

CHAPTER 1230
DEPARTMENT OF ADMINISTRATION
STATE CONTRACTS

BIDDING AND CONTRACTS		1230.1820	REQUIRED SUBCONTRACTING FOR CONSTRUCTION OR PROFESSIONAL OR TECHNICAL SERVICES.
1230.0100	SCOPE.		
1230.0150	DEFINITIONS.	1230.1830	PREFERENCE PROCUREMENTS FROM ECONOMICALLY DISADVANTAGED SMALL BUSINESSES.
1230.0300	SOLICITING RESPONSES.		
1230.0400	ADVERTISED SOLICITATIONS.	1230.1850	REMOVAL FROM SOCIALLY DISADVANTAGED OR ECONOMICALLY DISADVANTAGED AREA SMALL BUSINESS PROGRAM.
1230.0500	SECURITY.		
1230.0600	RESPONDER ERRORS.	1230.1860	LIMITS TO PROGRAM PARTICIPATION.
1230.0700	RECEIPT AND OPENING OF RESPONSES.	1230.1900	GENERAL TERMS AND CONDITIONS.
1230.0750	ORGANIZATIONAL CONFLICTS OF INTEREST.	1230.1905	NOTICE OF CHANGES.
1230.0800	AWARD OF CONTRACTS.	1230.1910	PROFESSIONAL AND TECHNICAL PROCUREMENTS.
1230.0900	TIED BIDS.		DEBARMENT AND SUSPENSION
1230.1000	CONTRACT PERFORMANCE.		
1230.1100	FAILURE TO PERFORM.	1230.3000	SCOPE.
1230.1150	AUTHORITY TO DEBAR OR SUSPEND VENDORS.	1230.3100	DEFINITIONS.
1230.1175	REINSTATEMENT AND PROBATION.	1230.3200	GROUNDWORK FOR DEBARMENT.
1230.1180	TERMINATION OF DEBARMENT OR AWARD DURING DEBARMENT.	1230.3300	CONVICTION OF PERSON IMPUTED TO BUSINESS.
1230.1200	CONTRACT CANCELLATION.	1230.3400	DEBARMENT PROCEDURE.
1230.1300	REHABILITATION FACILITY.	1230.3500	TERM OF DEBARMENT.
SMALL BUSINESS PROCUREMENT PROGRAM		1230.3600	DEBARMENT BASED ON AFFILIATION.
1230.1400	PURPOSE.	1230.3700	DEBARMENT LIMITATION.
1230.1450	SCOPE.	1230.3800	EFFECTIVE DATE OF DEBARMENT.
1230.1600	ELIGIBILITY FOR SOCIALLY DISADVANTAGED OR ECONOMICALLY DISADVANTAGED AREA SMALL BUSINESS PROGRAM.	1230.3900	TERMINATION OF DEBARMENT OR AWARD DURING DEBARMENT.
1230.1700	CERTIFICATION OF ELIGIBILITY.	1230.4000	CONTINUATION OF CONTRACTS.
1230.1805	PROCUREMENTS FROM SOCIALLY AND ECONOMICALLY DISADVANTAGED SMALL BUSINESSES.	1230.4100	PROHIBITIONS.
		1230.4200	SUSPENSION.
1230.1810	PROPORTIONAL UTILIZATION OF SOCIALLY DISADVANTAGED BUSINESSES.	1230.4300	NOTICE TO PUBLIC.

BIDDING AND CONTRACTS

1230.0100 SCOPE.

Pursuant to Minnesota Statutes, chapters 16B and 16C, parts 1230.0100 to 1230.1910 govern the procurement of materials and services for the state.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.0150 DEFINITIONS.

Subpart 1. **Scope.** Within parts 1230.0100 to 1230.1910, the following apply, unless clearly indicated otherwise by the context.

Subp. 2. **Affiliate or subsidiary of a business dominant in its field of operation.**

A. "Affiliate or subsidiary of a business dominant in its field of operation" means a business that is at least 20 percent owned by a business dominant in its field of operation or by partners, officers, directors, majority stockholders, or their equivalent of a business dominant in that field of operation.

B. "Dominant in its field of operation" means exceeding the annual gross revenues or sales specified in part 1230.1600, subpart 3.

Subp. 2a. **Best value.** "Best value" describes a result intended in the acquisition of all goods and services unless otherwise provided for by law. Except as otherwise provided

1230.0150 STATE CONTRACTS

80

by law, price must be one of the evaluation criteria when acquiring goods and services. Other evaluation criteria may include, but are not limited to, environmental considerations, quality, and vendor performance.

Subp. 2b. **Bid.** "Bid" means an offer extended by a vendor in response to a request for bids.

Subp. 3. **Broker.** "Broker" means a business that does not take legal title to the product, does not add value to the product, and has no written authorization to represent the manufacturer of the product.

Subp. 4. **Business.** "Business" means a contractor, subcontractor, supplier, consultant, or provider of technical, administrative, or physical services organized as a sole proprietorship, partnership, association, corporation, or other entity formed for the purpose of doing business for profit.

Subp. 4a. **Competitive bidding.** "Competitive bidding" means a process by which an award is made to the lowest responsible bidder meeting all terms, conditions, and specifications of the solicitation document.

Subp. 5. **Contractor.** "Contractor" means a business that is engaged in construction such as general, mechanical, or electrical contracting, or that provides a specific service such as trash removal, snow removal, janitorial services, or professional or technical services.

Subp. 6. **Dealer, jobber, or distributor.** "Dealer," "jobber," or "distributor" means a business that maintains a store, warehouse, or other establishment in which a line or lines of products are kept in inventory and are sold to the public on a wholesale or retail basis.

Subp. 7. **Debarment.** "Debarment" means the disqualification of a person from receiving solicitations, the award of a contract by a governmental body, or selling any products or services to state agencies for a specified time commensurate with the seriousness of the offense, the failure, or the inadequacy of performance.

Subp. 8. **Director.** "Director" means director of the Materials Management Division or a Materials Management Division manager with written delegation of authority from the director.

Subp. 9. **Division.** "Division" means Materials Management Division, Department of Administration, Room 112, State Administration Building, 50 Sherburne Avenue, Saint Paul, Minnesota 55155.

Subp. 10. **Franchise.** "Franchise" means an operating agreement obtained from a franchiser to conduct a business entity, as an affiliate, that does not provide the operator with the exclusive right to profit from the operator's effort, commensurate with ownership and to bear the risk of loss or failure and does not meet the test of ownership outlined in subpart 26 and part 1230.1700, subparts 5, item C, and 5a, items A to F.

Subp. 11. **Joint venture.** "Joint venture" means the temporary association of two or more businesses to secure and fulfill a contract. For contracts awarded under the preference or set-aside provisions of the small business procurement program in parts 1230.1400 to 1230.1910, all parties in the joint venture must be certified as targeted groups or economically disadvantaged area businesses.

Subp. 12. **Liquidated damages.** "Liquidated damages" means a specific sum of money, agreed to as part of a contract to be paid by one party to the other in the event of a breach of contract in lieu of actual damages, unless otherwise provided by law.

Subp. 13. **Manufacturer.** "Manufacturer" means a business that makes or processes raw materials into a finished product.

Subp. 14. **Manufacturer's representative.** "Manufacturer's representative" means a business that has a written agreement or agreements with one or more manufacturers or manufacturer's authorized distributors to sell the products of the manufacturer, but that is not an employee of the manufacturer.

Subp. 15. **Material variance or material deviation.** "Material variance" or "material deviation" means a variance in a response from specifications or conditions that allows a responder a substantial advantage or benefit not enjoyed by all other responders or gives the state something significantly different from what the state requested in the solicitation document.

Subp. 16. **Open market.** "Open market" means purchases made in the marketplace without the need for competitive solicitations.

Subp. 17. **Person.** "Person" means a natural person or a business and includes both if the natural person is engaged in a business.

Subp. 18. **Principal place of business.** "Principal place of business" means the primary physical location at which or from which a business performs, is maintained, or operates.

Subp. 18a. **Proposal.** "Proposal" means an executed document submitted by a vendor in response to a request for proposals.

Subp. 19. **Reinstatement.** "Reinstatement" means a process by which a debarred vendor is restored to the state vendor list.

Subp. 19a. **Responder.** "Responder" means a person who provides an offer in response to a solicitation.

Subp. 20. **Responsible vendor.** "Responsible vendor" means a vendor who:

A. is a manufacturer of, deals in, but is not a broker of, or is the agent of a manufacturer with full knowledge of supplies to be furnished; or

B. if services are to be provided, has the necessary skills or is in the business of supplying these services; and

C. can demonstrate a satisfactory credit standing, lack of delinquent tax liability, and the financial capability to perform a contract as evidenced by the ability to obtain bonding when required; and

D. has no unresolved record of failure to perform, or of unsatisfactory performance of, contracts for the state or other customers; and

E. is not currently debarred by another government entity for any cause including defaults on contracts, late deliveries, products not meeting specifications, substandard installation, or service; and

F. is otherwise qualified under rule and law, including incorporation in or registration to do business in Minnesota; and

G. has not engaged in unlawful practices, associated with organized crime, or operated under false names or fronts as a small business or a socially or economically disadvantaged small business; and

H. is in compliance with all tax laws of Minnesota, as evidenced by timely filing of all required returns, reports, payments, and possession of all applicable stamps, licenses, or other permits, and freedom from any judgment, lien, or seizure of assets or property to satisfy tax payments or duties; and

I. is willing to furnish all information necessary to determine responsibility as outlined in items A to H within 30 calendar days or less or within a reasonable amount of time determined by prior consensus between the bidder and the division.

Subp. 21. **SIC or Standard Industrial Classification and NAICS or North American Industry Classification System.** "SIC" or "standard industrial classification" and "NAICS" or "North American Industry Classification System" are systems developed for use in the classification of business establishments by type of activity for the purpose of facilitating the collection, tabulation, presentation, and analysis of data collected by various agencies of the United States government, state agencies, trade associations, and private research organizations for promoting uniformity and comparability in the presentation of statistical data relating to those establishments and their fields of endeavor.

