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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. 2884

03/10/2016 Authored by Vogel; Mahoney; Baker; Johnson, S.; Backer and others
The bill was read for the first time and referred to the Committee on Job Growth and Energy Affordability Policy and Finance

1.1 A bill for an act
1.2 relating to economic development; making changes to the Urban Initiative
1.3 Board and its related programs; providing for statewide access to the program;
1.4 appropriating money; amending Minnesota Statutes 2014, sections 116M.14,
subdivisions 2, 4, by adding subdivisions; 116M.15, subdivision 1; 116M.17,
subdivisions 2, 4; 116M.18.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. Minnesota Statutes 2014, section 116M.14, subdivision 2, is amended to read:

1.9 Subd. 2. **Board.** "Board" means the ~~Urban~~ Minnesota Initiative Board.

1.10 Sec. 2. Minnesota Statutes 2014, section 116M.14, is amended by adding a subdivision
1.11 to read:

1.12 Subd. 3a. **Department.** "Department" means the Department of Employment and
1.13 Economic Development.

1.14 Sec. 3. Minnesota Statutes 2014, section 116M.14, subdivision 4, is amended to read:

1.15 Subd. 4. **Low-income area.** "Low-income area" means:

1.16 (1) Minneapolis, St. Paul;

1.17 ~~(2) those cities in the metropolitan area as defined in section 473.121, subdivision~~
1.18 ~~2, that have an average income that is below 80 percent of the median income for a~~
1.19 ~~four-person family as of the latest report by the United States Census Bureau; and~~

1.20 ~~(3) (2) those cities in the metropolitan area, which contain two or more contiguous~~
1.21 ~~census tracts in which the average family income is less than 80 percent of the median~~
1.22 ~~family income for the Twin Cities metropolitan area as of the latest report by the United~~
1.23 ~~States Census Bureau.~~

2.1 Sec. 4. Minnesota Statutes 2014, section 116M.14, is amended by adding a subdivision
2.2 to read:

2.3 Subd. 4a. **Low-income person.** "Low-income person" means a person who has an
2.4 annual income, adjusted for family size, of not more than 80 percent of the area median
2.5 family income for the Twin Cities metropolitan area as of the latest report by the United
2.6 States Census Bureau.

2.7 Sec. 5. Minnesota Statutes 2014, section 116M.14, is amended by adding a subdivision
2.8 to read:

2.9 Subd. 4b. **Metropolitan area.** "Metropolitan area" has the meaning given in section
2.10 473.121, subdivision 2.

2.11 Sec. 6. Minnesota Statutes 2014, section 116M.14, is amended by adding a subdivision
2.12 to read:

2.13 Subd. 6. **Minority person.** "Minority person" means a person belonging to a racial
2.14 or ethnic minority as defined in Code of Federal Regulations, title 49, section 23.5.

2.15 Sec. 7. Minnesota Statutes 2014, section 116M.14, is amended by adding a subdivision
2.16 to read:

2.17 Subd. 7. **Program.** "Program" means the Minnesota Initiative program created
2.18 by this chapter.

2.19 Sec. 8. Minnesota Statutes 2014, section 116M.15, subdivision 1, is amended to read:

2.20 Subdivision 1. ~~Creation; membership~~ **Membership.** The ~~Urban~~ Minnesota
2.21 Initiative Board is created and consists of the commissioner of employment and economic
2.22 development, the chair of the Metropolitan Council, and ~~eight~~ 12 members from the general
2.23 public appointed by the governor. ~~Six~~ Nine of the public members must be representatives
2.24 from minority business enterprises. No more than ~~four~~ six of the public members may be of
2.25 one gender. Appointments must ensure balanced geographic representation. At least half
2.26 of the public members must have experience working to address racial income disparities.

