



VERMONT LEGISLATIVE Joint Fiscal Office

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Issue Brief

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Impacts of a Federal Government Shutdown

Executive Summary

As of this writing, Congress has not approved a budget for Federal Fiscal Year (FFY) 2024. If no budget is enacted by midnight on September 30, 2023, there will be a federal government shutdown.

The shutdown would impact federal programs that are funded through discretionary spending. Many critical mandatory federal programs would continue to operate without interruption. Some discretionary programs that received appropriations in prior acts would continue as well. The State may be able to “front” the costs of other federal programs that would otherwise pause during a shutdown. It is likely that funds used for this purpose would be reimbursed by the federal government following a shutdown. This issue brief includes information on what a federal government shutdown is and how one might affect Vermonters.

A federal government shutdown would interrupt some, but not all, federal programs. The State may be able to mitigate the effects of a shutdown.

What is a Shutdown?

The Federal Fiscal Year (FFY) ends at midnight on September 30, 2023. To date, Congress has not agreed on a funding plan for FFY 2024. In most years the federal government is funded through 12 appropriations bills, each of which covers different agencies or groups of agencies; these bills are sometimes rolled into one omnibus appropriations bill. If none of the appropriations bills are signed into law by midnight on September 30 there will be a total government shutdown. However, if any of the 12 individual appropriations bills are signed into law by the September 30 deadline the shutdown would only affect the bills that are not signed into law, resulting in a partial government shutdown. Alternatively, a Continuing Resolution could be passed that would fund the federal government for a limited amount of time.

Federal spending falls into two categories: mandatory and discretionary. [According to the U.S. Treasury, discretionary spending](#) is money formally approved by Congress and the President during the appropriations process each year. Mandatory spending is dictated by prior law and includes spending for entitlement programs like Social Security and Medicare. Generally, Congress allocates over half of the discretionary budget towards national defense and the rest to fund the administration of other agencies and programs (e.g. social service programs, education, housing, scientific and environmental organizations). The current impasse over spending decisions could result in a government shutdown. If

no appropriations bills or Continuing Resolution are passed, the federal government cannot maintain operations for programs funded through discretionary spending and some mandatory programs past September 30. Some programs considered mandatory will continue without interruption while others require renewed funding in order to operate. Some discretionary spending programs are considered essential for public safety; federal employees in these programs continue to work during a shutdown without pay (but are retroactively compensated). Funding for programs, both mandatory and discretionary, is nuanced and so it is necessary to consider the funding status of each program individually, whether discretionary or mandatory.

For historical context, there have been 14 federal government shutdowns since 1980, the year President Carter's Attorney General Benjamin Civiletti recommended to the president that, in the case of "lapsed appropriations" any expense of funds by a federal agency without congressional approval would be in violation of the Antideficiency Act of 1870. Prior to 1980, the federal government experienced six technical funding gaps that are often included in the total number of federal government shutdowns. There was no actual shutdown on these occasions, though. A technical funding gap also occurred on February 9, 2018, lasting for nine hours. The most recent federal government shutdown began in December of 2018 and lasted for 34 days. This was a partial shutdown since five of the twelve appropriations bills had passed. It was the longest federal government shutdown in U.S. history.

Status of Federal Programs During a Shutdown Funded Programs

The lack of a FFY 2024 budget would affect Vermont but many critical mandatory federal programs operate outside of the appropriations process. As a result, funding for these programs is automatically available and is not affected by a federal government shutdown. The programs include the Children's Health Insurance Program (CHIP) and the mandatory matching portion of the Child Care Development Fund.

Some other critical mandatory federal programs, including Medicaid, Title IV-E Foster Care and Adoption Assistance, and funds for Child Support Enforcement, received an appropriation for the first quarter of FFY 2024 in the FFY 2023 federal budget as enacted. Several discretionary education programs, including Title 1 Grants to Local Educational Agencies, Special Education Grants to states, and Career and Technical Education state grants, received funding for the 2023-2024 school year in the FFY 2023 budget. Workforce Investment Opportunity Act (WIOA) formula grants are funded for the program year that ends on June 30, 2024.

Social Security and Medicare benefits would continue to be paid out since they are considered mandatory programs and are funded by Congress in laws that do not require annual authorization. Social Security benefits are paid from the program's trust funds. Health care services provided by the Veteran's Administration would continue since lawmakers approved these funds for FFY 2024 in the FFY 2023 budget.

With respect to transportation, most of the funding that flows to Vermont comes via the Federal Highway Administration and Federal Transit Administration. These entities are funded through contract authority from the Highway Trust Fund and advanced appropriations contained in the Infrastructure Investment and Jobs Act. Therefore, a shutdown is not expected to significantly disrupt the flow of these funds. However, a shutdown would impact the Federal Aviation Administration and Federal Railroad Administration – two entities that also grant funds to Vermont and perform important regulatory functions.

