

**SENATE**  
**STATE OF MINNESOTA**  
**NINETY-FOURTH SESSION**

**S.F. No. 2501**

(SENATE AUTHORS: XIONG)

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Introduction and first reading  
Referred to State and Local Government  
See SF3045

OFFICIAL STATUS

- 1.1 A bill for an act
- 1.2 relating to state government; changing provisions for state contracts; amending
- 1.3 Minnesota Statutes 2024, sections 16C.05, by adding a subdivision; 16C.16,
- 1.4 subdivisions 6, 6a, 7; repealing Minnesota Statutes 2024, section 16C.36.
- 1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
- 1.6 Section 1. Minnesota Statutes 2024, section 16C.05, is amended by adding a subdivision
- 1.7 to read:
- 1.8 Subd. 8. **Unenforceable terms.** (a) A contract entered into by the state shall not contain
- 1.9 a term that:
- 1.10 (1) requires the state to defend, indemnify, or hold harmless another person or entity;
- 1.11 (2) binds the state by terms and conditions that may be unilaterally changed by the other
- 1.12 party;
- 1.13 (3) requires mandatory arbitration;
- 1.14 (4) attempts to extend arbitration obligations to parties outside the original contract or
- 1.15 to disputes unrelated to the original contract;
- 1.16 (5) construes the contract in accordance with the laws of a state other than Minnesota;
- 1.17 (6) obligates state funds in subsequent fiscal years in the form of automatic renewal; or
- 1.18 (7) is inconsistent with chapter 13, the Minnesota Government Data Practices Act.
- 1.19 (b) If a contract is entered into that contains a term prohibited in paragraph (a), that term
- 1.20 shall be void and the contract is enforceable as if it did not contain that term.
- 1.21 (c) The commissioner shall post a copy of this section on its website.

2.1 Sec. 2. Minnesota Statutes 2024, section 16C.16, subdivision 6, is amended to read:

2.2 Subd. 6. **Purchasing methods.** (a) The commissioner may award up to a 12 percent  
2.3 preference for specified goods or services to small targeted group businesses.

2.4 (b) The commissioner may award a contract for goods, services, or construction directly  
2.5 to a small business or small targeted group business without going through a competitive  
2.6 solicitation process up to a total contract award value, including extension options, of  
2.7 \$100,000.

2.8 (c) The commissioner may designate a purchase of goods or services for award only to  
2.9 small businesses or small targeted group businesses if the commissioner determines that at  
2.10 least three small businesses or small targeted group businesses are likely to respond to a  
2.11 solicitation.

2.12 (d) The commissioner, as a condition of awarding a construction contract or approving  
2.13 a contract for professional or technical services, may set goals that require the prime  
2.14 contractor to subcontract a portion of the contract to small businesses or small targeted  
2.15 group businesses. The commissioner must establish a procedure for granting waivers from  
2.16 the subcontracting requirement when qualified small businesses or small targeted group  
2.17 businesses are not reasonably available. The commissioner may establish financial incentives  
2.18 for prime contractors who exceed the goals for use of small business or small targeted group  
2.19 business subcontractors and financial penalties for prime contractors who fail to meet goals  
2.20 under this paragraph. ~~The subcontracting requirements of this paragraph do not apply to~~  
2.21 ~~prime contractors who are small businesses or small targeted group businesses.~~

2.22 Sec. 3. Minnesota Statutes 2024, section 16C.16, subdivision 6a, is amended to read:

2.23 Subd. 6a. **Veteran-owned small businesses.** (a) Except when mandated by the federal  
2.24 government as a condition of receiving federal funds, the commissioner shall award up to  
2.25 a 12 percent preference, but no less than the percentage awarded to any other group under  
2.26 this section, on state procurement to certified small businesses that are majority-owned and  
2.27 operated by veterans.

2.28 (b) The commissioner may award a contract for goods, services, or construction directly  
2.29 to a veteran-owned small business without going through a competitive solicitation process  
2.30 up to a total contract award value, including extension options, of \$100,000.

