EMPLOYMENT AND ECONOMIC DEVELOPMENT

April 4, 2022

The Honorable Representative Mohamud Noor
Chair, Workforce and Business Development Finance and Policy Division
379 State Office Building
St. Paul, MN 55155

Dear Representative Noor,

On behalf of the Minnesota Department of Employment and Economic Development (DEED), I am writing to provide feedback on the House Workforce and Business Development Finance and Policy Division's Omnibus bill.

Crafting a budget is no small task and I want to extend my gratitude to you and the members of your committee for your work on the House Jobs Committee's omnibus bill. As you know, Governor Walz and Lt. Governor Flanagan's Budget to Move Minnesota Forward made recommendations to invest in local jobs and projects, expand economic opportunity, support children and families, and protect Minnesotans' health and safety. Most central to this committee's focus is the Walz-Flanagan economic plan to build on Minnesota's economic success by investing in students, workers, communities and small businesses – the things that make our state's economy strong in the first place.

As we continue this session, I hope we can work together on the priorities the Governor has put forward for DEED. Below you will find areas in the omnibus bill that DEED either supports or has concerns about.

<u>Economic Development</u>

Thank you for making important investments in key areas that will support an equitable recovery such as establishing and funding the Office of New Americans, additional supports for the Main Street Economic Revitalization program, a marketing campaign to market the state of Minnesota to businesses and potential workers, and increased funding to provide grants to organizations that provide small business assistance. It's clear you kept principles of equity at the center of your budget, and these are the kinds of investments that Minnesota should make now to grow our economy.

There are some key programs in the Governor's bill that were not in your Omnibus bill related to economic development that I strongly urge you to consider as we go forward. Launch Minnesota, our state's startup support program, should be funded to help businesses scale-up at this critical moment in our economy. And investments in electric vehicle infrastructure for businesses will help accelerate our transition to a green economy, creating jobs while helping Minnesota be a leader in clean economic development that fights climate change and builds opportunity.

As our team examined how these packages and others in your bill are put together, there are some areas of concern that the Committee should address to improve the bill.

Line 2.10 – **Main Street Economic Revitalization**. The bill language would only allow these new dollars to be available for one year, which given other funding flows and stakeholder feedback we do not believe would provide sufficient time. Alternatively, three years would allow the agency to combine this resource with other funding so they expire at the same time (6/30/25) or 4 years to give more time on the program. This will improve and simplify the program.

Line 2.14 – Spark Small Business Loans

- This program needs language that authorizes the transfer/deposit into the revolving account in the special revenue fund.
- Line 25.5 – the Committee should consider defining "immigrant" for the purposes of this program.
- Line 25.25 – Consider rather than requiring a 50-50 split of funds between the Metro area and Greater Minnesota, using a proportional split based on population.
- Line 27.3– the program does not provide any administrative funding in FY23 because there would not be a previous year to base the administrative cap from. To rectify this would require language such as "in FY23 the Commissioner may use XX for administration" to ensure there are funds to administer the program. This is essential to ensure the department can deliver on this program for small businesses.

Line 3.5 Pandemic Relief Program. It may be advisable to make funding for the Pandemic Relief Program available for more than 1 year, perhaps through FY24 to ensure that all funds are deployed.

Line 12.14 Redevelopment Grants

- This program typically needs more than one year to successfully deploy resources and would require "available until spent" language to be added to this appropriation.
- The bill language at 12.33 about matching funds is confusing. The statutory language for the program still limits grants at 50% of the total development costs. If a development authority located in a low-income area applied for funding in FY23 and therefore was not required to contribute local match funds, that would still leave the project with a 50% funding gap.
- The bill adds low-income census tract as a priority for FY23 at line 12.19. It is important to note that the statute already has several priorities that proposals are ranked on. A project could be located in a low-income census track and still score poorly in the other priority areas, resulting in a low score and not being awarded a grant.

Line 28.4 Emerging Developer Loan Program

The agency appreciates that there are many benefits to supporting emerging developers and appreciates the importance of a program providing loans for such developers. The challenge is that DEED does not have staff who are experts in development, and the agency would therefore be challenged to manage this program directly. The agency does not have staff with the kinds of expertise necessary to evaluate individual project proposals, assess lending risk and make individual loans to emerging developers. This program would be better served by allowing the agency to conduct an RFP to award the management of such a program to a small number of nonprofits who are positioned to provide that kind of expert assistance to this group of developers.

In addition, we have some technical concerns with the following language:

- Line 28.11 – the definition of a disadvantaged community is not clear for this program.
- Line 29.16 – the statute should define "low interest rate."
- Line 28.22 – Providing a clearer definition about what is "educational training in real estate development" for the purposes of this program could be beneficial to differentiate from those who have taken a couple of hours of instruction in real estate vs. a more substantive training course that positions an individual to undertake a development project.
- Line 29.18 – It would be advisable to provide additional direction around what is considered "flexible collateral" for the purposes of this program. At present it is unclear. It is also unclear what the agency's responsibility would be around collection for this program if there is no collateral.

