Preparing for Impact

The effects of federal government shutdowns are far-reaching. How can state and local governments cope with the impact?

BY SYDNEY DAVIS

The federal budget appropriations process has become a bit like the movie *Groundhog Day*. In the movie, Bill Murray tries and fails, over and over, to fix a vital something he keeps getting wrong. In his case, it's romance. The stakes are a little higher for Congress, which keeps getting within mere hours of the federal fiscal year-end on September 30 with none of the 12 appropriations bills passed by both chambers. As a result, Congress needs to rely on multiple funding patches to buy time to negotiate a deal, while both sides of the aisle simultaneously try to shout louder about who is to blame.

THE IMPACT ON FEDERAL FISCAL RELATIONSHIPS

A full government shutdown occurs when none of the spending bills pass by the deadline. A partial shutdown means some funding bills pass, but others don't. At some point, either weeks or months later, a spending package is adopted for whatever time remains of the federal fiscal year. Understanding the potential repercussions requires skillful navigation through the intricate landscape of federal fiscal relationships.

The interplay of funding and dependencies is delicate, with far-reaching effects on both individual well-being and the seamless functioning of essential services. The impact ripples through established programs and nascent initiatives alike, disrupting funding flows and introducing obstacles to emerging projects. As the specter of a government shutdown looms, strategic planning and proactive measures become necessary.

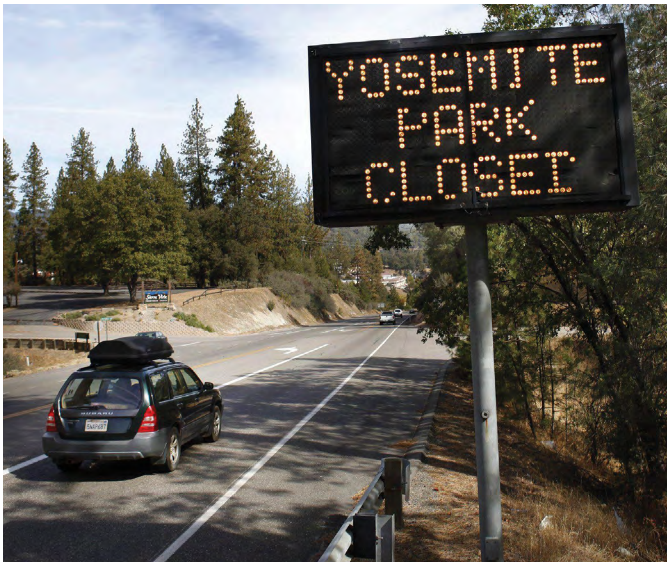
DOES YOUR GOVERNMENT HAVE FEDERAL FISCAL RELATIONSHIPS?

Funding, financing, and grant programs. A government shutdown not only disrupts the funding flow for federal programs, but it also poses a series of challenges for new and emerging initiatives. These programs, often in their early stages and dependent on continuous funding, may encounter delays or even temporary halts in financial support.

A good example is the Infrastructure Investment and Jobs Act (IIJA) and the myriad programs it created or provided additional funding for. The IIJA is a multi-year authorized program that provides funding for the enhancement and modernization of infrastructure components such as bridges, water systems, roads, and public transit. When the act was signed into law in November 2021, the federal government was operating under a temporary funding measure, or a "continuing resolution," and would continue to do so until March 2022. This meant that any new programs under the law or any additional staff to ramp up the expansion of existing programs could not happen until new fiscal year funding could be provided.

The interplay of fiscal relations between state and local governments and the federal administration is intricate, so the looming prospect of a government shutdown has far-reaching consequences. In just one example,

Since 1974, when the current budget timetable was adopted, **Congress has only managed to meet the deadline four times.**



Government shutdowns have wide-ranging potential effects. Any interruption of SNAP would affect 40 million individuals who rely on it to supplement their grocery budget. The closure of national parks causes significant losses in visitor spending, evidenced by the National Park Service's estimated loss of more than $500 million during the 2013 shutdown.

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the ongoing rulemaking initiatives for Individual Retirement Accounts (IRAs) may experience a temporary pause due to the joint rulemaking process of the Internal Revenue Service and the U.S. Treasury, while the development of technologies associated with filing (for example, the "portals" for pre-filing) will probably continue unaffected.

Loan programs. The Transportation Infrastructure Finance and Innovation Act (TIFIA) loans (and, similarly, the Environmental Protection Agency-hosted Water Infrastructure Finance and Innovation Act loans) require significant federal administrative support from the U.S. Department of Transportation (USDOT) and the U.S. Environmental Protection Agency. As the anticipated U.S. federal shutdown approached on October 1, 2013, USDOT took proactive measures, unveiling a shutdown plan on September 27. This plan resulted in furloughs for more than 18,000 of the approximately 55,000 USDOT employees, which led to a significant constraint on the issuance of Private Activity Bond allocations associated with TIFIA during this period. (This is, of course, just one of many examples.)

THE IMPACT ON CONSTITUENCIES

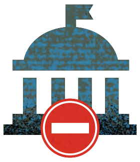
Social services. Many people rely on federal programs, which raises a critical question: what happens to those whose welfare is intricately tied to these governmental initiatives? Proactive measures are obviously needed when a funding disruption looms.

One crucial lifeline is the Supplemental Nutrition Assistance Program (SNAP), which supplements grocery budgets for low-income families. As of now, the U.S. Department of Agriculture, interpreting the latest continuing resolution, has secured funding for SNAP to sustain its regular operations until the end of February 2024. This program encompasses a staggering 40 million individuals, constituting 80 percent of spending in the farm bill. SNAP primarily operates through a federal-state partnership, but ten states directly delegate SNAP administration to county agencies, serving 32 percent of all program recipients.

