

Minnesota Department of Energy and Economic Development

In the Matter of the Proposed Rules of the
Department of Energy and Economic
Development Governing Administration
of the Rural Development Grant Program

STATEMENT OF NEED AND
REASONABLENESS.

Introduction

The 1985 Minnesota Legislature established the Governor's Rural Development Council (Council) Minn. Stat. 116J.951-116J.965 (1985 Supp.) to advise the governor and legislature on matters of public policy relating to rural development. The council is also directed to identify prominent rural issues and formulate and advocate policies that serve the needs of the rural population of the state.

Under this legislation the council shall administer the annual investment income from the rural rehabilitation revolving fund by administering a rural development grant program including the establishment of grant eligibility criteria, solicitation and review of grant applications and determination of projects to be funded. The Commissioner of the Department of Energy and Economic Development with the concurrence of the council, is authorized to adopt rules for administration of the grant program by Minn. Stat. 116.961 Subd. 9 (1985 Supp.).

Rule Justification

The format used in preparing this Statement of Need and Reasonableness is as follows: each rule is stated first, followed by a discussion of the intent of the proposed rule, and its reasonableness.

Minn. Rule 4360.0100 Rural Development Grant Program; definitions.

1. Scope. As used in parts 4360.0100 to 4360.1100, the terms defined in this part and in Minnesota Statutes, section 116J.951 have the meanings given them.
2. "Agriculture" means relating to activities of establishments primarily engaged in food production, processing, sale and transport of goods and commodities classified under the industry code numbers used in the standard industrial classification code as published in the standard industrial classification manual adopted by incorporation by reference in part 4360.1200, for the following coded activities:
 - A. Major Group 01--Crops;
 - B. Major Group 02--Livestock;
 - C. Major Group 07--Agricultural Services;
 - D. Major Group 09--Fishing, Hunting and Trapping;
 - E. Major Group 20--Food and Kindred Products;
 - F. Group 514--Groceries and Related Products;
 - G. Group 515--Farm Products Raw Materials, and
 - H. Major Group 54--Food Stores.

Discussion: This definition is necessary because it describes one of the types of resources the program is designed to protect. It is reasonable because it is the same definition used by the Farmers Home Administration. The Standard Industrial Classification Manual is widely available at public libraries.

3. Demonstration grant. "Demonstration grant" means a grant for an innovative project that has potential statewide applications and meets the needs of farmers or low-income rural residents.

Discussion: This definition is necessary because it describes one of two types of grant programs administered by the council. It is reasonable because it clearly defines what the council intends demonstration grant recipients to accomplish.

4. Enterprise development. "Enterprise development" means the gradual emergence or expansion of new rural small business.

Discussion: This definition is necessary because it describes one of the goals of the program. It is reasonable because it expresses the council's philosophy of fostering or nurturing business ideas already existing within a rural community rather than looking outside a community for new businesses.

5. Farmer. "Farmer" means one engaged in the production of agricultural commodities (including persons engaged in the production of fish under controlled conditions), ranchers, farm tenants, and farm laborers.

Discussion: This definition is necessary because it provides a strict interpretation of a widely used term. It is reasonable because it allows for the widest possible interpretation of the term.

6. Fiscal Agent. "Fiscal agent means any Minnesota unit of state or local government, special district nonprofit organization or public institution, employing a certified public accountant for the purpose of the agent's activities, that acts on behalf of a project sponsor.

Discussion: A grant is a legal agreement between the council and the grantee. A grantee needs to identify an appropriate legal entity that will be responsible for carrying out the tasks associated with fiscal responsibilities. Since the state (through the council) is responsible to the federal government (through the Farmers Home Administration) for the proper use of rural development funds, it is reasonable to require the grantee to identify a similar legal entity.

7. Grant funds. "Grant funds" means money provided by the council in the form of a demonstration grant or seed grant.

Discussion: This term is necessary to distinguish council provided funds from funds raised through other sources. It is a reasonable definition because it is broad enough to cover both types of council grant programs yet focused enough to avoid confusion with non-council funds.

8. Grant year. "Grant year" means the year during which the council makes grant funds available.

Discussion: While funds are encumbered by the fiscal year beginning July 1st and ending June 30, grants may vary and overlap fiscal years. Therefore, it is necessary to distinguish the period in which grant funds are made available. This definition is reasonable since it provides greater flexibility on the part of the grantee and grantor when establishing the project time frame.

