



# VERMONT LEGISLATIVE Joint Fiscal Office

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## Issue Brief

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## What Happens if There's No Budget: Possible Impacts of a State Government Shutdown

### Executive Summary

Per the Vermont constitution, without an enacted budget the State is not authorized to spend any funds from the Treasury, including federal funds.<sup>1</sup> If a budget or other bill authorizing appropriations isn't enacted by the start of a new fiscal year (July 1), the State government would shut down.

During a State government shutdown, the State may have some limited ability to make payments to State employees, vendors, contractors, schools, grant recipients, and other entities but it is impossible to say what payments, if any, would continue to be made. The same applies for State programs and services – there is no telling what would continue to operate, at what level, and for how long. This would not only be hugely disruptive to Vermonters that are employed by the State or rely on the services it provides, it could also have long-term consequences such as legal challenges or negative impacts on the State's credit and reputation.

It is difficult to overstate the seriousness of a shutdown. The impacts would be all encompassing and potentially extreme. A shutdown could affect many State government functions and services including those in the areas of general government operations, protection and safety, Medicaid, affordable housing, human services, education, natural resources, and transportation.

In the history of Vermont, there is no known precedent for a State government shutdown. Little if any guidance exists on how a limited government would function or how that limited government would be defined.

If no budget is enacted by the start of a new fiscal year and the State government enters a shutdown, Vermont would be entering uncharted territory that could lead to significant legal and fiscal issues.

*Without a budget in place at the start of a new fiscal year, the State government would shut down. In Vermont, there is no known precedent for a State government shutdown. It is not possible to estimate the level or extent of the disruption, but it is difficult to overstate its seriousness.*

<sup>1</sup> Vermont Constitution § 27. [Drawing money from Treasury]: No money shall be drawn out of the Treasury, unless first appropriated by act of legislation.

## Unknown Impacts

A State government shutdown would have unknown consequences for the State's workforce and the delivery of State services. It is unclear which State employees would continue to work during a shutdown and how or when they would be paid. Employment contracts and federal law would likely come into play, including the probable obligation for the State to pay furloughed union employees and at least some exempt employees. If some or all State employees are not working, it is inevitable that State services will be disrupted. However, given that uncertainty about how this would play out, it is not possible for the Joint Fiscal Office (JFO) to estimate which services could be impacted.

Given the lack of formal guidance and historical precedent, JFO cannot estimate the impact to Vermonters and the State services they rely on. However, it is certain that the programs and services that *could* be affected would be wide-ranging – from Medicaid to education payments to summer road work. Impacts could be further complicated by varying legal requirements for federal pass-through programs. As with issues concerning the treatment of State employees, it is impossible to say what or who would experience disruptions and what the logistical and legal implications of addressing those disruptions would be.

Additionally, a government shutdown could negatively impact Vermont's bond rating which could eventually lead to a higher cost of borrowing. Rating agencies have indicated that strong fiscal management is a key factor in the credit rating process. Historically, Vermont has benefitted from strong fiscal management. A budget impasse may not immediately impact ratings, but there is long-term reputational risk.

## Historical Context from Other States

Some other states have established laws that prevent or reduce the risk of an interruption of funding. For instance, at least three states including Rhode Island have statutory mechanisms for continuing appropriations in the event that no budget is enacted before the start of a fiscal year.<sup>2</sup> States where the Governor has a "line-item" veto authority may have avoided shutdowns in the past due to that provision.<sup>3</sup>

Other states, including New Jersey, Pennsylvania, and Maine, have experienced state government shutdowns or "budget impasses." There is some precedent for, in those instances, state-level courts making decisions on the operations of government during the shutdown, as with the 2011 Minnesota state government shutdown.<sup>4</sup> However, those judicial decisions were particular to the governing laws of those states. It is not possible to predict how, or if, the jurisprudence of Vermont's Judiciary would impact a potential State government shutdown.

## Limited Carryforward Authority

Per Act 74 (2026), Sec. 89, the three branches of government have some authority to carry forward unexpended prior year appropriations and designate them for expenditure in the new fiscal year. However, carryforward would likely be insufficient to continue the operations of State government for any significant length of time. The longer a shutdown were to last, the more its impacts would multiply – and the less ability the State would have to mollify them. It should also be noted that, in the event of a shutdown and absence of an enacted State budget, the General Assembly would also likely need to utilize its carryforward to cover the costs of an extended legislative session.

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<sup>2</sup> Rhode Island Office of Management and Budget. "Budget Primer." [https://omb.ri.gov/budget-office/budget-primer#:~:text=The%20Rhode%20Island%20budget%20process%20includes:%20\\*,the%20sources%20of%20financing%20for%20those%20expenditures](https://omb.ri.gov/budget-office/budget-primer#:~:text=The%20Rhode%20Island%20budget%20process%20includes:%20*,the%20sources%20of%20financing%20for%20those%20expenditures)

<sup>3</sup> Wisconsin Legislative Fiscal Bureau. "State Budget Process." p. 12. [https://docs.legis.wisconsin.gov/misc/lfb/informational\\_papers/january\\_2023/0078\\_state\\_budget\\_process\\_informational\\_paper\\_78.pdf](https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2023/0078_state_budget_process_informational_paper_78.pdf)

<sup>4</sup> Minnesota Legislature. "State Government Shutdown Executive Summary." p.8. <https://www.leg.mn.gov/docs/2011/other/110903.pdf>