

ARTICLE

Five Steps to Prepare for a Government 'Shutdown'

Law360

March 11, 2011

Government contractors have grown accustomed to working with funding provided through "continuing resolutions" as Congress and the White House annually negotiate the various appropriations bills that fund many government operations.

Early in March, the government came close to a "shutdown" when the most recent continuing resolution was set to expire and the prospects for an agreement on continued funding appeared dim. The shutdown was averted by compromise legislation that extended funding for two weeks, but until full-year, annual funding bills are signed into law, talk of a "shutdown" will continue to permeate the news. This article identifies five items to consider during this period of uncertainty.

1) Inventory your contracts and understand how they are funded.

Recognize that the term "shutdown" can be a misnomer and that a funding lapse may halt performance under some contracts but not others. Although the Anti-Deficiency Act generally prohibits government officials from making payments or incurring obligations in excess of available funds or before funds are appropriated, many contracts are "fully funded" – *i.e.*, funds have already been obligated to cover the price of a fixed-price contract or the estimated cost of a cost-reimbursable contract. FAR 32.703-1.

A lapse in funding (because a continuing resolution has expired) will not directly affect performance of these contracts. To be sure, myriad complications can arise if performance depends on government employees that are furloughed, government facilities that are closed, or other government contracts that do require additional funding

Authors

Craig Smith
Partner
202.719.7297
csmith@wiley.law

Practice Areas

Bid Protests
Buy American and Trade Agreements Acts
Cost Accounting and Cost Allowability
Employment and Labor Standards Issues in Government Contracting
Ethics Advice & Compliance Audits and Plans
Federal Contract Claims, Disputes, and Terminations
Government Contracts
GSA Schedule and Commercial Item Contracts
Health Care Contracting
Internal Investigations and False Claims Act
Mergers & Acquisitions and Due Diligence for Government Contractors
Patent and Data Rights Counseling and Disputes
Small Business Programs and Nontraditional Defense Contractors
State and Local Procurement Law
Suspension and Debarment
Teaming Agreements, Strategic Alliances, and Subcontracting

during the lapse.

For these reasons, and others, the government may stop work under contracts that are otherwise fully funded. Similarly, a funding lapse may affect fully funded contracts if performance is expected to exceed the estimated cost due to changes or delays or other events for which a cost adjustment is typically available.

A funding lapse will more likely have a direct effect on contracts that are incrementally funded or contracts that were awarded before funds became available and that were subject to FAR 52.232-18, the Availability of Funds clause. For these contracts, continued performance will very likely depend on the government's ability to obligate funds should a continuing resolution expire with no replacement funding in place.

But even for these contracts, the Anti-Deficiency Act may not require shutting down performance because the act has long been interpreted to recognize several narrow exceptions that permit the government to operate on a limited basis. These interpretations, contained in attorney general opinions from 1981 and 1995, indicate that the following obligations can be incurred during a funding lapse in annual funding:

- Obligations funded by multiyear or indefinite (no-year) appropriations – as opposed to annual appropriations – as well as obligations otherwise authorized outside of the annual appropriations bills.
- Obligations necessary to the discharge of the president's constitutional duties and powers, including certain national security and foreign relations functions.
- Government services "for emergencies involving the safety of human life or the protection of property."
- Obligations for limited support activities necessary for operations that will otherwise continue.

Making (or reviewing) an inventory of your government contracts with these distinctions in mind will help you identify the contracts most likely to be affected by a funding lapse, and will permit you to have an informed dialogue with your contracting officers (COs).

2) Obtain written direction from your contracting officer regarding his/her expectations for performance under each contract.

For every contract, whether or not you expect it to be idled, communicate with your CO and ask for clear direction on which activities, if any, should continue during a funding lapse. It is not for a contractor to determine whether its work is "essential" – the Office of Management and Budget is responsible for issuing instructions to federal agencies with respect to a funding lapse, including direction as to which employees/activities will be continued. Agencies write internal plans based on those instructions, and COs in turn should instruct contractors based on their agencies' plans.

Communication with the CO is particularly important for incrementally funded contracts subject to the Limitation of Funds clause, FAR 52.232-22, and for cost-reimbursable contracts subject to the Limitation of Cost clause, FAR 52.232-20.

Under these clauses, the government generally is not obligated to pay more than the funding currently allotted to incrementally funded contracts (or the estimated cost of fully funded contracts). The contractor must notify the CO in advance if it expects performance to cost more than has been allotted, and the CO must then notify the contractor that additional funds have been allotted to cover the increased cost of performance.

Absent notice from the CO, the government generally is not obligated to reimburse a contractor for any increased costs it may incur. In the event of a funding lapse, the government may not be able to obligate additional funds and provide the necessary notice to the contractor.

Without that notice, the contractor faces the prospect of continuing its work at risk, a decision often complicated by informal pressure from the government – typically from officials other than the CO – to continue performance notwithstanding the clauses. This in turn can lead to disputes over whether the government bears liability for continued performance. Contractors can limit this risk and deflect informal pressure, though, by getting explicit written instructions from the CO about whether to continue performance.

Communication with the CO is also important because the effect of a funding lapse on government operations may indirectly affect your contract performance in many ways. Both parties should attempt to predict and estimate these impacts as best they can so that clear direction can be provided that will minimize later disputes.

For example, for a contract that is otherwise adequately funded, continued performance may prove impractical or undesirable because the government has furloughed employees or closed facilities that are needed for performance. In such a situation, it may be appropriate for the government to issue a stop-work order under FAR 52.242-15 or, for construction contracts, a suspension-of-work order under FAR 52.242-14.

Other challenges can be addressed through formal change orders under the contract's Changes or Government Delay of Work clauses. Following the processes set out in these clauses will help to avoid unnecessary costs fighting over the scope of liability for "constructive" suspensions and changes.

3) *Record everything.*

Start by documenting the communications with the CO discussed above, as well as any instructions or guidance provided by the government about the availability of government personnel, facilities and other resources that you need to perform your contracts.

Then, if a funding lapse does occur, keep detailed records of all work your employees perform under all your contracts. Where feasible, consider creating new accounting codes for these periods – especially to capture time spent winding down idled contracts and starting them back up. Track other costs as well, such as expenses incurred to bring home idled employees from remote locations.

Also record your efforts to minimize any increased costs incurred as a result of a funding lapse. For example, although you may re-deploy or furlough some idled employees, re-deploying other employees – and then deploying them back to their original workstation – may be prohibitively expensive. To the extent practical, the

rationale for these trade offs should be documented.

By keeping these records, your organization will be prepared to support your requests for compensation after the government has resumed normal operations.

4) Plan for delayed competition and award of contracts in your pipeline.

Your planning should consider future contract awards. During a funding lapse, the government cannot obligate annual funds to commence performance on new contracts. As a result, new contracts may not be awarded and options may not be exercised without the sort of disclaimer found at FAR 52.232-18, Availability of Funds.

Yet even where funding is available under one of the exceptions listed above, it is possible that agencies may furlough some or all of the employees who issue solicitations, evaluate proposals and make award decisions. As a result, some proposals that your organization has submitted may not be reviewed during a shutdown and may be awarded much later than you anticipate.

5) Comply with proposal and litigation deadlines.

Even though contract awards may be delayed, government officials furloughed and government facilities closed, assume that deadlines remain unchanged, especially with respect to the time periods for filing bid protests and appealing CO final decisions.

Plan on meeting all solicitation deadlines for bid and proposal submissions, and inquire with the contracting agency for further instructions. Although some litigation deadlines may be tolled in limited circumstances, these rules vary by forum and by deadline. The safest approach is to assume that all deadlines remain unchanged.