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The following is a description of the impact that the October 1, 2013 Federal government shutdown will have on major state grant programs.

Summary

The impact of a shutdown on individual grants varies based on the nature of the grant. In Federal FY (FFY) 13, the State of Connecticut received approximately \$6.4 billion from the Federal government. Of that amount, 4.5 billion (70%) of federal funding received by the state is not likely to be affected by the shutdown, whereas \$1.4 billion (30%) is likely to be interrupted.

Based on past history, a federal government shutdown would not result in savings, but in a net cost (to the federal government.) Several variables can affect this cost, such as the length of the shutdown, and whether funding is reimbursed after the shutdown. Furloughed federal employees have historically received back pay and discretionary grants have regained funding levels consistent with an agreed upon budget. There does not appear to be any reliable data on the magnitude of the net cost of a shutdown, although in dollar/expenditure terms, and in terms of the overall Federal budget, (not productivity, etc), the cost should be small.

The Affordable Care Act (ACA) should generally be unaffected by a government shutdown, as most spending for the ACA is considered mandatory.

Impact on Grants to Connecticut

The major factor that determines how the government shutdown will affect a particular state program is whether the program is mandatory or discretionary. In general, with some exceptions, mandatory funding is less likely to be affected by a shutdown and discretionary funding is more likely to be affected.

Based on actual Federal FFY 13 payments to the State of Connecticut, approximately 70% of federal grant funding to the State is for mandatory

programs. The state received approximately \$6.4 billion in FY 13¹ from the federal government; \$1.7 billion for discretionary programs and \$4.5 billion for mandatory programs. Thus, it is estimated that \$4.5 billion (70%) of federal funding received by the state is not likely to be affected by the shutdown and that \$1.4 billion (30%) is likely to be interrupted.

This breakdown matches the breakdown of mandatory and discretionary grant payments to all states in FY 13; the Federal government spent \$597.4 billion on grants to states in FY 13, with 70% of that (\$419.8 billion) being mandatory.

Please see the chart below (on Pg. 5), which provides information about the Federal programmatic impact of the shutdown on the largest grants received by states, as well as final FFY 13 appropriations for those grants. This chart describes the impact of the shutdown on an estimated \$5.4 billion in Federal funding to Connecticut.

Impact on Federal spending and on the Affordable Care Act (ACA)

Based on May 2013 estimates from the Congressional Budget Office (CBO), total projected Federal spending is expected to increase from \$3.5 trillion in FFY 13 to \$3.6 trillion in FFY 14, taking into account the effects of sequestration. CBO classifies approximately 60% of the estimated FFY 14 spending as mandatory.

Assuming that the Federal government shutdown affects all mandatory Federal government spending in the same way that it affects mandatory spending to states, this means that approximately \$2.2 trillion in projected FFY 14 spending will be mostly unaffected by a government shutdown.

The Affordable Care Act (ACA) should generally be unaffected by the government shutdown, as most spending for the Act is considered mandatory. The Congressional Budget Office's May 2013 estimates of Federal spending for FFY 14 included \$23 billion in nationwide spending for newly established health insurance exchanges, and \$49 billion for the net cost of nationwide expanded Medicaid coverage provisions.

Impact on Department of Defense spending

Military personnel will continue working in the event of the shutdown, and may be assigned to perform non-excepted activities in addition to excepted activities, to the extent that the activity can be performed without incurring additional

¹ Information obtained from the Federal Funds Information from States database. This database tracks approximately 93% of Federal funds to states.

obligations. Civilian personnel who do not work on excepted activities will be furloughed. Additionally, some civilian personnel who are paid from certain non-appropriated funds will not be furloughed.

Congress passed a bill on September 30th requiring that military and civilian personnel required to work during the government shutdown continue to be paid. Generally, furloughed employees are reimbursed for lost pay after a shutdown.

Defense contractors performing under contracts that have previously been fully funded may continue to work, whether in support of excepted activities or not. However, there will be no funding available for new contracts or for the expansion of existing contracts. In instances where additional funding is required to maintain a contract, and the contract does not support an excepted activity, the contractor may be required to stop working.

Cost/savings associated with a shutdown

The federal government shutdown is anticipated to result in a cost. The impact of a government shutdown on Federal government finances depends on several factors including; 1) whether furloughed Federal employees are reimbursed for lost pay during a shutdown; and 2) whether discretionary programs that are not funded during a shutdown are reimbursed after.

Historically, all Federal employees have been reimbursed for lost wages during a shutdown, which significantly limits any savings to the Federal government. Additionally, there is a cost associated with developing a contingency plan, as well as a revenue loss associated with the loss of user fees and other charges that do not get collected during a shutdown. The potential of a shutdown may also increase contracting costs, as sometimes contractors will include premiums in their bids to account for the uncertainty of being paid.

Background²

The Federal fiscal year runs from October 1 to September 30, with FFY 13 ending on September 30, 2013. At this time, the final FFY 13 continuing resolution expired. With no appropriations in place to fund the Federal government, Federal agencies cannot incur many financial obligations. Activities that are deemed “excepted” may continue. These include:

- Activities necessary for national security;

² Congressional Research Service

- Activities that are essential to the protection of life and property;
- Programs that operate on a basis other than the Federal government's fiscal year. Appropriations for these programs do not expire on September 30; the programs can continue until their appropriations expire on some other date.
- Programs that are statutorily permitted to incur financial obligations even if no appropriation is in place
- Activities necessary for administering programs that are authorized to continue in the event of a shutdown, such as Social Security or Medicaid.

