

CHAPTER 4370
DEPARTMENT OF TRADE AND ECONOMIC
DEVELOPMENT
RURAL CHALLENGE LOANS, GRANTS

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4370.0010 DEFINITIONS.

Subpart 1. **Scope.** The definitions in this part apply to this chapter.

Subp. 2. **Annual report.** "Annual report" means a description of projects supported by the challenge grant program, an account of loans made during the calendar year, the source and amount of money collected and distributed by the challenge grant program, the program's assets and liabilities, and an explanation of administrative expenses.

Subp. 3. [Repealed, L 1996 c 369 s 13]

Subp. 4. **Commissioner.** "Commissioner" means the commissioner of trade and economic development.

Subp. 5. **Economic recovery fund.** "Economic recovery fund" means the state funded economic development grant program established by Minnesota Statutes, sections 116J.401 to 116J.403, and 116J.873.

Subp. 6. **Funding region.** "Funding region" means the six rural areas of Minnesota that have boundaries that are coterminous with one or more of the development regions established under Minnesota Statutes, section 462.385. They are identified as follows:

- A. northwest region is coterminous with development regions 1 and 2;
- B. northeast region is coterminous with development region 3;
- C. west central region is coterminous with development region 4;
- D. central region is coterminous with development regions 5, 7E, and 7W;
- E. southwest region is coterminous with development regions 6E, 6W, and 8;

and

- F. southeast region is coterminous with development regions 9 and 10.

Subp. 7. **Grant agreement.** "Grant agreement" means an agreement between the state and a regional organization through which the state provides funds to carry out specified programs, services, or activities.

Subp. 8. **Independent annual audit.** "Independent annual audit" means a yearly financial compliance audit performed by a certified public accountant in accordance with generally accepted accounting practices and auditing standards.

Subp. 9. **Loan limits.** "Loan limits" means that for businesses the minimum loan is \$5,000 and the maximum is \$100,000. For local governmental units the minimum is \$5,000 and the maximum is \$50,000.

Subp. 10. **Local governmental unit.** "Local governmental unit" means a home rule charter or statutory city when the project is located in an incorporated area, a county when the project is located in an unincorporated area, or an American Indian Tribal Council when the project is located within a federally recognized American Indian Reservation or community.

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Subp. 11. **Local revolving loan fund.** "Local revolving loan fund" means a revolving loan fund established by a local governmental unit to promote economic development.

Subp. 12. **Low income.** "Low income" means income that is equal to or below the nonmetropolitan median household income.

Subp. 13. **Minimum interest rate.** "Minimum interest rate" means the interest rate established by the commissioner that cannot be exceeded but that will ensure coverage of the necessary management costs incurred by the regional organization.

Subp. 14. **Private investment.** "Private investment" means cash injections from sources other than state, local, or federal government appropriations.

Subp. 15. **Regional organization.** "Regional organization" means a nonprofit corporation selected by the commissioner to receive a challenge grant.

Subp. 16. **Regional revolving loan fund.** "Regional revolving loan fund" means a commissioner certified revolving loan fund established by a regional organization to provide loans to new and expanding businesses in rural Minnesota to promote economic development.

Subp. 17. **Rural.** "Rural" means the area of Minnesota located outside the seven county metropolitan area as defined by Minnesota Statutes, section 473.121, subdivision 2.

Subp. 18. **Rural rehabilitation revolving fund.** "Rural rehabilitation revolving fund" means the trust fund established in Minnesota Statutes, section 116J.955.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130; L 1996 c 369 s 12,13*

4370.0020 PURPOSE.

The purpose of this chapter is to establish:

A. procedures for the commissioner to select and enter into agreements with regional organizations; and

B. procedures for the use of revolving loan funds under Minnesota Statutes, section 116J.415.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130; L 1996 c 369 s 12*

4370.0030 OBJECTIVES OF PROGRAM.

The objectives of the challenge grant program are to encourage private investment, to provide jobs principally for low income persons, and to promote economic development in the rural areas of the state.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130*

4370.0040 TYPES OF FUNDING AVAILABLE.

The commissioner shall designate up to \$1,000,000 from the rural rehabilitation revolving fund for each funding region to be available over a three year period. The money awarded to each regional organization will be appropriated to its regional revolving loan fund on a project by project basis and matched by the regional organization with an equal amount of nonpublic money.

The regional revolving loan fund shall be used by the regional organization to provide loans directly to new and expanding businesses or to local governmental units to promote economic development.

