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The Effect of a Federal Government Shutdown on Major State Grants

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Summary

With just a few hours remaining before the beginning of federal fiscal year (FY) 2014, attention has turned to the possibility that Congress will be unable to agree to a continuing resolution (CR) to maintain funding for the federal government. A CR is necessary because no appropriations bills have been enacted for FY 2014. Last week, the House passed a CR that incorporated “defunding” of the Affordable Care Act (ACA; P.L. 111-148). In response, the Senate stripped the defunding provision from the CR and sent it back to the House, where new language was added to delay implementation of the ACA, and repeal its medical device tax. The Senate rejected these provisions in its latest vote, and it is unclear how the House will proceed.

FFIS has summarized the impact of the House CR (H.J. Res. 59) in [Budget Brief 13-12](#). This brief discusses the impact of a federal government shutdown on major grant programs, should it come to pass.

Impacts on Key State Programs

During a shutdown, OMB [circular A-11](#) prohibits agencies from incurring obligations that cannot lawfully be funded from prior appropriations unless such obligations are otherwise authorized by law. As such, the major factor in determining how a government shutdown will affect a particular program is whether the program is mandatory (funding is determined by preset factors, such as caseloads, and is not subject to the annual appropriations process) or whether it is discretionary (funding is determined through the annual appropriations process). In general, mandatory programs will not be affected by a shutdown, while discretionary programs would be interrupted. To provide a sense of proportion, 66% of grant funding for major programs tracked by FFIS is mandatory.

There are exceptions to this rule. Mandatory programs that operate as appropriated entitlements (such as the Social Services Block Grant and child nutrition) would be affected by a shutdown in that funds would not be available for reimbursement. That said, states would retain their entitlement to such reimbursement once the government reopens. Conversely, discretionary programs that are forward funded (such as Title I, special education, and Workforce Investment Act [WIA] formula grants) would not be affected by the shutdown, as funds for the first quarter of FY 2014 already have been appropriated. Some states might still choose to continue operating affected discretionary programs using state funds; it is unclear whether they would be reimbursed or compensated for such action.

The House CR would extend a number of programs that require an authorization in order to operate. If the CR or some replacement legislation is not enacted, these programs would lack authorization and funding after September 30, 2013. These are discussed more fully in *Budget Brief 13-12* and include: mandatory programs authorized under the current farm bill, Temporary Assistance for Needy Families (TANF) and related programs, Payments in Lieu of Taxes (PILT), and possibly Secure Rural Schools (SRS).

Certain programs are forward-funded. Accordingly, these programs should continue even in the event of a government shutdown. These programs include: Medicaid; Supplemental Security Income (SSI); Title I Grants to Local Education Agencies (LEAs); Improving Teacher Quality State Grants; Special Education Grants to States; Career and Technical Education; and WIA formula grants.

In some cases, states may be able to use funds that were appropriated in prior years if the budget authority does not expire and funds are available. However, no new funding would be available for these programs in the event of a shutdown.

The following sections summarize some of the unique characteristics of major grant programs and how they may be affected if there is no CR. Updates will be published as additional information becomes available.

Health and Human Services

Medicaid. States have an entitlement to Medicaid reimbursements under law, and would eventually get paid for any lapse in federal program funding. Moreover, the Medicaid appropriation for the first quarter of the federal fiscal year is provided in the previous year's appropriation. As such, states would continue to have access to funding. Funding for the Children's Health Insurance Program (CHIP) would also continue under a shutdown.

SSI. The SSI program is similar to Medicaid in that the first quarter of the fiscal year is already appropriated. Therefore, benefits should be available for the first quarter even if there is a lapse in appropriations.

TANF. The program's authorization expires after September 30, 2013. Absent an extension—which is included in the CR—the program lacks authorization and funding. Other mandatory programs that expire include the mandatory/matching portion of the Child Care Development Fund, matching grants to territories (section 1108 of the Social Security Act), and healthy marriage promotion and responsible fatherhood grants. According to the Department of Health and Human Services' (HHS) contingency plan, the Administration for Children and Families (ACF) would “not continue quarterly formula grants” for these programs. It provides no guidance to states on continuing their programs absent an authorization. The TANF contingency fund is authorized through FY 2014, but only certain states are eligible for funds, and FY 2014 awards have not been issued.

Title IV-E-Foster Care and Adoption Assistance. Title IV-E-Foster Care and Adoption Assistance are also appropriated entitlement programs that received an advance appropriation for the first quarter of FY 2014 in the FY 2013 appropriations package. As such, they will not be affected by a short-term shutdown.

