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Fall 2025 Revised Escalation Rates for Calendar Years 2024-2029

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The Department of Budget and Management (DBM) has revised construction cost escalation rates for the FY 2027-2031 Capital Improvement Program (CIP). These revised rates escalate projected costs by 4.5% for calendar year 2025, 5% for 2026, and 3.5% for 2027 to 2029. This serves as a reduction from DBM's spring 2025 planned escalation rates of 10% for calendar year 2025, 7.5% for 2026, and 5% for 2027 to 2029. The escalation rate for CY 2024 is unchanged at 5.5%.

Revised Escalation Rates - Fall 2025			
CY	2024 Planned	2025 Planned	2025 Revised
2024	5.5%	5.5%	5.5%
2025	4.0%	10.0%	4.5%
2026	3.5%	7.5%	5.0%
2027	3.5%	5.0%	3.5%
2028	3.5%	5.0%	3.5%
2029	N/A	5.0%	3.5%

In spring 2025, DBM used market data and feedback from various State experts to develop escalation rates for the FY 2027-2031 CIP. The escalation rates were determined shortly after President Trump announced a number of new tariffs and were set particularly high due to concerns of increased materials prices and construction market volatility. The rates were factored into agency budget requests that utilize DBM's Cost Estimate Worksheet (CEW). DBM committed to monitoring the construction market and revisiting escalation rates prior to developing the FY 2027-2031 CIP.

Ultimately, the tariffs were significantly pared back and their effects on the construction market have been negligible thus far. Contrary to State experts's expectations, the State has witnessed normal levels of construction inflation. Compared to last year's projected escalation rates, the new rate is slightly increased in CY 2025 and moderately higher in CY 2026, reflecting lingering uncertainty around future tariff impacts and federal policies, as well as some intermittent market factors such as a continued shortage of large-scale electrical equipment due to data center construction in the DC-Maryland-Virginia region and a labor market that is improving but remains tenuous.

As a result of the revised escalation rates, agencies should expect estimated project costs to decrease—often significantly—compared to the costs reflected in their budget requests.

All CEWs that use DBM's escalation rates will automatically be updated to reflect the revised rates.

- Ongoing projects (in design or construction) often reflect estimates from an A/E or construction manager that already factor the project schedule into base costs; therefore they do not use DBM's escalation rates and will not be impacted. However, some projects—such as those in the early design stages—use DBM's escalation rates for planning purposes.
- Projects that have not yet begun use DBM's escalation rates.

To see the impact of reduced escalation on estimated project costs, agencies can create a copy test-CEW in CBIS to assess the revisions. For ongoing projects, DBM will review feedback from State cost centers and agencies with independent procurement authority if they believe the revised cost estimates are inadequate.

For projects managed by DGS: DGS will review revised CEWs on a case-by-case basis and work with DBM to make additional adjustments as necessary by October 17, 2025. Additional adjustments must be supported by strong justification.

For projects *not* managed by DGS: If an agency believes additional adjustments need to be made for ongoing projects due to the reduced escalation, please contact the appropriate DBM capital budget analyst by October 17, 2025 to explain any concerns. Agencies should provide a revised suggested CEW accompanied by strong justification for further cost adjustments.

DBM capital budget analysts will be available to address any additional questions or concerns.