2025 Contractor's Guide to Preparing for a Government Shutdown

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Key Takeaways

- **Time is of the Essence – Draft your Shutdown Plan**

  With a potential government shutdown on October 1, contractors must have a contingency plan in place to minimize disruptions.

- **Funding Matters – No New Awards or Modifications**

  Contracts relying on new appropriations won't receive funding, and no new contracts, task orders, or modifications will be issued.

- **Expect Delays and Financial Strain**

  Payments, contract awards, and approvals will be stalled, impacting cash flow, operations, and workforce stability.

- **Plan, Communicate, and Document Everything**

  Track costs, stay in contact with Contracting Officers, and ensure compliance to position your business for post-shutdown recovery.

Introduction

In anticipation of a potential Government shutdown in October 2025, it is time to create your plan of action. If Congress does not pass the budget, the length and ramifications of a Government shutdown will be difficult to predict. What can be predicted is that a shutdown will adversely affect your Government contracting business.

A shutdown could still be averted, or it could be of such a short duration that it is only a minor inconvenience. However, with so much at stake and given the current political climate, it would be prudent for Government contractors to assume a shutdown will happen. Though many things are unknown, history has shown us that Government shutdowns can be as lengthy as 35 days or as brief as one day. Contractors who have made preparations will suffer less than their unprepared competitors. Toward that end, Aprio recommends that Government contractors develop a "shutdown contingency plan."

Unfortunately, there is not a single "one size fits all" approach to dealing with a shutdown. The Federal Acquisition Regulation (FAR) and the corresponding FAR clauses do not specifically address the contractor's rights and obligations in the event of a Government shutdown. The appropriate course of action must be determined on a contract-by-contract basis based on the totality of the circumstances. In other words, the shutdown contingency plan must address each contract individually.

The purpose of this brief is to provide contractors with guidance on how to prepare for and respond to a shutdown. We outline a general description of how the shutdown will likely affect Government contracting. We also list a variety of factors that contractors need to consider in determining how the shutdown will specifically affect them. Finally, we offer some possible actions that contractors should take to minimize, if not avoid, the adverse consequences of a shutdown.

How Did We Get Here?

A government shutdown occurs when Congress fails to pass a budget or continuing resolution to fund operations. During this period, agencies suspend non-essential functions, leaving contractors uncertain about whether their contracts will continue or be put on hold. The impact depends on the type of contract and its funding structure. Some contracts, particularly those funded through prior appropriations or multi-year budgets, may continue, while those requiring annual appropriations could face immediate suspension. Additionally, contractors may experience limited access to Government facilities, systems, or personnel, causing delays. Payments may also be postponed, affecting cash flow, as Federal employees are unavailable.

What Are the Ramifications?

The ramifications faced by contractors during a Government shutdown are widespread and vary in degree from inconvenient to catastrophic. Contractors who support "mission essential" functions involving safety, security, or other legally mandated activities not subject to annual appropriations may be unaffected as those projects are typically exempt from the shutdown. Other less fortunate contractors may find that their entire line of business grinds to a halt. Most contractors will probably find themselves somewhere in between these two extremes.

While the impact of the shutdown on individual contractors will vary, it is fair to say that the industry as a whole will:

- **Encounter delays in completing contracts and in receiving new awards**
- **Incur both direct and indirect expenses that may or may not be recouped**
- **Lay off or furlough employees who may or may not return**

The reasons that most contractors will experience one or more of these occurrences are set forth below.

Limitations on Incremental Funding and Contract Modifications

During a Government shutdown, incrementally funded contracts will not receive additional funding if they rely on Fiscal Year 2026 appropriations. Contracting Officers may be unavailable to issue modifications, further complicating the situation. Additionally, no new contracts, task orders, or modifications requiring FY 2026 funds will be awarded. Once Government employees are furloughed, Contracting Officers will be unable to process non-essential contracts or modifications of any type, halting procurement activity until the Government reopens.

Ongoing Procurements Will Be Delayed

The furloughed Government acquisition personnel will not be available to prepare non-essential RFPs, evaluate proposals, conduct audits, or generally accomplish any other pre-award work. In fact, you may be in the throes of responding to a solicitation with a due date that is overcome by events, but there might not be a Contracting Officer working who can amend the solicitation.

Options Won't Be Exercised

Even if you have a non-essential contract that otherwise can be performed despite the shutdown, the Government will be unable to exercise your option.

Government Facilities Will Be Closed

Contract performance that requires access to non-essential Government facilities or equipment might be impossible to perform as those facilities will be closed.

