IMPACT OF A FEDERAL GOVERNMENT SHUTDOWN ON STATES

Brief shutdown would be inconvienient, longer term shutdown could prove problematic

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Summary

There has been increased attention given to the possibility of a federal government shutdown due to recent actions in Congress. While not certain by any means, the possibility of a shutdown does exist. If such a shutdown is short – a few days or a couple of weeks – it is likely that the impact on states would be minimal. A longer term shutdown could create more significant problems for states.

Background

Fiscal Year (FY) 2011 spending authority for the federal government currently expires after March 4. On February 19, the House approved a spending bill for the remaining months of FY 2011 that would reduce federal discretionary spending by $61 billion. The Senate has yet to act on the House bill. On February 22, Senate Majority Leader Harry Reid (D-NV) announced that he will bring up a one month extension of current spending levels when the Senate returns from its Presidents' Day recess in order to provide Congress with additional time to work on a FY 2011 spending bill. However, House Majority Leader John Boehner (R-OH) has already stated that he would not bring up an extension in the House that continued current funding levels. As a result, the possibility of a federal government remains.

State Impact

Should a federal government shutdown occur at some point over the next few weeks, the extent to which it affects states is directly related to the length of the shutdown. A shutdown that lasts for a couple of weeks, while inconvenient, would not cause significant harm to states. While states rely on federal government funds to help fund a large number of state programs these funds are often not transferred, or drawn down, on a daily basis. If possible, some states may wish to explore scheduling transfers prior to a shutdown in order to avoid any delays in receiving federal funds. However, there are a few programs that rely on more frequent transfers, including Temporary Assistance for Needy Families (TANF) as well as the Supplemental Nutrition Assistance Program (SNAP), commonly known as food stamps. The growing use of electronic transfers since the last shutdown in 1995 makes understanding the impact on these programs somewhat less clear.

Should a federal government shutdown continue for multiple months, it could create significant funding difficulties for those programs that are federally funded but state run as well as for those state employees whose salary is partly paid for with federal funds. While the 1995 federal government shutdown only lasted 20 days, Maryland spent an extra $1.4 million in state employee salaries because federal funding of those salaries was suspended[1]. Similarly, the District of Columbia spent $4.4 million on 26,000 employees who usually received their funds from the federal government. In addition, federal contractor employees were furloughed and did not receive salaries during the shutdown[2] and states with large numbers of federal contractors could see a decrease in state income tax and sales tax collections. While these costs may not seem substantial, any prolonged shutdown could dramatically increase these costs. Additionally, such negative economic impacts would only serve to worsen an already tight state fiscal situation.

Another possible impact of a prolonged shutdown is on federally funded transportation projects.

There is the possibility that certain projects may not be able to receive final approval in the absence of federal funding as well as the possibility that an already approved project would have to idle itself during a shutdown only to re-mobilize when the shutdown is over, generating additional costs.

Impacts of the 1995 Shutdown

A Congressional Research Service (CRS) report examined the cost of the federal government shutdown in late 1995[3]. The reported noted that the tourism sector suffered substantial costs when the government shutdown, as it was forced to close 368 National Park Service sites. Overall, national parks lost 7 million visitors, with an expected cost of $14.2 million per day in tourist revenues. It is likely that states also lost sales tax revenue because visitors were not spending on hotel, restaurant, or other travel related expenditures. The federal government shutdown also affected other travel-related programs like the passport application process. According to the CRS report, over 200,000 passport applications were not processed during the federal shutdown. The tourism and airline industry suffered a multimillion dollar loss due to the suspension of passport applications.

Conclusion

The largest factor in determining the impact of any federal government shutdown is its length. While a brief shutdown would be inconvenient, a longer term shutdown could prove to be significantly problematic. Of course, each state will have to determine the unique impact that may occur in their particular state. NASBO will continue to monitor progress on the FY 2011 federal budget and will provide updates in the weekly Washington Report.

1 "What might happen if federal government shutdowns again", Ed O'Keefe, Feb. 20, 2011

2 Congressional Research Service, 98-844 GOV, "Shutdown of the federal government: causes, effects, and process", Jan. 2001

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