

Minnesota New Markets Development Act

Meeting the Financing Need for Minnesota Small Businesses

SITUATION

Minnesota has become a magnet for successful businesses in the Midwest. However, the gap between areas of wealth and poverty has only been growing. In times of rising interest rates and economic instability, businesses in low-income areas struggle to retain and create quality jobs more than other areas of the state.

OPPORTUNITY

The Federal New Markets Tax Credit (NMTC) program is designed to fill this gap by targeting funds to low-income areas across the country. Minnesota ranks 17th of 50 in per capita federal NMTC investment despite being consistently top ten in attracting venture funding. This will attract more of this flexible capital to Minnesota's growing businesses in the areas of the state that need it most.

SOLUTION

The Minnesota New Markets Development Act would attract more federal NMTC funds to Minnesota. This bill includes \$120mm of private, long-term growth capital (debt or equity) at below market rates and with more flexible terms- The same investment that was included in the final 2022 bipartisan tax bill. These funds would be raised and managed by certified Community Development Entities that invest exclusively in qualifying Minnesota small businesses.

Highlights

- ✓ **Rapid Investment:** 100% of \$120mm must be invested within 12 months
- ✓ **Statewide:** Investment divided evenly between Twin Cities and Greater MN
- ✓ **Delayed Credit:** \$60mm in state credits taken in years 3-7 of program.
- ✓ **Federal Match:** CDEs must bring federal NMTC allocation
- ✓ **State Protections:** Strong recapture provisions if funds not invested according to statute

HOW IT WORKS

Step 1

Federally licensed investors (CDEs) apply to raise a fund.

Step 2

Approved investors raise private capital from qualifying investors.

Step 3

Investors rapidly invest in qualifying small businesses in eligible locations.

Step 4

Capital remains invested for 7 years driving economic growth.

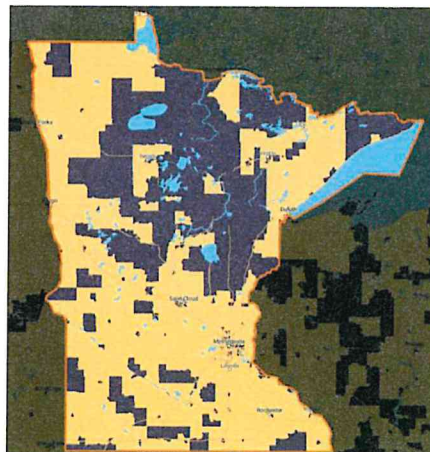
SMALL BUSINESS INVESTMENT TARGETS

- a) Principal operations located in MN
- b) Must be an operating business
- c) Must be located in NMTC eligible area
 - o Income \leq 80% of state family median income; or
 - o Poverty rate of 20% or greater

RECAPTURE: Up to 100% of state funds can be recaptured in the event of noncompliance:

- a) Failure to invest 100% of funds within 12 months; or
- b) Funds fails to maintain 100% investment through the seventh anniversary; or
- c) Federal tax credits recaptured; or
- d) CDE makes principal repayment to fund investor prior to year seven

NMTC ELIGIBLE AREAS (IN PURPLE)



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HEADLINE

The Minnesota New Markets Development Act (MN NMDA) provides \$120 million of growth capital to be invested exclusively in Minnesota small businesses within 12 months by federally certified investors.

HIGHLIGHTS

State & Federal New Markets Tax Credit (NMTC)

The Minnesota New Markets Development Act is a state program that builds upon the successful federal NMTC program that allocates \$5 billion annually to be invested in businesses in low-income areas that otherwise would not have had access to the capital necessary to grow. State NMTC programs attract certified federal NMTC investors (Community Development Entities) to deploy more federal NMTC funds in their state.

Community Development Entities (CDEs)

CDEs are private investors that have a primary mission of investing in low-income communities. All CDEs are certified by the Community Development Finance Institution (CDFI) Fund, a part of the U.S. Treasury. To participate in MN NMDA, CDEs must have received a federal New Markets Tax Credit allocation to attract experienced investors with federal funds to Minnesota.

