NSDC
NATIONAL SPECIAL DISTRICTS COALITION

Special Report

Local Impact of a Federal Government Shutdown

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Introduction

Beginning at 12:01am EST on Sunday, October 1, 2023, if the House and Senate have failed to pass identical short-term spending bills, the federal government will shut down. The immediate impacts of a shutdown would be felt throughout the country on the morning of Monday, October 2, when hundreds of thousands of federal workers and military personnel will be furloughed without pay. Currently, both chambers and leaders within Congress are at odds about how to fund the government and the prospects of a shutdown grow each hour as lawmakers fail to make inroads. The last and longest partial federal government shutdown occurred from December 2018 - January 2019 and lasted 35 days due to an impasse over federal funds related to border security.

This NSDC Special Report summarizes the current state of play in Congress on efforts to avert a shutdown and a topical analysis of the local impacts of a shutdown including, A) Transportation, B) Health, C) Housing D) Education, E) Energy and Environment, F) Taxes and Finances, G) Grants and H) Other Impacts.

Progress on Government Spending Legislation

As of mid-afternoon on Friday, September 29, 2023, Congress has made limited progress on advancing legislation to avoid a federal government shutdown. On September 28, the Senate voted 76-22 on a motion to proceed to the legislative vehicle for its version of a short-term stopgap bill, which would fund the federal government at fiscal year (FY) 2023 levels through November 17. Also on September 28, the House passed the **Securing Growth and Robust Leadership in American Aviation Act** (H.R. 3935), a bill to reauthorize the Federal Aviation Administration (FAA) through FY 2028. Also included in the bill was language that would fund the federal government at enacted FY 2023 funding levels through **Friday, November 17, 2023,** and extend legal authorities for various federal agencies and programs past October 1, including the National Flood Insurance Program (NFIP), FAA, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Earlier this month, an initial version of a stopgap funding bill was introduced, the **Spending Reduction and Border Security Act** (H.R. 5525), which extends funding for the federal government through **Tuesday, October 31, 2023**. The House Rules Committee met on September 29 to consider the bill and advance it for a vote on the House floor. The House version of the short-term stopgap bill makes significant cuts, by roughly 30 percent (as compared to enacted FY 2023 funding levels), to federal agencies outside the jurisdiction of the Defense, Homeland Security, and Military Construction-VA spending bills, unlike the Senate version of the stopgap bill. On September 29, the House failed to pass the stopgap CR by a vote of 198-232, all but ensuring a government shutdown.

Senator Rand Paul (R-Ky.) also has threatened to slow down the process, which further guarantees a temporary shutdown. The two chambers differ in the length of the CR, and a major sticking point between the two chambers is assistance to Ukraine: the Senate includes $6 billion in military and humanitarian assistance, while the House version includes no funding for Ukraine. The earliest the Senate will be able to pass its version of a short-term stopgap bill (H.R. 3935), due to procedural rules, will be on October 1 or October 2.

Topical Analysis of the Local Impacts of a Shutdown

Below, NSDC outlines how a shutdown would impact critical programs for local communities. The White House has a list of department and agency contingency plans in the event of a shutdown. It is important to note that a shutdown immediately affects the government, but the measure of those impacts depends largely on how long a shutdown lasts. Federal employees face the most damaging impact as some workers face furlough, and others would see compensation delays. Many of the impacts for local communities in the wake of a shutdown would come from the government's inability to implement grant programs, especially those created and funded by the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA).

Transportation

Beginning October 1, 2023, workers at the multiple agencies within U.S. Department of Transportation (DOT) that are critical to government functions will remain working, with pay, doing business as usual during a government shutdown. That only amounts to about 5,000 employees, less than 10 percent of the total USDOT workforce. However, they give out the bulk of USDOT grant money and are responsible for most of the day-to-day matching grant reimbursements, which would also continue uninterrupted. Over 18,000 DOT employees would be furloughed.

In addition to regular DOT appropriations lapsing on October 1, funding authority for the Airport and Airway Trust Fund (AATF) is also set to lapse. Congress is at work trying to pass a short-term extension of these FAA programs; however, it is likely that the FAA's various authorities will also lapse beginning on October 1. If aviation authority lapses, then under existing federal law, no more authority to make expenditures from the AATF will be available. This will result in the national aviation system losing an estimated $54 million a day in fuel and fare tax revenues. Separately, budget authority for FAA Office of Airports salaries will also expire. If these aviation authorities are allowed to expire, then several hundred additional FAA employees would also be furloughed during a shutdown (who would otherwise continue to work with or without pay), in addition to some 2,600 air traffic controllers in training — including 1,000 that are already working in FAA centers nationwide. During an aviation authority lapse, the AATF funding spigots for all other non-salary purposes would also come to a halt – no more Airport Improvement Program (AIP) payments, contract payments, purchases, etc. Further, the administration warns of slowed air travel as TSA agents must work without pay.

Health

The U.S. Department of Health and Human Services reports that the Centers for Medicare and Medicaid (CMS) will continue to operate as usual in the event of a shutdown. CMS has sufficient funding to operate through the first quarter of FY 2024. Additionally, CMS will maintain the staff required to continue to make payments to states for the Children's Health Insurance Program (CHIP). While these programs will continue to operate through a lapse in appropriations, CMS will operate with less than 50 percent of its usual staffing levels, which will result in longer wait times for administrative tasks and assistance.

A shutdown could result in the Food and Drug Administration's delay of food safety and prescription drug manufacturing for products across the country. Medical research on critical illnesses such as cancer and Alzheimer's would stall as clinical trials ran by the National Institutes of Health would be halted.

