



## Federal Government Shutdown

### What Contractors Should Know in the Event the Government Shuts Down

#### Background:

The fiscal year (FY) 2017 appropriations law currently funding federal government operations will expire on January 20, 2018. Because the House and Senate failed to enact the 12 annual appropriations for FY 2018, Congress must pass a continuing resolution (CR) or an omnibus appropriations bill—a bill that packages many or all of the smaller, 12 appropriations bills into one larger single bill—to allow government operations to remain open on January 20 and beyond. Failure by lawmakers to reach an agreement on a CR or omnibus for FY 2018 will result in a federal government shutdown.

The possibility of a shutdown has left contractors wondering how or if they can continue to perform their federal contracts. Construction contracts already awarded on a fixed-price basis will be substantially unaffected by the shutdown. However, for most cost-type contracts, time and materials contracts, IDIQ/MATOC/MACC contracts and those contracts that have yet to be awarded, the shutdown will likely suspend operations completely. Thus, it is important for contractors to prepare for the consequences of a government shutdown.

#### Government Contracts NOT Likely to be affected by a Federal Government Shutdown:

- Ongoing, Direct Federal Agency Contracts. Federal contracts that are not funded by FY 2018 appropriations will be largely unaffected by the shutdown because they will not require new funding once the continuing resolution expires. Most federal construction contracts are included within this category as they were already awarded on a fixed-price basis and funding was appropriated at the time of award.
- Unawarded, Direct Federal Agency Contracts. For federal contracts that have not been awarded, contractors should consult the contracting officer before the shutdown to determine how the agency intends to handle the contract award once the shutdown is over. It is also important to note that court and protest deadlines remain in effect regardless of a shutdown. However, it is unclear how long it will take to resolve such claims if federal court and GAO employees are furloughed.
- Federal-Aid State DOT Contracts. The federal-aid highway program would not be immediately impacted by a shutdown. Because Congress has enacted authorization for Highway Trust Fund (HTF) spending, and there remains a balance in the HTF, the Federal Highway Administration will remain open for business and will continue to process state DOTs' requests for reimbursement for on-going highway projects. States will also be able to continue to enter into contracts with the assurance of federal reimbursement. However, USDOT grant and lending programs, like TIGER grants and TIFA loans, could be impacted.

#### Preparing for a Federal Government Shutdown:

- Beware of non-contracting impacts of shutdown. Even where a contract does not require new funding, performance may still be affected by the shutdown. For instance, a federal construction project may require access to federal facilities in order to perform the contract work. If those facilities are locked or otherwise unavailable because of the shutdown, contract performance may be impossible. Moreover, even if contract work can continue, contracting officers and administrators may be furloughed and thus unavailable to provide guidance or issue necessary changes or contract modifications during shutdown.
- Establish cost documenting procedures. It is also unclear how the government will actually implement the shutdown. Contracting officers will likely issue individual stop work orders, or agencies will issue broad guidance to all contractors. To prepare for this disruption in operations, contractors should establish a protocol to track and account for all costs incurred because of the shutdown.

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### **If a Shutdown Occurs, Contractors Should:**

- Determine Which of Their Federal Contracts are Affected by the Shutdown. Contractors should consider whether their contract is fully funded or whether continued performance relies upon incremental funding that may be unavailable. Contractors should also determine whether contract performance depends upon access to federal facilities and whether such access will be available during the shutdown.
- Seek Guidance from the Contracting Officer. For affected contracts, contractors should determine whether the contracting officer intends to issue a stop-work order or provide some other guidance for stopping work.
- Document All Costs Associated with the Shutdown. Keep all costs associated with the shutdown separate from normal project expenses. Contractors should also document the reason each cost was incurred in the event their records are audited after a claim is submitted. Contractors should also make every effort to mitigate costs and damages and document all efforts to do so.
- Complete All Outstanding Action Items Before the Shutdown. Before the shutdown begins, contractors should determine what, if any, action items can be resolved prior to the shutdown. For instance, if a contract requires a modification be issued, the contractor should work with the contracting officer to obtain the modification before the shutdown occurs. During the shutdown, it is unlikely a contractor will have access to the contracting officer.
- Notify the Contracting Officer of All Actions Taken in Response to the Shutdown. Contractors should routinely notify the contracting officer in writing of all actions taken to continue performance during the shutdown and any costs incurred because of the shutdown.

### **Recovering Costs Incurred Resulting from a Federal Government Shutdown:**

- Contractors may recover some, but not all costs once the shutdown ends. For fixed price contracts, recovery will depend upon whether the contractor is entitled to an equitable adjustment. For cost reimbursement contracts, costs associated with the shutdown can likely be recovered. It is therefore important to keep all costs associated with the shutdown separate from normal project costs in order to quickly identify and claim such costs once the shutdown ends. It is also important to note that, once the shutdown is over, contractors will likely experience a delay in receiving payment from the government due to the backlog of work for federal administrative personnel.

### **Conclusion:**

Although the impending shutdown will not substantially affect fixed-price federal construction contracts, a shutdown may make performance more challenging because of the lack of support from agency personnel. Contractors should therefore work with their contracting officer and legal counsel to develop a protocol to determine which contracts will be affected, track costs associated with the shutdown, and recover such costs once the shutdown ends.