

Federal Shutdown

Understanding the Impact and Challenges for States

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Overview

At this time, how long the federal government shutdown lasts remains unclear. While the impasse continues, states are busy developing and executing their own contingency plans for programs that are fully or partially funded by federal dollars.

Based on information from budget officers, the National Association of State Budget Officers (NASBO) has summarized below some of the major challenges that states are facing at this moment. The shutdown has caused significant disruptions and states are now seeking to determine which programs they will fund and which will be stopped.

Tough Choices About Backfilling Federal Programs with State Funds

States will have to make difficult choices about whether to backfill certain federal programs with state money, or close them, depending on how long the shutdown lasts. This includes programs like the Supplemental Nutrition Assistance Program (SNAP) (the food stamps program) and the Special Supplemental Food Program for Women, Infants and Children (WIC). States do not have funds to cover the costs of all federal programs affected by the shutdown, and states may need to notify program beneficiaries in advance that payments might be halted. In addition, in some cases, there is no guarantee that the federal government will reimburse states once the shutdown ends for funds they have used to keep federal programs operating.

In past shutdowns, states have generally been reimbursed for program expenses covered with state monies, but ultimately the appropriations language passed by Congress will determine whether this will be the case this time. With limited resources and little budgetary flexibility, states have to decide whether to put their own

money on the line without assurance of reimbursement. Even in cases where states do want to step in, their cash flow situation may prevent them from having sufficient funds.

Employee Furloughs and Hiring Freezes

States are wrestling with the question of whether to furlough or layoff federally-funded state employees. Several states have already furloughed federally-funded employees in response to the shutdown. Other states have begun issuing layoff notices to comply with contractual or statutory notice period requirements. Meanwhile, states are also seeking information on any possible legal ramifications that could result from furloughing employees, such as jeopardizing reimbursement from the federal government or compliance with entitlement program requirements. Several states have also issued formal or informal hiring freezes for federally-funded positions for the duration of the shutdown.

Cash Flow Challenges

State budget officers are working closely with other state finance officials to determine how long their state can cover certain costs for federal programs, should they choose to backfill the lost federal funds. Even for programs where states know they will be entitled to reimbursement from the federal government, a lack of sufficient cash on hand can be problematic for states. Some states have reported looking into selling off short-term assets to strengthen their cash flow situation.

IT System Capacity

With complicated automated IT systems, states are facing technical questions with respect to how to make necessary modifications to stop making benefit payments once program funds run out. States are also trying to

determine what problems their systems may encounter in making retroactive payments once the shutdown ends. These problems are likely to worsen the longer the shutdown lasts. States may have to take action to stop program funding sooner than expected in order to have time to modify the IT systems.

Program Impact Analysis & Reimbursements

State budget offices have been working with state agencies to determine which programs – funded with federal dollars – are most at risk during the shutdown. The effects of the shutdown vary by grant program depending on whether that program's spending authority is mandatory or discretionary, the timing of appropriations for the program, and other variables in the federal budget process. Some programs have federal appropriations, carryover balances, and/or contingency funds available, but the duration of time before these funds run out vary by state and by program. Some programs are projected to run out of money in a matter of days or weeks. Other programs may not have funds available to draw down from during the shutdown, but states may be legally entitled to reimbursement after the shutdown. Still other programs lack current authorization. Getting clarity and consistent guidance from the federal government on which programs and employees are entitled to reimbursement has proven challenging in some cases. Some states have also reported technical issues and delays drawing down federal funds that are available.

Overall Impact on Programs

State budget officers have identified several major federally-funded programs that are at significant risk of closing down or reducing benefits if the shutdown continues much longer. Examples of these include:

Supplemental Nutrition Assistance Program (SNAP)

This mandatory program currently lacks an authorization, but the U.S. Department of Agriculture (USDA) can rely on funding from the American Recovery and Reinvestment Act (ARRA) as well as a \$2 billion contingency fund to make benefit payments through October. After October, it is unclear whether the program can continue. Also, it is not certain how much funding is available to reimburse states for

the cost of administering the program.

Temporary Assistance for Needy Families (TANF)

While a mandatory program, TANF currently lacks an authorization. States will not receive quarterly payments for the Temporary Assistance for Needy Families Block Grant. The U.S. Department of Health and Human Services (HHS) issued guidance that states can use fiscal 2013 carryover funds (if available) and that any state money spent on TANF during the shutdown will be eligible to count towards matching/maintenance-of-effort requirements.

Special Supplemental Food Program for Women, Infants and Children (WIC)

There are no new appropriations for the Women, Infants and Children (WIC) nutrition program. The U.S. Department of Agriculture (USDA) recently announced that it will be allocating both contingency and carryover funds to states to help them continue operations, but availability of funds vary by state. Some states will be able to keep funding going into November, while others will run out in late October.

Refugee Assistance

Some states have already run out of funds for refugee assistance. Some states have already had to halt cash assistance to refugees as a result of the shutdown.

Low Income Home Energy Assistance Program (LIHEAP)

Limited carryover funds may be available in some states for this discretionary program but no fiscal 2014 funds are in place. Depending on how long the shutdown lasts, distribution of funds to recipients may be delayed.

Head Start

No fiscal 2014 funds are available during the shutdown for this discretionary program. Some programs can draw from fiscal 2013 funds depending on when their grant year starts, but others may have to reduce or terminate operations during shutdown. After reports of program closures in some states, a \$10 million private donation was made to reopen these programs, but only through October.¹

Disability Determination Services (DDSs)

The Social Security Administration's shutdown contingency plan indicates that states should assume that DDSs will be reimbursed for work completed once federal funding is available. However, states will need to determine whether

¹Niraj Chokshi, "Private donors offer \$10 million to reopen Head Start programs in six states," Washington Post (October 7, 2013), <http://www.washingtonpost.com/blogs/govbeat/wp/2013/10/07/private-donors-offer-10-million-to-reopen-head-start-programs-in-six-states/>.

they have the cash on hand available to maintain operations and pay employees during the shutdown. Additionally, some states have reported receiving inconsistent guidance from the federal government on whether they would be reimbursed for spending on DDSs during the shutdown.

Veterans Benefit Payments

The Veterans Affairs Department has indicated that an extended shutdown will cause the federal government to run out of funds to cover disability compensation and pension benefits to veterans, likely by the end of this month. While states do not administer this program, they are concerned about the accessibility of these payments for veteran residents who depend on them.

Impact on Economy and State Tax Revenues

The shutdown's economic impacts, particularly in areas with a high federal presence, can also have significant fiscal implications for states. For example, the shutdown can result in lost tourist revenues from national park closures and lower sales tax collections as furloughed employees reduce consumption. Ultimately, the extent of the shutdown's impact on states and the economy will depend on how long the shutdown continues. As an example of impact, Standard and Poor's Chief Economist estimates that annualized fourth quarter gross domestic product will decrease by 0.3% for each week that the shutdown lasts. The credit rating agency has also commented that the shutdown will put pressure on state's liquidity, but reiterated that a short-term shutdown (of no more than a few weeks) is not likely to have a significant impact on states' credit quality. States also continue to watch negotiations in Washington over raising the debt ceiling, and are concerned about the potential impacts of not raising the debt limit on the economy and states' credit ratings.

FOR MORE UPDATES AND RESOURCES ON THE FEDERAL SHUTDOWN AND ITS IMPACTS ON STATES, VISIT NASBO'S WEBSITE AT: WWW.NASBO.ORG/RESOURCES/FEDERAL-SHUTDOWN-INFORMATION.

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