Subp. 21a. **Solicitation.** "Solicitation" means a request for bids or a request for proposals.

Subp. 22. **Suspension.** "Suspension" means to be temporarily suspended by the director of materials management from receiving solicitations, the award of a contract, or selling any products or services to state agencies while the director determines if there is probable cause for debarment.

Subp. 23. **Targeted group businesses.** "Targeted group businesses" means certified businesses designated by the commissioner of administration that are at least 51 percent owned and operated by women, persons with substantial physical disabilities, or specific minorities and provide goods, products, or services within purchasing categories designated by the commissioner.

Subp. 24. **Terms governing socially disadvantaged persons.** The terms in items A to C have the meanings given them for purposes of administering the small business procurement program.

A. "Racial minority" means an individual in one or more of the categories in subitems (1) to (5).

(1) "Black American" means persons having origins in any of the Black racial groups of Africa.

(2) "Hispanic American" means persons having origins in Mexico, Puerto Rico, Cuba, Central or South America, or other Spanish culture, regardless of race.

(3) "Asian Pacific American" means persons having origins in Burma, Thailand, Malaysia, Indonesia, Singapore, Brunei, Japan, China (including Hong Kong), Taiwan, Laos, Cambodia (Kampuchea), Vietnam, Korea, the Philippines, the United States Trust Territory of the Pacific Islands (Republic of Palau), Republic of the Marshall Islands, Federated states of Micronesia, the Commonwealth of the Northern Mariana Islands, Guam, Samoa, Macao, Fiji, Tonga, Kiribati, Tuvalu, or Nauru.

(4) "Subcontinent Asian American" means persons having origins in India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives Islands, or Nepal.

(5) "Indigenous American" means:

(a) Eskimos and Aleuts having origins in any of the original people of North America who maintain cultural affiliation through tribal or community affiliation;

(b) native Hawaiians whose ancestors were natives, prior to 1778, of the area which now comprises the state of Hawaii; and

(c) American Indians having origins in any of the original people of North America who are enrolled members of Indian tribes recognized by the governments of the United States and Canada.

B. "Women" means persons of the female gender.

C. "Substantial physical disability" means with respect to an individual:

(1) a physical impairment that substantially limits one or more major life activities;

(2) a record of such an impairment; or

(3) being regarded as having such an impairment.

Subp. 25. **Third-party lessor.** "Third-party lessor" means a business that as a lessee acts as a lessor to a third party.

Subp. 26. **Small business eligible for certification as socially disadvantaged business or economically disadvantaged area business.** "Small business eligible for certification as socially disadvantaged business or economically disadvantaged area business" means a small business entity with its principal place of business in Minnesota organized for profit, including an individual, partnership, corporation, joint venture, association, or cooperative that is at least 51 percent owned and is operationally controlled on a day-to-day

basis by citizens or lawfully admitted permanent residents of the United States. Certified rehabilitation facilities and extended employment providers need not be organized for profit to be eligible for certification.

Subp. 27. **Vendor.** "Vendor" means a natural person or a business and includes both if the natural person is engaged in a business.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.0200 [Repealed, 16 SR 194]

1230.0300 SOLICITING RESPONSES.

Subpart 1. **Publication.** Notice of solicitations estimated to exceed the limits established by Minnesota Statutes, section 16C.06, subdivision 1, must be advertised at least seven calendar days prior to the opening date. Responses must also be solicited by announcing solicitations to prospective responders registered with the division pursuant to subpart 3.

Subp. 2. [Repealed, 28 SR 499]

Subp. 3. **Vendor list.** A record of potential responders must be maintained by the division for various commodities and services. Persons desiring to sell commodities or provide services to the state may request a vendor registration application. Upon approval of the application by the division as meeting the requirements in part 1230.0150, subpart 20, the vendor's name must be placed on appropriate lists to receive solicitations. The name of a vendor who fails to respond to three consecutive solicitations may be removed from the vendor list. The name of the vendor so removed will be restored only through specific written request from the vendor.

Statutory Authority: *MS s 16B.04; 16B.07; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *11 SR 1784; 16 SR 194; 28 SR 499*

1230.0400 ADVERTISED SOLICITATIONS.

Subpart 1. [Repealed, 16 SR 194]

Subp. 2. **Solicitation conditions.** General terms and conditions applicable to all state purchases must be stated in the standard solicitation document. Special terms and conditions applicable to specific commodities or types of purchase must also be stated in the solicitation document. In the event of conflict between general terms and conditions and special terms and conditions, the special terms and conditions will govern.

Subp. 3. [Repealed, 16 SR 194]

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.0500 SECURITY.

Subpart 1. **Payment.** Each solicitation must set forth the security required by the division, if any. The security may be a bid bond or a security check, such as a certified check, cashier's check, or money order, made payable to "State of Minnesota" and must be made upon the condition or guarantee that in the event the responder's offer is accepted, the responder must enter into a contract in accordance with the solicitation. Solicitations may stipulate that a security check may also be held as supply security for delivery or acceptance of merchandise, or satisfactory completion of the contract. A successful responder may substitute a supply bond or an irrevocable letter of credit from a bank for a security check.

1230.0500 STATE CONTRACTS

84

Subp. 2. **Forfeit.** Bid bonds or security checks of successful responders constitute liquidated damages for failure of a responder to enter into a contract. Security checks of successful responders that are held as supply security constitute liquidated damages for failure of the successful responder to make delivery, to have merchandise accepted, or to satisfactorily complete the contract.

Subp. 3. **Return.** Security checks of unsuccessful responders must be returned to the responder by placing them in the mail within five working days after an award is made. Security checks of successful responders must be returned upon receipt of required supply bond or payment and performance bonds. Security checks of successful responders that are held as supply security must be returned within five working days after delivery is completed and notification to the division that acceptance is made by the agency, or the contract is satisfactorily completed. No interest may be paid on any money held as security.

Subp. 4. [Repealed, 28 SR 499]

Subp. 5. [Repealed, 28 SR 499]

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.0600 RESPONDER ERRORS.

Prior to the date and time responses are due, any person may withdraw a response or any part of a bid by notifying the director in writing of the desire to withdraw, by appearing in person at the division office and withdrawing the response, or by an electronic writing or facsimile received by the director requesting withdrawal of the response.

Subsequent to the date and time responses are due, a person may withdraw a response or any part of a bid only upon a showing that an obvious error exists in the response. The showing and request for withdrawal must be made in writing to the director within a reasonable time after the opening of the responses and prior to the state's detrimental reliance on the response.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.0700 RECEIPT AND OPENING OF RESPONSES.

Subpart 1. **Treatment of responses to solicitations.** Upon receipt, all bids and proposals must be time stamped, showing the date and hour received. Responses must be opened publicly and read aloud in accordance with Minnesota Statutes, section 13.591, subdivision 3, at the time and place established in the solicitation. Bids and proposals received after the time set for the opening must not be opened or considered. Written notification of a late response must be provided to the responding vendor. The division must, at the vendor's request, return the unopened response to the vendor at the vendor's expense if the request is made within ten working days of the opening.

Subp. 2. [Repealed, 16 SR 194]

Subp. 3. **Rejection of responses.** The state may reject any or all responses or portions thereof. Responses must be rejected for good and sufficient cause, including but not limited to, abandonment of the project by the state, insufficient state funds, correction of a process error, disclosure or discovery of an organizational conflict of interest, or a determination that the responder is not a responsible vendor. A vendor whose response is rejected must be given notice of the rejection and the reason(s) for rejection of the response.

Subp. 4. **Informalities and minor deficiencies.** The state reserves the right to waive minor deficiencies or informalities in responses. Minor informalities must be waived if, in the judgment of the director, or delegate, the best interest of the state would be served without prejudice to the rights of the other responders. Examples of minor deficiencies include,

but are not limited to, omission of the title of the signatory; failure to furnish required catalog cuts; and minor detail omissions.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.0750 ORGANIZATIONAL CONFLICTS OF INTEREST.

Subpart 1. **Disclosure requirements.** A vendor who is aware of an actual or potential conflict of interest as defined in Minnesota Statutes, section 16C.02, subdivision 10a, prior to the submission of a response to a solicitation or who becomes aware of an actual or potential conflict of interest during the term of a contract shall disclose the following information to the director of the division:

- A. the identity of the parties involved in the actual or potential conflict;
- B. the facts that give rise to the actual or potential conflict; and
- C. any measures the vendor proposes to avoid, mitigate, or neutralize the conflict if possible.

Subp. 2. **Cooperation required.** In the event an actual or potential organizational conflict of interest is identified with respect to a pending or existing contract, the vendor shall cooperate with the director to explore potential measures to avoid, mitigate, or neutralize the conflict. These measures include, but are not limited to, amending the scope of work to exclude the tasks that give rise to the conflict or disclosing information for distribution to other responding vendors.

Subp. 3. **Remedies.** If an organizational conflict of interest for a particular contract cannot reasonably be avoided, mitigated, or neutralized, a vendor may be disqualified from participation in the solicitation process for that contract. If the conflict is identified after the contract has become effective, the contract is subject to immediate cancellation. Pursuant to Minnesota Statutes, section 16C.04, subdivision 3, paragraph (b), the commissioner may waive the requirement to avoid, mitigate, or neutralize an organizational conflict of interest if vital operations of the state will be jeopardized. Vital operations include contracts relating to public health, welfare or safety, or contracts that are necessary to avoid a disruption in essential state functions.

Subp. 4. **Public data.** Data generated under this part becomes public in accordance with Minnesota Statutes, section 13.591.

