harford	63%	61%	58%
Howard	56%	54%	51%
Kent	50%	50%	50%
Montgomery	50%	50%	50%
Prince George’s	73%	71%	68%
Queen Anne’s	51%	50%	50%
St. Mary’s	58%	58%	58%
Somerset	100%	100%	100%
Talbot	50%	50%	50%
Washington	79%	78%	78%
Wicomico	100%	98%	95%
Worcester	50%	50%	50%
Maryland School for the Blind*	93%	100%	100%

* Chapter 192 of 2024 establishes the State share at 100% for Maryland School for the Blind for all eligible school construction projects.

Source: Interagency Commission on School Construction

State Funding Levels

Chapter 14 of 2018, the 21st Century School Facilities Act, established the State's intent to provide at least \$400.0 million annually, within current debt affordability guidelines. Chapter 32 increased the legislature's intended annual funding level to \$450.0 million beginning in fiscal 2023. Chapter 354 clarifies that the intended threshold does not include funding provided through the Built to Learn program. The State surpassed the intended thresholds in fiscal 2019 and 2021 through 2025; the State would have surpassed \$400.0 million in fiscal 2020, but the \$10.0 million allocation for the School Safety Grant Program (SSGP) was canceled by the Board of Public Works for cost-containment reasons. Chapter 679 of 2023 repeals the Aging Schools Program beginning in fiscal 2027 with the intent that funding be transferred to PSFPP, which takes effect that year. Although Chapter 679 also repealed SSGP beginning fiscal 2027, Chapter 354 subsequently retained the \$10.0 million funding mandate for the program indefinitely. **Exhibit 3** shows annual State public school construction funding from fiscal 2021 through 2025, by county.

The fiscal 2026 operating and capital budgets as introduced provide more than \$800.0 million in funding for public school construction projects in the State, divided among general obligation (GO) bond funding, revenue bonds, and special funds. Not including Built to Learn funding, the funding provided meets the \$450.0 million statutory goal, including:

- \$302.2 million in MSA revenue bonds for Built to Learn;
- \$290.9 million in GO bonds and \$9.1 million in special funds for PSCP;
- \$53.9 million in GO bonds for EGRC;
- \$90.0 million in GO bonds for HSFF;
- \$6.1 million in GO bonds for the Aging Schools Program; and
- \$69.0 million in special funds for the P3 to construct and maintain schools in Prince George's County (of which \$27.0 million are State funds from ETF and the remainder are local funds).

Exhibit 3
State Public School Construction Funding
Fiscal 2021-2025
(\$ in Thousands)

<u>County</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Allegany	\$2,177	\$2,613	\$4,116	\$5,742	\$12,308
Anne Arundel	38,559	170,456	76,974	58,141	87,297
Baltimore City	70,867	83,293	327,001	154,841	72,981
Baltimore	53,889	258,299	127,687	75,823	195,615
Calvert	4,179	13,454	8,678	18,737	8,250
Caroline	13,763	4,791	7,059	4,469	5,967
Carroll	10,449	38,831	20,955	16,609	15,293
Cecil	3,952	5,508	19,590	42,912	5,490
Charles	12,505	32,552	35,237	21,031	16,703
Dorchester	5,994	6,616	4,670	6,114	3,707
Frederick	23,015	108,705	48,808	43,608	19,136
Garrett	1,833	12,185	11,065	18,479	23,802
Harford	13,182	47,453	16,911	33,455	18,240
Howard	32,596	63,461	69,797	26,993	19,645
Kent	3,231	158	2,331	3,242	406
Montgomery	56,313	304,212	50,233	198,048	59,889
Prince George's	48,275	43,362	124,264	76,967	57,038
Queen Anne's	1,298	2,368	4,526	6,934	784
St. Mary's	5,580	5,773	7,878	15,951	7,073
Somerset	3,138	815	266	9,409	4,472
Talbot	3,211	1,380	1,129	6,202	6,438
Washington	8,446	8,804	10,413	14,903	27,890
Wicomico	10,506	26,169	33,416	22,072	7,861
Worcester	1,513	5,014	308	689	7,814
Maryland School for the Blind	6,779	2,021	9,100	13,605	4,662
Statewide	5,794	6,500	4,279	63	9,033
Total	\$441,042	\$1,254,793	\$1,026,691	\$895,038	\$697,791

Notes: Includes general obligation bonds, Built to Learn revenue bonds, pay-as-you-go funds, and reallocated funds that were previously authorized. Allocated funds include the Enrollment Growth or Relocatable Classroom program, School Safety grants, and Healthy School Facility grants. Statewide funds include unallocated discretionary funds, contractual costs for external reviews, and funds reserved for unforeseen contingencies. Columns may not sum to total due to rounding.

Source: Interagency Commission on School Construction; Department of Legislative Services