9. In-kind support. "In-kind support" means contributions made by a project sponsor other than money, usually services, facilities, goods, or equipment, meant to supplement the grant awarded by the council.

Discussion: This term is necessary since in-kind contributions are one form of the required matching funds. It is reasonable since contributions can take a variety of forms. The in-kind designation allows for equal consideration of cash and other types of contributions.

10. Letter of commitment. "Letter of commitment" means a written statement from an organization or individual providing matching funds in conjunction with a project application submitted to the council.

Discussion: This term is necessary so that potential applicants understand that written proof of additional funds is necessary as part of the application process. It is reasonable since grant funds are only intended to cover part of the total cost of a project. They are partially awarded on the potential for leveraging other funds. It is therefore reasonable to require written proof of these funds.

11. Low-income. "Low-income" means low income as defined in Code of Federal Regulations, title 24, section 813.102.

Discussion: Grant funds are intended to benefit farmers, immediate farm family members or low income rural residents. Therefore it is necessary to explicitly define low income. This definition is reasonable since it is the same as used in other federal programs.

12. Management assistance. "Management assistance" means assistance provided to rural small businesses in managing the day-to-day operations of the enterprise, and as opposed to financial assistance.

Discussion: This term is necessary to clarify the kind of assistance available to rural small business. It is reasonable since the council has determined that it is inappropriate for it to provide financial assistance directly to small business. This term clearly identifies the type of assistance available to rural small business.

13. Matching funds. "Matching funds" means the share, including in-kind support, of total project costs raised by the grantee used to supplement grant funds. Matching funds may not consist solely of in-kind support but may consist solely of money from any source.

Discussion: The council requires a match as a sign of commitment to project goals. It is reasonable because it demonstrates a capacity to involve others and to move towards future self-sufficiency.

14. Nonprofit organization. "Nonprofit organization" means an organization that is a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code of 1954, as amended through December 31, 1985.

Discussion: This term is necessary to define a nonprofit organization for the purposes of these rules. Because the state, through the council, is responsible to the federal government for the proper expenditure of rural development funds, it is reasonable to limit the interpretation of nonprofit to that of the Internal Revenue Service.

15. Operating capital. "Operating capital" means money or credit used by the owner of a for-profit business to pay the day-to-day operating expenses of the enterprise, such as for the purchase of goods, inventory, machinery, equipment, or other overhead costs.

Discussion: This term is necessary to inform prospective applicants on the council's interpretation of operating capital. This definition is reasonable since it is consistent with generally understood business concepts.

16. Priority rural development issues or priority issue areas. "Priority rural development issues" or "priority issue areas" means family farm and agricultural land protection, value added processing and marketing, or rural small business assistance or any combination of those issues.

Discussion: This term is necessary to inform prospective applicants of the council's determination of the priority rural development needs. It is reasonable since Minn. Stat. 116J.951-116J.965 specifically empowers the council to identify prominent rural issues.

17. Program. "Program" means the grant-making activities of the council.

Discussion: This term is necessary to provide an abbreviation for the council program and all applicable rules and regulations. It is reasonable since it is a clearly understood concept.

18. Project or rural development project. "Project" or "Rural development project" means any activity funded or to be funded by the council that seeks to accomplish one or more of the priority rural development issue areas.

Discussion: This term is necessary to define activities undertaken by sponsors and funded by the council. It is a reasonable definition in that it clearly identifies what constitutes a project.

19. Project evaluation. "Project evaluation" means a comparison between the activities implementing the work program and anticipated project results, as identified in the project application, and the actual outcome of the project.

Discussion: This term is necessary since it describes basis by which projects will be evaluated. It is reasonable because it clearly states what the council will be looking for when it determines whether or not the grant funds are being used to effectively meet the needs of rural Minnesota.

20. Project promotion. "Project promotion" means a method of informing the general public and others about project activities, including the use of appropriate media, responding to individual inquires, mailings to appropriate groups, and reporting to the council on project activities.

Discussion: Since the stated use of grant funds is to demonstrate a possible solution to an identified rural problem or opportunity, it is necessary to communicate project results with the public or other agencies. This definition is reasonable since it clearly states the manner in which to accomplish this task.

