Interagency Commission on School Construction
Fiscal Year 2026 Capital Budget
Response to Department of Legislative Services Analysis

House Appropriations Committee
Capital Budget Subcommittee
Delegate Mark Chang, Chair
Monday, March 3, 2025

Senate Budget and Taxation Committee
Capital Budget Subcommittee
Senator Craig Zucker, Chair
Tuesday, March 4, 2025

Presenters:
- Edward Kasemeyer, Chair
- Alex Donahue, Executive Director
- Cassandra Viscarra, Deputy Director
- Arabia Davis, Funding Programs Manager

First, the IAC thanks the Capital Budget Subcommittees for this opportunity to respond to questions from the Department of Legislative Services (DLS) and to comment on the capital budget for the IAC. More importantly, the IAC thanks you for your strong and continuing support for public school construction in Maryland. The work of this Committee over the past five years in particular has had a truly significant positive effect on public school students in Maryland. We also thank Laura Hyde and the DLS staff for their excellent analysis and support.

The Commission and their staff are tasked with a significant mission to allocate appropriated State school-construction dollars to capital-improvement projects at public Pre-K–12 school facilities in a manner that supports providing safe and educationally sufficient school facilities that are fiscally sustainable to every student in Maryland's public school districts. The annual investments on an ongoing basis that are required to achieve such facilities are substantial. At the industry-standard annual investment rates of nearly 4% of current replacement value for capital-maintenance and capital-renewal activities combined, it would not be unreasonable for Maryland's LEAs to be spending more than $2.3 billion per year to keep up and renew the 142 million square feet of school-building space in their portfolios.

But the $2.3-billion-plus annual figure does not fully take into account Maryland's current backlogs of deferred maintenance and capital renewal, which have helped contribute to an average facility-condition-index (FCI)[1] level of 53% depleted and an average square-footage age of 31 years

[1] Additional information about the IAC's Statewide Facilities Assessment and the calculation of FCIs is available on the IAC's Website.

out of an expected general lifespan of about 60 years. More than four out of every five public Pre-K–12 school facilities are 45% or more depleted, as shown in the following figure:

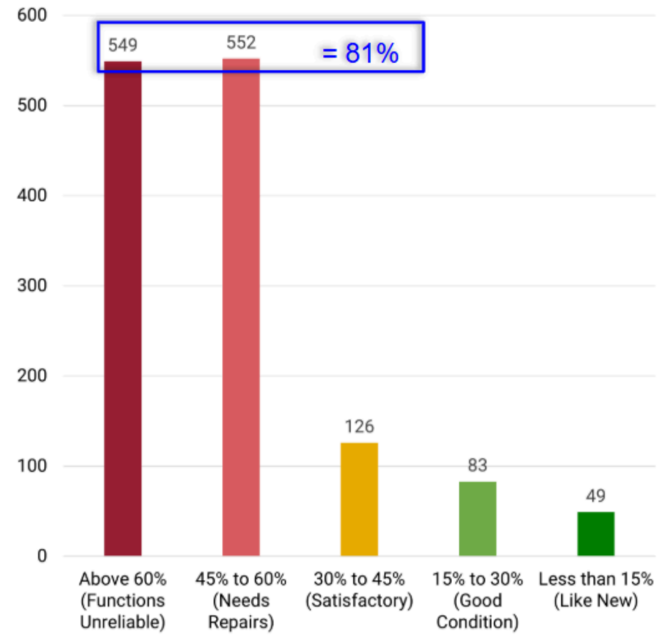
Figure 1: Statewide Facility Condition Distribution by Band, FY 2024

Statewide Facility Condition Distribution by Band

1,359 Public PK-12 Facilities Assessed

Weighted Average Asset Condition (FCI): **52.66%** of expected useful lifespan (EUL) depleted

FCI	# of Buildings	% of Buildings
Above 60% (Functions Unreliable)	549	40.40%
45% to 60% (Needs Repairs)	552	40.62%
30% to 45% (Satisfactory)	126	9.27%
15% to 30% (Good Condition)	83	6.11%
Less Than 15% (Like New)	79	3.61%
Total	1359	100%



Experience has shown that, above 50% FCI, issues multiply and problems worsen; facility reliability begins to decline; the facility becomes less conducive to teaching and learning; and the cost of maintenance increases notably. Above an FCI of 60%, reliability declines even faster and, more significantly, maintenance costs spike. At the portfolio level, the average facility condition that would optimize the educational effectiveness and long-term fiscal sustainability of the facilities would be in the mid-30%-depleted range. Bringing Maryland's school facilities into this desired condition range would require investing more than $2.3 billion per year. However, as reported to the Senate Budget & Taxation and House Appropriations Committees in recent weeks, recent annual local and State school-construction budgets have totaled in the neighborhood of $1.8 billion.

