

As Federal Shutdown Looms, Impact on States Likely Minimal

Posted At : March 28, 2011 5:39 PM | Posted By : Chris Dixon

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It looks like we have arrived at the "make-it-or-break-it" round of Congressional negotiations regarding another Continuing Resolution (CR) to provide short-term funding of the federal government. The federal shutdowns on the 1990s had minimal impact on state governments, and current indications are that the pending shutdown would be no worse. *Stateline.org* recently addressed this topic in an article, "[States don't see crisis in federal shutdown -- yet.](#)"

From Stateline: "Two of the biggest pots of federal money for state-run health care, for instance, would remain accessible even if a government shutdown happens. Medicaid and the Children's Health Insurance Program -- which together insure nearly 60 million low-income people nationwide -- are considered 'essential' and would not be suspended, according to Mary Kahn of the federal Centers for Medicare and Medicaid Services."

According to a recent Bloomberg article, "[U.S. Governors Say Federal Shutdown, Budget Cuts May Weigh Down States](#)," even the National Governors Association (NGA) was unable to produce any specific fears--only a generalized worry that a shutdown might impact municipal bond markets or the larger economy.

If anything, it's the budget cuts that are being made as part of the CR compromises that are most likely to affect that states, such as the [elimination](#) of the Leveraging Educational Assistance Partnerships (LEAP), a federal subsidy to states that provide their own student financial aid programs, as part of the current CR. But, it was only a \$64 million subsidy--not even a blip on the radar of state financial concerns.

The National Association of State Budget Officers (NASBO) issued a [brief to the governors](#), which stated: "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."

Over the longer-term, NASBO warns: "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."

Along these lines, the Commonwealth of Massachusetts has [issued specific guidance to agencies](#) to identify which federally funded programs would be most at risk for disruption by an extended shutdown. The state's budget director found: "Our examination indicates that...the General Federal Grants Fund, is most at risk of disrupted fiscal operations if the federal government were to shut down." Several steps are recommended for agencies to ascertain likely impact and implement remedies.

GovWin's Take

Vendors relying on state business that, in turn, relies on federal funding participation (FFP) would be well served to carry out investigations with customer agencies similar to that recommended by Massachusetts. Although the overall impact of a shutdown is likely to be limited in terms of state operations, impact could be severe on isolated projects and programs. Downstream impact could be severe for SMBs and certain divisions of larger companies doing business in these cases.