2.27 All public members must be experienced in business or economic development.

2.28 Sec. 9. Minnesota Statutes 2014, section 116M.17, subdivision 2, is amended to read:

2.29 Subd. 2. **Technical assistance.** The ~~board through the department;~~ shall provide
2.30 technical assistance and ~~development information services to state agencies, regional~~
2.31 ~~agencies, special districts, local governments, and the public, with special emphasis on~~

3.1 ~~minority communities~~ informational outreach about the program to lenders, nonprofit
 3.2 corporations, and low-income and minority communities throughout the state that support
 3.3 the development of business enterprises and entrepreneurs.

3.4 Sec. 10. Minnesota Statutes 2014, section 116M.17, subdivision 4, is amended to read:

3.5 Subd. 4. **Reports.** The board shall submit an annual report to the legislature of an
 3.6 accounting of loans made under section 116M.18, including information on loans to
 3.7 ~~minority business enterprises made,~~ the number of jobs created by the program, the impact
 3.8 on low-income areas, and recommendations concerning minority business development
 3.9 and jobs for persons in low-income areas.

3.10 Sec. 11. Minnesota Statutes 2014, section 116M.18, is amended to read:

3.11 **116M.18 URBAN CHALLENGE GRANTS MINNESOTA INITIATIVE**
 3.12 **PROGRAM.**

3.13 Subdivision 1. **Establishment.** The Minnesota Initiative program is established to
 3.14 award grants to nonprofit corporations to fund loans to businesses owned by minority or
 3.15 low-income persons or women.

3.16 Subd. 1a. **Statewide loans.** To the extent there is sufficient eligible demand,
 3.17 loans shall be made so that an approximately equal dollar amount of loans are made to
 3.18 businesses in the metropolitan area as in the nonmetropolitan area. If funds remain after
 3.19 the ninth month of the fiscal year, those funds shall revert to the general loan pool and may
 3.20 be lent in any part of the state.

3.21 ~~Subdivision 1~~ Subd. 1b. **Eligibility rules Grants.** The board shall make urban
 3.22 challenge grants for use in low-income areas to nonprofit corporations to fund loans to
 3.23 businesses owned by minority or low-income persons or women, to encourage private
 3.24 investment, to provide jobs for minority and low-income persons and others in low-income
 3.25 areas, to create and strengthen minority business enterprises, and to promote economic
 3.26 development in a low-income area. The board shall adopt rules to establish criteria for
 3.27 determining loan eligibility.

3.28 Subd. 2. **Challenge Grant eligibility; nonprofit corporation.** (a) The board
 3.29 may enter into agreements with nonprofit corporations to fund and guarantee loans the
 3.30 nonprofit corporation makes in low-income areas under subdivision 4. A corporation must
 3.31 demonstrate that to businesses owned by minority or low-income persons or women. The
 3.32 board shall evaluate applications from nonprofit corporations. In evaluating applications,
 3.33 the board must consider, among other things, whether the nonprofit corporation:

4.1 (1) ~~its~~ has a board of directors that includes citizens experienced in business
 4.2 and community development, minority business enterprises, addressing racial income
 4.3 disparities, and creating jobs in low-income areas for low-income and minority persons;

4.4 (2) it has the technical skills to analyze projects;

4.5 (3) it is familiar with other available public and private funding sources and
 4.6 economic development programs;

4.7 (4) it can initiate and implement economic development projects;

4.8 (5) it can establish and administer a revolving loan account or has operated a
 4.9 revolving loan account; and

4.10 (6) it can work with job referral networks which assist minority and ~~other persons in~~
 4.11 ~~low-income areas~~ low-income persons; and

4.12 (7) has established relationships with minority communities.

4.13 (b) The department shall review existing agreements with nonprofit corporations
 4.14 every five years and may renew or terminate the agreement based on the review. In making
 4.15 its review, the department shall consider, among other criteria, the criteria in paragraph (a).

4.16 Subd. 3. **Revolving loan fund.** (a) The board shall establish a revolving loan fund to
 4.17 make grants to nonprofit corporations for the purpose of making loans ~~and loan guarantees~~
 4.18 ~~to new and expanding businesses in a low-income area to promote~~ owned by minority
 4.19 or low-income persons or women and to support minority business enterprises and job
 4.20 creation for minority and ~~other persons in low-income areas~~ low-income persons.

