To: Principal Investigators with State of Minnesota awards expiring after June 30, 2011

From: Pamela A. Webb
Associate Vice Président for Research Administration

Subject: Pre-planning for Possible State of Minnesota Shutdown

Date: June 23, 2011

You are receiving this memorandum because you are a principal investigator of a grant/contract award funded by the State of Minnesota. As you know, the Minnesota State Legislature adjourned May 23, 2011, without appropriating money to fund the operations of state government for the fiscal year that begins July 1, 2011.

The University has received mass mailings from many of the state agencies indicating that work and performance is expected to cease on active projects as of July 1, 2011, pending approved appropriations. Yesterday, we received word that performance on already-obligated grants which do not require state involvement will not be subject to this shutdown requirement, up to the ceiling of their already-obligated funding amount.

Significant efforts have been undertaken in the past few days to communicate with senior state officials about the extent to which these stop work orders should apply to various types of projects. Many state agencies have been contacted individually by SPA, and Vice President Pfutzenreuter has sought clarification among his contacts in the Minnesota Management and Budget Office (MMB) as well. The rest of this memorandum contains details about what information has been received to date, and reflects institutional decisions on how various types of projects can best be handled. Please note that this continues to be a very fluid and rapidly changing issue. We strongly encourage you to check the SPA State Shutdown web page at http://www.ospa.umn.edu/StateShutdown.html to obtain the very latest information as it pertains to state-issued contracts and grants. This page will be updated promptly as new information becomes available.

At this time, we have not been successful in obtaining a state-wide or cross-agency assurance from state officials that any costs we elect to incur on federal flow through or state-funded contracts during a shutdown period will be retroactively reimbursed by the state once the shutdown is over. Although the University is prepared to assume the risk of payments being delayed until the shutdown is over, there is no central University fund source that can support costs incurred on state projects which remain unreimbursed by the state once the shutdown is over. Please note - in the event reimbursement is not allowed for projects that continue during the shutdown, departments and collegiate units will have to assume responsibility for covering all unreimbursed expenditures.

The University has, however, determined that certain types of projects are at greater risk than others. The attached list represents the best information available at present, with recommendations for how each type of project can best be handled. This guidance may change if new information is received from the state; please check the SPA Shutdown web site for updates. Please note that we recommend that in all
cases where spending will continue, that PIs and their units exercise prudence in incurring costs. Spending should be monitored carefully and, where possible, we recommend the delay of significant purchases or transactions until the state budget situation is resolved. This is important both to limit financial exposure in case the University is not ultimately reimbursed for these costs, and also in recognition that the University will need to advance the cash on these projects.

In an effort to reduce the likelihood that employees may need to be laid off because of projects that are shut down, Human Resources is currently evaluating the feasibility of offering one or more voluntary leave programs to assist in protecting and retaining our most valuable project assets – personnel. More information about these offerings is expected to become available next week; we strongly encourage units to wait for this guidance to be released before final decisions are made to suspend spending on any of their projects. This timing may also allow adequate time for state agencies to provide better guidance about handling costing on various types of projects.

SPA will post updates on its State Shutdown web site (http://www.ospa.umn.edu/StateShutdown.html). We suggest that you monitor state web sites such as www.breadymn.com, bulletins and media publications for further information. Please don’t hesitate to contact Senior Associate Director Kevin McKoskey or me for questions in the interim.

Cc: Deans, Department Heads, Administrators
LOW RISK

We recommend that units allow these projects to continue to expend funds after July 1, 2011, unless the local unit has special information on a given project that would dictate a different course of action:

1. **Mayo Partnership Projects which are currently active.** Funding for these projects comes to the University via its general fund appropriations process, and the final installment of the 2010-2011 appropriation is expected to be received by the University by the end of June 2011.

2. **LCCMR Projects which are currently active.** Funding for these projects comes to the University via a special appropriation, and the final installment of the 2010-2011 appropriation is scheduled to be received before the end of June 2011. On June 22nd, LCCMR indicated that spending on these projects may continue unless state employees are needed to support the implementation of the work. If state employees are needed, please contact your LCCMR program officer.