Targeted Growth Capital

Small businesses are struggling to find financing between \$500k and \$5 million in today's environment. The MN NMDA fills that gap by authorizing \$120 million to be invested in small businesses in underserved communities across the entire state by approved CDEs. The financing offered is flexible and comes at below market rates to give these Minnesota companies the capital they need to expand their business.

Rapid Deployment

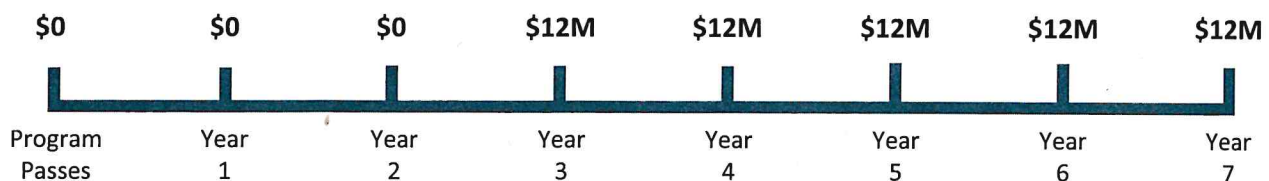
Approved CDEs pair their private capital with the funds attracted from state tax credits to create a fund that will be 100% invested in Minnesota small businesses in underserved communities within 24 months. This allows the funds to be put to work in the state, creating quality jobs before any tax credits are issued by the state. Investment is divided 50/50 between the Twin Cities and Greater Minnesota.

Long-Term Investment

Not only are funds required to be invested in small businesses within 12 months, but they are required to remain invested in the state for seven years to further drive economic growth. If a CDE does not invest their funds and keep them invested within these timeframes, they would fall out of compliance with the program and their state tax credits would be recaptured.

CREDIT SCHEDULE

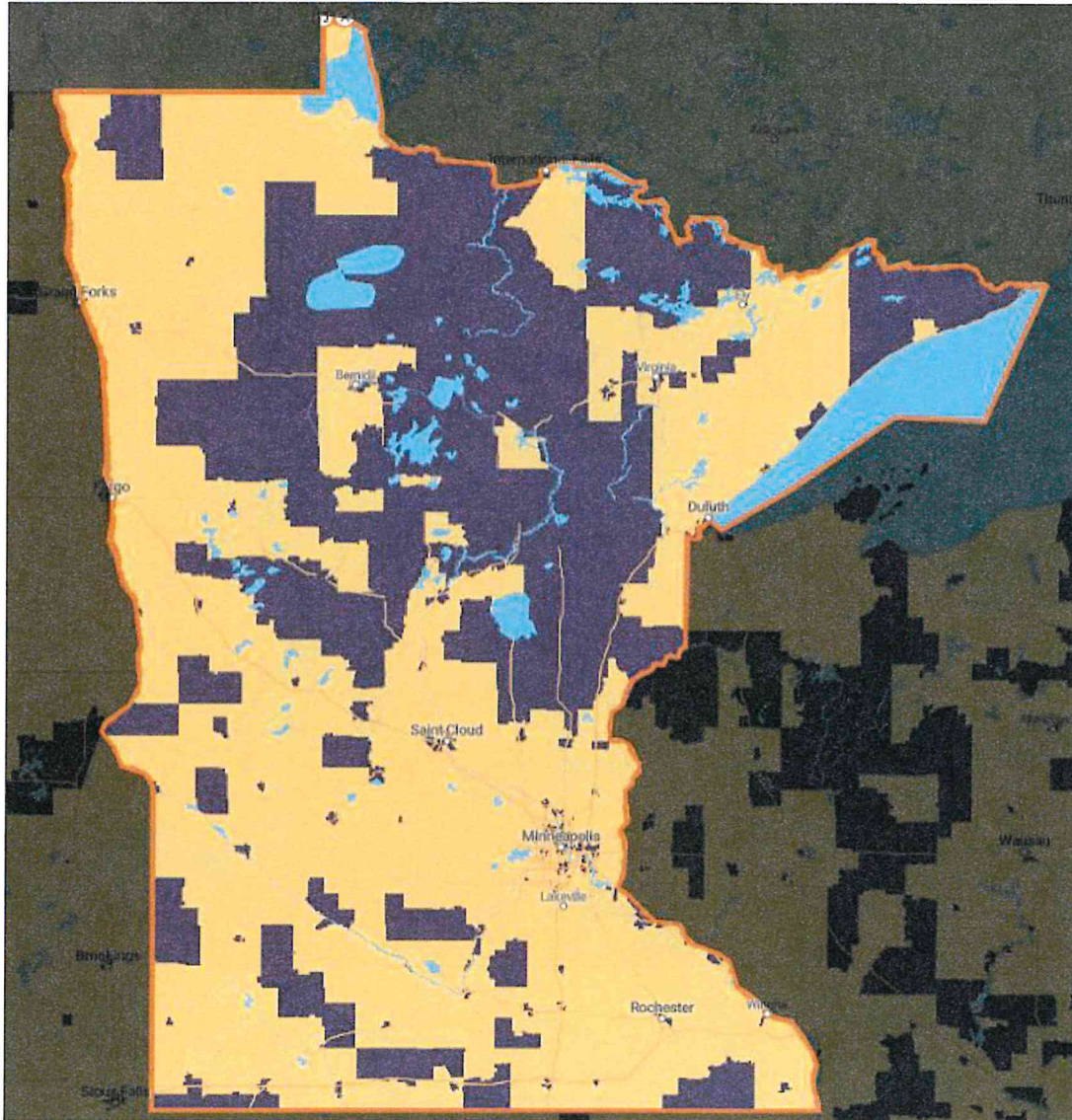
The MN NMDA leverages \$60 million in state tax credits to attract \$120 million to be invested in small businesses in underserved communities. \$12 million in state credits are issued in years 3-7 of the program.



