

BUDGET LETTER

		NUMBER: BL 26-19
SUBJECT:	CONTROL SECTION 28.30—FEDERAL FUNDS REALIGNMENT CONTROL SECTION 28.31—SHORT-TERM CASH LOANS DUE TO DELAY IN FEDERAL FUNDS	DATE ISSUED: August 21, 2026
REFERENCES:	2026 BUDGET ACT (CHAPTER 19 AND 21, STATUTES OF 2026)	SUPERSEDES: 25-20

TO: Agency Secretaries
Department Directors
Department Budget and Accounting Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) provides departments with instructions to implement Control Sections (Sections) 28.30 and 28.31 of the 2026 Budget Act in the event departments experience a reduction or a delay in the receipt of federal funds.

I. Background

On January 27, 2025, the Office of Management and Budget (OMB) issued a memo instructing federal cognizant agencies to temporarily pause federal funding for all federal programs, subject to additional review by the federal administration. Although the memo was later rescinded, the federal government has since continued to freeze, terminate, and rescind federal funds that have been committed to the states. Sections 28.30 and 28.31 were created to provide flexibility for departments to respond to disruptions in operations caused by the absence of committed federal funds.

II. Section 28.30 (Federal Funds Realignment) Overview

Section 28.30 provides the state with flexibility to make budgetary reductions to address unanticipated reductions in the receipt of federal funds. Upon enactment of federal legislation or an action taken by a federal cognizant agency which either terminates, rescinds, or otherwise reduces the state's receipt of federal funds already committed to the state, departments shall submit a request to Finance to reduce any appropriation to align it with the reduction in federal funds. Departments shall also provide details on any state funds that are used as a match for the federal funds that were reduced.

Section 28.30 can only be used to address terminations, rescissions, or reductions caused by the enactment of federal legislation or an action taken by a federal cognizant agency and cannot be used to address fundamental changes to the state-federal relationship (e.g., changes to predetermined or statutory formulas used to determine state amounts).

II.A. Section 28.30 General Instructions

If a department identifies a reduction in the receipt of federal funds, the department should contact their Finance Budget Analyst for further guidance. Departments should be prepared to provide the information specified in paragraph (1) for review by their Finance Budget Analyst. Upon approval, Finance will proceed to perform the actions specified in paragraphs (2) and (3).

- 1) Submit Information to Finance—Upon notice of federal funds termination, rescission, or reduction, a department shall provide Finance with the following information within 2 weeks of receiving notice for Finance's review:
 - a. Name of the federal cognizant agency responsible for the termination, rescission, or reduction of the funds along with the name(s) of any federal program(s) and state program(s) involved.
 - b. Official notice or documentation along with any available justification provided by the federal government for the termination, rescission, or reduction of the funds.
 - c. A brief narrative explaining the impact to the state of the federal funding to be terminated, rescinded, or reduced.
 - d. Amount of reduced federal funding, by state fiscal year, and any state funding by fund, committed as a matching requirement for the reduced federal funding.
 - e. Affected budgetary appropriation details, such as item number, FI\$Cal program name, etc.
 - f. Plan to adjust current services and operations without making any programmatic changes (e.g., benefit determinations such as eligibility criteria and payment rates) to align budgetary authority with available funding levels until June 30, 2027.
- 2) Notify the Joint Legislative Budget Committee (JLBC)—Once Finance receives all the requested information and has approved the plan to adjust current services and operations, Finance will provide a notice detailing the planned reduction in writing to the JLBC. Any reductions authorized shall not be made prior to 30 days after the JLBC is notified unless a waiver is granted by the JLBC.
- 3) Execution—Once the JLBC notification period has concluded, the department shall work with Finance to reduce the appropriate budgetary authority through an Executive Order or Budget Revision. Furthermore, the department shall begin to adjust services pursuant to the approved plan of adjustment.