COTRs Will Not Be Able to Fulfill Their Responsibilities

The non-essential Contracting Officer's Technical Representatives (COTRs) will also be furloughed. So, any contract that requires COTR action or input, such as approving an interim deliverable, travel, or an essential expenditure, will be impossible to perform.

Invoices Will Not Be Paid

Even if you have a contract that can otherwise be fulfilled, the Government personnel required to process and pay your invoices may be furloughed.

Statutory Deadlines Are Not Necessarily Extended

Various statutory deadlines (e.g., time to request a debriefing, file a bid protest, a claim, the appeal of a Contracting Officer's final decision) are not extended due to the shutdown. Extensions may be granted after the fact on a case-by-case basis but ***don't assume the deadline will be extended.***

Actual Indirect Rates Will Exceed the Provisional Rates

It is almost impossible for contractors to reduce indirect expenditure at the same pace as the shutdown will reduce the contract direct base. The increased indirect rates serve to reduce the profit on existing fixed price and time and material contracts, and on cost reimbursement contracts with indirect rate ceilings. It is possible that the Government could reimburse the "unabsorbed overhead" but there is no guarantee they will do so.

You must assess each contract for limitations and funded values to better understand what could be recovered and what will not.

Stop-Work Order (SWO) Claims

As if we didn't have enough going on this year with DOGE cancelling contracts, there may be more forthcoming SWOs due to the possible Government shutdown. If a contractor receives a formal SOW, it means they have 30 days to submit a Request for Equitable Adjustment (REA) for costs attributable to the stop work order. Contractors must ensure they are documenting all costs attributable to the stop work order by contract and have the resources to prepare and submit what might be numerous requests for equitable adjustment within 30 days after the stop work order is canceled. Delays in this process will be inevitable in consideration of the enormous number of claims already in process due to recent multi-agency contract terminations and internal agency staff.

These are the most obvious scenarios that will directly impact contractors. However, there will undoubtedly be a multitude of more nuanced indirect effects depending on the specific circumstances.

For more information on SWOs, check out other resources from Aprio here:

Federal Contracting in Flux: Strategies for Managing Trump Administration Stop-Work Orders, Terminations and REAs

Contractors' Rights when the Federal Government Issues a Stop-Work Order

Stop-Work Order Claims: What Costs are Reimbursable?

General Considerations

There is no FAR clause that directs the contractor to stop work in the event of a shutdown. Just the opposite, you are under contract and until you hear otherwise, you are legally obligated to perform. Theoretically, the Government should issue a "stop work order" for each contract that is not to be performed during the shutdown. Though this sounds counter-intuitive, a stop work order may be the best outcome for the contractor because the rights and obligations of both parties are clear, and the contractor will be reimbursed for the expenses resulting from stopping and re-starting the work.

In previous shutdowns, some agencies issued stop work orders for contracts that could have been performed. For instance, in past shutdowns, some agencies issued numerous stop work orders. However, most Contracting Officers just provided general "one size fits all" instructions to their contractors, if they issued any instructions at all. These general instructions frequently left many questions unanswered.

Appreciate the difference between a "hard" and "soft" shutdown. A **hard shutdown** is typically required by a formal stop work order and usually means that the contractor must immediately take all necessary steps to stop incurring expenses in furtherance of contract performance. A **soft shutdown** allows the contractor and the Contracting Officer more flexibility to make common sense decisions in the best interest of the taxpayer. **It is important to understand whether the Contracting Officer requires a soft or hard shutdown.** A soft shutdown would be appropriate in a situation where it would cost $10,000 to stop and then restart some activity, but it will only cost $100 to let the activity continue for a week while monitoring the situation.

Be considerate to your Contracting Officer. They may not have received clear internal directions and they, like some of your employees, could be facing a furlough if the shutdown continues for a longer period. The Government's internal guidance and rules for operating during a shutdown were developed when service contracting was much less prevalent. Thus, the guidance is geared towards how to deal with civil servants and assumes that most contractors provide supplies and equipment. Shutting down a Government that is heavily dependent on contractor employees is substantially more difficult. Do not expect everything to go smoothly. Be gracious with your Federal counterparts and work together to get to the right solution.

Has the program you support been declared an essential function? This is a more complex decision than it previously was due to the prevalence of contractors and the increasingly sophisticated and comprehensive IT systems that contractors typically maintain. Some IT contractors may find that the IT systems they maintain support a back-office function that in turn supports an essential function. The Administration's broad or narrow definition of essential functions will have a great bearing on how large an impact the shutdown has on contractors.