Minnesota New Markets Development Act

New Markets Tax Credit Eligible Areas

Statewide
(Eligible Areas in Purple)



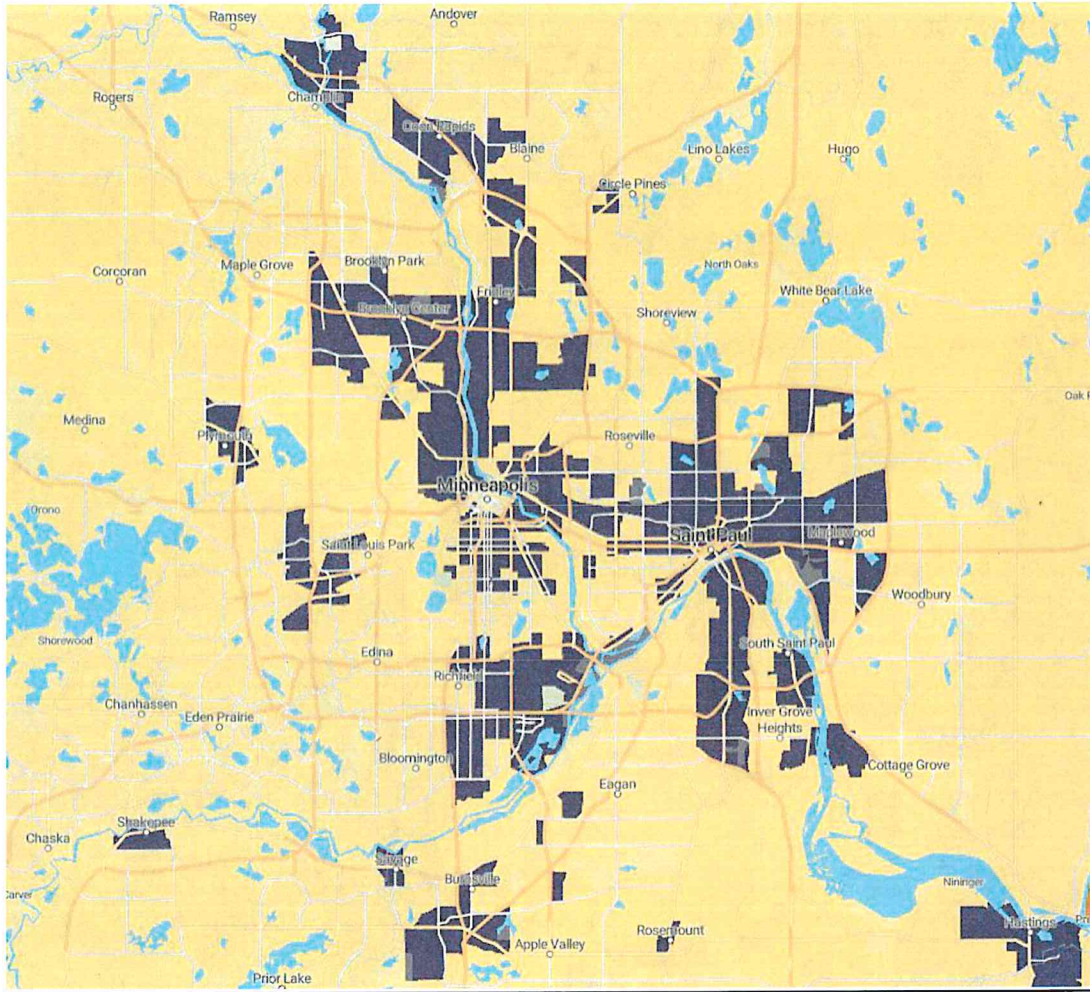
NMTTC Eligibility Requirements

- The CDFI Fund sets NMTTC eligible areas across the country along census tracts and according to two criteria:
 - (1) the area must have a poverty rate of at least 20%; OR
 - (2) the area must have a median family income below 80% of the median statewide family income.