Maryland's facility-condition deficit—combined with the unavoidable cost inflation—means that every capital dollar not invested today will result in multiple dollars of additional cost in the coming years. In this FY 2026 CIP cycle, school districts have requested a total of $765.3 million in State funding across 203 CIP projects. With only $354 million of the Governor's proposed $460-million school-construction budget usable for CIP requests, the IAC faces a total funding shortfall of $411 million against the LEA requests. After adjusting the LEAs' requests for updated project draw schedules and project eligibility under State rules, the IAC faces a critical funding gap of $55 million between the Governor's proposed $354 million for CIP and EGRC programs combined and the amount needed to fulfill the State-share responsibilities in FY 2026 for just the school districts' highest-priority project requests. All six of these partly unfunded highest-priority projects are major projects in small, mostly rural jurisdictions that lack the local fiscal capacity to cover the State funding shortfall should the General Assembly not be able to appropriate the needed additional $55 million.

It is unclear how the affected jurisdictions might find the resources needed to close the gap and keep these major projects on schedule. On the State side, the consequences of failing to close this $55-million funding gap in FY 2026 is that the projected funding gap in FY 2027—assuming LEA requests similar to those of FY 2026 and appropriations similar to the Governor's proposed FY 2026 budget—would grow to $166 million from $111 million.

<u>Responses to DLS Analysis</u>

Page 3, GO Bond Recommended Actions, sec. 1: DLS states that about $233 million remains unexpended from prior years in HSFF.

The figure as of February 27, 2025 is $203 million.

Page 15 [regarding the Healthy School Facility Fund (HSFF)]: The Department of Legislative Services (DLS) notes that while allocations to LEA's are timely, there is a significant amount of unexpended funds ($233 million) from appropriations made prior to fiscal 2025. Given that the State has appropriated $370 million to the program in a relatively short period of time, from fiscal 2021 through 2025, this is not unexpected. Due to the slow rate of expenditures, DLS recommends deferring $45 million to fiscal 2027. This would provide $45 million in fiscal 2026 and a secondary recommendation to preauthorize $45 million for fiscal 2027.

The IAC respectfully disagrees with this recommendation. The school-construction need across the state is so great that the LEAs have more urgent projects currently lined up than can be accommodated by the IAC with its projected appropriations, even if those appropriations were to include the full $90 million for HSFF. As stated above, of the IAC's 90% CIP approvals in February, the Governor's proposed budget leaves a $55-million funding gap between the expected FY 2026 appropriations and the amount needed to fulfill the State-share responsibilities in FY 2026 for the school districts' highest-priority project requests. Any reduction in the cumulative appropriations to the HSFF would result in fewer of the urgently needed capital projects being executed and more projects being postponed, likely incurring significant added maintenance costs including avoidable and costly emergency repairs to keep aged systems functioning past their expected and cost-effective lifespans.

Because preauthorization does not guarantee appropriation in FY 2027 then the IAC will award only $45 million in FY 2026 to HSFF projects rather than $90 million. As a result, urgent LEA projects will suffer delays, and unaddressed operational problems may cause some facility shutdowns.

Page 17 [regarding EGRC]: IAC should comment on why the program's unexpended balance is over $100 million.

There are two primary reasons for the high unexpended balance of Supplemental Capital Grant ("EGRC") funds. The first is simply the amount of time that a construction project takes to execute. Once funding is awarded, typical expenditure distribution follows a bell curve over the two-to-six-year lifespan of the project, with expenditures starting at a small proportion of the total contract value at the start of the contract, increasing toward the middle of the contract, and tapering again to low values at the end of the contract. State funding faces further delays as some LEAs choose to submit reimbursement requests at the end of the project, especially for smaller system-replacement (SR) projects, which represented almost 40% of the dollars allocated by the IAC in the FY 2025 Capital Improvement Program. A typical SR project likely takes one year of design and one to two years of construction to complete.

The second reason for the balance of unexpended EGRC funds is the statutory requirement in Ed. Art. § 5-303(j)(3), which provides for two years during which funds can be allocated to a project but remain uncontracted before the IAC must revert the funds. Once the funds are reverted, they must remain held in reserve for the LEA to which they were awarded for another two years. In some cases in which an LEA fails to execute contracts, this leaves funds uncontracted for a total of four years before they become unrestricted and can be used for another project in the state.

