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Government Contractors Brace for Shutdown

U.S. businesses are bracing for layoffs and disruptions along their supply chains if the federal government shuts down later this week because of an impasse over the federal budget.

Several Democratic and Republican lawmakers said Sunday they expect a budget deal to emerge by the current April 8 deadline. Businesses and lobbying groups in Washington say the uncertainty alone is causing problems.

Especially hard hit are small and mid-sized businesses that rely on steady flows of revenue from federal contracts to provide a wide array of products and services such as information technology consulting, building construction and maintenance, or food service at national parks.

"Because the budget's not known, agencies won't release the awards [and] the new work isn't coming in," says Libby Kavoulakis, who owns Metis Group LLC, which contracts with federal civil and defense agencies to dispose of unused government real estate.

Government shutdowns in 1995 and 1996 totaling 26 days stalled nearly one-quarter of \$18 billion in Washington-area government contracts. Toxic-waste cleanups stopped at 609 "Superfund" sites, and 2,700 workers were laid off. All national parks closed, costing \$14 million a day in lost admission fees and revenue to local contractors and vendors. Most contractors were not compensated for their

losses.

The nation's largest construction companies, already pounded by the recession, say they and businesses along the construction supply chain would face more layoffs if a shutdown stops federal building and infrastructure projects. Legal advisors are telling contractors to document all supply chain interruptions to bolster potential claims against the government for contract breaches.

If federal projects were to stall, "Typically we have enough work so we can transfer our guys to other jobs, but our volumes are down so there's nowhere to send them," said Rick Freeman, executive vice president of Stromberg Steel Works, Inc., a sheet-metal manufacturer Beltsville, Md., visited by President Barack Obama last month.

"Everything would shut down—there would be no access to the facilities our contractors are working on because you can't get in the door," said Tom Soles, executive director of the Sheet Metal and Air Conditioning Contractors' National Association, whose members have worked on many of the biggest federal buildings and monuments in the capital.

This week leaders of two of Washington's biggest business groups, the Business Roundtable, which represents the chief executives of the biggest U.S. corporations, and the U.S. Chamber of Commerce,

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each warned Congress about a government shutdown's potential impact on the economy.

"There's ongoing contracts that suddenly get stopped, work underway that gets interrupted. It ends up costing more...especially if that interruption is any period of time," said Business Roundtable chief executive John Engler. On Friday, House Speaker John Boehner (R., Ohio), said that a government shutdown would cost, not save, the government money. He declined to estimate what a shutdown would cost.

Should the government close, the Treasury could provide a several-hundred billion dollar cushion by borrowing from Social Security, federal pensions and other funds, says Gary Hufbauer, a former Treasury official who is senior fellow at the Peterson Institute for International Economics in Washington.

But after that, "there could be a major collapse," along the supply chains of thousands of businesses that rely on federal money, he said.

Big corporations—which have a near-record \$2 trillion in cash on their balance sheets—can better weather a shutdown, and shield their smaller suppliers. Some businesses that could suffer most are those lured to federal contracting by set-aside programs and grants aimed at helping credit-starved businesses through the recession.

Jennifer Schaus, who advises small and midsized businesses on navigating federal-contracting bureaucracy, said she has fielded two dozen calls from such businesses, worried that a government shutdown will shut them down too. "They pursued government contracting because it's supposed to be stable and mitigate risk, and they're finding it can actually be risky," Ms. Schaus said.

Write to Elizabeth Williamson at elizabeth.williamson@wsj.com