Statutory Authority: *MS s 16B.04; 16C.03; 16C.16; 16C.19*

History: *28 SR 499*

1230.0800 AWARD OF CONTRACTS.

Award of contracts must be made in conformity with Minnesota Statutes and with no material variance from the terms and conditions of the solicitation document. Unless otherwise provided for by law, awards for all acquisitions, except building and construction contracts, must be based on best value. Building and construction contracts must be awarded in accordance with Minnesota Statutes, sections 16C.25 to 16C.29.

Statutory Authority: *MS s 16B.04; 16C.03; 16C.16; 16C.19*

History: *28 SR 499*

1230.0900 TIED BIDS.

Subpart 1. **Resolving tied bids.** Tied low bids for less than \$2,500 must be resolved by a coin toss among the tied low bidders, except as provided in subpart 2.

Except as provided in subpart 2, tied low bids for \$2,500 or more must be referred to the director for disposition. The methods used to resolve tie bids may include requesting second pricing from the vendors or negotiating with the tied low bidders.

1230.0900 STATE CONTRACTS

86

Subp. 2. **Preference for Minnesota firms.** Whenever a tie involves a Minnesota firm and one whose place of business is outside the state of Minnesota, preference shall be given to the Minnesota firm.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1000 CONTRACT PERFORMANCE.

Subpart 1. **Shipment.** The director or authorized agents of state agencies shall place orders with successful responders using official state contract documents. Upon award, shipment must be made in accordance with delivery instructions in the ordering document.

Subp. 2. **Inspection.** The state may require that the vendor permit inspection of the goods prior to shipment at the factory, plant, or establishment where produced, manufactured, or stored. Unless provision for inspection is made in the solicitation, costs incurred must be paid by the state.

Subp. 3. **Grounds for rejection.** All deliveries must conform to all terms, conditions, and specifications of the solicitation. Failure in this respect is cause for rejection of the goods. Goods that fail to comply with specifications, fail to conform to the vendor's sample, are not as provided on the purchase order, or arrive in an unsatisfactory condition must be rejected except as provided in subpart 7.

Subp. 4. **Notice of rejection.** Notice of rejection, based upon apparent deficiencies disclosed by ordinary methods of inspection, must be given by the receiving agency to both vendor and the carrier (if f.o.b. shipping point) within a reasonable time after delivery, with a copy of this notice to the division. A revocation of acceptance for latent deficiencies that would make the goods unsatisfactory for the purpose intended must be given by the state within reasonable time after discovery. The contractor shall satisfactorily repair or replace such goods within a reasonable time.

Subp. 5. **Removal of rejected goods.** The vendor shall remove at the vendor's expense any goods rejected by the state. If the vendor fails to remove the goods and instead forwards shipping instructions to the agency concerned, the state need not comply, but may sell the goods and remit the proceeds of sale, less the expense involved, in accordance with law, including, but not limited to, Minnesota Statutes, section 336.2-603.

Subp. 6. **Replacing rejected goods.** If the needs of a state agency do not permit time to replace rejected goods, or if deliveries are not made within the time specified in the contract, the agency may, with the approval of the director, buy on the open market goods of the nature required. The vendor shall be liable for all additional costs and expenses.

Subp. 7. **Adjusting price of nonconforming goods.** If it is determined that goods do not conform strictly to specifications, but can be used satisfactorily, the director, with written acquiescence of the vendor, may adjust the price and authorize the agency to keep and use that part of the order when it is determined by the director to be in the best interest of the state.

Subp. 8. **Laboratory tests.** The director may require that a laboratory analysis or other tests be made to determine the acceptability of the delivered goods and to ensure that those goods meet specifications. When analyses or tests are required, acceptance by the state must not occur nor be deemed to have been made until testing is completed and affirmative results are obtained. Any discount time applicable begins after affirmative results are obtained. Vendors must be notified of unsatisfactory test results. Unless provisions for laboratory analysis or tests are contained within the solicitation document, costs incurred for them must be paid by the state.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1100 FAILURE TO PERFORM.

Subpart 1. **Penalties.** If a responder who is awarded a contract fails to perform as specified, the security as described in part 1230.0500, subpart 1, must be retained by the state as liquidated damages. The vendor may also be determined not to be a responsible vendor and may be subject to suspension or debarment pursuant to part 1230.1150. The state may also pursue all other remedies permitted by rule or provided by law.

If the security is in the form of a bond, the bonding company must be notified in writing of the default. A vendor awarded a contract who fails to enter into the contract may be determined not to be a responsible vendor regardless of whether security was required. The state may seek further damages and shall not be limited by the absence or existence of a bond. In all cases of default, the vendor may be determined not to be a responsible vendor and may be subject to suspension or debarment pursuant to part 1230.1150.

Subp. 2. **Failure to furnish security.** After the award of a contract, if performance security is required and the vendor fails to furnish satisfactory performance security, the vendor shall be considered in default and subject to subpart 1.

Subp. 3. **Types of failure to conform to contract requirements.** A vendor must be held in default for failure to conform to contract requirements, solicitation terms, conditions, and specifications, or standard commercial practices including, but not limited to, the following:

- A. failure to make deliveries within the time specified in the contract; or
- B. deliveries of goods or materials that do not conform to samples or specifications; or
- C. delivery of goods or materials that are rejected; or
- D. misbranding or materially misrepresenting goods or materials purchased under the contract.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 17 SR 1279; L 2003 c 112 art 2 s 50; 28 SR 499*

1230.1150 AUTHORITY TO DEBAR OR SUSPEND VENDORS.

Subpart 1. **Suspension.** After written notice to the person involved and providing for a reasonable opportunity for that person to be heard, the director shall have the authority to suspend a person from eligibility to receive solicitations, the award of contracts, or selling any products or services to state agencies if the director determines that the person has engaged in an activity that might lead to debarment. A suspension must not exceed six months unless the vendor is proposed for debarment by the federal government and in that event, the suspension must not exceed the length of time necessary for the federal government to issue a final order.

Subp. 2. **Debarment causes.**

- A. A person shall be debarred if one or more of the following occurs:
 - (1) conviction for commission of a criminal offense as an incident to obtaining or attempting to obtain a public or private contract or subcontract, or in the performance of the contract or subcontract;
 - (2) conviction under state or federal statutes of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or other offense indicating a lack of business integrity or business honesty that affects responsibility as a state vendor;
 - (3) conviction under state or federal antitrust statutes arising out of the submission of bids or proposals;

1230.1150 STATE CONTRACTS

88

(4) violation of contract provisions, as set forth in units (a) and (b), of a character that is regarded by the director to be so serious as to justify debarment action:

(a) failure without good cause to perform according to the specifications, time limits, or any terms or conditions in the contract; or

(b) a record of failure to perform, or of unsatisfactory performance, according to the terms of one or more contracts or as measured by standard commercial practices; provided that this failure to perform or unsatisfactory performance was not caused by acts beyond the control of the contractor; or

(5) any other cause the director determines to be serious and compelling including, but not limited to, threatening, abusive, or intimidating behavior; collusion with other vendors to restrain competition; giving false information on a vendor's registration application or response to a solicitation; violating terms of suspension; and all acts that would disqualify the person as a responsible vendor, as defined in part 1230.0150, subpart 20, including debarment by another governmental entity.

B. The following must occur in cases in which a vendor is debarred by other governmental entities:

(1) Any vendor debarred by the federal government, the state of Minnesota, or any of its departments, commissions, agencies, or political subdivisions, is automatically debarred by the division under the same terms and limits of the original debarment.

(2) If the vendor is debarred by any other governmental entities, it is cause for suspension until a determination can be made by the division under normal suspension procedures as to whether the debarment applies under Minnesota statutes and rules.

Subp. 3. **Written notice.** A written notice of debarment or suspension must be furnished to the affected parties and must:

A. state the reasons for the action taken;

B. give the length of time the vendor will be debarred or suspended; and

C. inform the debarred or suspended person of the person's rights to administrative and judicial review according to subpart 4.

Subp. 4. **Suspension or debarment appeals.** If suspended or debarred, a person may file an appeal in writing with the commissioner of administration within 30 calendar days of receipt of a decision to suspend or debar. The commissioner shall, within 45 calendar days, decide whether the actions taken were according to statutes and regulations and were fair and in the best interest of the state.

Any person receiving an adverse decision from the commissioner may appeal in any appropriate court of the state.

Subp. 5. **Length of debarment.** A vendor may be debarred from receiving solicitations and submitting responses for not less than one year, nor more than three years unless a longer time is in effect under subpart 2, item B, subitem (1). The length of the debarment must depend on the vendor's past performance, the number and seriousness of the current complaints, and the cost to the state associated with correcting the problem.

Subp. 6. **Public list of debarred and suspended.** The division shall maintain a master list of all suspensions and debarments. The master list must retain all information concerning suspensions and debarments as a public record. The records must be maintained for at least three years following the end of a suspension or debarment. Such public information may be considered in responsible vendor determinations according to part 1230.0150, subpart 20.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1175 REINSTATEMENT AND PROBATION.

Subpart 1. **Review of reinstatement applications.** The director shall review vendor applications for reinstatement.

Subp. 2. **Application for reinstatement time limits.** A person who has been debarred may not seek reinstatement until one year from the end of the debarment period.

Subp. 3. **Information in reinstatement application.** A request for reinstatement must be made to the director in writing and include:

A. all information necessary to qualify as a responsible vendor, as defined in part 1230.0150, subpart 20;

B. an explanation of the steps taken by the applicant to resolve the production, financial, or technical problems that caused its previous failure to perform;

C. evidence of successful completion of at least four other contracts, including contracts with two public entities in the same commodity class, field, or type of work; and

D. a written narrative outlining all steps taken to ensure that the cause for debarment has been corrected with appropriate supporting documentation.

Subp. 4. **Actions following decision.** The director shall determine if the person can be reinstated as a responsible vendor and be added to the vendor list. If, after investigation, the applicant's request for reinstatement is denied, the person cannot reapply for reinstatement for one year from the date of denial. If reinstated, the applicant must be placed on the vendor list and be subject to a one-year probationary period.