III. Section 28.31 (Short-Term Cash Loans Due to Delay in Federal Funds) Overview

To minimize disruptions in operations caused by a delay in receiving federal funds that would prevent state programs from delivering necessary services, Section 28.31 provides short-term loans from the General Fund or any special fund. Alternatively, a department may choose to request a loan using other available department provisions in lieu of Section 28.31 and such loans are not subject to the process and criteria as outlined below.

Loans authorized by Section 28.31 are considered cashflow loans and shall not constitute budgetary loans, revenues, or expenditures. For purposes of budgetary and legal basis of accounting and budgeting, the principal amount of any loans made pursuant to this section shall not be considered as part of the balance of the fund that receives the loan, nor shall it be deducted from the balance of the fund from which the loan is made.

These cashflow loans will be granted by Finance on a case-by-case basis using the following criteria: (1) the department's ability to keep critical state programs afloat that are supported by federal funds, (2) the department's ability to repay the loan prior to June 30, 2027, or upon receipt of federal funds, and (3) the availability of cash to make a loan.

III.A. Criteria for Cashflow Loan

Given the fiscal uncertainty the state continues to face, cashflow loans authorized by Section 28.31 are restricted to the following:

- 1) Delayed Federal Funds—A delay in federal funds reimbursements includes instances when federal funding is temporarily paused or the federal government requires additional review or additional or new submission requirements before a reimbursement is received for a federal program. Federal funding that has been proposed or confirmed for cancellation, reversion, or rescission is not considered 'delayed' for purposes of Section 28.31, and is therefore not be eligible for a cashflow loan under Section 28.31.
- 2) Collection Efforts—Departments should make every reasonable attempt to collect the delayed federal funds reimbursements before requesting a cashflow loan as authorized in Section 28.31. Additionally, departments shall review the U.S. Treasury agreement to determine whether the state is authorized to charge interest from the U.S. Treasury due to the delay in remitting federal funds to the states.
- 3) Ability to Repay Loan—The intent of the cashflow loans is merely to provide short-term cash relief to state programs that anticipate receiving federal funding with the expectation for departments to repay the loan prior to June 30, 2027, or upon receipt of the delayed federal funds. If a department does not receive the anticipated federal funds prior to June 30, 2027, it should leverage any existing resources to repay the loan.

III.B. Section 28.31 General Instructions

Upon meeting the criteria as specified above to apply for a cashflow loan, the department should contact their Finance Budget Analyst for further guidance. Departments should provide the following information. A department may only submit one cashflow loan request associated with the affected state program supported by federal funds.

1. Affected Federal Program(s) and Cognizant Federal Agencies involved with the delay.
2. Fund—Fund number and name that receives federal funds.

3. Item Number—Item number associated with the affected state program.
4. Amount of Funding Request—Requested amount for the cashflow loan.
5. Proof of Delay—Justification that the reimbursement was delayed and the federal funding was not cancelled, reverted, or rescinded.
6. Justification for Request—Basis of determination that the cashflow loan is needed.
7. Estimated Repayment Date—Estimated timeframe for receiving federal funds.
8. Cashflow Analysis—Estimated monthly cashflow activities through June 30, 2027, to indicate the dollars and timing for which federal drawdown would typically occur and estimated date of when loan will be needed.
9. Collateral—Other fund source available to repay the loan by June 30, 2027, and documentation that the other fund source is an eligible use.

If the cashflow loan is approved by Finance, Finance will prescribe the terms and conditions of repayment and notify the JLBC. The cashflow loan will be subject to a 20-day waiting period for approval unless waived by the JLBC. Once the notification period has concluded, Finance will submit an Executive Order to the State Controller's Office for further processing. Please allow for an ample amount of processing time as significant cashflow loans require additional time to coordinate the transfer of funds with the State Treasurer's Office and the State Controller's Office.

If you have any questions regarding this BL, please contact your Finance Budget Analyst.

/s/ Sally Lukenbill

Sally Lukenbill
Program Budget Manager