

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1254
 Ways and Means

(Delegate Feldmark)

Education - Public Schools - Service Contracts

This bill establishes that it is the policy of the State to use public school employees to perform functions for the public schools in preference to contracting with the private sector to perform those functions and establishes exemptions to this policy. A local board of education that seeks to enter into a service contract that is not exempt must submit specified information to the Maryland State Department of Education (MSDE), including documentation demonstrating consideration of alternatives, cost comparisons showing projected savings of at least 20% (excluding savings from reduced employee pay or benefits), and a formal plan of assistance for adversely affected employees. The bill also subjects service contracts to an MSDE audit to determine compliance with projected cost savings, with audit findings made public. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by \$90,000 in FY 2027 for staffing. Out-year costs reflect annualization, inflation, and on-going costs. Revenues are not affected.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	90,000	106,000	110,900	116,000	121,000
Net Effect	(\$90,000)	(\$106,000)	(\$110,900)	(\$116,000)	(\$121,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local school system expenditures increase due to new service contract requirement. Administrative costs are indeterminate but may be meaningful. Revenues are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill defines a “service contract” as a procurement contract for services that will be provided to a public school.

A local board that seeks to enter into a service contract is exempt from the requirement to use public school employees if: (1) a conflict of interest would result if a public school employee performed the services; (2) the services meet standards established by the local board for emergency procurement; (3) the services are incidental to the purchase or lease of personal or real property; or (4) a clear need exists to obtain an unbiased finding or opinion.

A local board that seeks to enter into a service contract that is not exempt must submit to MSDE documentation demonstrating that the county board has taken formal and positive steps to consider alternatives to the service contract, including reorganization and reevaluation of services and performance.

The local board must submit calculations that (1) compare the cost of the service contract with the cost of using school employees and (2) show projected savings to the local school system, over the duration of the service contract, of at least 20% of the contract amount, exclusive of any savings attributable to a reduction in employee pay or fringe benefits.

In calculating the cost comparison, the local board must include direct and indirect costs, any continuing or transitional costs associated with contracting, and any additional costs required for performance by local board employees.

The local board must also submit a formal plan of assistance for school employees who will be adversely affected by the service contract. The plan must include efforts to place displaced employees in vacant positions, provisions for contractor hiring of affected employees if feasible, and advance notice to affected employees.

Current Law: There is no relevant current law regarding local school system service contracts.

Collective Bargaining

A “public school employee” means a noncertificated individual who is employed for at least nine months per year on a full-time basis by a public school employer. In Baltimore City, a public school employee includes a noncertificated employee who does not work for at least nine months per year. A “noncertificated employee,” in Montgomery County, means only a full-time employee, but is otherwise not defined in State law.

Public school employees may form, join, and participate in the activities of employee organizations of their own choice to be represented on all matters that relate to salaries, wages, hours, and other working conditions. In general, and subject to specified exceptions, each county may not have more than three bargaining units for public school employees, and each unit may not include both supervisory and nonsupervisory employees, as defined in statute.

State Expenditures: MSDE advises that the bill requires additional staff to establish a service contract review and audit function. MSDE estimates the need for three full-time program managers to conduct service contract review and audit activities.

However, the bill does not require MSDE to pre-approve service contracts or audit every contract submitted. Instead, it requires receipt of documentation and authorizes audits without specifying frequency. Accordingly, staffing requirements depend on the scope of the review process adopted by MSDE.

For purposes of this analysis, it is assumed that MSDE conducts a risk-based review of submitted documentation and audits a limited subset of service contracts annually rather than reviewing each contract prior to execution.

Therefore, general fund expenditures for MSDE increase by \$90,008 in fiscal 2027, which accounts for a 90-day start-up delay from the bill's July 1, 2027 effective date. This estimate reflects the cost of hiring one full-time regular position. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1.0
Salary and Fringe Benefits	\$80,867
Other Operating Expenses	<u>9,141</u>
Total FY 2027 MSDE Expenditures	\$90,008

Future year expenditures reflect a full salary with annual increases and employee turnover and annual increases in ongoing operating expenses.

Local Expenditures: Local school system expenditures increase due to additional administrative requirements related to service contract documentation and analysis.

Service Contract Requirements

The bill establishes a State policy to use public school employees to perform functions for public schools in preference to contracting with the private sector, subject to specified

exemptions. Accordingly, the use of service contracts may decline, which has an indeterminate effect on local school system expenditures.

Local boards that seek to enter into a service contract must conduct detailed cost comparisons demonstrating projected savings of at least 20% (excluding savings attributable to reductions in employee pay or fringe benefits), develop employee assistance plans for adversely affected employees, and submit required documentation to MSDE. Because the bill does not establish a minimum dollar threshold or limit the types of service contracts covered, several local school systems advise that the definition may encompass hundreds of contracts, including consultant agreements, construction services, professional services, and other specialized contracts not typically performed by school system employees.

Local school systems indicate that compliance may increase administrative workload across procurement, fiscal services, human resources, and legal offices; require more formalized cost-accounting documentation; expand compliance and audit-related responsibilities; and extend contracting timelines. The magnitude of this impact cannot be reliably estimated and depends on the number and type of service contracts executed annually. Some local school systems also advise that additional administrative staffing may be required to conduct required cost analyses and develop employee assistance plans.

Small Business Impact: The bill may have a meaningful adverse impact on small businesses that contract, or seek to contract, with local school systems. The bill's provisions make it more difficult for local school systems to use service contracts instead of school system employees for most services provided to schools. Any such impact cannot be reliably estimated but could be meaningful.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years.

Designated Cross File: SB 904 (Senator Zucker, *et al.*) - Education, Energy, and the Environment.

Information Source(s): Maryland State Department of Education; Anne Arundel County Public Schools; Frederick County Public Schools; Prince George's County Public Schools; St. Mary's County Public Schools; Wicomico County Public Schools; Department of Legislative Services

Fiscal Note History:
jg/mcr

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