Line 38.3 Canadian Border Counties Economic Relief Program

The agency would need more than 1% administration fee to manage this program. The language should be adjusted to say that the agency may take up to 3% for program administration.

Line 38.30 - Pandemic Relief Grant Program

The timeline in which funds would revert to the general fund, December 31, 2022, may be too short to ensure that funds are distributed to qualifying entities. The Committee may want to consider extending the timeline through 2023.

At line 39.7 the Committee may want to consider including demonstrating COVID hardship in 2021 as an eligible factor. There have been numerous businesses that have gone into debt during 2021 due to COVID challenges which continue to impact the viability of the business.

Economic Development Policy Changes

Finally, I appreciate that the Governor's recommended policy changes were included in the House's Omnibus bill including:

- Line 27.23 Equity Investment changes will allow the agency to use the capital access account for repaid State Small Business Credit Initiative (SSBCI) funds to reinvest the funds in early stage and venture capital funds for small and emerging businesses. The change at 32.18 to add federal loan funds provided through the Department of the Treasury will similarly allow the agency to reinvest repaid SSBCI funds in early stage and venture capital funds for small and emerging businesses.
- Adding tribal businesses, municipal and county hospitals at line 33.9 adds important businesses to the MN Job Skills Partnership program and will widen the business partnerships to include these types of businesses.

<u>Workforce Development</u>

Workforce challenges are the most pressing concern that I hear from businesses as they scramble to find workers across employment sectors. It is good to see that the Committee has a shared commitment to making investments in the tech jobs pipeline for youth even if that commitment is smaller than we perceive the need to be.

However, it is concerning to see that the House's Omnibus bill fails to make the other investments in growing our workforce recommended by the Governor, including investments in adult technology re-skilling training, funding for clean tech workforce training, and resources to modernize DEED's workforce tools. These priorities were carefully put forward after a full review of gaps in the agency's toolkit to address modern workforce challenges shared with us by businesses and workers alike, and we're concerned about our ability to deliver the kind of excellent and pressing workforce development services our state needs without funding these priorities.

While your package includes several direct appropriations to workforce development organizations, we believe a holistic approach with competitive grant programs would be preferrable and scale much more effectively to meet this moment for our economy.

I appreciate that the Governor's recommended policy changes were included in the House's Omnibus bill – these are positive changes included in this bill:

- Lines 20.29-22.28 make policy changes in the Pay for Performance program intended to make the program more flexible so that the model can be used by more programs. These changes allow nonprofits to have enough funding to effectively operate and provide a wider variety of job placements and job retention services with scaled payments based on those placements and job retention.
- Language at 34.8 clarifying the definition of displaced homemaker will ensure that the program continues to serve individuals who have been out of the workforce but must now find employment.
- Changes in the definition of "credential" in the Uniform Report Card at lines 34.31 – 35.2 will allow for a more expansive definition of credential to include certificates awarded by workforce investment boards.
- Removing language at lines 36.7 – 36.10 from the Uniform Report Card strikes language that attempts to capture the total cost of the program, total cost of the program per participant, cost per credential received by participant and the administrative cost of the program. The programs that use the Uniform Report Card vary widely by the populations they serve and the types of credentials they award and because of this, this information is not helpful to determining the program's outcomes or effectiveness and creates an unnecessary administrative burden for the reporting organization. This information can instead be provided in the legislative reports.

Technical Issues

- Two programs should be classified under a different subdivision. These programs are both listed in the Business and Community Development Section but should instead be listed under the Employment and Training Program Section. Classification effects how the agency sets up the programs in the SWIFT system and division reporting for things like the biennial budget and agency budget book.
  - Line 2.5 Office of New Americans
  - Line 2.22 Targeted Community Capital Grants

- The legal cites between two programs, the Spark Small Business Loan program and the Emerging Developer Loan program are crossed. At line 2.32 the bill deposits funds into the Emerging Developers Loan program but uses the cite 116J.8751. However, at line 28.4 the Emerging Developer Loan program is created at 116J.9926. And elsewhere in the bill, the Spark Small Business Loan program is created at 116J.8751.

- At line 22.31- the language should be adjusted to reflect that the records should be kept in compliance with state record retention requirements, so records are not retained indefinitely.
- The Redevelopment funds at line 12.14 should be appropriated to 116J.571 not 116J.575. 116J.571 appropriates the funds to the account (which includes grants and demo loans) and 116J.575 is for grants only.

Congratulations on putting together your Omnibus bill – I know that the committee has challenging work ahead. DEED is committed to working with you and we thank you in advance for your consideration of this feedback.

Please do not hesitate to contact me or Darielle Dannen (darielle.dannen@state.mn.us) with any questions.

Regards,

Steve Grove
Commissioner

CC: Rep. Rob Hamilton