3. **State-issued awards that are funded via federal flow-through money.** These projects are viewed as generally being lower risk because their funding comes from the federal government and not the state. Some state agencies have, however, initially expressed reluctance to leave these projects open because of the potential need for state action before spending can continue. In some cases, the federal flow through dollars are dependent on a state general fund appropriation match or on the state taking action to technically appropriate the federal funds to the agency to spend. There also may be cases in which state officials perform an ongoing monitoring function. Therefore, this category of project still carries some risk. The Minnesota Department of Education has indicated that its projects that are funded with federal flow-through funds may continue, with payments for costs incurred during the shutdown delayed until state operations resume. Other state agencies have not explicitly exempted federal flow through projects from the general stop work order. The Department of Health has indicated that a decision on continuing this type of project is still under consideration. Any known extenuating circumstances surrounding the projects in this category should be taken into consideration when assessing the risk of continuation.

4. **State-funded grants with end dates after July 1, 2011, that are not anticipating additional new funding to be obligated by the state and do not require support from state employees.** This category of funding includes a fully-obligated grant from the state which is currently completing performance. Guidance posted on 6/22/11 on the Minnesota contingency planning web site indicates that these projects may continue performance provided no state employees are needed to support the work. If you have a project that does require state involvement, please consult your state program officer before June 30th for guidance.

MODERATE RISK

Units are authorized to determine whether to permit the following types of projects to remain open. While it is possible for the legislature or the state agencies to “reach back” and retroactively reduce available funding or terminate on-going programs, this is seen as less likely for projects in categories 1-4 than for projects which are heavily or totally reliant upon funding being appropriated in the forthcoming budget year. In addition, state-funded projects that are nearly complete (e.g., have completion dates on or before 12/31/11) may be less likely to be curtailed since the state has already invested heavily, unexpended balances are likely to be more modest, and completion and results are imminent. Note that SPA will leave a moderate risk category project open for spending unless a unit asks for it to be suspended. A list of all state-funded projects with the amount of funding that has been obligated but not
yet billed to the State has been posted to the SPA State Shutdown web site (http://www.ospa.umn.edu/StateShutdown.html).

5. **State-funded Contracts with end dates after July 1, 2011 that are not anticipating additional new funding to be obligated by the state.** This category of funding includes a fully-obligated contract from the state which is currently completing performance.

6. **On-going State-funded Projects relying on renewal funding from the state in FY12.** This type of project is currently operating under a state award or is about to start, but is reliant on new funding in FY12 to remain operational. Because this type of project is likely to involve on-going commitments to project personnel, the University is allowing units to decide whether or not they wish to (and can afford to take) the risk associated with continuing to support the project. The risks here are two: that costs incurred during the shutdown period will not be reimbursed, or that the project or contract itself will not be renewed or will be drastically reduced for the whole of FY12, depending on budget reductions enacted by the state. Units are strongly advised not to authorize continued spending unless they are fully prepared to absorb the costs if the state determines it will not retroactively reimburse the University. Units are also advised to contact their state program officer for help in assessing the potential risks. Note that this type of project may be more subject to “reach back” than the projects in #5 above, since a substantial amount of the project likely still remains to be performed.

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<th>UNACCEPTABLE RISK (Spending may not take place)</th>
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<td>The following types of projects are at the greatest risk of being cancelled or reduced due to the budget constraints of the state. Risk is already increased because the state is not previously invested in these projects. For this reason, the University has determined that spending may not be undertaken on these projects until a state shutdown is over.</td>
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7. **New state-funded projects with start dates of July 1, 2011, or later (or a new project with any start date and funded entirely from FY12 state funds).** No expenses may be incurred on this type of project until after a shutdown is over. This restriction applies regardless of whether a grant or contract has already been received and/or accepted by the University, or if SPA has already set up the award. SPA will notify PIs of any projects they have in this category. For post-shutdown planning purposes, PIs are encouraged to discuss the likely exposure of their individual program or project to budgetary cuts with their state program officer (prior to June 30th). Even with a fully-executed grant/contract, the University is at risk on this category of project because all state awards come with the caveat that payment is contingent upon the availability of state funding. Despite the spending restriction, SPA is giving priority to incoming state awards for prompt negotiation to ensure that all possible contracts are signed before any state shutdown might begin. This may help reduce the exposure for the project to be cut during the budget negotiation process, and will expedite start-up after the shutdown is over.

8. **State projects without a fully-executed grant or contract.** Since the state rarely allows pre-award spending, state projects that do not yet have a fully-executed state contract by June 30th are at greatest risk, and PIs should not assume that even if their project is eventually funded after the shutdown, that costs will be allowed retroactive to July 1st. No spending on these projects may be incurred until after a shutdown is over and a fully-executed grant or contract is in place.