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Governor
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**J00 Maryland Department of Transportation
Overview
Fiscal Year 2027 Operating Budget
Response to Department of Legislative Services Analysis**

Senate Budget and Taxation Committee
Public Safety, Transportation, and Environment Subcommittee
Chair Shelly Hettleman
February 6, 2026

House Appropriations Committee
Transportation and the Environment Subcommittee
Chair Courtney Watson
February 5, 2026

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DLS Budget Analysis Issues

**1. Office of Legislative Audits Audit Findings Related to Federal Fund Attainment
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MDOT should update the committees on the actual amounts of federal funds that it has collected from the federal government related to the reported accrued revenue entries from fiscal 2025 and the status of approval of the funds that were not authorized. MDOT should also discuss its progress on implementing corrective actions recommended by OLA pertaining to its audit findings.

MDOT Response:

The Maryland Department of Transportation (MDOT) does not fully agree with the findings of the Office of Legislative Audits (OLA) regarding MDOT's ability to recover federal funds for its projects. MDOT receives authorization for all federally funded projects prior to the start of the project and seeks reimbursement of subsequent expenditures in accordance with the Code of Federal Regulations. All federal funds have a multi-year timeframe within which grants must be executed in an agreement, reimbursed, and closed out. MDOT executes its grants within this timeframe in order to ensure appropriated funds are received.

Federal funding is a critical funding source for MDOT's capital program. In the current FY 2026-2031 Final Consolidated Transportation Program (CTP), federal funds comprise approximately one-half of funding for MDOT's \$22.1 billion capital program. In FY 2027, MDOT is expected to receive \$1.5 billion in federal funding. Most federal transportation funding flows through formula grants programs that allocate funding to recipients based on formulas set by Congress.

Both the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) have programs established in the Code of Federal Regulations and routinely utilized by state departments of transportation across the country to utilize future federal funds on a project. At FHWA, it is called advance construction and at FTA it is called pre-award authority. These programs are critical in providing funding for transportation capital projects, which often extend beyond one fiscal year. These programs authorize expenditures against a project ahead of when the state can seek federal reimbursement for the project and provide the state with significant flexibility to do more projects based on actual project cash flows and maximize the obligation authority to the state.

Federal transportation funding takes place almost entirely on a reimbursable basis, meaning that MDOT must first pay project expenses before requesting and receiving reimbursement from the United States Department of Transportation (USDOT). To ensure that this funding will be

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eligible for federal reimbursement when the time arrives, there is an established process that includes pre-authorization of projects, consistent and regular interactions between MDOT and USDOT, and an internal control framework.

MDOT acknowledges that there is an inherent risk in any reimbursable-based funding program, in that expenses could be deemed ineligible for reimbursement and not repaid. MDOT's capital program budgets for a percentage of federal expenses may be deemed ineligible; however, OLA's assertion that all federal receivables currently outstanding may be ineligible is overstated.

To maximize its use of federal funding, since 2020, MDOT has expanded the categories and phases of projects that it utilizes federal funds on. In addition, during that time, the USDOT changed certain rules regarding the federal aid reimbursement process. These two actions significantly increased the number of actions that require federal approvals during a project's lifecycle to seek reimbursement of project expenses. With no comparable change in staffing to process these transactions, there have been delays in seeking federal reimbursement. That delay impacts the timing of reimbursement of funds but does not impact the eligibility to receive funds. Similarly, the increasing delays in the passage of federal appropriations bills result in greater use of continuing resolutions and federal government shutdowns, which also delay the timing of recovery of federal reimbursements.

To help remedy the delayed processing of federal reimbursement requests, MDOT is requesting eight additional positions at the State Highway Administration in the FY 2027 budget to ensure that federal reimbursements can be processed more timely. This same request was denied by the legislature in the FY 2026 budget, but MDOT is again requesting these additional positions given the documented need to recover federal funds more quickly than current staffing levels allow. Processing these reimbursement requests and researching the history of charges on multi-year projects is resource-intensive. These additional positions, plus the actions underway by MDOT to document standard procedures, improve business processes, and modernize IT systems and reporting related to federal billing, will enable MDOT to more quickly recover the outstanding funds and to process reimbursements more quickly moving forward.

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Operating Budget Recommended Actions

1. Add annual language requiring notification of changes to the capital program.
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MDOT Response:

The Department concurs with the DLS recommendation.