Impact of a Federal Government Shutdown on Major Grants to States¹ (In Thousands)

Grant	Potential Impact	Est. Final FFY 13 Appropriation to CT	Est. Final FFY 13 Appropriation Nationwide
Medicaid	No anticipated impact. The first quarter of Medicaid appropriations for a given FFY are provided for in the previous FFY appropriation, so states will have access to funds in the event of a shutdown. Furthermore, states have an entitlement to Medicaid reimbursements under law. Therefore, states would receive after a government shutdown any reimbursements claimed during the shutdown.	3,149,614	263,635,483
Temporary Assistance for Needy Families (TANF)	The program's authorization expires after September 30, 2013. However, states will be permitted to use Federal funding carried forward from previous Federal fiscal years for expenditures allowable under TANF statute.	266,788	17,176,026
Title IV-E Foster Care and Adoption Assistance	Funding for the first quarter of FFY 14 is provided in FFY 13. It is anticipated that this funding will be available in the event of a shutdown.	78,482	6,654,220
Child Support Enforcement Grants	Funding for the first quarter of FFY 14 is provided in FFY 13. It is anticipated that this funding will be available in the event of a shutdown.	30,824	3,426,181
Child Care Development Fund (CCDF) matching payments	The program's authorization expires after September 30, 2013. However, states will be permitted to use Federal funding carried forward from previous Federal fiscal years for expenditures allowable under CCDF statute.	14,463	2,205,558

Low-Income Home Energy Assistance Program (LIHEAP)	As this is a discretionary grant, payments would not be made in the event of a government shutdown.	75,086	3,261,267
Immunization Grants	Authorization for this program is based on the calendar year; it will not be funded by FFY 14 appropriations until January 1, 2014. It is anticipated that a government shutdown that is resolved before then would not impact these grants.	5,340	468,694
Head Start	The impact of a shutdown on this program depends on the grant year of the recipient. If the timing of a recipient's grant year is such that they are still drawing from their FFY 13 appropriation in October and November, the recipient may not be affected by a shutdown. If a recipient generally begins drawing from its FFY 14 appropriation earlier in the year, it may need to reduce or shut down operations.	55,840	7,573,095
Supplemental Nutrition Assistance Program (SNAP)	The Food and Nutrition Service, which administers SNAP, has indicated that it will use Recovery Act funding to continue funding benefit payments and other contingency funds to continue funding state program administration expenses in the event of a government shutdown.	665,081	73,612,213
Child Nutrition (School Lunch, School Breakfast, Special Milk, Summer Food Service, and Child and Adult Care Food programs)	States pay benefits associated with these programs and are reimbursed by the Federal government. A shutdown would preclude reimbursements claimed during the shutdown period. However, many schools have a supply of food they can use in the event of a shutdown, precluding the need to buy more for at least a short period of time.	149,146	20,431,558

Special Supplemental Food Program for Women, Infants, and Children (WIC)	WIC is discretionary, which precludes any Federal funding for the program in the event of a shutdown. However, states are allowed to carry forward some of their previous year's appropriation. This funding may be available for payments in the event of a shutdown.	43,528	6,522,246
Federal Aid Highway Programs	Projects funded through the Highway Transportation Fund can continue because of previously existing contract authority. Administrative staff may continue to work in order to process paperwork needed for reimbursement of state transportation projects.	484,367	37,592,764
Federal Transit Administration (FTA)	Payments for work done on current projects will be delayed, as the staff necessary to certify and execute payments will not be available. Additionally, projects under development will be delayed as staff will not be available for the various legal, environmental and civil rights reviews necessary to advance them.	194,698	10,018,150
Title I Grants to LEAs	FFY 13 funding for this program includes funding that becomes available on October 1, 2013.	107,812	13,760,219
Improving Teacher Quality State Grants	FFY 13 funding for this program includes funding that becomes available on October 1, 2013.	21,663	2,337,830
WIA	WIA funding runs on a different program year from the Federal FY. The program will not require a new appropriation until the Spring of 2014 and thus will not be impacted by a Federal government shutdown that ends prior to then.	27,547	2,691,657

Unemployment Insurance (UI) ²	UI benefits will continue to be funded in the event of a shutdown. States, however, use Federal funds to administer state Unemployment Compensation funds and so reimbursement for those costs will be interrupted. It is anticipated that states would be reimbursed for any costs incurred during a shutdown. States may use funds carried forward from previous years, at which point they may pay the costs of UI administration with state resources until Federal funds are again available.	56,461	2,996,478
TOTAL		5,426,739	474,363,640
¹ Information about the impact of the Federal government shutdown and FFY 13 appropriations came from two separate FFIS documents, one of which uses the names of broader grant programs than the other. Efforts were made to match the names of grants in the shutdown analysis document with the names of grants in the database. Due to this, the funding numbers provided may differ from the pool of funds that are actually impacted by a shutdown.			
² Unemployment Insurance figures provided include only Federal funding for administration of state unemployment compensation funds. The value of unemployment benefits, and loans made by the Federal government to state unemployment compensation funds are not included.			