

1 Rural Development Board

2

3 Adopted Permanent Rules Relating to Challenge Grants

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5 Rules as Adopted

6 4370.0010 DEFINITIONS.

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

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

15 Subp. 3. Board. "Board" means the Rural Development Board.

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

18 Subp. 5. Economic recovery fund. "Economic recovery fund"
19 means the state-funded economic development grant program
20 established by Minnesota Statutes, sections 116J.401 to
21 116J.403, and 116J.873.

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

27 A. northwest region is coterminous with development
28 regions 1 and 2;

29 B. northeast region is coterminous with development
30 region 3;

31 C. west central region is coterminous with
32 development region 4;

33 D. central region is coterminous with development
34 regions 5, 7E, and 7W;

35 E. southwest region is coterminous with development

1 regions 6E, 6W, and 8; and

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

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

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

12 Subp. 9. Loan limits. "Loan limits" means that for
13 businesses the minimum loan is \$5,000 and the maximum is
14 \$100,000. For local governmental units the minimum is \$5,000
15 and the maximum is \$50,000.

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

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

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

27 Subp. 13. Minimum interest rate. "Minimum interest rate"
28 means the interest rate established by the board that cannot be
29 exceeded but that will ensure coverage of the necessary
30 management costs incurred by the regional organization.

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

34 Subp. 15. Regional organization. "Regional organization"
35 means a nonprofit corporation selected by the rural development
36 board to receive a challenge grant.

1 Subp. 16. Regional revolving loan fund. "Regional
2 revolving loan fund" means a board-certified revolving loan fund
3 established by a regional organization to provide loans to new
4 and expanding businesses in rural Minnesota to promote economic
5 development.

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

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

12 4370.0020 PURPOSE.

13 The purpose of this chapter is to establish:

14 A. procedures for the Rural Development Board to
15 select and enter into agreements with regional organizations;
16 and

17 B. procedures for the use of revolving loan funds
18 under Minnesota Statutes, section 116N.08.

19 4370.0030 OBJECTIVES OF PROGRAM.

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

24 4370.0040 TYPES OF FUNDING AVAILABLE.

25 The Rural Development Board shall designate up to
26 \$1,000,000 from the rural rehabilitation revolving fund for each
27 funding region to be available over a three-year period. The
28 money awarded to each regional organization will be appropriated
29 to its regional revolving loan fund on a project-by-project
30 basis and matched by the regional organization with an equal
31 amount of nonpublic money.

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

1 economic development.

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

8 Loans to local governmental units from the regional
9 revolving loan fund must be at least \$5,000 and no more than
10 \$50,000. The money loaned to a local governmental unit must be
11 matched by the local revolving loan fund established by the
12 local governmental unit and used to provide loans to businesses
13 to promote local economic development.

14 4370.0050 APPLICATION PROCESS AND REQUIREMENTS FOR SELECTION OF
15 REGIONAL ORGANIZATIONS TO RECEIVE CHALLENGE GRANTS.

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

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

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

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

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

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

10 C. documentation of an applicant's eligibility; and

11 D. any additional information that the board requests
12 as necessary to clarify and evaluate the application.

13 Subp. 4. **Evaluation and approval of applications.**

14 Applicants that meet the eligibility requirements will be
15 evaluated in the following two areas: (1) their ability to
16 provide a nonpublic direct dollar match to the challenge grant
17 award, and (2) their ability to implement requirements of the
18 challenge grant program (including cooperation with other rural
19 development organizations in carrying out the challenge grant
20 program to promote rural development and provide technical
21 assistance).

22 4370.0060 AGREEMENTS AND RECORDS.

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

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

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

34 B. Assurance that the grant recipient will comply
35 with all applicable state and federal laws, including the

1 requirements of Minnesota Statutes, section 116N.08.

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

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

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

13 Subp. 3. Record keeping. The following record keeping
14 requirements are established:

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

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

32 C. By February 15 of each year, an annual report must
33 be submitted to the board. The annual report must include a
34 description of projects supported by the challenge grant
35 program, an account of loans made during the calendar year, the
36 source and amount of loans made during the year, the source and

1 amount of money collected and distributed by the challenge grant
2 program, the program's assets and liabilities, and an
3 explanation of administrative expenses.

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

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

13 4370.0070 CHALLENGE GRANT ADMINISTRATION MANUAL.

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

19 4370.0080 THRESHOLD REQUIREMENTS.

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

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

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

33 Subp. 3. **Jobs which principally benefit low-income**
34 **persons.** A loan must be used for a project designed principally
35 to benefit low-income persons through the creation or retention

1 of jobs (principally is defined as more than 50 percent of the
2 persons benefitting).

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

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

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

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

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

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

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

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

34 D. For business loans, the amount of money
35 appropriated from the rural rehabilitation revolving fund may
36 not exceed 50 percent of each loan made by the regional

1 organization. The amount of nonpublic money must be at least 50
2 percent of each loan made by the regional organization. The
3 loan limits of the regional organization will be \$5,000 minimum
4 and \$100,000 maximum.

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

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

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

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

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

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

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

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

36 For loans made to local governmental units, one-half of the

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1 money loaned by the regional organization must be repaid to the
2 rural rehabilitation revolving fund. With the agreement of the
3 regional organization, 50 percent of the money may be retained
4 by the local governmental unit's revolving loan fund for further
5 distribution by the local governmental unit.