4.21 (b) Nonprofit corporations that receive grants from the department under the
 4.22 program must establish a commissioner-certified revolving loan fund for the purpose
 4.23 of making eligible loans.

4.24 (c) Eligible business enterprises include, but are not limited to, technologically
 4.25 innovative industries, value-added manufacturing, and information industries. Loan
 4.26 applications given preliminary approval by the nonprofit corporation must be forwarded to
 4.27 the board for approval. The commissioner must give final approval for each loan ~~or loan~~
 4.28 guarantee made by the nonprofit corporation. The amount of the state funds contributed to
 4.29 any loan ~~or loan guarantee~~ may not exceed 50 percent of each loan.

4.30 Subd. 4. **Business loan criteria.** (a) The criteria in this subdivision apply to loans
 4.31 ~~made or guaranteed~~ by nonprofit corporations under the ~~urban challenge grant~~ program.

4.32 (b) ~~Loans or guarantees~~ must be made to businesses that are not likely to undertake
 4.33 a project for which loans are sought without assistance from the ~~urban challenge grant~~
 4.34 program.

4.35 (c) A loan ~~or guarantee~~ must be used for a project designed to benefit persons in
 4.36 ~~low-income areas through the creation of job or business opportunities for them~~ to support

5.1 a business owned by a minority or a low-income person or woman. Priority must be
 5.2 given for loans to the lowest income areas.

5.3 (d) The minimum state contribution to a loan ~~or guarantee~~ is \$5,000 and the
 5.4 maximum is \$150,000.

5.5 (e) The state contribution must be matched by at least an equal amount of new
 5.6 private investment.

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

5.8 (g) The business must agree to work with job referral networks that focus on
 5.9 minority and low-income applicants ~~from low-income areas.~~

5.10 Subd. 4a. **Microenterprise loan.** ~~Urban challenge~~ Program grants may be
 5.11 used to make microenterprise loans to small, beginning businesses, including a sole
 5.12 proprietorship. Microenterprise loans are subject to this section except that:

5.13 (1) they may also be made to qualified retail businesses;

5.14 (2) they may be made for a minimum of ~~\$1,000~~ \$5,000 and a maximum of ~~\$25,000~~
 5.15 \$35,000; and

5.16 (3) in a low-income area, they may be made for a minimum of \$5,000 and a
 5.17 maximum of \$50,000; and

5.18 ~~(3)~~ (4) they do not require a match.

5.19 Subd. 5. **Revolving fund administration; rules.** (a) The board shall establish a
 5.20 minimum interest rate for loans or guarantees to ensure that necessary loan administration
 5.21 costs are covered.

5.22 (b) Loan repayment ~~amounts equal to one-half of the principal and interest~~ must be
 5.23 ~~deposited in a revolving fund created by the board for challenge grants. The remaining~~
 5.24 ~~amount of the loan repayment may be paid to the department for deposit in the revolving~~
 5.25 loan fund. Loan interest payments must be deposited in a revolving loan fund created
 5.26 by the nonprofit corporation originating the loan being repaid for further distribution,
 5.27 consistent with the loan criteria specified in subdivision 4 of this section.

5.28 (c) Administrative expenses of the ~~board and~~ nonprofit corporations with whom
 5.29 the board enters into agreements ~~under subdivision 2~~, including expenses incurred by
 5.30 a nonprofit corporation in providing financial, technical, managerial, and marketing
 5.31 assistance to a business enterprise receiving a loan under subdivision 4, may be paid out of
 5.32 the interest earned on loans and out of interest earned on money invested by the state Board
 5.33 of Investment under section 116M.16, subdivision 2, as may be provided by the board.