Child Support Enforcement. Similar to Title IV-E, Child Support Enforcement received an advanced appropriation in FY 2013 and, thus, will continue to operate.

Low Income Home Energy Assistance Program (LIHEAP). As a discretionary grant program, LIHEAP would be affected by a shutdown. It also would be affected by a CR, as discussed more fully in *Budget Brief 13-12*.

Refugee Assistance. These discretionary programs would be affected by a shutdown. However, HHS indicated that “all permissible activities” for the Unaccompanied Alien Children program would continue because of exception for programs related to the safety of human life.

Immunization Grants. This program functions on a calendar year cycle, so a short-term shutdown would not affect it. Projects funded from FY 2014 budget authority would not begin until January 1, 2014. The Vaccines for Children program—a mandatory program, funded outside of the appropriations process—will continue to operate.

Head Start. Head Start grant recipients will face various circumstances depending on their “grant year.” Each recipient organization can establish its own grant year. While the grant year always begins in the same fiscal year as the appropriation, it may carry over into the next fiscal year. If a grant is used for the year September 1, 2013 to August 31, 2014, it draws from FY 2013 appropriations and will not be affected by a shutdown. If a grant is used from November 1, 2013 to October 31, 2014, it draws from FY 2014 appropriations and would be affected by a shutdown. A recipient whose grant year starts early in the fall might have to reduce or cease operations during the nonfunded period.

Agriculture

Supplemental Nutrition Assistance Program (SNAP). SNAP is an entitlement program with benefits funded entirely by the federal government. The federal government also pays 50% of state costs to administer the program. Unlike most other major entitlement programs, SNAP is not forward-funded, nor can unexpended appropriations be carried forward. In addition, SNAP is an appropriated entitlement. Although its funding level is determined by the provisions set in the current authorizing legislation (the 2008 farm bill, P.L. 110-246), it receives an appropriation through the annual agriculture spending bill. Moreover, the program’s authorization is set to expire with the rest of the current farm bill on September 30, 2013.

The Food and Nutrition Service (FNS) has indicated that it will use its authority under the American Recovery and Reinvestment Act (ARRA, P.L. 111-5) to continue operations and benefit payments through October 31, 2013. ARRA provided “such sums as necessary” to finance a benefit increase through October 31, 2013. In addition, FNS will use the remaining \$2 billion in contingency funding to support state administrative expenses. This funding is available through September 30, 2014.

Child Nutrition. The child nutrition programs—School Lunch, School Breakfast, Special Milk, Summer Food Service, and Child and Adult Care Food programs—are individual entitlement programs with benefits paid entirely by the federal government. Like SNAP, the child nutrition programs are appropriated entitlements that do not receive advance appropriations. States submit reimbursement claims 30 days after the end of the month,

drawing down from a letter of credit. School meal programs also use other sources of benefits like commodities. Thus, program operations can continue into October if a short-term shutdown occurs. Most states will have some money available to cover administrative expenses, as these funds are awarded for a two-year grant period and states are permitted to carryover up to 20% of their allocation into the second grant year.

Special Supplemental Food Program for Women, Infants, and Children (WIC). WIC is a discretionary grant program. As such, without an appropriation there will be no funds available for it. However, states have authority to carry over 1% of their grant to the following year. This amount increases to 5% in the first year and 3% in the following year if the state has achieved significant added savings from cost-containment measures.

Transportation

Federal Aid Highway (FHWA) Programs. Projects funded through the Highway Trust Fund (HTF) can continue because of contract authority already in place. Federal Highway Administration staff paid by the HTF can stay on the job and will be able to process the paperwork needed for reimbursement of state transportation projects. Since these payments are handled electronically, the actual reimbursements will be processed and payments should be sent to the states during the shutdown.

Federal Transit Administration (FTA). FTA will not obligate grant funds for projects because FTA staff who perform these functions are not considered essential. For projects under development, FTA staff cannot carry out environmental, legal, civil rights, and other reviews necessary for advancing projects to the point of obligation. Grant payments, regardless of their fiscal year appropriation, will also be affected as appropriations to pay the salaries of the staff certifying and executing the payments would not be available.

Discretionary Transportation Programs. States and localities can continue to work on approved American Recovery and Reinvestment Act (ARRA), Transportation Investment Generating Economy Recovery (TIGER), or Passenger Rail Investment and Improvement Act (PRIIA) projects. However, reimbursements for these programs will not be processed during the shutdown since they are not funded by the HTF, but through the general fund.

