



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

Updated September 29, 2021

Midnight September 30, 2021, will be the end of FY2021. In the absence of new funding legislation for FY2022, funding for federal agencies and activities funded through all 12 of the regular annual appropriations acts will lapse. 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 [1,500 active congressionally authorized federal grant programs](#).

As shown in [Table 12.3 of the OMB Historical Tables](#), the federal government currently provides over \$829 billion annually in outlays to state and local governments through federal grants. Since March 2020, COVID-19 pandemic response legislation has provided additional funding for federal grant programs to state and local governments. According to the [Pandemic Response Accountability Committee](#), [\\$582.3 billion](#) has been provided to state, local, and tribal governments for pandemic response, not including additional grant funding provided under [the American Rescue Plan Act of 2021](#) (American Rescue Plan, P.L. 117-2, enacted March 11, 2021). The American Rescue Plan provided an additional [\\$360 billion](#), of which \$219.8 billion was appropriated for the [Coronavirus State Fiscal Recovery Fund](#), \$130.2 billion for [the Coronavirus Local Fiscal Recovery Fund](#), and \$10 billion for the [Coronavirus Capital Projects Fund](#). A federal government shutdown may cause disruption to, or cessation of, grant administration activities for normal grant program appropriations, as well as pandemic-related supplemental funding, 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 Pandemic Funding

The timing of a government shutdown could have an impact on the ability of state and local governments to use pandemic-related funding. For example, significant funding to state and local governments was provided through direct payments under the CARES Act's [Coronavirus Relief Fund](#) (CRF) and the American Rescue Plan's State and Local Fiscal Recovery Funds. Under current law, states must expend the CRF direct payments by December 30, 2021. However, states have faced uncertainty regarding what expenses would be considered allowable under the CRF and may have similar uncertainty concerning American Rescue Plan funding. Because the Department of the Treasury (Treasury) has revised [guidance on allowable expenses](#) several times, states continue to be cautious about expending pandemic-related direct payments. Given the December 30, 2021, deadline for the CRF, and the more recent funding provided under the American Rescue Plan, there may be a need for uninterrupted technical assistance from Treasury and other federal agencies administering grant programs supplemented by pandemic response legislation. It is unclear whether key federal grant personnel would be furloughed during a government shutdown, and thus be unable to provide the technical assistance needed by the states and local governments in assessing eligible use of the pandemic funding.

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. If a shutdown occurs at the beginning of a fiscal year, when new grant awards are traditionally being processed or current grant awards are in the process of being renewed, uncertainty about final funding can cause delays in awards to state and local governments. During a shutdown, an agency may also furlough grant personnel and/or lack authority to undertake preliminary grant administration actions including establishment of funding priorities, revision of grant program regulations and guidelines, review of grant applications, and calculation of 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 and the eligible use of funds.

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 and the State and Local Fiscal Recovery Funds), 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 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 nonessential 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, particularly if the federal government shutdown is prolonged.

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