Many, if not most, contractors routinely "work at risk" in advance of receiving funding. However, working at risk during a Government shutdown poses far greater risk, and all contractors should reevaluate their criteria for when it is acceptable to work in advance of funding. Discuss what is going to be your policy and if deciding to work "at risk" is up until what maximum costs.

Specific Considerations & Recommendations

1. **Funding**

   The amount and type of contract funding are the most important considerations to have.

   Amount: Is your contract fully funded? If your contract is incrementally funded, how much longer will the existing funds last? Is it feasible to defer expenditures to extend the current funding? Fixed price contracts are usually fully funded. Cost reimbursement and time and material contracts are typically incrementally funded. Once the incremental funding on a contract is fully expended, the contractor should earnestly consider stopping work. As per the Limitation of Funds clause, the Government is not obligated to reimburse contractor expenses in excess of the funded amount.

Type: Is your contract funded with Fiscal Year 2025 money or with multi-year appropriations/revolving funds? Programs funded by revolving funds or multi-year appropriations are not affected by the shutdown.

2. **Place of Performance**

   Is the work done at a contractor facility or a Government facility? If the contract is performed at a Government facility, will that facility be accessible to contractor personnel during the shutdown? It's important to note that just because a facility is closed to the public does not necessarily mean that it is inaccessible to contractors. Depending on the nature of the work, it may be possible to continue performance at your own facility.

3. **Period of Performance**

   What is the current period of performance? Is there an option coming up that needs to be exercised? Contracting Officers will not be able to exercise options or otherwise extend contracts during the shutdown. Working without adequate funding is risky. Working on a contract after the period of performance has expired is ***never recommended.***

4. **Source of Work**

   The nature of the work to be performed is also an important factor, albeit a factor that is difficult to describe. Does the work require Government personnel to be present? If you are supporting an office full of government employees who are not working, does it make sense to continue to provide this support, even if contractually you can? Does the nature of your work require frequent interaction, guidance, approvals, and more from a Contracting Officer's Technical Representative (COTR) who is no longer present? In some cases, fully funded contracts performed at the contractor's facility may still be impossible to perform if the Government personnel are absent.

5. **Subcontractors**

   Do not forget about your subcontractors. **The prime contractors have privity with the Government, not your subcontractors.** You do not want to owe your subcontractor more money than you will be paid by the Government. Prime contractors should ensure that they have not inadvertently agreed to make the subcontractor whole after the shutdown when the Government has made no such guarantee to the prime. Thus, you do not want to make that promise to your subcontractors. The guidance provided applies equally to subcontractors, with the exception that subcontractors need to work with their prime contractors not the Government contracting officer.

General Guidance

Specific actions you prepare for may determine how well you ultimately survive the Government shutdown. However, the specific actions will be ineffective unless the contractor adheres to the following two general absolutes: Communicate and Document.

Communication and documentation are important concepts for any business, but they need to become the mantra of any Government contractor facing a Government shutdown. There should be almost constant communication between the contractor, the Contracting Officer, the COTR, the contractor's employees, and any subcontractors and/or suppliers.

The purpose is to provide all stakeholders with accurate timely information. Rumors, speculation, and a lack of information never help and may hurt. Contractors should designate an individual who is responsible for ensuring that the necessary communication takes place. This may require that an actual communication plan with appropriate protocols be developed.

It is not always clear whether or how much of a contractor's additional expense attributable to the shutdown will ultimately be reimbursed. What is clear is that none of it will be reimbursed if the contractor does not document what actions were taken, why that action was in the Government's best interest, and exactly how much that action cost.

The specific steps Aprio recommends are outlined below.

1. **Evaluate your contracts.**

   Companies should designate a corporate team or the assigned project manager/contracts administrator to review each contract based on the specific considerations set forth above.

2. **Seek guidance from the Contracting Officer (CO).**

   Contracting officers are responsible for providing guidance to the contractors. You should be proactively and regularly contacting your contracting officer to obtain as much specific direction regarding the shutdown as you can. Ask specific questions based on your evaluation such as "We have three employees deployed overseas. It will cost over $20,000 to bring them home and reposition them when the shutdown is over. It only costs $2,000 a week to keep them there. How would you like us to handle that?"

   The more specific direction you get, the easier it will be to get reimbursed later. **All direction received should be documented in writing and followed.** Your contract files should contain documentation that the instructions were followed. Further, subcontractors should seek guidance from the prime contractor.