What happens to people who rely on federal programs like Temporary Assistance to Needy Families (TANF)? TANF is a federal entitlement initiative that channels funds to states, tribes, and territories, addressing poverty's effects and root causes through diverse benefits and services. States can resort to using unspent funds or Maintenance of Effort (MOE) dollars to sustain TANF temporarily, contingent on their financial standing. During a government shutdown, federal spending on the TANF block grant ceases, but public access to benefits like those offered by TANF remains available. Another grant that will remain available in case of a shutdown is the Community Development Block Grants (CDBG), administered by the Office of Community Planning and Development (CPD).

Military employees. One community that is particularly affected by a government shutdown is military personnel. Military employees and their families may face financial uncertainty during a government shutdown, experiencing potential delays in pay, and civilians who work in defense-related sectors or are stationed at military bases might be furloughed, further affecting local economies. In previous shutdowns, such as in 2018, Army Air National Guard and Air Force Reserve training were canceled, and furloughs were implemented for civilians. But unlike civilians, military personnel continue to work without pay, as there is no enduring legislation safeguarding their compensation. In the absence of a reliable automatic system, Congress typically enacts temporary measures to protect military pay during government shutdowns. The Coast Guard, which is under the Department of Homeland Security, is an exception to these provisions.

To address this issue, Congress has previously passed temporary measures like the Pay Our Military Act in 2013, which protected the pay of all armed forces during



In some cases, shutdowns mean "slimmed down" administrative functions in federal programs rather than loss of administrative function. **You can track the contingency plans online at Agency Contingency Plans (at whitehouse.gov).**

a shutdown, but this was temporary. Proponents argued that the government should have an automatic law and system in place to alleviate concerns over how and when military personnel will be paid. This is why many members of Congress continue working to advance the Pay Our Troops Act, a bill intended to provide continuous funding for military pay in the event of a government shutdown. Communities with significant numbers of military service members (and their families) should stay informed about these measures to understand how they can navigate financial challenges during such periods.

Federal employees. When a government shutdown looms, federal employees find themselves facing the unsettling possibility of furlough, introducing a layer of uncertainty into their lives. Being furloughed means being temporarily placed on unpaid status. To address this situation during a shutdown, Congress enacted the Government Employee Fair Treatment Act of 2019, ensuring that furloughed employees would receive back pay when funding resumed. Of the 800,000 employees working at agencies without appropriations during a partial shutdown, 300,000 were furloughed during the 2018 to 2019 government shutdown, according to the Congressional Budget Office.

Further, in the context of a government shutdown, the potential for Reduction in Force (RIF) actions becomes a critical consideration. Typically associated with organizational changes, an RIF may be triggered by factors such as a shortage of funds, lack of work, or restructuring within a government agency. A furlough that extends beyond 30 calendar days or more than 22 discontinuous workdays is also categorized as an RIF action.

Rural communities that depend on national parks. When there's a government shutdown, rural communities that rely on the tourism income generated by federal landmarks and public parks face significant challenges. Strategies like leveraging alternative assets or instituting business tax grace periods should be explored. If Congress fails to pass a funding bill that includes the National Park Service, all units of the park system, including monuments, historic houses, battlefields, and more, are at risk of immediate closure.

During the 2013 shutdown, for example, the National Park Service (NPS) turned away millions of visitors to more than 400 parks, national monuments, and other sites, resulting in an estimated loss of more than $500 million in visitor spending nationwide. Although some parks remained technically open during the 2018 to 2019 shutdown, they provided no visitor services, leading to reported damage and trash build-up at many locations. A 2014 NPS report revealed that the 16-day shutdown in 2013 caused an overall loss of 7.88 million visits to the parks and a $414 million reduction in NPS visitor spending in gateway communities across the country.

Municipal markets. The specter of a government shutdown looms large over municipal markets, exposing the delicate interplay between political decisions and financial operations. As municipal markets navigate these challenges, the 35-day government shutdown in 2018 to 2019 is an example of the tangible and economic costs created by a shutdown of the federal government.

The government shutdown that went into effect on October 1, 2019, triggered by a budget impasse in Congress, has ushered in significant repercussions, notably the suspension of all tax refunds, including those tied to Build America Bonds (BABs) rebates. Just before the shutdown, the Internal Revenue Service disclosed that year-two sequestration cuts would entail a 7.2 percent reduction in payments linked to BABs.

A brief government shutdown, though not causing substantial economic disruption or affecting debt service payments, would expose the vulnerability of U.S. institutional and governance strength in comparison to other AAA-rated sovereign debt, highlighting potential challenges in debt repayment. It also emphasizes the impact of heightened political polarization on fiscal policymaking. The risk becomes particularly evident amid declining fiscal strength, characterized by widening deficits and worsening debt affordability. The noteworthy example of the 35-day government shutdown from late 2018 to early 2019, sparked by a congressional impasse over funding for President Donald Trump's border wall, vividly illustrates the tangible consequences: delayed paychecks, reduced work hours for federal employees, and stalled contracts, culminating in an estimated $11 billion economic cost, as reported by the Congressional Budget Office.

CONCLUSION

State and local government finance officers are extremely concerned about continuity of essential public services, no matter the circumstances. So, in the event of full or partial federal government shutdowns—which have become inevitable—state and local government should scan their federal fiscal relationships and determine the magnitude of impact and prepare policies and procedures to handle the event. One way to approach this is to watch gfoa.org for updates by GFOA's Federal Liaison Center. State and local government finance officers should also consider reaching out to their congressional delegations to make them aware of how the shutdown will affect your ability to maintain essential public services.

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