Subp. 5. **Probationary periods and conditions.** Vendor probationary periods apply to formally debarred persons who have been reinstated as responsible vendors.

The length of the probationary period is one year from the date of reinstatement.

During the probationary period, the party on probation must respond to all solicitations received from the division. An indication of an intent not to respond is considered a response for purposes of this subpart.

If a response from a vendor on probation is accepted and the vendor refuses to perform or enters into a contract and performance is substandard, the performance or supply bond, if any, will be retained and the vendor must be deemed not to be a responsible vendor and must be permanently removed from the vendor list.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1180 TERMINATION OF DEBARMENT OR AWARD DURING DEBARMENT.

The commissioner may terminate a debarment by order or may award a contract to a debarred or suspended vendor when:

A. the vendor is the sole supplier of a material or service required by the state;

B. the commissioner determines that an emergency exists as defined in Minnesota Statutes, section 16C.10, subdivision 2; or

C. the commissioner determines that the vendor's ineligibility would cause the state undue hardship.

Statutory Authority: *MS s 16B.04; 16C.03; 16C.16; 16C.19*

History: *28 SR 499*

1230.1200 CONTRACT CANCELLATION.

The director may cancel a purchase or contract under any one of the following conditions including, but not limited to:

A. the vendor agrees to the cancellation;

1230.1200 STATE CONTRACTS

90

B. the vendor has obtained the contract by fraud, collusion, conspiracy, or in conflict with any statutory or constitutional provision of the state of Minnesota;

C. failure to conform to contract requirements or standard commercial practices including, but not limited to, all instances of failure to perform in part 1230.1100, subpart 3;

D. the existence of an organizational conflict of interest is identified; or

E. funds are not appropriated or an appropriation is discontinued by the legislature for the acquisition.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1300 REHABILITATION FACILITY.

Any rehabilitation facility wishing to apply to receive notice of available solicitations shall apply in writing to the director of the Minnesota Association of Community Rehabilitation Organizations.

Statutory Authority: *MS s 16B.04; 16C.03; 16C.16; 16C.19*

History: *L 1988 c 689 art 2 s 268; 28 SR 499*

SMALL BUSINESS PROCUREMENT PROGRAM

1230.1400 PURPOSE.

Parts 1230.1400 to 1230.1910 are adopted pursuant to Minnesota Statutes, sections 16C.16 to 16C.21, for the purpose of governing procurement procedures relating to the programs for small businesses and targeted group or economically disadvantaged area small businesses. These programs are administered by the Materials Management Division, Department of Administration, 50 Sherburne Avenue, Saint Paul, Minnesota 55155.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1450 SCOPE.

In the event of irreconcilable conflict between the general procurement rules in parts 1230.0100 to 1230.1399 and 1230.1400 to 1230.1910, parts 1230.1400 to 1230.1910 shall govern. The definitions contained in part 1230.0150 apply in the administration of these programs.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1500 [Repealed, 16 SR 194]

1230.1600 ELIGIBILITY FOR SOCIALLY DISADVANTAGED OR ECONOMICALLY DISADVANTAGED AREA SMALL BUSINESS PROGRAM.

Subpart 1. **Eligible businesses.** The following businesses are eligible for participation in the socially disadvantaged or economically disadvantaged area small business program: manufacturer, manufacturer's representative, dealer, jobber, distributor, contractor, and businesses engaged in a joint venture.

Subp. 2. **Ineligible businesses.** The following businesses are not eligible for participation in the socially disadvantaged or economically disadvantaged area small business program: brokers, third-party lessors, and franchises.

Subp. 3. **Revenue or sales limitations; socially disadvantaged or economically disadvantaged area small business program.** For the purpose of identifying businesses eligible to participate in the program, the preference and set-aside programs for targeted group small businesses; or for small businesses located in economically disadvantaged areas, the qualifying parameter must be expressed in terms of gross annual revenues or sales as an upper limitation; i.e. "not to exceed." In no case may the limitation for any category of business enterprise be set at less than \$1,000,000.

A. Classification codes SIC or NAICS must be used in classifying limitations among the variety of businesses potentially eligible for participation in the program.

B. Limitations and standards must be set for each major, two-digit, group based on the following procedure:

(1) Typical financial balance sheet information compiled in annual reports such as the Robert Morris and Associates annual statement studies, Dun and Bradstreet, or similar reporting services will be used to establish the range of annual revenues or sales for a given major group class. This range shall, wherever the data is available, reflect an average of at least three consecutive reporting years, but shall not exceed five years.

(2) The upper limitation defining small business based on annual gross revenues or sales is determined by establishing a representative annual market consisting of the total gross revenues or sales generated by the reporting sample class. The lower quartile, 25 percent, of this market shall represent the small business category.

(3) The average gross revenues of the number of firms it requires to equal the total lower quartile market shall be the upper limit, defined in gross annual revenues or sales, permitted for definition of a small business for the purposes of this program.

(4) Where the three-digit code data treated in subitems (1) to (3), varies significantly from the two-digit aggregated data or the four-digit data varies significantly from the two- or three-digit classes, a specific limitation must be established for that three- or four-digit class.

(a) Significant variation for differences between two- and three-digit codes shall be five percent above or below the two-digit standard for gross annual revenue or sales.

(b) Significant variation for differences between three- and four-digit codes shall be five percent, or ten percent above or below the two-digit standard.

(5) The Department of Administration shall annually reexamine one-third of the groups for appropriate limitations and redefinition.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1700 CERTIFICATION OF ELIGIBILITY.

Subpart 1. **Required information.** To qualify for the programs authorized by Minnesota Statutes, section 16C.16, each business shall file with the division the information in items A, B, C, D, and H; and E, F, and G as applicable on the application forms provided.

A. The name and address of the applicant, the name of the business, and the principal place of business.

B. Which type of designation, small business, socially disadvantaged small business, or economically disadvantaged area small business is being applied for:

(1) socially disadvantaged small businesses are those businesses owned by socially disadvantaged persons as defined by the Minnesota Department of Administration rules, part 1230.0150, subpart 24;

(2) an individual business which is not a targeted group business but is owned by a socially disadvantaged person, as defined in part 1230.0150, subpart 24, that is encountering the effects of discrimination as evidenced by the owner lacking adequate external support necessary to operate a competitive business enterprise through a diminished ability to secure:

- (a) long-term or working capital financing;
- (b) equipment, raw material, or supplier trade credit;
- (c) bonding and insurance; or
- (d) a proportionate share of the market for its goods and services;

(3) the small business is located in an economically disadvantaged area as defined in Minnesota Statutes, section 16C.16, subdivision 7; or

(4) the business is a rehabilitation facility or extended employment provider certified by the Department of Employment and Economic Development.

C. An indication of the type of business operated and the kinds of service, materials, or supplies which can be delivered.

D. A listing of all owners, including percentage of ownership, method of acquisition, ownership in other firms, and copies of the following documents:

(1) Complete financial statements for the business for each of the preceding three fiscal years, or since the inception of the business if established less than three years. Financial statements may be returned to the applicant upon completion of the application process if requested by the applicant. If financial statements are not available, the applicant may submit federal tax form Schedule C (Profit or Loss From Business or Profession).

(2) A profile of the owners' management responsibilities and a description of the management responsibilities assigned to other individuals, including a chronological resume for each owner, officer, and other key personnel.

(3) A statement indicating whether or not the business is an affiliate or subsidiary of a business dominant in its field of operation.

(4) Full disclosure of all owners' and officers' direct and indirect involvement in other businesses and enterprises which are in the same field of operation as the applicant, unless ownership is by common stock regularly bought and sold through recognized exchanges.

(5) Proof of ownership of business. Owners shall submit proof of their ownership of the requisite percentage of the business at the time the application is submitted, and the proof shall consist of stock certificates, a notarized affidavit of stock ownership from the corporate treasurer, a partnership agreement, a canceled check used to purchase ownership, or other recognized proof of ownership.

(a) In the case of a sole proprietorship or where documentary proof of ownership is not available, the owner shall clearly state the reasons for such and be prepared to assist the division in further investigation of proof.

(b) If requested, the owners must show how and when the interest in the business was acquired.

(c) The division may require additional proof or information necessary to verify ownership.

E. In addition, for certification under item B, subitem (2), unit (a), (b), (c), or (d), the following information must be provided for the most recent fiscal year and the preceding four years, if the applicant has operated as a business for four years, identifying the fiscal year reporting system used by the applicant and listing in whole dollar amounts:

(1) Assets:

(a) cash and equivalent: all cash, marketplace securities, and other near-cash items, excluding sinking funds;

(b) trade receivables (net): all accounts from trade, less allowance for doubtful accounts;

(c) inventory: anything constituting inventory for the business;

(d) all other current: any other current assets, not including prepaid items;

(e) total current: the total of all current assets shown in subitems (a) to (d);

(f) fixed assets (net): all property, plant, leasehold improvements, and equipment, less accumulated depreciation or depletion;

(g) intangibles (net): intangible assets, including goodwill, trademarks, patents, catalogs, brands, copyrights, formulas, franchises, and mailing lists, less accumulated amortization;

(h) all other noncurrent: prepaid items and any other noncurrent assets;

(i) total: total of all items listed above.

(2) Liabilities:

(a) notes payable (short-term debt): all short-term note obligations, including bank and commercial paper excluding trade notes payable;

(b) current maturities (long-term debt): that portion of long-term obligations that is due within the next fiscal year;

(c) trade payables: open accounts due to the trade;

(d) income taxes payable: income taxes, including current portion of deferred taxes. Identify federal, state, and local income taxes in subtotals;

(e) all other current: all other current liabilities, including bank overdrafts and accrued expenses;

(f) total current: total of all current liabilities listed above;

(g) long-term debt: all senior debt, including bonds, debentures, bank debt, mortgages, deferred portions of long-term debt, and capital lease obligations;

(h) deferred taxes: all deferred taxes. Identify federal, state, and local taxes in subtotals;

(i) all other noncurrent: any other noncurrent liabilities, including subordinated debt and liability reserves;

(j) net worth: difference between total liabilities and total assets, including minority interest;

(k) total liabilities and net worth: total of all items listed above.