Page 18: Because the CIP does not break out unexpended balances by fiscal year and program prior to fiscal 2020, IAC should report this information and comment on any discrepancies between the CIP and IAC's recorded balances for these programs. IAC should also comment on how the agency plans to spend outstanding balances for each program and whether any funds prior to fiscal 2017 would be eligible to be canceled or transferred to the Unreserved Statewide Contingency Account.

Uncommitted balances by fiscal year and program for FY 2020 and prior are as follows:

Table 1: Uncommitted Fund Balances by Fiscal Year and Program, FY 2007–2020

	PSCP	NASP	HSFF	ASP
2007	$83,447	-	-	-
2008	$9,894	-	-	-
2009	-	-	-	-
2010	$210,930	-	-	-
2011	-	-	-	$4
2012	$219,485	-	-	$2
2013	$6,000	-	-	$387,783
2014	$84,210	-	-	$3,222
2015	$53,079	-	-	($233,310)
2016	$390,842	-	-	-
2018	$2,232,000	-	-	$354,094
2019	$6,223	$479,354	-	($178,351)
2020	-	$455,859	$62,010	($608,724)

Please note that there are no uncommitted EGRC funds in FY 2020 or prior years.

After experiencing significant turnover in its Finance Division beginning around 2020, the IAC has undertaken an initiative to completely reconcile all prior years of program awards and expenditures. The IAC is in the process of working with the Department of Budget and Management, the State Treasurer's Office, and its Assistant Attorney General to determine whether funds appropriated in prior years for specific programs can be unrestricted and used to meet needs through the IAC's Capital Improvement Program or whether those funds should be reverted for other purposes. The IAC has also adopted a first-in-first-out approach to expending unrestricted funds in order to utilize the oldest sources of funding first for invoice payments. IAC staff have also been exploring possibilities for automated process improvements through its new Business Management System.

Page 19: IAC should comment on the following concerns regarding this report: (1) the reason that IAC reports are frequently delayed and when the December 31, 2024 report will be available; (2) the balance for funds reserved for Statewide purposes and the intended use of those funds; (3) the reason that balances over seven years old have not been returned to the Unreserved Statewide Contingency Account; and (4) the reason that a balance for the Unreserved Statewide Contingency Account is not reported.

1) Reserve-fund balances specifically are required to be reported four times per year: on March 31, June 30, September 30, and December 31 for the reporting periods ending on the submission dates. While the IAC is working to enhance and streamline its reporting, the agency is not yet in a position to be able to report on the period activity on the same day on which the period ends. IAC staff acknowledge that these reports have been delayed in the past and have committed to providing each report within less than 30 days of the period's end. We also intend to work with DLS and the General Assembly prior to the 2026 session to slightly adjust period reporting dates so that the IAC can provide these reports in a timely and predictable way. The December 31, 2024 report was submitted to DLS and the General Assembly on February 21, 2025.

2) The following table shows the balances in the IAC's reserve accounts as of Dec. 31, 2024:

IAC Reserve Appropriation Balances as of Dec 31, 2024.	**$63,949,626**
(1) Reserved for Statewide Purposes	$40,524,019
(2) Reserved for Specific LEAs for the FY 2026 CIP	$12,807,891
(3) FY23 - FY25 Enrollment Growth or Relocatable Classrooms (EGRC) Funds	$7,249,683
(4) FY20 - 22 & FY24 - FY25 Healthy Schools Facility Fund (HSFF)	$2,573,377
(5) FY 23 Baltimore City Healthy School Facility Fund (HSFF)	$431,075
(6) FY 13 Energy Efficiency Initiative (EEI) Funds	$6,000
(7) FY 14 Air Conditioning Initiative (ACI) Funds	$61,893
(8) FY 12 Supplemental Appropriation (SA)	$289,465
(9) FY 19 Baltimore City HVAC (BC HVAC)	$6,223

Regarding intended uses for these listed funds, the majority of lines 1 through 3 (Reserved for Statewide Purposes, reserved for specific LEAs, and FY 2023 to 2025 EGRC) will be awarded through the FY 2026 CIP, a portion of which are included in the 100% projections and IAC staff are working with LEAs to apply the remainder to appropriate eligible projects prior to the May 100% CIP approval. Regarding the restricted funds in the remaining categories, IAC staff are working with its AAG and other State authorities as described below to obtain the clarity required about eligibility so that the IAC may award the funds during calendar year 2025 or to revert the funds to the Statewide reserve for award in FY 2027.

3 & 4) As noted in the response to the prior question, the IAC is in the process of working with the Department of Budget and Management, the State Treasurer's Office, and its Assistant Attorney

General to determine whether funds appropriated in prior years for specific programs can be unrestricted and used to meet needs through the IAC's Capital Improvement Program or whether those funds should be reverted for other purposes.