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Matthew Gorzkowicz
Secretary

MEMORANDUM

To: Chief Fiscal Officers, Budget Directors, and General Counsels
From: Thomas Smith-Vaughan, Chief Operating Officer, Office of the Comptroller
Bran Shim, Assistant Secretary for Budget, Executive Office for Administration and Finance
Date: May 19, 2023
Subject: Potential Federal Government Debt Default

Comptroller Memo FY2023-17

Executive Summary

This memo provides information and guidance in the event of a federal debt default resulting from Congress failing to raise or suspend the statutory debt ceiling. This event could create challenges for certain spending accounts in the General Federal Grants Fund, revenue collected through federal reimbursement, and for programs run and funded primarily by the federal government. We are asking departments for a quick turnaround, with responses due on Wednesday, May 24 by 5:00pm.. Because the U.S. Treasury has indicated a default date as early as June 1, for the purposes of this exercise, please constrain your analysis to the period from June 1 through June 30.

Background

The federal government reached its statutory debt ceiling on January 19, 2023 and since then the Treasury Department has been engaged in “extraordinary measures” to continue to pay obligations as Congress has not adopted a bill to raise or suspend the ceiling. Negotiations have begun between House leadership and the White House, but news reports indicate agreement has not yet been reached, so we must be prepared for the possibility of a default, including that federal government operations and/or federal funding for many or all purposes and programs will cease entirely.

This memo describes the potential impacts of a default, suggested actions to be taken by agencies, and the information being sought in preparation for such an occurrence.

Federal funding received by the Commonwealth

Programs of federal financial participation (FFP) for which the accounting and reporting is done via MMARS can be placed into three categories:

- 1) Joint federal-state programs, where the Commonwealth appropriates 100% of the total program, and the FFP is accounted for as reimbursement revenue (example: Medicaid waiver services at MassHealth and DDS);
- 2) Authorized spending by the Commonwealth in a specialized fund and the FFP is accounted for as reimbursement revenue (example: the federal highway capital project fund); and
- 3) The General Federal Grants Fund (referred to as MMARS Fund 0100) which is itemized on a grant-by-grant and account-by-account basis (example: FEMA grants).

Contingency Planning

In 2013, 2015, 2019, 2020, and 2021, departments were asked to develop contingency plans to guide decision-making in the event of a federal shutdown. While a debt default is not the same as a shutdown, the two events may share many similarities as the U.S. Treasury prioritizes which obligations to make payments on and which to leave unpaid. As we move towards the end of the state fiscal year, and federal authorizations in place continue to be drawn upon, it is crucial that grant obligations are monitored continually to assure grant programs meet requirements but do not rely on any Commonwealth resources without specific legislative authorization.

By COB Wednesday, May 24, affected departments must email their A&F analyst and the Office of the Comptroller (CTR) at: paymentsc@mass.gov (the CTR Team that is reviewing the potential impact of a federal debt default). Affected departments must confirm steps they can take to protect Commonwealth residents and resources in the event of a federal debt default, including the use of other funding sources currently available to them. Please describe the impact of utilizing such funds on other state operated programs and services. Departments should not assume that additional state funding will be available. Therefore, please identify any state funding that would be required for the Commonwealth to take on responsibility for critical federal programs, and indicate whether and when legislative authorization would be required.

Additionally, we request that departments provide a summary of any concerns that they have with the continued availability of federal funding, particularly as it relates to their ability to make bi-weekly payroll for employees currently paid from federal sources. Departments should submit this information to their A&F analyst and also to CTR's Federal Grants Unit at: ctrfedgrant@mass.gov.

Further guidance will be provided to state agencies once the prospects/impacts of a federal debt default become clearer over the days ahead.

CC: Cabinet Secretaries, Department Heads, MMARS Liaisons and Payroll Directors