(3) Income data:

(a) net sales: gross sales less returns and discounts allowed, if any;

(b) gross profit: net sales less cost of sales;

(c) operating expenses: all selling, general, and administrative expenses, including depreciation, excluding interest expense;

(d) operating profit: gross profit less operating expenses;

(e) all other expenses (net): includes miscellaneous other income less expenses, such as interest expense, miscellaneous expenses not included in general and administrative expenses netted against recoveries, interest income, dividends received, and miscellaneous income;

(f) profit before taxes: operating profit minus all other expenses (net).

F. If the business seeking certification under item B, subitem (2), unit (a), (b), (c), or (d), is a contractor, the information in item E must be submitted in all categories except as modified in the following:

(1) Assets:

(a) accounts receivable - progress billings: amounts billed on current contracts excluding retention;

(b) accounts receivable - current retention: amounts held back by customers on current contracts as retention;

(c) inventory: costs attributable to equipment, small tools, supplies, and other deferred costs related to contracts in progress where a portion of the cost applies to work not yet performed;

(d) costs and estimated earnings in excess of billings: the difference between the total of costs and recognized estimated earnings to date and the total billings to date;

(e) total current: total of all current assets shown and as modified, changed, or added in the above definitions;

(f) joint ventures and investments: the total of investments and equity in joint ventures.

(2) Liabilities:

(a) accounts payable - trade: open accounts and note obligations due to the trade;

(b) accounts payable - retention: amounts held back as retention in payments to subcontractors on current contracts;

(c) billings in excess of costs and estimated earnings: the difference between the total billings to date and the total of costs and recognized estimated earnings to date;

(d) total current: total of all current liabilities shown and as modified, changed or added in the above definition;

(e) total liabilities and net worth: total of all items shown as modified, changed, or added in the above definitions.

(3) Income data: contract revenues: revenues recognized under percent of completion method (in place of net sales).

G. In separate schedules, all applicants applying under item E or F should show the amounts attributable to depreciation, depletion, amortization, interest income, interest expenses, officers' compensation, and miscellaneous income shown as passive or nonpassive income. A schedule of leased assets with a brief description of type and dollar value must be submitted. A brief outline describing shareholders equity must be submitted, when applicable, for the type of company organization.

In addition, supportive documentation must be submitted when seeking certification under various provisions as follows:

(1) item B, subitem (2), unit (a): for certification as lacking adequate external support in obtaining long-term or working capital financing, any documentation showing denial of loans or offers of loans at terms and rates not currently normal for similar enterprises;

(2) item B, subitem (2), unit (b): for certification as lacking external support in obtaining equipment, raw materials, or supplier trade credit, any documentation showing denial of credit or credit extended at terms, conditions, and rates in excess of the norm expected within similar enterprises;

(3) item B, subitem (2), unit (c): for certification as lacking adequate external support in obtaining bonding and insurance, any documentation showing inability to obtain

bonding or insurance at rates and terms normally expected within the industry segment of the applicant.

In all cases, adequacy of documentation, accuracy of financial data, and development of argument and positions with regard to an applicant's lack of external support within any of the four categories of item B, subitem (2), unit (a), (b), (c), or (d), rests with the applicant and must be submitted in writing with the application for certification. The division retains the right of inquiry and verification of all information submitted.

H. When seeking certification under any provision of item B, subitem (1), (2), or (3), or any other certification provision, the applicant shall provide all other relevant or supporting information requested by the division.

Denials of certification under these provisions are subject to appeal under subpart 6.

Subp. 2. [Repealed, 16 SR 194]

Subp. 3. [Repealed, 16 SR 194]

Subp. 4. [Repealed, 28 SR 499]

Subp. 5. **Grounds for rejecting application.** An applicant must be notified in writing of the acceptance or rejection of the application, within 60 calendar days of receipt of the application form and all supporting documents required by the division. An application must be rejected on any of the following grounds:

A. the applicant is dominant in its field of operation or is an affiliate or subsidiary of a business dominant in its field of operation;

B. the applicant has failed to provide all relevant required information;

C. the applicant failed to establish that majority ownership and day-to-day operating control are held by socially disadvantaged small business or economically disadvantaged area small business person(s);

D. the applicant has failed to comply with laws and rules of the state relating to procurement;

E. the applicant has intentionally or negligently falsified application information;

F. the applicant is a broker and/or third-party lessor or operates as a franchiser or franchisee;

G. the applicant's principal place of business is not in Minnesota;

H. ownership of the applicant's business is shared with a previously certified participant who was removed from the vendor list or directory of certified businesses by operation of Minnesota Statutes, section 16C.19, paragraph (c), and part 1230.1850; and

I. the applicant's financial data profile does not fit within the parameters in subpart 5a, item I, subitem (2), unit (a), when applying as an individual business under subpart 1, item B, subitem (2).

Subp. 5a. **Criteria for determinations.** The following standards must be used in determining whether, under subpart 5, item C, a firm is owned and operated on a day-to-day basis by one or more socially or economically disadvantaged persons:

A. The individual's claim, supported by sufficient documentation, that he or she is a socially disadvantaged small business person or an economically disadvantaged area small business person as defined in these rules.

B. The ownership and day-to-day operation of a socially disadvantaged small business or economically disadvantaged area small business must be real, substantial, and continuing, and must go beyond the pro forma ownership of the firm as reflected in its ownership documents. The majority owner of the firm must be employed at least half time by the firm during normal business hours for that industry. The socially disadvantaged or economically disadvantaged small business owners shall have the customary incidents of business ownership and shall share in the risks and profits commensurate with their ownership interests as demonstrated by an examination of the substance, rather than form of the

business arrangements. Recognition of the business as a separate entity for tax or corporate purposes is not necessarily sufficient. The division shall consider all relevant factors, including the date the business was established, the adequacy of its resources for the work of the contract, and the degree to which financial arrangements, equipment rental or leasing agreements, and relationships with nontargeted businesses vary from accepted industry practice.

C. The socially disadvantaged or economically disadvantaged area business owner shall possess the power and expertise to direct the management and policies of the firm and to make the day-to-day as well as major decisions on matters of management, policy, and operation. If the business is a corporation, the socially disadvantaged or economically disadvantaged area stockholder shall hold the position of chief executive officer or president. The firm must not be subject to any formal or informal restrictions that limit the customary discretion of the socially or economically disadvantaged owners. There must be no restrictions through, for example, bylaw provisions, partnership agreements, or charter requirements for cumulative voting rights or otherwise that prevent the socially or economically disadvantaged business owners from making a business decision for the firm without the cooperation or vote of any owner who is not a socially or economically disadvantaged person.

D. If the owners of the firm who are not socially or economically disadvantaged persons are disproportionately responsible for the operation of the firm, then the firm will not be considered to be owned and operated by socially or economically disadvantaged persons.

E. All securities that constitute ownership or control or both ownership and control of a corporation must be held directly by socially or economically disadvantaged persons. No securities held in trust or by any guardian for a minor will be considered as held by socially or economically disadvantaged persons in determining the ownership or control of a corporation.

F. The contributions of capital or expertise by the socially or economically disadvantaged owners to acquire their interests in the firm must be real and substantial. Examples of insufficient contributions include a promise to contribute capital, a note payable to the firm or its owners who are not socially or economically disadvantaged, or participation as an employee only, rather than as a manager.

G. In addition to the standards in items A to F, the following circumstances will be given special consideration in determining eligibility:

(1) newly formed firms and firms whose ownership or day-to-day operating control or both ownership and control has changed will be closely scrutinized to determine the reasons for the timing of the formation or of a change in the firm;

(2) a previous or continuing employer-employee relationship between or among present owners will be carefully reviewed to ensure that the employee-owner has the management responsibilities and capabilities referred to in subpart 5 and this subpart;

(3) any relationship between a socially disadvantaged or economically disadvantaged area business and a business that is not a socially disadvantaged or economically disadvantaged area business that has an interest, financial or otherwise, in the socially disadvantaged or economically disadvantaged area business will be carefully reviewed to determine if the interest conflicts with the ownership and day-to-day operating control requirements.

H. The combined gross sales or revenues from businesses operated by the same owners in related fields exceed the highest size standard for the field defined under part 1230.1600, subpart 3.

I. The following standards, along with supporting documentation, must be used in reaching a determination to certify an applicant under subpart 1, item B, subitem (2), unit (a), (b), (c), or (d):

(1) Financial data for the company seeking certification shall be analyzed using formulas, techniques, processes, and ratios used in the annual statement studies published by Robert Morris and Associates (RMA), Philadelphia. Where RMA data does not reflect or provide adequate comparable data for the applicant's main line of business, the "Industry Norms and Key Business Ratios," published by Dun and Bradstreet Credit Services, or any similar representative reporting service may be used.

(2) Certification determination will be made upon careful review of all the evidence submitted. However, to establish eligibility for this review, the financial data applicable to the applicant company shall fall within the following parameters: financial ratios: at any point between the lower quartile and the upper quartile. Upper quartile ratings are indicative of a successful company not in need of the assistance provided through certification. Lower quartile ratings indicate a need for additional assistance before certification. Lower quartile businesses will be referred to the Department of Employment and Economic Development for remedial assistance before becoming eligible for reconsideration for certification.

