

Issues Raised by a Federal Government Shutdown: Grants to State and Local Governments and the COVID-19 Pandemic

December 14, 2020

At the end of the day on December 18, 2020, the second continuing appropriations measure for FY2021, Further Continuing Appropriations Act, 2021 (Division A of H.R. 8900, signed into law December 11, 2020) will expire. If additional funding is not provided, funding for federal agencies and activities funded through all 12 of the regular annual appropriations acts will lapse on December 19. The resulting lapse in appropriations will [require a shutdown of most federal agency operations](#), including those necessary to administer federal aid to state and local governments.

On previous occasions, federal agency shutdown procedures have followed [guidance provided by the Office of Management and Budget](#). This guidance directed federal agencies to implement [contingency plans](#) designed to guide operations during a government shutdown. Federal agency operations include administration of over [1,700 congressionally authorized federal grant programs](#).

As shown in [Table 12.3 of the OMB Historical Tables](#), the federal government currently provides over \$720 billion annually in outlays to state and local governments through federal grants. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) provided additional funding to states and local governments to address needs arising from the COVID-19 pandemic, including \$150 billion for the [Coronavirus Relief Fund](#), and \$5 billion for the Community Development Fund for grants provided under the [Community Development Block Grant program](#). A federal government shutdown may cause disruption to, or may result in the cessation of, grant administration activities depending on the following factors:

- the timing and duration of a federal government shutdown; and
- the choices made by federal, state, and local officials in anticipation of, or during, a shutdown regarding grant program administration.

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Timing and Duration of the Lapse in Federal Funding

Delays in Providing Technical Assistance to States on CARES Act Funding

The timing of a government shutdown could have an impact on the ability of state and local governments to use CARES Act funding. For example, one of the largest appropriations for state and local governments under the CARES Act was for direct payments to states from the Coronavirus Relief Fund (CRF). Under current law, states must expend the CRF direct payments by December 30, 2020. However, states have faced uncertainty regarding what expenses would be considered allowable under the CRF. Because the Treasury Department (Treasury) has revised [guidance on allowable expenses](#) several times, states continue to be cautious about expending CRF direct payments. Given the December 30 deadline, there may be a need for uninterrupted technical assistance from Treasury. It is unclear whether key Treasury CRF personnel would be furloughed during a government shutdown, and thus be unable to provide the technical assistance needed by the states.

Delays in Awarding New Grants and Renewing Existing Awards

The timing of a government shutdown may determine the impact on new and existing grant awards. When a shutdown occurs when grant awards have not yet been made, or are in the process of being renewed, uncertainty about final funding can cause delays in awarding the grant. During a shutdown, an agency may also furlough grant personnel or lack authority to undertake even preliminary grant administration actions including establishing funding priorities, revising grant program regulations and guidelines, reviewing grant applications, and calculating formula allocations. The lack of personnel and possible lack of authority to approve changes in existing grant awards may also prevent grantees from mitigating the impact of the shutdown, and impair the ability of state and local governments to address urgent financial needs during the pandemic due to uncertainty about when funding will resume.

Delays in Payments for Existing Grant Awards

Though there are variations across states and federal grant programs, the longer the federal government is shut down, the greater the impact on federal grant program payments. [OMB guidance](#) indicates that grant management activities at the federal agency level for those agencies experiencing a lapse in appropriations would not continue during a shutdown, except in very limited circumstances. These activities include payment processing, routine oversight, inspection, accounting, administration, and other grant management activities.

State predictions on how long federally-funded/state-administered programs can operate during a shutdown hinge, in part, on how much the state retained in advance payments, including direct payments provided under the Coronavirus Relief Fund; how many reimbursement payments they received prior to the shutdown; and whether other sources of program funding can be used during the federal funding gap. Generally grant recipients that have smaller operating budgets, such as those in rural communities, may face more hardship than larger grant recipients as they may have limited resources to cover federal funding gaps. However, given the financial impact of the pandemic on many state and local budgets, more grant recipients may be challenged by scarce and limited resources.

Grant Administration Choices at the Federal, State, and Local Levels

In anticipation of, or during, a shutdown, federal, state, and local stakeholders make choices in administering grant programs. For some programs, these choices may include whether to

- cover gaps in federal grant funding using state or local funds without guarantee of reimbursement after appropriations are provided;
- furlough grant administration personnel at all levels of government, regardless of whether the positions are grant-funded or funded from normal operating budgets; and
- designate grant administration personnel as essential or non-essential in contingency planning.

During a funding lapse, certain program activities at the state and local level funded under existing grant awards may continue, but may face limitations based upon state cash flow. Grantees may continue normal activities until federal advance funding is depleted and then must decide whether to use other funding sources until additional advance or reimbursement payments are received. This decision may be based on the cash flow challenges of the state and the policy priorities of state elected officials. The fiscal strain placed on states due to the pandemic may create additional challenges for states to be able to cover federal funding shortfalls.

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