Loans to businesses from the regional revolving loan fund must be at least \$5,000 and no more than \$100,000. The amount of money appropriated from the regional revolving loan fund for each project may not exceed 50 percent of the total cost of each

project. The amount of nonpublic money must equal at least 50 percent of the cost of each project.

Loans to local governmental units from the regional revolving loan fund must be at least \$5,000 and no more than \$50,000. The money loaned to a local governmental unit must be matched by the local revolving loan fund established by the local governmental unit and used to provide loans to businesses to promote local economic development.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130; L 1996 c 369 s 12*

4370.0050 APPLICATION PROCESS AND REQUIREMENTS FOR SELECTION OF REGIONAL ORGANIZATIONS TO RECEIVE CHALLENGE GRANTS.

Subpart 1. **Eligibility requirements.** An eligible applicant must be a nonprofit corporation that can demonstrate the authority and ability to establish and administer a revolving loan fund, to initiate and implement economic development within its funding region, to be familiar with other available public and private funding sources and economic development programs, and to analyze projects to objectively review loan requests. Subject to the approval of the commissioner, an applicant may contract with other entities that have the technical skills to provide the specific services that fulfill this requirement.

An eligible applicant must demonstrate that its board of directors includes citizens who are experienced in rural development, has representatives of the regional development commissions (when applicable), and has directors representative of the geographic areas in the funding region.

Subp. 2. **Process for submitting application.** The commissioner shall give notice of the period during which applications will be accepted. The notice must be published in the State Register at least 30 days before the closing date.

Subp. 3. **Contents of application.** The application must be in a form prescribed by the commissioner and must include:

A. an assurance signed by the regional organization's chair that the applicant will comply with all applicable state and federal laws and requirements;

B. a resolution passed by the applicant's board of directors approving the submission of an application and authorizing execution of the grant agreement if funds are made available;

C. documentation of an applicant's eligibility; and

D. any additional information that the commissioner requests as necessary to clarify and evaluate the application.

Subp. 4. **Evaluation and approval of applications.** Applicants that meet the eligibility requirements will be evaluated in the following two areas: (1) their ability to provide a nonpublic direct dollar match to the challenge grant award, and (2) their ability to implement requirements of the challenge grant program (including cooperation with other rural development organizations in carrying out the challenge grant program to promote rural development and provide technical assistance).

Statutory Authority: *MS s 116N.08*

History: *13 SR 130; L 1996 c 369 s 12*

4370.0060 AGREEMENTS AND RECORDS.

Subpart 1. **Grant agreement required.** A grant agreement must be established with each regional organization approved for funding by the commissioner. The agreement must be signed by a person authorized to commit the regional organization to legally binding agreements and to execute the agreement.

Subp. 2. **Contents of grant agreement.** The grant agreement must include but is not limited to the following:

A. Assurance that the regional organization has or will establish a commissioner certified revolving loan fund to provide loans to new and expanding businesses in their funding region to promote economic development.

B. Assurance that the grant recipient will comply with all applicable state and federal laws, including the requirements of Minnesota Statutes, section 116J.415.

C. No challenge grant funds shall be used to finance activities not approved in either the grant agreement or each loan agreement. If it is determined that an improper use of funds has occurred, the commissioner will take whatever action is necessary to recover improperly spent funds. Grant recipients must return funds that are improperly expended.

D. The commissioner shall suspend payment of funds to recipients that are not in compliance with applicable state and federal laws, rules, and regulations.

E. Amendments to the grant agreement must be in writing.

Subp. 3. **Recordkeeping.** The following recordkeeping requirements are established:

A. Challenge grant recipients shall maintain financial records that identify the source and application of funds for challenge grant supported activities. These records must contain information about approved loans, obligations, unobligated balances, assets, liabilities, outlays and interest income, use of interest income, and other information as required by the commissioner to fulfill its responsibilities. Financial records, supporting documents, statistical records, and all other records pertinent to the challenge grant program must be retained by the regional organization for one year after the grant program expires and records of each loan for one year from the final repayment. No records or documents may be disposed of while audits, claims, or litigation involving the records are in progress.

B. Challenge grant recipients must arrange and pay for an independent annual audit and submit a copy of the annual audit to the commissioner.

C. By February 15 of each year, an annual report must be submitted to the commissioner. The annual report must include a description of projects supported by the challenge grant program, an account of loans made during the calendar year, the source and amount of loans made during the year, the source and amount of money collected and distributed by the challenge grant program, the program's assets and liabilities, and an explanation of administrative expenses.