Unfunded Programs

Programs such as the Supplemental Nutrition Assistance Program (SNAP) will need to be reauthorized in the FFY 2024 budget bill, however, the program may continue operations using multi-year carryover funds and contingency reserves. Secretary of Agriculture Tom Vilsack told reporters during a White House press

briefing on Monday, September 25, that SNAP, which serves 40 million low-income Americans, could continue uninterrupted through at least the end of October. If the shutdown were to extend longer than that, there would be serious consequences for SNAP.

Programs considered mandatory that will need additional funding for FFY 2024 include some Farm Bill programs and Temporary Assistance for Needy Families (TANF). During a shutdown, states may be able to utilize unspent TANF funds from prior years and state Maintenance of Effort (MOE) funds.

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides low-income pregnant and nursing women and children up to age five with funds to purchase nutritious foods including bread, cereal, eggs, cheese, and infant formula. During the COVID pandemic, the WIC voucher for fresh fruits and vegetables was increased to \$24 per month for children, \$43 per month for pregnant or postpartum women, and \$47 per month for women who are breast feeding. These vouchers had previously been between \$9 and \$11 per month. Some members of Congress are advocating a return to the lower voucher amounts.

The WIC application was also simplified during the pandemic. Because of this, many more people applied and were found eligible. The WIC program is administered by the USDA, which would be unable to provide benefits during a shutdown; both the underlying program benefit and the enhanced voucher benefit would be disrupted. Secretary Vilsack stated in an interview that the “vast majority of beneficiaries will see an immediate cutoff” of WIC access, for most “within a matter of days.”¹

As a short-term measure, to prevent any interruption in WIC benefits, the Biden administration requested that an emergency funding increase of \$1.4 billion be part of any Continuing Resolution to fund the government beyond September 30.

Although state government employees may not be significantly impacted by a shutdown, there is a risk to federal employees. Some essential federal workers would be asked to work without pay while others would be furloughed. Air traffic controllers, Transportation Security Administration (TSA) employees, and Border Patrol agents would be required to work without pay. All federal employees would receive retroactive pay once the shutdown is over. According to the Washington Post, it was the air traffic controllers failing to report to work that ended the 2018-2019 shutdown.² Employees of the United States Postal Service (USPS) would continue to work with pay, since USPS is largely funded by revenue from the sale of postage materials.

A shutdown would also delay activities such as processing passports, visas, and federal loans.

Impact to Vermont and Response from the State

According to the Governor Scott’s Administration, short-term recovery work funded with FEMA funds will continue in the event of a federal government shutdown. However, formal obligations for permanent work would not be made until there is a federal budget in place. Although emergency response costs would be covered, the costs of permanent repair work are far greater. A shutdown may delay projects until FEMA can make obligations for permanent work again.

The Low Income Home Energy Assistance Program (LIHEAP) receives annual appropriations. The program is administered by the Department for Children and Families, which sends the largest energy

¹ Treisman, Rachel. “Millions of Americans will lose food assistance if the government shuts down.” National Public Radio, September 26, 2023.

² Stein, Jeff. Andrew Jeong and Jacob Bogage. “A Federal Government Shutdown Looks More and More Likely: What to Know.” Washington Post, September 20, 2023.

assistance payment to eligible clients in mid-November. The State may opt to “lend” the program funds to continue operations during a shutdown, with the expectation that funds would be reimbursed once a FFY 2024 budget is in place.

Department of Finance and Management Response

In Vermont, when there is a threat of a federal government shutdown, the Commissioner of Finance and Management sends a memorandum to departments and agencies that receive federal funds requesting that they draw down as much federal money as possible prior to September 30. Doing so helps alleviate potential shortfalls in federal funding for existing programs.

The State’s cash position is strong, currently about \$2 billion. In the event of a federal shutdown, the Department of Finance and Management would work with the Treasurer’s Office to use these funds to maintain critical programs in the absence of a federal budget. Historically, states have been able to seek reimbursement from the federal government for state funds used during a shutdown to backfill federal funds. While likely, there is no guarantee that state funds used for this purpose would be reimbursed.

Potential Economic Impact

The 2018-2019 federal government shutdown had a minor impact on GDP. The U.S. Bureau of Economic Analysis (BEA) estimated that the shutdown directly decreased real GDP growth by 0.1 percent in the fourth quarter of 2018 and 0.3 percent in the first quarter of 2019.

However, a federal government shutdown at this moment could somewhat increase the chances of a downturn in the national economy, as it would add to other economic headwinds such as rising oil prices, the United Auto Workers strike, the resumption of student loan payments, and the sunset of a federal subsidy program for child care. A shutdown would also make it more difficult for the Federal Reserve to fine-tune interest rates because federal statistical agencies would stop releasing regularly scheduled updates on the job market and inflation. Additionally, Moody’s has warned that a shutdown could hurt the US credit rating.

Conclusion

While the immediate impact of a federal government shutdown on federal programs operated by the State may be ameliorated by Vermont’s cash reserves, there will be some impact on individuals. Federal employees will have to manage without pay until the budget impasse is resolved. A shutdown will be very disruptive to ordinary people who rely on federal benefits and services. These households will be impacted the most. In addition, there may be other, broader impacts on the State and federal economies following a shutdown that Vermonters will feel over time.