3. **Classify your contracts.**

   Aprio recommends classifying your contracts into one of four categories as each category requires different actions. The categories and actions are summarized below.

   a. Mission essential

      Some of your contracts may be considered mission essential and thus exempt from the shutdown. Your Contracting Officer will inform you if this is the case. You may continue to fulfil these contracts under a business-as-usual approach.

   b. Stop work orders and terminations for convenience

      Some Contracting Officers will issue SWOs or, in unusual cases, may terminate the contract. In that case, the contractor has no choice but to react in accordance with the requirements of the stop work order clause or the termination clause. The good news is that in these instances, the regulations are very clear as to what the contractor must do and how the contractor is to be reimbursed.

   c. Possible to perform

      Unless your contracting officer has directed otherwise, contracts that have sufficient funding and period of performance and do not require access to Government facilities or personnel can and probably should be carried out even though they are not mission essential. However, these contracts still need to be monitored because, if the shutdown lasts long enough, the contract for a variety of reasons may ultimately become impossible to perform. Additionally, depending on the circumstances, there may not be anyone available to process your invoice.

   d. Impossible to perform

      This is the most troublesome and potentially risky classification for contractors. Contracts in this category are not mission essential nor has a stop work order been issued. Yet, the nature of the work is such that the contract cannot be performed during a shutdown. The contractor should follow the specific directions provided by the Contracting Officer. In cases such as this, the Contracting Officer is probably going to suggest some kind of "soft shutdown."

      In some cases, the contractor may not have received instructions, or the instructions were too general/unclear. This is not a legal term, but the contractor should treat situations where the government shutdown prevents a contractor from performing the contract as a "constructive" stop work order. In such cases, the contractor should

cease performance as required by the stop work clause. The assumption is the same procedures and rules that govern contractor compensation when a formal stop work order is issued should work equally well in situations where the Government's actions effectively stopped the work without the formality of a stop work order.

4. **Separately account for expenses attributable to the shutdown.**

   The contractor should segregate their shutdown costs by contract by establishing separate charge numbers.

   The contractor should also document the reason the shutdown costs were incurred. These expenses need to be documented in a manner that can be audited by the Government. This is true even if the contract that is being stopped did not require an audit when it was awarded. The contractor should also be able to show how the sudden loss of contracts adversely affected their indirect rates.

   Even indirect employees working on shutdown issues should charge time to the shutdown charge code, which may allow those costs to be recovered as part of the shutdown claim.

5. **Develop plan for employees.**

   Contractors are not likely to be reimbursed for wages paid to idle employees as a result of a stop work order. With a solid economic rationale, it is possible that some employee idle time can be recouped through the indirect rates, but even that is risky and exacerbates the likely increase in your indirect rates. Thus, contractors should try to relocate employees to locations where they can perform the work or reassign employees to other projects that are funded.

   This could be a good time to attend training or work on an indirect "back office" type project. If no other options are available, employees should be offered the option of taking personal leave. Only in the last instance, after careful consultation with your Human Resources department, should employees be furloughed.

6. **Where possible, complete actions before the shutdown.**

   Contractors should make every effort to get outstanding invoices paid, modifications issued, options exercised, tasks awarded, deliverables approved, etcetera. before the Government shuts down.

7. **Notify the Contracting Officer of the impact of the shutdown.**

   Do not assume the impacts are obvious to the Government. You need to notify the Contracting Officer each time the shutdown affects your ability to fulfil the contract. It is possible that the Government could use your failure to notify them as a reason not to reimburse your shutdown related costs.

8. **Provide directions to your subcontractors.**

   Each subcontract should be reviewed to ensure that important clauses, such as the Limitation of Funds clause, are included. All subcontractors should receive clear instructions from the prime contractor regarding the shutdown.

9. **Analyze your projected cash flow.**

   Invoices may not be paid, or at the very minimum, payments will likely be delayed. Contractors should analyze their projected cash flow to ensure solvency and notify their Line of Credit bank.

Conclusion

Government shutdowns may be beyond a contractor's control, but how you prepare and respond isn't. For many Government contracting professionals, shutdowns are uncharted territory, and even those with experience know they rarely go smoothly. Delays, financial strain, and operational headaches are inevitable. Even the most optimistic predictions acknowledge the disruption and uncertainty that come with a funding lapse.

Proactive planning, clear communication, and financial readiness help contractors mitigate risks, minimize damage, and emerge stronger. A shutdown doesn't have to define your business, how you handle it does. Are you ready for what comes next?

Aprio's experienced Government Contracting and nonprofit CPAs provide stop-work order assistance, government contract termination support, and Request for Equitable Adjustment (REA) services to help government contractors navigate the complexities of government funding freezes. Whether you're facing federal contract suspension, federal contract dispute resolution, or grant termination rights, Aprio guides you throughout every step of the response process. Don't hesitate to get in touch with our team today.

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