The federal government will also struggle to maintain the Supplemental Nutrition Assistance Program (SNAP) for an extended period. SNAP is expected to remain fully operational during a government shutdown, however, an indefinite extended shutdown would place up to 40 million Americans in jeopardy of losing nutritional and financial assistance. Additionally, according to the U.S. Department of Agriculture, nearly 7 million pregnant and postpartum recipients of supplemental food aid could lose access to the Women, Infants, and Children (WIC) program. A government shutdown could prompt many states reliant on government funds to run out of vital resources if they cannot supplement these programs with state and local funds.

Housing

The U.S. Department of Housing and Urban Development would send most of its operational staff home; however, vital programs such as homeless assistance grants, public housing operating subsidies, housing choice voucher subsidies and multifamily assistance contracts, and supportive housing for veterans and people with AIDS would continue so long as funding remains available.

Education

A government shutdown is not expected to cause dramatic impacts for most K-12 schools since less than 10 percent of school funding comes from the federal government. Additionally, that funding is distributed through forward funding meaning it is distributed before the start of the Fall school year. However, should a shutdown drag on for an extended period, some federally funded programs would be forced to shut down due to lack of funding. These programs include Head Start and free or reduced lunches for children in low-income households. Student aid and loan programs, such as Free Applications for Federal Student Aid (FAFSA) applications, dispersing Federal Direct Student Loans and Pell Grants, and servicing Federal student loans would face delays.

One program that would be affected immediately by a shutdown is the Impact Aid Program. Impact Aid is a federally funded program which aids local school districts that lose property tax revenue due to the presence of tax-exempt federal property. Impact Aid grants go to roughly 1 in 10 school districts covering nearly 10 million school aged children.

Energy and Environment

The United States' energy market is not expected to experience significant disturbances during a government shutdown. However, the Biden administration and Congress are bracing for delays in Inflation Reduction Act (IRA) energy incentives. A government shutdown could obstruct the release of new Treasury guidance for IRA clean energy tax credits, the announcement of the Department of Energy's first round of Hydrogen Hub grantees, climate-related administrative regulations, and any grants, loans, or loan guarantees offered under the IRA or Bipartisan Infrastructure Law (BIL). Included among expected guidance delays is the much-anticipated Sustainable Aviation Fuel guidance.

The Environmental Protection Agency (EPA) may be able to continue IRA-related activities such as cleanup at Superfund sites. The EPA's ability to conduct examinations and cleanup of harmful contaminants in drinking water, however, would face delays during a shutdown.

Additionally, the Biden administration would face multiple delays in new regulations the agencies are currently implementing. New Biden administration oil and gas sector regulations addressing methane emissions would see further setbacks, and the release of the administration's long-awaited proposal to address lead pipes would be hindered for the foreseeable future.

Taxes and Finances

As a government shutdown proves more likely, the Department of the Treasury has released its Agency Contingency Plan in the event a shutdown does occur. Pursuant to the plan, the IRS is expected to furlough approximately 67% of its staff — 59,981 of 89,944 employees. The one-third of the employees remaining will include 2,800 specifically implementing IRA priorities and initiatives. The remaining staff will focus primarily on conducting essential duties and shutdown protocols. The SEC and Commodity Futures Trading Commission will reduce staff size by approximately 90 percent. Staff not furloughed would be retained to deal with emergency enforcement matters and litigation.

A shutdown would not impact recipients who receive Social Security and Supplemental Security income benefits. However, the Social Security Administration would have about 15% of its staff furloughed, which could result in delays or suspensions to benefit verifications, replacement of Medicare cards, and determinations on disability claims.

Grants

Overall, the federal grant process will be significantly impacted. While some online systems like Grants.gov may remain operational, expect delays in requested reimbursement funding, as well as potential issues with technical assistance, as staffing may be reduced or unavailable.

During a shutdown, many programs for which communities have been preparing may experience delays in issuing Notices of Funding Opportunities (NOFO). However, certain grants that have statutory release dates, such as DOT's RAISE, must meet their deadlines and will be issued on or by November 30, regardless of a shutdown.

The impact on potential grantees varies depending on their stage in the application process. For example, those awaiting award announcements may find that their grants are delayed or put on hold. Additionally, researchers with active federally sponsored grants and contracts will generally receive instructions during a shutdown, which may influence the continuation of their work.

Therefore, while a government shutdown does not immediately halt all grant activities, it introduces significant uncertainty and potential delays that can impact grantees at all stages of the process.

Other Impacts

The **Small Business Administration** will not accept, review, or approve any new small business loans, putting local community business at risk. Additionally, local businesses depending on the federal government would not recoup missed funds during a shutdown.

Federal Emergency Management Agency's (FEMA) guidance estimates that a shutdown would deplete emergency relief funds and "complicate new emergency response efforts if additional catastrophic disasters occur," placing undue burden on local communities should disaster strike during a shutdown. All national parks, monuments, and campgrounds will be forced to close throughout the duration of the shutdown.

Conclusion

Government shutdowns are felt by all communities. The Congressional Budget Office estimates that the U.S. economy lost $3 billion in gross domestic product during the five-week shutdown in 2018-2019. States may have to contribute funds for programs to make up for stalled federal assistance, and many critical local projects may become inactive.

NSDC will continue to monitor and report on the latest congressional negotiations. In the meantime, a federal government shutdown – for however long – is increasingly inevitable.