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New Markets Tax Credit Eligible Areas

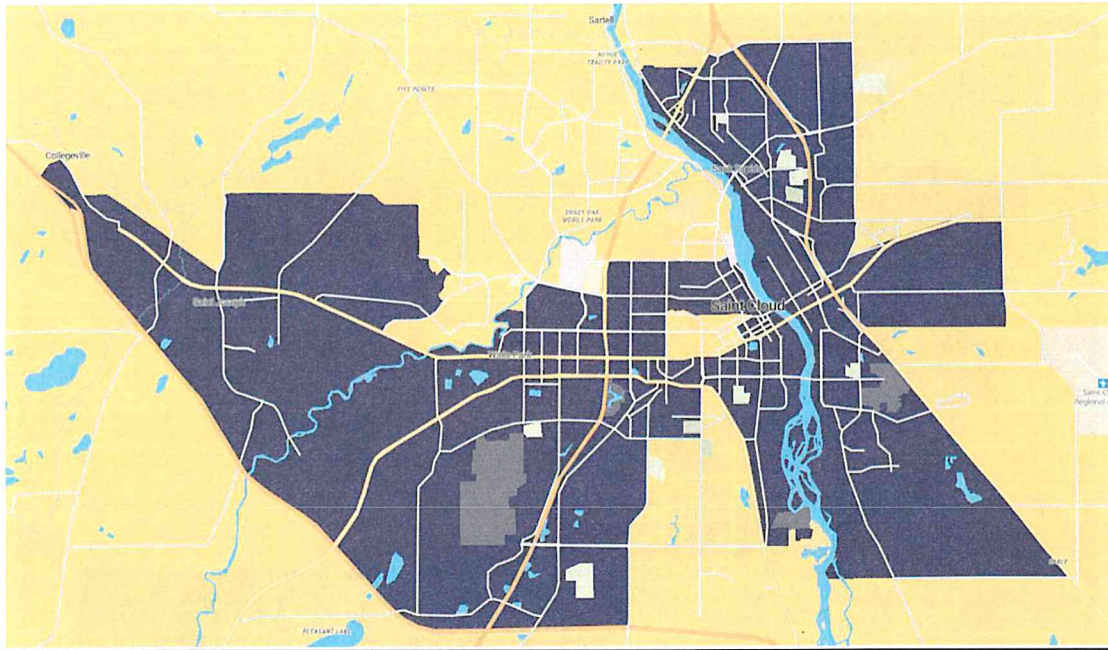
Minneapolis – St. Paul
(Eligible Areas in Purple)



Minnesota New Markets Development Act

New Markets Tax Credit Eligible Areas

Saint Cloud
(Eligible Areas in Purple)



Minnesota New Markets Development Act

States that have passed a State NMTC program (in green)