The annual report will be used as a basis for reviewing the utilization of challenge grants awarded by the commissioner. Grant agreements will make provisions for reallocation in the event that the regional organization fails to perform its duties.

D. Representatives of the commissioner and the legislative auditor shall have access to all books, records, accounts, reports, files and other papers, things, or property belonging to the regional organization which are related to the administration of the challenge grant program.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130; L 1996 c 369 s 12*

4370.0070 CHALLENGE GRANT ADMINISTRATION MANUAL.

The commissioner shall prepare an administration manual for distribution to eligible regional organizations. The manual must instruct challenge grant applicants in the preparation of loan applications and describe the method by which the regional organization will evaluate and rate the applications.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130; L 1996 c 369 s 12*

4370.0080 THRESHOLD REQUIREMENTS.

Subpart 1. **Regional policies required.** Regional policies must be developed to ensure that business loan applications meet specified eligibility threshold requirements. The criteria in this part must be incorporated into the regional policies.

Subp. 2. **Financing gap.** Loans must be made to businesses that are not likely to undertake a project for which loans are sought without assistance from the challenge grant program. The loan applicant must demonstrate the existence of a financing gap by documenting which of the following apply to the business:

- A. inadequate equity;
- B. inadequate private lender financing; or
- C. inability to pay market interest rate or term requirements.

Subp. 3. **Jobs which principally benefit low income persons.** A loan must be used for a project designed principally to benefit low income persons through the creation or retention of jobs (principally is defined as more than 50 percent of the persons benefiting).

In addressing this criterion, an applicant should be prepared to show how low income persons directly benefit from the creation or retention of jobs by providing evidence that the jobs retained employ low income persons and that jobs created are filled or made available to low income persons. The following are minimum threshold requirements relating to low income job creation/retention.

A. Among loan applicants, priority must be given on the basis of the number of permanent jobs created or retained by the project and the proportion of nonstate money leveraged by the revolving loan.

B. Only jobs directly resulting from a specific grant activity will be considered.

C. In order to count retained jobs, there must be clear documentation provided by the business that it would reduce operations in the community or discontinue operations in Minnesota if additional financing is not made available.

Subp. 4. **Leverage private investment.** The amount of money made available from the regional revolving loan fund may not exceed 50 percent of the total cost of the project. The following are minimum threshold requirements for leveraging private investment:

A. Except with prior approval by the commissioner, leveraged private investment by the business must be in the form of new commitments that have not yet been expended.

B. Financial commitments should not be contingent upon events other than the approval of the regional revolving loan.

C. With the approval of the commissioner, a loan may be used to provide up to 50 percent of the private investment required to qualify for a grant from the economic recovery fund.

D. For business loans, the amount of money appropriated from the rural rehabilitation revolving fund may not exceed 50 percent of each loan made by the regional organization. The amount of nonpublic money must be at least 50 percent of each loan made by the regional organization. The loan limits of the regional organization will be \$5,000 minimum and \$100,000 maximum.

E. For loans to local governmental units, the amount of money appropriated from the rural rehabilitation revolving fund for each regional revolving loan may not exceed \$25,000. The maximum regional revolving loan is \$50,000. The local governmental unit must match the loan at a minimum dollar for dollar from its revolving loan fund. The loan made by a local governmental unit may be 100 percent public funds.

F. In determining which business activities may be considered for loans, the following minimum requirements apply:

(1) A loan may not exceed 50 percent of the total cost of an individual project.

(2) Eligible business enterprises include technologically innovative industries, value added manufacturing, agriprocessing, information industries, and agricultural marketing.

(3) A loan may not be used for a retail development project.

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(4) A business applying for a loan must be sponsored by a resolution of the local governmental unit within whose jurisdiction the project is located.

(5) Loan applications given preliminary approval by the regional organization must be forwarded to the commissioner for final approval.

Subp. 5. **Loan repayment.** For loans made to businesses, amounts equal to one-half of each principal and interest repayment must be deposited in the rural rehabilitation revolving fund. The money deposited in the fund will be used for additional challenge grants to the funding region for which the money was originally designated. The remaining amount of the loan repayment may be deposited in the regional revolving loan fund for further distribution by the regional organization.

For loans made to local governmental units, one-half of the money loaned by the regional organization must be repaid to the rural rehabilitation revolving fund. With the agreement of the regional organization, 50 percent of the money may be retained by the local governmental unit's revolving loan fund for further distribution by the local governmental unit.

Statutory Authority: *MS s 116N.08*

History: *13 SR 130*