(3) The following ratios and formulas will be used to determine eligibility for certification:

(a) lacking adequate external support in obtaining long-term or working capital financing: earnings before interest and taxes (EBIT)/interest, sales/working capital, quick ratio, fixed/worth, debt/worth;

(b) lacking adequate external support in obtaining equipment, raw materials, or supplier trade credit: current ratio, quick ratio;

(c) bonding and insurance: none - review of documentation only;

(d) the business has not captured a proportionate share of the market for its goods and services, based on the most current annual statement studies published by RMA. The national average revenues appropriate for the applicant business's standard industrial code and asset size will be divided by the national average assets determined similarly and multiplied by the applicant's actual total assets to indicate a proportionate market share. The applicant business's actual revenues will be divided by this proportionate market share to indicate the actual percentage of the proportionate market attained. Any percentage at 75 or less shall qualify for eligibility.

(4) If eligible under subpart 1, item B, subitem (2), unit (a), (b), (c), or (d), all other documentation shall be reviewed to arrive at a determination to grant or deny certification. The key determinant is "lacking adequate external support ... as evidenced by diminished ability to secure ..." Even though an applicant qualifies as an eligible business on the basis of financial ratios, if the business has been able to secure sufficient loans, bonding, insurance, or credit at the usual industry norms, it is not qualified as there is no evidence showing lack of support. Conversely, the business may show adequate financial ratios but still find itself unable to obtain any, or only partial, amounts of financing, bonding, credit, or insurance needed to remain competitive, or it can only acquire such at unfavorable terms not normal for its industry segment. Upon finding that such circumstances are not a result of internal management deficiencies as indicated by ratios appropriate to these concerns such as the following:

(a) percent profit before taxes/tangible net worth;

(b) percent profit before taxes/total assets;

(c) percent depreciation, depletion, amortization/sales; and

(d) percent officers' compensation/sales;

the business can be certified as a targeted group business. The same management efficiency review shall apply when determining certification due to an inability to capture a proportionate market share; however, no other documentation will need be considered under this eligibility criterion. Findings that a business suffers from internal management deficiencies will require a denial of certification until remedial assistance has been obtained through referral to the Department of Employment and Economic Development for help from public or private resources. When the appropriate ratio indicators fall within the eligible zone, the business may again apply for certification.

The impact of both short- and long-term business cycles for the economy in general and for the particular business segment in specific shall be considered in arriving at certification findings. When appropriate, an average of two to five years of fiscal data for the applicant company shall be used in determining ratio values.

(5) Businesses seeking certification that operate in distinctly defined commodities, construction services, or product lines must be reviewed for certification under those distinctions. If the company operates in more than one classification, the review must be made under the primary industry segment if 75 percent or more of its net sales or contract revenues are generated by that segment. The business may seek certification for individual product, service, commodity, or construction activities if 25 percent or more of its net sales or contract revenues is generated by a given category. All other financial data required by this application process must be proportionately attributed to the categories for which certification is sought unless it can be conclusively demonstrated that the dollar amounts shown are directly attributable to specific elements. If the company is unable to provide the breakdown of financial data requested by this rule, it shall accept or request certification under the predominant category in its operation.

Subp. 6. **Appeal of rejection of application.** After an applicant has received written notice of rejection of the application for certification as a socially disadvantaged small business or economically disadvantaged area small business, the applicant may appeal the decision in writing to the commissioner of administration within 15 calendar days of receipt of the determination. If there are facts in dispute, the commissioner may refer the matter to the Office of Administrative Hearings for a contested case hearing under Minnesota Statutes, sections 14.57 to 14.62. The applicant has the burden of proof in establishing qualifications for certification. The commissioner shall, if time permits, refer the appeal to the Small Business Procurement Advisory Council or, if the council does not exist, a panel designated by the commissioner, for a recommendation before reaching a final decision. The commissioner shall make a final decision in writing within 60 calendar days of receipt of the appeal.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; L 1994 c 483 s 1; L 2003 1Sp4 s 1; 28 SR 499; L 2005 c 112 art 2 s 41*

1230.1800 [Repealed, 16 SR 194]

1230.1805 PROCUREMENTS FROM SOCIALLY AND ECONOMICALLY DISADVANTAGED SMALL BUSINESSES.

Subpart 1. **Directory.** A directory of eligible businesses, certified pursuant to part 1230.1700, must be established and maintained by the division for various commodity classes.

Subp. 2. **Manufacturers representatives.** Manufacturers representatives shall have written agreements with manufacturers to sell the products of the manufacturers in place

and approved by the division at the time responses are due in order to be eligible for consideration for award under parts 1230.1810 to 1230.1830.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1810 PROPORTIONAL UTILIZATION OF SOCIALLY DISADVANTAGED BUSINESSES.

The division shall attempt to achieve utilization of socially disadvantaged small businesses in proportion to their representation in the state's market area. In so doing, the division may use either of the following purchasing methods for making awards to those socially disadvantaged businesses designated by the commissioner as targeted group businesses.

A. When it is likely that three responses will be obtained from certified targeted group small businesses, the solicitation may be set aside for responses only from those businesses.

(1) The division shall include a statement on the solicitation document informing all vendors that the solicitation is set aside for responses only from certified targeted group small businesses.

(2) The division shall reject any response from a business not certified as a targeted group small business.

(3) Where there are no responses or no acceptable responses, unsatisfactory responses, if any, must be recorded and the solicitation must be reissued.

B. A certified targeted group small business may be awarded up to a six percent preference in the amount offered over the lowest responsible offer from another vendor except as provided in part 1230.1830, item D.

(1) The division shall include a statement on the solicitation document informing all vendors that certified targeted group vendors will receive a preference in the amount offered and the amount of the preference to be awarded.

(2) Unless awarded pursuant to subitem (4), when the lowest acceptable response from a certified targeted group small business is within the specified percent of the lowest acceptable response from another vendor, award must be made to the lowest responsible certified targeted group small business.

(3) Unless awarded pursuant to subitem (4), when there is no acceptable response from a certified targeted group small business within the specified percent of the lowest acceptable response from another vendor, award must be made to the lowest responsible vendor.

(4) In the event the state is using a solicitation method other than competitive bidding, including requests for proposals and bids awarded based on best value criteria, where price is not the only factor considered in making an award, the preference shall be applied as stated in the solicitation document.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1820 REQUIRED SUBCONTRACTING FOR CONSTRUCTION OR PROFESSIONAL OR TECHNICAL SERVICES.

Subpart 1. **Goal setting.** The division may set goals that require prime contractors to subcontract a portion of any contract for construction or professional or technical services to targeted group small businesses.

A. Goals for subcontracting will depend on the type of work involved, location of project, size of project, and the availability of certified, willing, and able targeted group small businesses open to subcontracts from the prime contractor.

B. Credit toward the goal established for the contract shall be at 100 percent for subcontractors who provide labor, materials, and supplies and at 60 percent for subcontractors who provide supplies and materials only.

Subp. 2. **Subcontracting.** No contractor receiving a subcontract under this program shall in turn subcontract more than 25 percent of the contract dollar amount. A targeted group small business may exceed the 25 percent limitation if the awarded subcontract is to another targeted group small business.

Subp. 3. **Waivers.** Prime contractors may obtain waivers from the normal subcontracting goals according to the following procedure:

A. The prime contractor may request a waiver for some or all specialties based on a documented unsuccessful effort to obtain certified targeted group subcontractors. The request for waiver with documentation showing the effort and steps taken to secure certified targeted group subcontractors and the results thereof must accompany the bid response, unless the invitation to bid specified a period after bid opening, not to exceed 72 hours, where documentation of efforts and steps taken to secure certified targeted group subcontractors will be permitted.

B. After the award and the commencement of a project, a prime contractor may request a waiver for a specific specialty if the certified targeted group subcontractor cannot or will not fulfill the subcontract and no suitable alternative subcontractor is available so as to prevent significant project delay. Failure to use the certified targeted group subcontractors specified at the time of award without a grant of waiver will invoke a penalty as outlined in subpart 4.

Subp. 4. **Incentives and penalties.** Solicitation documents must state whether or not the incentive rule applies for the project being solicited. If so,

A. Prime contractors who exceed the established goal on a given project for use of certified targeted group subcontractors by more than three percent may be awarded a financial incentive over and above the awarded project price, the incentive to be determined in the following manner:

(1) Contracts qualifying for incentive clauses may be prime contracts at \$50,000 or higher in which the goal for subcontractor use has been set at one percent or higher. The maximum goal qualifying for incentives may not exceed 25 percent. Contracts between \$2,000 and \$50,000 may qualify for incentive clauses if the approved goal percentage applied to the estimated project cost will provide a minimum of \$500 in potential subcontracting awards.

(2) A monetary incentive over and above the awarded contract price shall be paid to the prime contractor upon documented proof of actual use of certified targeted group subcontractors on the project in excess of three percent of the goal set for that project. The monetary incentive in any case shall not exceed six percent of the awarded project price, or \$60,000 at the maximum. The form of documented proof shall be specified in the award agreement.

(3) The actual amount of incentive to be paid shall be calculated by the following formula:

(a) subtract the established goal plus three percent from 25 percent;

(b) divide six percent of the project or \$60,000, as appropriate, by the number of percentage points in unit (a); and

(c) multiply the result of unit (b) by the number of percentage points exceeding goal plus three percent.

(4) The provisions of subitems (1), (2), and (3), shall be applicable to all prime contractors and shall also apply to certified targeted group contractors acting as prime contractors if the awarded contract was not gained through preference or set-aside bidding procedures.

B. Prime contractors who have been awarded a contract and fail to meet the project goal for certified targeted group subcontractor use without approved waiver shall be penalized up to six percent of the total project value, not to exceed \$60,000. The penalty to be assessed will be proportionate to the actual underuse of certified targeted group subcontractors as compared to the project goal. The contractor involved shall be notified in writing of the proposed penalty and the reasons for the penalty. Within 15 calendar days of receipt of the notice the contractor may request a hearing before the director or the director's designee. The director may uphold, modify, or reject the penalty. The decision of the director may be appealed within 30 calendar days to the commissioner. If there are facts in dispute, the commissioner may refer the matter to the Office of Administrative Hearings for a contested case hearing under Minnesota Statutes, sections 14.57 to 14.62, or, if feasible, may affirm or reject the director's decision.

