

Federal Grants to State and Local Governments: Issues Raised by the Partial Government Shutdown

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At the end of the day on December 21, 2018, the continuing appropriations measure, Making Further Continuing Appropriations for Fiscal Year 2019 ([P.L. 115-298](#)), which encompasses 7 of the 12 regular annual appropriations acts, expired. The resulting lapse in appropriations resulted in the partial shutdown of unfunded agencies beginning on December 22, 2018. Federal agencies that received their FY2019 appropriations under the Energy and Water, Legislative Branch, and Military Construction and Veterans Affairs Appropriations Act, 2019 ([P.L. 115-244](#)), and the Department of Defense and Labor, Health and Human Services, and Education Appropriations Act, 2019 ([P.L. 115-245](#)) are not directly affected by the shutdown.

During the lapse in appropriations, the [Office of Management and Budget has directed federal agencies](#) to implement [contingency plans](#) designed to guide operations during the partial government shutdown. Federal agency operations include administration of over [1,700 congressionally authorized federal grant programs](#), some of which are administered by agencies currently experiencing a lapse in appropriations.

On average, the federal government provides nearly [\\$600 billion annually in outlays to state and local governments through federal grants](#). A lapse in federal funding for grants to state and local governments raises several potential issues. 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 the federal government shutdown; and
- the choices made by federal, state, and local officials in anticipation of, or during, a shutdown regarding grant program administration.

Timing and Duration of the Lapse in Federal Funding

Delays in Awarding New Grant Awards 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 and

may lack authority to undertake even preliminary grant administration actions in the absence of funding. Preliminary actions may include establishing funding priorities, revising grant program regulations and guidelines, reviewing grant applications, and calculating formula allocations. The lack of personnel and the possible lack of federal agency authority to approve changes in existing grant awards may also prevent grantees from mitigating the impact of the shutdown.

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, generally 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, how many reimbursement payments they received prior to the shutdown, and whether the other sources of program funding can be used to fund projects during the federal funding gap. Grant recipients that have smaller operating budgets, such as those in rural communities, may face more hardship than larger grant recipients since they have limited resources to cover federal funding gaps that result in delayed payments. For example, some grantees front expenses for the first couple of months of the project and then request federal reimbursement to cover the next months' expenses. Delays in federal payments may result in no funding availability to cover salaries and other project costs in the months ahead. Consequently, some grantees must stop all grant-funded project activities until federal payments are processed. This could take several weeks after the government reopens due to the likely backlog of reimbursement requests. Additionally, for grant recipients who have a calendar financial year, the delay in receiving reimbursements may also disrupt their year-end financial closeout.

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 with uncertainty of reimbursement after appropriations are provided;
- furlough grant administration personnel at all levels of government; and
- involve grant administration personnel 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 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. While eventual reimbursement for expenditures made pursuant to existing grant agreements and grant awards is possible, state elected officials have the discretion to decide whether to cover the gap in federal funding or suspend program activities during the lapse in appropriations.

At the federal level, delayed grant agreements or expired grant program budget authority may result in federal agencies having limited authority, and limited personnel due to furloughs set forth in contingency plans, to process payments to state and local grantees. In some cases, federal agencies may authorize grant recipients to expend contingency funds to maintain program operations. In other cases, federal agencies may be able to reimburse states under the pre-award activities provisions in federal grant regulations or statutes. In still other cases, it may be an issue for Congress to consider whether to enact specific provisions to reimburse states for covering expenses from before the grant agreement was officially in place if the delay in executing the grant agreement was attributed to a federal government shutdown.