



## OFFICE OF THE STATE COMPTROLLER

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### Implications for New York State of a Federal Government Shutdown

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#### Executive Summary

The federal government has been operating under Continuing Resolutions since the start of the new federal fiscal year that began October 1, 2010. Despite ongoing efforts between the President and Congress to reach agreement on a federal budget, taxpayers face the threat of the first federal government shutdown since 1996. The Obama Administration has described potential effects of a shutdown, which include delay of payment to military and civilian personnel, slower processing of tax returns, and limitations on small business loans and government-backed mortgages. This report provides a preliminary overview of some of the implications for New York State of a shutdown of the federal government.

Programs critical to protect the health and safety of the public will likely continue uninterrupted. However, at a time when New York is trying to get its fiscal house in order, a federal shutdown would be disruptive in the short term and damaging in the long term. In the short term, a federal government shutdown would have a relatively modest impact on the operations and services provided by state and local governments. However, a prolonged shutdown would have more significant impact and could have damaging economic consequences.

The implications for New York State of a federal government shutdown could include the following:

- In State Fiscal Year (SFY) 2010-11 nearly 37 percent, or almost \$50 billion, of New York's total All Governmental Funds disbursements were federally financed.<sup>1</sup> While the immediate impact is likely to be modest, an extended inability to draw down certain federal funds could cause cash flow challenges for the State.
- Federal funds pay for approximately 20 percent of the State's capital spending.<sup>2</sup> These important State infrastructure projects, which included \$1.6 billion in federal funds for transportation and \$263 million for environmental and parks projects in SFY 2010-11, may be impacted, depending on the duration of the

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<sup>1</sup> Office of the State Comptroller.

<sup>2</sup> 2011-12 Executive Budget Five-Year Capital Program and Financing Plan, Division of the Budget, page14.

shutdown.<sup>3</sup> This could have a ripple effect on contractors and subcontractors working on these projects.

- Additionally, many public authorities and municipal governments that receive transportation-related and other funding rely on these funds for day-to-day activities, and may resort to other temporary financing means to pay for such costs until they are reimbursed by the State and the federal government. A prolonged delay could undermine their ability to finance these projects.
- More than 126,000 full and part-time civilian employees of the federal government work in New York State.<sup>4</sup> In addition, approximately \$687 million in federal funds were used to either partially or fully fund State employees.<sup>5</sup> An undetermined number of these employees would be impacted. However, in addition to the direct consequences for affected families, an extended shutdown could have a negative economic impact from the loss of income and sales tax as well as other revenues to the State and local governments.
- Cash flow challenges for the State caused by delays in federal payments may result in delayed payments to contractors, aid for local governments, and tax refunds for individuals, all of which may cause hardship and undermine the State's economic recovery.

## Threat of a Federal Government Shutdown

A federal government shutdown occurs when Congress fails to enact appropriations to support federal government operations and for state-administered federal programs. As a result, federal funding that flows to states is interrupted. Without these federal appropriations, agencies are generally prohibited from incurring obligations by the federal Antideficiency Act, with exceptions related to “emergencies involving the safety of human life or the protection of property.”<sup>6</sup> The current federal fiscal year began on October 1, 2010, and Congress and the President have yet to reach agreement on a spending plan for the year. As a result, the federal government has been operating via temporary Continuing Resolutions, the last of which is set to expire on April 8, 2011, raising the specter of a federal government shutdown.

This would be the first such shutdown since 1996, which was the longest in duration at 21 days, and which provides some indication as to what taxpayers and states can expect if a shutdown were to occur again. There were two shutdowns in the 1996 federal fiscal year. The first occurred between November 13 and November 19, 1995, and resulted in over 800,000 federal employees being furloughed.<sup>7</sup> The second occurred between December 15, 1995 and January 6, 1996, and resulted in approximately 280,000 furloughed federal employees.<sup>8</sup> This lower amount was due to some funding bills being enacted between shutdowns.

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<sup>3</sup> Ibid, page 91.

<sup>4</sup> New York State Department of Labor, Division of Research and Statistics, annual average for 2008.

<sup>5</sup> Office of the State Comptroller.

<sup>6</sup> See *Shutdown of the Federal Government: Causes, Processes, and Effects*, Congressional Research Service, February 18, 2011, pages 2-3.

<sup>7</sup> See *Federal Funding Gaps: A Brief Overview*, Congressional Research Service, February 24, 2011, page 3.

<sup>8</sup> Ibid, page 4.