C. Prime contractors who fail to meet the project goal without waiver for a project to be awarded and are the apparent low responder shall have a penalty of up to six percent, not to exceed \$60,000, added to their total price when other prime contractors have submitted responses that meet the specified targeted goal. The penalty to be added must be proportionate to the underuse determined in the response as compared to the announced project goal. The formula to be utilized in the application of this subpart is: Penalty (to be added to the response) = maximum penalty x (underuse ÷ project goal).

D. The division may cancel solicitations and resolicit the project when no responses meet the announced goal and the evidence available to the division indicated sufficient responsible certified targeted group subcontractors are willing and able to do the work.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1830 PREFERENCE PROCUREMENTS FROM ECONOMICALLY DISADVANTAGED SMALL BUSINESSES.

A certified economically disadvantaged small business may be awarded up to a six percent preference for commodities and services and a four percent preference for construction projects.

A. The division shall include a statement on the solicitation document informing all vendors that certified economically disadvantaged vendors will receive a preference in the amount offered and the amount of the preference to be awarded.

B. Unless awarded pursuant to item E, when the lowest acceptable response from a certified economically disadvantaged small business is within the specified percent of the lowest acceptable response from another vendor, award must be made to the lowest responsible certified economically disadvantaged small business.

C. Unless awarded pursuant to item E, when there is no acceptable response from a certified economically disadvantaged small business within the specified percent of the lowest acceptable response from another vendor, award must be made to the lowest responsible vendor.

D. Unless awarded pursuant to item E, when the division awards a different percentage preference to a certified targeted group small business and a certified economically

1230.1830 STATE CONTRACTS

102

disadvantaged small business on the same solicitation, the lowest acceptable response must be determined by deducting the appropriate preference percent awarded from the acceptable responses by the certified small businesses.

E. In the event the state is using a solicitation method other than competitive bidding, including requests for proposals and bids awarded based on best value criteria, where price is not the only factor considered in making an award, the preference must be applied as stated in the solicitation document.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

**1230.1850 REMOVAL FROM SOCIALLY DISADVANTAGED OR
ECONOMICALLY DISADVANTAGED AREA SMALL BUSINESS
PROGRAM.**

Subpart 1. **Removal for failure to fulfill contract.** A business may be removed from the certified directory and the vendor list and may be ineligible to be awarded contracts when it fails to satisfactorily fulfill the terms and conditions of a contract as specified in parts 1230.1000 and 1230.1100.

Subp. 2. **Reinstatement.** An otherwise eligible business that was removed under subpart 1 may apply for reinstatement and participation in the preference program according to part 1230.1175.

Subp. 3. **Removal from socially disadvantaged or economically disadvantaged area small business program when a business no longer qualifies.** A business must be removed from the socially disadvantaged or economically disadvantaged area small business program when the business no longer qualifies for the programs under Minnesota Statutes, section 16C.19, and parts 1230.1400 to 1230.1910. Notice of removal and the reasons for removal must be given in writing to the business by the division. Removal is effective upon receipt of the notice by the business. When removal is for loss of status as an economically disadvantaged area, the business remains eligible for 120 calendar days after certified small businesses in the area are notified of the termination of the status by the division.

Subp. 4. **Appeal of removal.** When a business is removed from the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program under subpart 3, the business may appeal the removal and disqualification to the commissioner of administration in writing within 15 calendar days of the receipt of the notice of removal. Receipt of the appeal must be acknowledged by the commissioner in writing within 15 calendar days of receipt. The commissioner shall request that the business choose either an informal review of the disqualification under item A or a formal review under item B if facts of the matter are in dispute. If a business fails to choose either an informal or formal review within 15 calendar days of the receipt of the commissioner's request, the right to appeal lapses.

A. Informal review. The Small Business Procurement Advisory Council or, if the council does not exist, a panel designated by the commissioner, shall consider whether the decision to remove a business from the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program was reasonable and whether the removal is in compliance with subpart 3. The council or panel will review the facts presented by the business and the division. Within 60 calendar days of receipt of a request for review, the council or panel shall recommend that the commissioner take one of the following actions:

(1) reinstate the business to the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program;

(2) affirm the removal of the business; or

(3) refer the matter to the Office of Administrative Hearings for a contested case hearing under Minnesota Statutes, sections 14.57 to 14.62.

The recommendation to the commissioner must be in writing and include the reasons for the decision. The commissioner shall consider the recommendation and make a final decision on the matter within 15 calendar days of receiving the recommendation. The commissioner shall include written reasons for the decision.

B. Formal review. Within 30 calendar days after a request by the business, council, or panel for formal review, the commissioner will initiate a contested case hearing under Minnesota Statutes, sections 14.57 to 14.62, by filing a request for assignment of an administrative law judge with a notice of an order for hearing. When the commissioner receives the report of the administrative law judge, the commissioner shall forward the report to the council or panel for review, and the council or panel shall, within 45 calendar days, make a recommendation. The commissioner shall make a final decision on each appeal.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.1860 LIMITS TO PROGRAM PARTICIPATION.

To ensure equitable distribution of awards and reduce the dependency of any given business on state awards for a major part of its annual revenues, the following limitations apply:

A. [Repealed, L 1999 c 232 s 2]

B. Eligibility for set-aside or preference for a specific business participating in the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program must be terminated when the review of financial statements or the cumulative record of awards compiled by the division from reports submitted by agencies covered under the statute indicate that any of the following conditions exist:

(1) more than an average of 80 percent of the business's gross revenues or sales are attained through preference or set-aside awards during the second and third years of participation in the program;

(2) for years four and five, the limitation average shall be 50 percent of gross annual revenues or sales;

(3) for years six and beyond, the limit shall not exceed 40 percent.

There will be no limit on awards acquired through the normal competitive bid process at any time.

C. No business may participate in the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program indefinitely. A business shall graduate from the program when one of the following circumstances exists:

(1) if certified under part 1230.1700 according to Minnesota Statutes, section 16C.16, subdivision 5, designation of targeted groups, and a new study conducted by the commissioner of administration finds the original conditions defining eligibility and certification no longer exist;

(2) demographic statistics justify loss of status as a labor surplus area, a 70 percent median income county, or a disadvantaged area; or

(3) the business has captured a proportionate share in its market for assets employed, by the following averages:

(a) 200 percent in year one;

(b) 175 percent in years one and two;

(c) 150 percent in years one, two, and three;

(d) 125 percent in years two, three, and four;

1230.1860 STATE CONTRACTS

104

(e) 125 percent in years three, four, and five, or any three consecutive years thereafter.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; L 1999 c 232 s 2; 28 SR 499*

1230.1900 GENERAL TERMS AND CONDITIONS.

Subpart 1. **Inability to perform.** An eligible business that finds it cannot produce, supply, or construct according to the terms and conditions of a contract shall immediately notify the division in writing of the reasons therefore. When the commissioner determines that the business is unable to perform for the reasons stated, the division shall notify the Department of Employment and Economic Development so that the commissioner of employment and economic development can assist the small business in attempting to remedy the causes of the inability to perform. The division shall notify the business of the referral to the Department of Employment and Economic Development and the notice must include a statement that any records of the Department of Employment and Economic Development in assisting the small business may be discoverable in a contested case or judicial procedure. Failure to enter into a contract, to accept an offered award, or to satisfactorily complete a contract for documented reasons beyond its control will not automatically disqualify a business from future participation in the solicitation process.

A. The division may, if circumstances permit, delay an award or completion of a contract to allow the commissioner of the Department of Employment and Economic Development to provide assistance or to allow the business to remedy the business's inability to perform. If the division decides that delay is inappropriate because of the nature of the bid or contract, the division may seek other solutions. The decision to proceed shall not be prejudicial to the record of the business in question.

B. Failure of the business in question to reasonably cooperate with either the division or the Department of Employment and Economic Development shall be considered a failure to fulfill the terms of a contract and shall be handled according to parts 1230.1000 and 1230.1100. The records of the division shall document the actions taken relative to each case of inability to perform handled under this subpart.

Subp. 2. [Repealed, 16 SR 194]

Subp. 3. [Repealed, 16 SR 194]

Subp. 4. [Repealed, 16 SR 194]

Subp. 5. **Dividing solicitations.** The director of the division shall divide solicitations by dollar amounts, units of production, or duration of contract to facilitate awarding set-aside or preference contracts where economically feasible.

Subp. 6. [Repealed, 16 SR 194]

Subp. 7. **Reporting requirements.** The following reporting requirements apply to the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program:

A. Businesses eligible to participate in these programs shall, within 30 calendar days of a request by the division, verify information on file with the division for that business, make any necessary changes, and submit a complete financial statement to the division. The information on file with the division will include:

- (1) the name and address of the applicant and its principal place of business;
- (2) the applicant's gross revenues in the most recently completed fiscal year;
- (3) whether the applicant's business is an affiliate or subsidiary of a business dominant in its field of operation;

(4) a listing of all owners, including percentage of ownership, and all officers of the applicant, with full disclosure of all owners' and officers' direct and indirect involvement in other businesses and enterprises that are in the same field of operation as

the applicant, unless ownership is by common stock regularly bought and sold through recognized exchanges; and

(5) all other relevant or supporting information necessary for verifying status resulting in eligibility under certification procedures if requested in writing by the division, before or after the reporting requirement date.

B. Failure to provide the information required by item A may result in removal of the noncomplying business from the Socially Disadvantaged or Economically Disadvantaged Area Small Business Program.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *L 1983 c 289 s 115 subd 1; L 1987 c 312 art 1; 16 SR 194; L 2003 1Sp4 s 1; 28 SR 499*

1230.1905 NOTICE OF CHANGES.

All businesses shall notify the division in writing of any changes in information submitted in an application for certification or attached information within 30 calendar days of the changes. This section applies to changes in information occurring at any time and is not limited to changes occurring while an application is pending approval.

