VERMONT LEGISLATIVE
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Issue Brief
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Impacts of a Federal Government Shutdown: October 2025 Update

Executive Summary

When a federal budget is not enacted by the start of a fiscal year, Congress may use a continuing resolution, or "CR," as a temporary measure to fund government activities for a limited time. Last fall, Congress failed to pass a budget for federal fiscal year (FFY) 2025 by the September 30, 2024 deadline and subsequently had to pass three Continuing Resolutions (CRs) in order to keep the government open.[1] Then, on July 4, 2025, H.R.1, the Federal Reconciliation Act was signed into law. That act included numerous tax and spending provisions, but did not make appropriations for FFY 2026.

A federal government shutdown can interrupt some, but not all, federal programs. The State may be able to mitigate some of the effects of a brief shutdown. State funds used to backfill federal spending have historically been reimbursed after a shutdown, but there's no guarantee that they would be.

To date, no budget has been negotiated to fund the federal government during FFY 2026. Thus far, the Senate Appropriations Committee has advanced eight bills to the floor, and three have passed the chamber. House committees have advanced all 12 appropriations bills, and three have passed the chamber.[2] The two chambers have several differences related to overall funding levels, allocation of spending, and policy riders. The House and Senate must agree on and pass the same versions of the bills before they are presented to the President for his signature.

In the absence of an appropriations act (or acts), both chambers have deliberated on various short-term CRs that would run through November 11, 2025 to keep the government funded temporarily. Generally, a CR would maintain current (FFY 2025) funding levels. Since no CR has passed both chambers, the federal government shutdown began on October 1.

This issue brief is meant to provide information on what typically happens as a consequence of a federal government shutdown. It should be noted, that there is a significant amount of uncertainty regarding how other federal policy decisions during this shutdown might impact the State in the short and long term.

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[1] On September 25, 2024 Congress passed the first FFY 2025 CR (HR9747) to fund the federal government through December 20, 2024. On that date, Congress passed a second, CR; HR 10545, to extend federal spending through March 14, 2025. On March 15, 2025 Congress passed a third CR that funded the federal government through the end of the FFY 2025, CR: PL 119-4.

[2] U.S. Congress. "Appropriations Status Table." https://www.congress.gov/crs-appropriations-status-table/2026
For more about the status of specific appropriations bills, see the Committee for a Responsible Federal Budget: Appropriations Watch: FY 2026.

What is a Shutdown?

The current FFY started on October 1, 2025. To date, Congress has not agreed on a funding plan. Traditionally, the federal government is funded through 12 appropriations bills, each of which covers different agencies or groups of agencies. Sometimes, these bills are rolled into one omnibus appropriations bill. If some of the 12 bills passed prior to the first day of the fiscal year, programs funded by them would be unaffected by a shutdown. There would be a partial government shutdown affecting programs funded by the bills that had yet to pass. Thus far, none of the 12 appropriations bills that fund FFY 2026 have passed both the House and Senate. According to the Pew Research Center, since 1977, when the current budget process first started, Congress passed all 12 bills only four times: in 1977, 1989, 1995, and 1997.[3]

A federal government shutdown closes non-essential government operations due to a lack of funding.

Federal spending falls into two categories: discretionary and mandatory. Discretionary spending is approved by Congress and the president during the regular appropriations process while mandatory spending is dictated by prior law. According to the U.S. Treasury, discretionary spending is money formally approved by Congress and the President during the appropriations process each year. Mandatory spending is dictated by prior law and includes spending for entitlement programs like Social Security and Medicare. Generally, Congress allocates over half of the discretionary budget towards national defense and the rest to fund the administration of other agencies and programs (e.g., social service programs, education, housing, and scientific and environmental organizations).

Funding for programs, both mandatory and discretionary, is nuanced. It's necessary to consider the funding status of each program, whether discretionary or mandatory, individually. During shutdowns some mandatory programs typically continue without interruption, but others require renewed funding to operate. Some discretionary spending programs considered essential for public safety typically continue operating as well. Normally federal employees in these programs continue to work during a shutdown without pay and are, due to a 2019 law signed as part of the measure to fund the government at the end of a 35-day shutdown that year, automatically granted back pay once funding is restored.

If the State determines that a shutdown is likely to be short – a matter of days – it could "front" the costs of federal programs that would otherwise pause during a shutdown. In theory, and historically, funds used for this purpose would be reimbursed by the federal government following a shutdown, however this is not guaranteed.