Education-Labor

K-12 Education. Most federal K-12 programs are discretionary and would not receive federal funding in the event of a government shutdown. However, a few education programs (Title I Grants to LEAs, Improving Teacher Quality State Grants, special education, and career and technical education) are forward-funded. In other words, of the funds appropriated in the FY 2013 appropriations package (which funded these programs for the 2013-2014 school year), a portion became available on July 1, 2013, and an additional portion becomes available on October 1, 2013. These programs should continue to operate if a CR is not enacted. In addition, the state or local portion of other education programs would not be affected by a government shutdown.

WIA programs. WIA formula grant programs will not be affected by a government shutdown because they run on a separate program year. The WIA adult and dislocated worker programs run on a program year from June

1 to July 30 and received advance appropriations in the FY 2013 appropriations package. Similarly, the WIA youth program runs from April 1 to June 30 and will not require a new appropriation until the start of the next program year on April 1.

Unemployment Insurance (UI). While UI benefits are mandatory and do not require an annual appropriation, state administrative funds are subject to the annual appropriations process. Thus, UI benefits will continue through a government shutdown, but reimbursement for state administrative costs will be interrupted. Generally, states may use carryover administrative funds from the previous year until they are exhausted, at which point they have the option to continue to pay costs with state administrative resources and be reimbursed for those expenses when federal funding becomes available.

Mandatory Programs and the BCA

While a government shutdown would have different impacts on various programs—depending on their budget status—the Budget Control Act (P.L. 112-25) will also affect certain programs. Specifically, the BCA includes cuts to certain mandatory programs that will go into effect on October 1, 2013. These programs will be subject to an across-the-board (ATB) cut currently estimated by the Office of Management and Budget (OMB) at -7.2%. Programs tracked by FFIS that will be subject to this cut include: National Forest Service Payments-SRS, Senior Farmers’ Market Nutrition Program, Special Milk, Specialty Crop Block Grant, College Access Challenge Grants, Vocational Rehabilitation State Grants, Abandoned Mine Land Reclamation Fund Payments, Bureau of Land Management-PILT, Fish Restoration, Hunter Safety, Wildlife Restoration, Mineral Leasing Payments, Boating Safety, Customs Service Permanent Appropriation, Crime Victims Fund-Assistance, Crime Victims Fund-Compensation, Abstinence Education Program, Personal Responsibility Education Program, SSBG, and Promoting Safe and Stable Families.

Health Care Reform/ACA

There are two issues surrounding ACA and FY 2014 appropriations. First, the original House CR included the following provision, “No Federal funds shall be made available to carry out any provisions of the Patient Protection and Affordable Care Act.” The Senate stripped this provision from the CR.

Second, because much of the funding contained in ACA was mandatory and/or provided under multi-year appropriations, a federal government shutdown would not affect the implementation of certain provisions of health care reform scheduled to take effect on October 1, 2013. Moreover, funding will continue for those programs that received a direct appropriation in ACA. Examples include Community Health Centers, Maternal, Infant, and Early Childhood Home Visitation Program, Money Follows the Person Rebalancing Demonstration, Personal Responsibility Education grant program, Abstinence Education, Health Profession Opportunity Grants, Aging and Disability Resource Centers, activities under the Center for Medicare & Medicaid Innovation, the Pre-existing Condition Insurance Plan (PCIP), Premium Review Grants, and Health Insurance Exchange grants.

Additional Resources

The federal government has not faced a shutdown since 1995. While this is not uncharted territory, it is not familiar territory for many federal offices and programs. Moreover, OMB only recently directed agencies to begin planning for a shutdown. The following links provide additional information regarding a prospective shutdown. FFIS will add to this list as more information becomes available, and will post new resources to its website, www.ffis.org.

- [FY 2014 agency contingency plans](#)
- [OMB memo on potential government shutdown](#)
- [Information on funding included in the Affordable Care Act \(ACA\) - Issue Brief 13-07: Health Care Reform and the BCA Sequester](#)
- [CRS report on the causes, processes, and effects of a government shutdown](#)
- [CRS report on the effects of a potential government shutdown on the implementation of ACA](#)
- [NASBO's FY 2011 guidance on a government shutdown](#)
- [OPM's guidance on furloughs that result from a government shutdown](#)
- [Committee for a Responsible Federal Budget's government shutdown Q&A](#)

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