2.31 (c) The commissioner may designate a purchase of goods or services for award only to  
2.32 a veteran-owned small business if the commissioner determines that at least three  
2.33 veteran-owned small businesses are likely to respond to a solicitation.

(d) The commissioner, as a condition of awarding a construction contract or approving a contract for professional or technical services, may set goals that require the prime contractor to subcontract a portion of the contract to a veteran-owned small business. The commissioner must establish a procedure for granting waivers from the subcontracting requirement when qualified veteran-owned small businesses are not reasonably available. The commissioner may establish financial incentives for prime contractors who exceed the goals for use of veteran-owned small business subcontractors and financial penalties for prime contractors who fail to meet goals under this paragraph. ~~The subcontracting requirements of this paragraph do not apply to prime contractors who are veteran-owned small businesses.~~

(e) The purpose of this designation is to facilitate the transition of veterans from military to civilian life, and to help compensate veterans for their sacrifices, including but not limited to their sacrifice of health and time, to the state and nation during their military service, as well as to enhance economic development within Minnesota.

(f) Before the commissioner certifies that a small business is majority-owned and operated by a veteran, the commissioner of veterans affairs must verify that the owner of the small business is a veteran, as defined in section 197.447.

Sec. 4. Minnesota Statutes 2024, section 16C.16, subdivision 7, is amended to read:

Subd. 7. **Economically disadvantaged areas.** (a) The commissioner may award up to a 12 percent preference on state procurement to small businesses located in an economically disadvantaged area.

(b) The commissioner may award a contract for goods, services, or construction directly to a small business located in an economically disadvantaged area without going through a competitive solicitation process up to a total contract award value, including extension options, of \$100,000.

(c) The commissioner may designate a purchase of goods or services for award only to a small business located in an economically disadvantaged area if the commissioner determines that at least three small businesses located in an economically disadvantaged area are likely to respond to a solicitation.

(d) The commissioner, as a condition of awarding a construction contract or approving a contract for professional or technical services, may set goals that require the prime contractor to subcontract a portion of the contract to a small business located in an economically disadvantaged area. The commissioner must establish a procedure for granting

waivers from the subcontracting requirement when qualified small businesses located in an economically disadvantaged area are not reasonably available. The commissioner may establish financial incentives for prime contractors who exceed the goals for use of subcontractors that are small businesses located in an economically disadvantaged area and financial penalties for prime contractors who fail to meet goals under this paragraph. ~~The subcontracting requirements of this paragraph do not apply to prime contractors who are small businesses located in an economically disadvantaged area.~~

(e) A business is located in an economically disadvantaged area if:

(1) the owner resides in or the business is located in a county in which the median income for married couples is less than 70 percent of the state median income for married couples;

(2) the owner resides in or the business is located in an area designated a labor surplus area by the United States Department of Labor; or

(3) the business is a certified rehabilitation facility or extended employment provider as described in chapter 268A.

(f) The commissioner may designate one or more areas designated as targeted neighborhoods under section 469.202 or as border city enterprise zones under section 469.166 as economically disadvantaged areas for purposes of this subdivision if the commissioner determines that this designation would further the purposes of this section. If the owner of a small business resides or is employed in a designated area, the small business is eligible for any preference provided under this subdivision.

(g) The Department of Revenue shall gather data necessary to make the determinations required by paragraph (e), clause (1), and shall annually certify counties that qualify under paragraph (e), clause (1). An area designated a labor surplus area retains that status for 120 days after certified small businesses in the area are notified of the termination of the designation by the United States Department of Labor.

Sec. 5. **REPEALER.**

Minnesota Statutes 2024, section 16C.36, is repealed.

**16C.36 REORGANIZATION SERVICES UNDER MASTER CONTRACT.**

The commissioner of administration must make available under a master contract program a list of eligible contractors who can assist state agencies in using data analytics to:

(1) accomplish agency reorganization along service rather than functional lines in order to provide more efficient and effective service; and

(2) bring about internal reorganization of management functions in order to flatten the organizational structure by requiring that decisions are made closer to the service needed, eliminating redundancies, and optimizing the span of control ratios to public and private sector industry benchmarks.