For context, there have been 14 federal government shutdowns since 1980, the year President Carter's Attorney General Benjamin Civiletti recommended that, in the case of "lapsed appropriations," any expense of funds by a federal agency without congressional approval would be in violation of the Antideficiency Act of 1870. Prior to 1980, the federal government experienced six technical funding gaps that are often included in the total number of shutdowns. There was no actual shutdown on these occasions, though. A technical funding gap also occurred on February 9, 2018, lasting for nine hours. The most recent federal government shutdown began in December of 2018 and lasted for 35 days. This was technically a partial shutdown, since five of the 12 appropriations bills had passed. It was the longest federal government shutdown in U.S. history.

[3] Pew Research Center. "Congress has Long Struggled to Pass Spending Bills on Time." October 1, 2025. https://www.pewresearch.org/short-reads/2025/10/01/congress-has-long-struggled-to-pass-spending-bills-on-time/

Status of Federal Programs During a Shutdown

It should be emphasized that this section is an overview of how various programs are likely to be impacted based on recent history from previous federal government shutdowns and not as a specific prediction of how the 2025 shutdown could impact programs both during and after.

Funded Programs

While the lack of a continuing resolution or reconciliation bill will certainly impact Vermont, many critical mandatory federal programs operate outside of the appropriations process. As a result, funding for these programs is typically automatically available and unaffected by a shutdown. This includes the Children's Health Insurance Program (CHIP) and the federal match portion of the Child Care Development Fund.

Social Security and Medicare benefits continue to be paid out since they are considered mandatory programs and are funded by Congress in laws that do not require annual authorization. Social Security benefits are paid from the Program's trust funds and likewise do not require annual authorization. However, benefit verification as well as card issuance will cease. While unlikely to happen again, during the 1995-1996 shutdown, more than 10,000 Medicare applicants were temporarily turned away every day.[4]

Although payments to states for Medicaid services are expected to continue without immediate interruption since it is a mandatory spending program, things may slow down on the administrative side due to furloughs at Centers for Medicare and Medicaid Services (CMS). A prolonged shutdown could create funding uncertainty for states and result in significant delays.

With respect to transportation, most of the funding that flows to Vermont comes via the Federal Highway Administration (FHWA) and Federal Transit Administration. These are funded through contract authority from the Highway Trust Fund and advanced appropriations contained in the Infrastructure Investment and Jobs Act (IIJA). Therefore, the shutdown is not expected to significantly disrupt the flow of these funds. However, it will impact the Federal Aviation Administration and Federal Railroad Administration – two entities that also grant funds to Vermont and perform important regulatory functions.

Unfunded Programs

Though funding for the SNAP program is mandatory, the ability to send out "food stamp" benefits could be affected, since continuing resolutions have generally only authorized the Department of Agriculture (USDA) to send out benefits for 30 days after a shutdown begins. During the 2018-2019 shutdown, the USDA paid February SNAP benefits early on January 20, just before the 30-day window ended, but it would have been unable to pay March benefits had the shutdown continued. In addition, during any shutdown, stores are not able to renew their Electronic Benefit Transfer (EBT) card licenses, so those whose licenses expire during the shutdown will not be able to accept SNAP benefits.[5]

Programs considered mandatory that would need additional funding include some Farm Bill programs and Temporary Assistance for Needy Families (TANF). During the shutdown, states could utilize unspent TANF funds from prior years and Maintenance of Effort (MOE) funds.

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides low-income pregnant and nursing women and children up to age five with funds to purchase nutritious foods including bread, cereal, eggs, cheese, and infant formula. WIC is administered by USDA, which won't be able to provide benefits during the shutdown.

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[4] Committee for a Responsible Federal Budget. "Government Shutdowns Q&A: Everything You Should Know." September 16, 2025. https://www.crfb.org/papers/government-shutdowns-qa-everything-you-should-know

[5] Ibid

The Low-Income Home Energy Assistance Program (LIHEAP) receives annual appropriations. The program is administered by the Department for Children and Families (DCF), which typically sends the largest energy assistance payment to eligible clients in mid-November. Funding for LIHEAP is included in the two versions of the CRs that are being negotiated. DCF is working on a plan for how to implement the LIHEAP program should a federal government shutdown occur.[6]

The shutdown will also delay activities such as processing passports, visas, and federal loans and interrupt national park funding.