The Office of Management and Budget (OMB) requires federal agencies to develop and maintain shutdown plans which include the number of employees expected to be impacted as well as how long it would take to implement the shutdown. OMB monitors congressional action and notifies agencies if shutdown plans are to be implemented.<sup>9</sup>

## Implications for New York State

Nearly \$50 billion in federal funds were disbursed by New York State in SFY 2010-11, reflecting almost 37 percent of All Governmental Funds disbursements projected for the year. Federal funds are drawn down by the State daily. A significant portion of the State's federal disbursements is the federal share of Medicaid, totaling \$28 billion, which is not expected to be impacted by a federal shutdown. Funds for New York's Child Health Plus program, which receives a 65 percent federal match through the federal Child Health Insurance Program (CHIP), is also not expected to be impacted. Unemployment insurance benefits are also expected to continue to be paid.

It is unclear what other programs that have a federal funding component would be affected. Most programs are operating under the provisions of the Continuing Resolution and it is expected that any obligations incurred through April 8<sup>th</sup> will be honored by the federal government. However, an extended federal shutdown would likely decrease programmatic support that State agencies rely on from the federal government.

In addition, a delay in the drawdown of federal funds could force the State to either temporarily cover costs that would normally be paid for through federal funds or delay payments, depending on the strain imposed on the State's cash balances. In fact, the Division of the Budget (DOB) projects the General Fund to have a closing balance of less than \$1.0 billion from May through August, reaching a projected low balance in that month of \$265 million.<sup>10</sup> Cash flow difficulties to the State have typically resulted in delayed payments to businesses, not-for-profits, and tax refunds for individuals. These delays cause hardship and negatively impact the State's economy.

Federally funded capital projects spending would likely be impacted by a federal shutdown. In SFY 2011-12, DOB estimates that Federal resources will fund approximately 20 percent of the State's capital spending. DOB projects that in SFY 2011-12, federal grants will finance:

- \$1.5 billion in transportation projects,
- \$305 million for environmental and parks projects,
- \$89 million for health-related projects,
- \$50 million for the World Trade Center,
- \$30 million for public protection projects, and
- \$3.0 million for housing-related projects.<sup>11</sup>

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<sup>9</sup> Office of Management and Budget (OMB) Circular No. A-11 Section 124 – *Agency Operations in the Absence of Appropriations*.

<sup>10</sup> *2011-12 Executive Budget Five-Year Financial Plan, Updated for Governor's Amendments and Forecast Revisions*, Division of the Budget, page T-64.

<sup>11</sup> *2011-12 Executive Budget Five-Year Capital Program and Financing Plan*, Division of the Budget, page 91.

Because a portion, if not all, of these funds may not be available in the absence of federal appropriations, important capital projects may be stalled or halted, depending on the duration of the shutdown. This would have a ripple effect through the State and local economies, as contractors and subcontractors working on these projects may be forced to delay or stop work. The timing may be particularly problematic as New York State is entering its relatively short construction season.

Finally, approximately 126,500 full and part-time civilian employees of the federal government work in New York State. In addition, in SFY 2010-11 approximately \$682 million in Special Revenue - federal funds and \$5.0 million in Capital Projects - federal funds were used to either partially or fully fund State employees.<sup>12</sup> The number of employees who would be impacted by either a furlough or other actions in the event of a shutdown is uncertain. However, it is likely and expected that an extended shutdown would have a direct impact on a certain undetermined number of federal employees in the State, as well as federally funded State employees. This, in turn, would have negative economic implications for the State and its local governments from the loss of income tax, sales tax and other revenue from furloughed workers.

In addition, important federal government services with significant economic impact in the State will inevitably be disrupted, including the possible temporary closure of New York's 22 national parks, which served over 17 million visitors, and generated economic activity from non-local visitors of \$340 million in 2009.<sup>13</sup> In addition, processing of federal services such as visas, passports, and certain income tax returns could be delayed, along with enrollments in certain federal programs. Furthermore, any suspension of activity at important federal projects, such as the 115 Superfund sites in the State, could stall progress in completing these projects.

## **Conclusion**

An extended shutdown could have negative economic implications for the State and its local governments due to the loss of infrastructure and capital projects activities, the loss of income and sales tax revenue from furloughed workers and affected contractors, as well as the loss of tourism dollars from shuttered national parks and historic sites. While critical federal programs such as Social Security, Medicare payments for health services, and unemployment benefits are not expected to be impacted, a shutdown of any duration would be unwelcome.

New York, along with other states, is trying to get its fiscal house in order. A federal shutdown would be disruptive in the short term, potentially creating cash flow challenges and interruption to important capital projects, and damaging in the long term, with the potential for negative economic impacts at both the State and local level. It would result in waste and inefficiency, at both the federal and State level, at a time when states – and taxpayers – can least afford it.

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<sup>12</sup> Office of the State Comptroller.

<sup>13</sup> Stynes, D.J. 2011. Economic Benefits to Local Communities from National Park Visitation and Payroll, 2009. National Resource Report NPS/NRPC/SSD/NRR—2011/281. National Park Service, Fort Collins, Colorado, Table A-4, pages 39-40.