5.34 ~~Subd. 6. Rules. The board shall adopt rules to implement this section.~~

5.35 Subd. 6a. **Nonprofit corporation loans.** The board may make loans to a nonprofit
 5.36 corporation with which it has entered into an agreement under subdivision ~~1~~ 2. These

6.1 ~~loans must be used to support a new or expanding business.~~ This support may include
 6.2 such forms of financing as the sale of goods to the business on installment or deferred
 6.3 payments, lease purchase agreements, or royalty investments in the business. The interest
 6.4 rate charged by a nonprofit corporation for a loan under this subdivision must not exceed
 6.5 the Wall Street Journal prime rate plus four percent. For a loan under this subdivision, the
 6.6 nonprofit corporation may charge a loan origination fee equal to or less than one percent
 6.7 of the loan value. The nonprofit corporation may retain the amount of the origination fee.
 6.8 The nonprofit corporation must provide at least an equal match to the loan received by the
 6.9 board. The maximum loan available to the nonprofit corporation under this subdivision is
 6.10 \$50,000. Loans made to the nonprofit corporation under this subdivision may be made
 6.11 without interest. Repayments made by the nonprofit corporation must be deposited in the
 6.12 revolving fund created for ~~urban initiative~~ program grants.

6.13 Subd. 7. **Cooperation.** A nonprofit corporation that receives ~~an urban challenge a~~
 6.14 program grant shall cooperate with other organizations, including but not limited to,
 6.15 community development corporations, community action agencies, and the Minnesota
 6.16 small business development centers.

6.17 Subd. 8. **Reporting requirements.** A nonprofit corporation that receives a
 6.18 ~~challenge~~ program grant shall:

6.19 (1) submit an annual report to the board by ~~September~~ March 30 of each year that
 6.20 includes a description of ~~projects~~ businesses supported by the ~~urban challenge~~ grant
 6.21 program, an account of loans made during the calendar year, the program's impact on
 6.22 minority business enterprises and job creation for minority persons and low-income
 6.23 persons ~~in low-income areas~~, the source and amount of money collected and distributed by
 6.24 the ~~urban challenge grant~~ program, the program's assets and liabilities, and an explanation
 6.25 of administrative expenses; and

6.26 (2) provide for an independent annual audit to be performed in accordance with
 6.27 generally accepted accounting practices and auditing standards and submit a copy of each
 6.28 annual audit report to the board.

6.29 Subd. 9. **Capacity building grants.** The department may make grants to nonprofit
 6.30 corporations for the purpose of building their capacity to meet the eligibility criteria for
 6.31 the grant program under subdivision 2, or in applying for the Department of Employment
 6.32 and Economic Development's business development competitive grant program. Funding
 6.33 priority must be given to those applicants that can demonstrate that they have established
 6.34 relationships with minority communities and have provided small business-related
 6.35 services primarily to low-income and minority business enterprises.

7.1 Sec. 12. **APPROPRIATION; MINNESOTA INITIATIVE PROGRAM.**

7.2 \$4,000,000 in fiscal year 2017 is appropriated from the general fund to the
7.3 commissioner of employment and economic development for the Minnesota Initiative
7.4 program under Minnesota Statutes, section 116M.18. Of this amount, up to five percent
7.5 is for administration, outreach, and monitoring of the program. This is a onetime
7.6 appropriation.

7.7 Sec. 13. **APPROPRIATION FOR CAPACITY BUILDING GRANTS.**

7.8 \$1,000,000 in fiscal year 2017 is appropriated from the general fund to the
7.9 commissioner of employment and economic development for making capacity building
7.10 grants under Minnesota Statutes, section 116M.18, subdivision 9. This is a onetime
7.11 appropriation.

7.12 Sec. 14. **REVISOR'S INSTRUCTION.**

7.13 In the next editions of Minnesota Statutes and Minnesota Rules, the Revisor of
7.14 Statutes shall change the term "Urban Initiative Board" to "Minnesota Initiative Board,"
7.15 "board," or similar terms as the context requires.

7.16 Sec. 15. **EFFECTIVE DATE.**

7.17 Sections 1 to 14 are effective July 1, 2016.