Statutory Authority: *MS s 16B.04; 16C.03; 16C.16; 16C.19*

History: *28 SR 499*

1230.1910 PROFESSIONAL AND TECHNICAL PROCUREMENTS.

Subpart 1. **Applicability.** Parts 1230.1400 to 1230.1910 apply to the award of professional and technical procurements under Minnesota Statutes, section 16C.16, subdivision 3.

Subp. 2. **Awards.** Division certification is not required for individuals who provide consultant, professional, or technical services and who are not organized as a business, corporation, partnership, proprietorship, or other recognized business structure. An individual person may be awarded contracts under Minnesota Statutes, section 16B.19, subdivision 2, provided that the contracting agency maintains records stating that the individual meets the terms governing socially or economically disadvantaged area persons established in part 1230.0150, subparts 24 and 26, and reports the awards in the format required by the division.

Statutory Authority: *MS s 16B.04; 16B.18; 16B.19; 16B.22; 16C.03; 16C.16; 16C.19*

History: *16 SR 194; 28 SR 499*

1230.2000 [Repealed, 16 SR 194]

1230.2100 [Repealed, 16 SR 194]

1230.2200 [Repealed, 16 SR 194]

1230.2300 [Repealed, 16 SR 194]

DEBARMENT AND SUSPENSION

1230.3000 SCOPE.

Parts 1230.3000 to 1230.4300 apply to all Mn/DOT contracts.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3100 DEFINITIONS.

Subpart 1. **Scope.** The terms used in parts 1230.3000 to 1230.4300 have the meanings given them in this part.

1230.3100 STATE CONTRACTS

106

Subp. 2. **Administrative law judge.** "Administrative law judge" means a person appointed under Minnesota Statutes, section 14.48 or 14.49, and assigned under Minnesota Statutes, section 14.50, to hear contested cases.

Subp. 3. **Business.** "Business" means a sole proprietor doing business as a contractor, subcontractor, or supplier, or a partnership, association, corporation, or other entity formed for the purpose of doing business as a contractor, subcontractor, or supplier.

Subp. 4. **Commissioner.** "Commissioner" means the commissioner of the Department of Administration.

Subp. 5. **Contract crime.** "Contract crime" means a violation of state or federal antitrust law, fraud, theft, embezzlement, bribery, forgery, misrepresentation, making false statements, falsification or destruction of records, or other criminal offense in connection with obtaining, attempting to obtain, or performing a public or private contract or subcontract.

Subp. 6. **Contractor.** "Contractor" means a person to whom the Minnesota commissioner of transportation has awarded a Mn/DOT contract for which competitive bids are required or taken.

Subp. 7. **Conviction.** "Conviction" has the meaning given to it in Minnesota Statutes, section 609.02, subdivision 5.

Subp. 8. **Debar.** "Debar" means to disqualify under parts 1230.3100 to 1230.4300 from entering into or receiving a Mn/DOT contract or from serving as a subcontractor or material supplier under a Mn/DOT contract.

Subp. 9. **Mn/DOT contract.** "Mn/DOT contract" means a written instrument:

A. containing the elements of offer, acceptance, and consideration to which the Minnesota Department of Transportation is a party, or acts as an agent for a party under Minnesota Statutes, section 161.36, subdivisions 2 and 3, 360.016, subdivisions 2 and 3, or 360.039, subdivisions 2 and 3;

B. for which competitive bids are required or taken; and

C. which is subject to the approval of the commissioner.

Subp. 10. **Person.** "Person" means a natural person or a business.

Subp. 11. **Principal.** "Principal" means an officer, director, or partner, or an employee or shareholder engaged in management of the business.

Subp. 12. **Suspend.** "Suspend" means to temporarily disqualify from entering into or receiving a Mn/DOT contract or from serving as a subcontractor or material supplier under a Mn/DOT contract.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3200 GROUNDS FOR DEBARMENT.

Subpart 1. **Contract crime.** A business must be debarred upon conviction in any jurisdiction, of the business or a principal of the business, for commission of a contract crime or when a conviction is imputed to the business under part 1230.3300.

Subp. 2. **Violation of antitrust laws.** A business must be debarred upon conviction in any jurisdiction, of the business or a principal of the business, for violating Minnesota Statutes, sections 325D.49 to 325D.66, or federal antitrust laws, or when a conviction is imputed to the business under part 1230.3300.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3300 CONVICTION OF PERSON IMPUTED TO BUSINESS.

The conviction of a person for offenses listed in part 1230.3200 is imputed to a business when the conduct which gave rise to the conviction occurred in connection with the person's

performance of duties for or on behalf of that business and in the course of employment or with the knowledge, approval, acquiescence, or subsequent ratification of the conduct by the business.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3400 DEBARMENT PROCEDURE.

Subpart 1. **Requirement.** A business must be debarred by the Minnesota Department of Transportation when one or more of the grounds set forth in part 1230.3200 are established at a hearing or opportunity for hearing conducted under Minnesota Statutes, chapter 14.

Subp. 2. **Three-year limitation.** A debarment or a suspension must be initiated within three years from the date of the conviction of a business for an offense described in part 1230.3200.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3500 TERM OF DEBARMENT.

The administrative law judge shall recommend and the commissioner of transportation shall establish the term of debarment. The term of debarment depends upon: the seriousness of the offense; whether restitution has been made; whether the debarred person cooperated in civil or criminal lawsuits; the state's need to preserve the competitive bidding process; and whether the business is debarred or has been debarred in another jurisdiction. The length of the debarment period in another jurisdiction must be taken into account in determining the term of debarment in Minnesota.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3600 DEBARMENT BASED ON AFFILIATION.

Subpart 1. **Conviction of business imputed to person.** The conviction of a business in any jurisdiction, for offenses listed in part 1230.3200 is imputed to any principal or other person associated with the business subject to debarment or suspension, who participated in, knew of, or had reason to know of the conduct.

Subp. 2. **Debarment.** A business must be debarred when it:

A. employs a former principal of a debarred or suspended business or person described in subpart 1 as an officer, director, manager, or in another significant decision-making capacity;

B. is owned by or associated in a joint venture with a debarred or suspended business or is controlled by a principal or former principal of a debarred or suspended business; or

C. is a business in which a former principal of a debarred or suspended business has a significant financial interest and the former principal has the authority to or will control, direct, manage, or influence any activities of the business with respect to the Mn/DOT contract in question.

Subp. 3. **Procedure.** A business described in subpart 2 must be debarred after a hearing or opportunity for hearing conducted under Minnesota Statutes, chapter 14.

Subp. 4. **Duration.** The period of debarment must be the same as that of the debarred former principal or business.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3700 STATE CONTRACTS

108

1230.3700 DEBARMENT LIMITATION.

A person may not be debarred for more than three years for conduct which gave rise to the grounds for debarment. If new or different grounds arise, a new debarment hearing must be held.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3800 EFFECTIVE DATE OF DEBARMENT.

A debarment takes effect on the date of the mailing of the order for debarment by the Minnesota Department of Transportation. The order for debarment must be sent by certified mail.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.3900 TERMINATION OF DEBARMENT OR AWARD DURING DEBARMENT.

The commissioner of transportation may terminate a debarment by order or may award a Mn/DOT contract to a debarred or suspended business when:

- A. that business is the sole supplier of a material or service required by the Minnesota Department of Transportation;
- B. the commissioner of transportation determines that an emergency exists as defined in Minnesota Statutes, section 161.32, subdivision 3;
- C. the commissioner of administration determines that an emergency exists as defined in Minnesota Statutes, section 16B.08, subdivision 6; or
- D. the contract is for purchasing materials or renting equipment for routine road maintenance.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.4000 CONTINUATION OF CONTRACTS.

Mn/DOT contracts in existence at the time of debarment or suspension are not terminated by the debarment or suspension except as provided in part 1230.1200.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.4100 PROHIBITIONS.

Subpart 1. **Mn/DOT contracts.** Except as provided in part 1230.3900, the Department of Transportation may not award a Mn/DOT contract to a debarred or suspended person and may not approve a contract under which a debarred or suspended person will serve as a subcontractor or material supplier.

Subp. 2. **Subcontracts and purchase of materials.** Except as provided in part 1230.3900, a contractor to whom a Mn/DOT contract has been awarded by the Minnesota Department of Transportation may not subcontract with or purchase materials or services from a debarred or suspended person for performance of that contract.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.4200 SUSPENSION.

Subpart 1. **Order of suspension.** The commissioner of transportation shall suspend a person or business by order upon receiving notice or learning of a conviction for conduct described in part 1230.3200 or upon receiving evidence of an affiliation described in part 1230.3600, subpart 2.

Subp. 2. **Commencement of proceedings.** The commissioner of transportation shall start debarment proceedings within ten days of the mailing of the suspension order.

Subp. 3. **Notice and content.** The order for suspension must describe the reason for suspension and must be sent by certified mail to the person suspended.

Subp. 4. **Effective date of suspension; term.** The order for suspension takes effect on the date the order is mailed. No suspension may exceed 60 days.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*

1230.4300 NOTICE TO PUBLIC.

Subpart 1. **Notice to commissioner.** The Minnesota Department of Transportation shall provide to the commissioner a copy of each suspension, debarment, or termination order on the same day that the order is mailed to the debarred or suspended person.

Subp. 2. **Publication.** The commissioner shall publish weekly, in the State Register, a list of debarred and suspended persons, the effective date of each suspension and debarment, and the term of each debarment. The commissioner shall also publish notice of debarment terminations under part 1230.3900 and the effective date of the termination.

Statutory Authority: *MS s 16B.04; L 1984 c 654 art 2 s 8*

History: *9 SR 1186*