The IRS, which verifies income and Social Security numbers, won't be able to perform this service. In 2013, a backlog of 1.2 million income and Social Security number verification requests delayed mortgage and other loan approvals, and some tax refunds were delayed.

Although state government employees may not be significantly impacted by the shutdown, there is a risk to federal employees. Typically, some essential federal workers are asked to work without pay while others are furloughed. The current administration has, however, signaled that there may also be mass layoffs of federal workers during this shutdown.[7]

Air traffic controllers, Transportation Security Administration (TSA) employees, and Border Patrol agents are required to work without pay. Historically, federal employees receive retroactive pay once a shutdown is over. According to the Washington Post, it was the air traffic controllers failing to report to work that ended the 2018-2019 shutdown.[8] Employees of the U.S. Postal Service (USPS) will continue to work with pay, since USPS is largely funded by revenue from the sale of postage materials.

Impact to Vermont and Response from the State

Department of Finance and Management Response

In Vermont, when there is a threat of a federal government shutdown, the Commissioner of Finance and Management sends a memorandum to departments and agencies that receive federal funds requesting that they draw down as much federal money as possible prior the funding deadline to alleviate potential shortfalls in federal funding for existing programs.

According to the Office of the Vermont State Treasurer, the State's cash position is strong, approximately $1.49 billion as of September 22, 2025. Vermont's reserves are in a similarly good position, totaling just shy of $329 million at the close of fiscal year 2025. During the shutdown, the Department of Finance and Management will, in consultation with the Office of the Treasurer, advise the General Assembly on how to use these funds to maintain critical programs. Historically, the federal government has reimbursed states for state funds that were used during a shutdown to backfill federal funds, but as noted there is no guarantee that this would happen.

[6] Clark, Sarah. "Federal Funds Update and Approach." Presentation to the Joint Fiscal Committee, September 18, 2025. https://ljfo.vermont.gov/assets/Meetings/Joint-Fiscal-Committee/2025-09-18/SoA-Federal-Funding-Sept-2025-to-JFC.pdf.

[7] Mascaro, Lisa. Mary Clare Jalonick and Stephen Groves. "Government shutdown takes hold with mass layoffs looming and no end in sight." Associated Press. October 1, 2025. https://apnews.com/article/government-shutdown-congress-trump-health-care-54b2a584657a0b619bc8326708a05604

[8] Stein, Jeff. Andrew Jeong and Jacob Bogage. "A Federal Government Shutdown Looks More and More Likely: What to Know." Washington Post. September 20, 2023. https://www.washingtonpost.com/business/2023/09/20/federal-government-shutdown-2023/

Potential Economic Impact

The 35-day 2018-2019 federal government shutdown had a minor impact on U.S. Gross Domestic Product (GDP). The U.S. Bureau of Economic Analysis (BEA) estimated that it directly decreased real GDP growth by 0.1 percent in the fourth quarter of 2018 and 0.3 percent in the first quarter of 2019.[9]

However, the 2025 shutdown could increase the chances of a downturn in the national economy, as it may add to the headwinds created by the uncertain climate in Congress and the White House. It could also make it more difficult for the Federal Reserve to fine-tune interest rates, since federal statistical agencies may stop releasing regularly scheduled updates on the job market and inflation. Additionally, Moody's has in the past warned that a shutdown could hurt the U.S. credit rating.[10]

Conclusion

It is difficult to forecast the impact of a federal government shutdown based on how previous shutdowns under prior presidential administrations and different economic conditions affected individuals, states, and the economy writ-large. At the present time, it remains unclear how the current presidential administration will respond to the shutdown in the short and long term.

While the immediate impact of the federal government shutdown on federal programs operated by the State may be ameliorated by Vermont's cash reserves, some Vermonters will be affected. Federal employees will have to manage without pay. Ordinary people who rely on federal benefits and services will be impacted the most as those benefits and services are disrupted. In addition, there may be other, broader impacts on the State and federal economies that Vermonters will feel over time.

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[9] U.S. Bureau of Economic Analysis. "Third Estimates for the First Quarter of 2019." July 17, 2019. https://apps.bea.gov/scb/issues/2019/07-july/0719-gdp-economy.htm

[10] Barbuscia, Davide. "US government shutdown bad for country's credit, warns Moody's." Reuters. September 25, 2023. https://www.reuters.com/markets/us/moodys-warns-us-government-shutdown-would-be-credit-negative-2023-09-25/