21. Project sponsor or sponsor. "Project sponsor" or "sponsor" means the person or entity that implements or intends to implement a rural development project, whether or not acting through a fiscal agent.

Discussion: This term is necessary to define the person or persons, group or groups responsible for implementing the project. It is reasonable because it clearly identifies who will be responsible for implementing the project.

22. Project sponsor or fiscal agent. "Project sponsor or fiscal agent" means, unless a contrary meaning is clearly intended, that the project sponsor is ultimately responsible for the required action and that if a fiscal agent is used, the fiscal agent is responsible to the sponsor to take the required act and the project sponsor is responsible for the same act only in the event that the fiscal agent is unwilling or unable to take the required action.

Discussion: This term is necessary because it describes the legal responsibilities of each party when a fiscal agent is used. It is reasonable because it again clarifies who is responsible for the ultimate implementation of a project.

23. Rural. "Rural" means places within the state other than first class cities as defined in Minnesota Statutes, section 410.01.

Discussion: This definition is necessary because it explicitly states what the council understands rural to be. It is reasonable since it allows for the broadest possible interpretation of the term.

24. Rural small business. "Rural small business" means a business entity, including its affiliates, that:

- A. is independently owned and operated for a profit;
- B. is not dominant in its field;
- C. employs fewer than 50 full-time employees or has gross annual sales less than \$4,000,000; and
- D. is located in rural Minnesota.

Discussion: This term is necessary because it describes the types of rural small businesses eligible for technical assistance. It is reasonable because it is consistent with Minn. Stat. section 14-115, which is the definition used for small business for state agricultural programs.

25. Seed grant. "Seed grant" means a small initial award of funds to a project sponsor awarded to attract other grants and contributions to the project from other sources.

Discussion: This term is necessary to define what is meant by seed grants. It is reasonable since seed grants are short term, one time-grants.

26. Start-up capital. "Start-up capital" means money or credit used by the owner of a for-profit business to begin operating that business for the first time.

Discussion: It is necessary to define this term in order to avoid confusion, especially in part 4360.0800, subpart 4,D and 4360.1000, subpart 4, E. It is reasonable since the council feels it would be inappropriate to use public funds to assist private businesses.

27. Value added. "Value added" means the increased worth of Minnesota agricultural and forest resources that is caused by the introduction of higher cost crops into the state, or the additional processing of existing crops, livestock, and forest products that occur within a locality or the state, rather than outside of the state.

Discussion: Value added is a broadly used term which necessitates clarification for use in this program. The definition establishes activities the council considers as value added. This definition is reasonable since it is consistent with overall council goals expressed in these rules.

Minn. Rule 4360.0200 Council Purpose

The council serves as a forum for identifying the priority rural development issues in Minnesota and developing goals and strategies for addressing those issues through the use of technical and financial resources available to the council.

Discussion: This rule is necessary to inform prospective applicants of the purpose behind the council. It is reasonable because it clearly identifies how the council will carry out its charge under Minn. Stat. 116J.961 (1985 Supplement, Sec. 3, Subd. 7).

Minn. Rule 4360.0300 Priority Rural Development Issue Areas and Goals.

1. Scope. The council, through the rural development grant programs, provides grants to qualified organizations to implement rural development projects. To most effectively meet the needs of rural Minnesota, the council has established the three priority issue areas in subparts 2 to 4 and goals for projects within each area. To the extent of legislative appropriations, the council makes funds available for projects that seek to accomplish one or more of the goals in one or more of the priority issue areas.

Discussion: This paragraph is necessary because it defines the scope of the council's program as identified in section 4360.0200. It is reasonable because it provides applicants with wide discretion in designing rural development projects.

2. Family Farm and agricultural land protection issue area; goals. The council's goals in the family farm and agricultural land protection issue area are to:
- A. protect the quality and quantity of the agricultural land in the state through the use of resource management practices or land use planning and zoning;
 - B. promote an agricultural land protection awareness and understanding by the farm and nonfarm populations of all ages;

- C. preserve the family farm structure by enhancing the potential for increased farm income, especially for beginning farmers, through business management and other nonloan forms of assistance; and
- D. provide information and education programs that will increase the appreciation and understanding of basic agricultural production, its role in the economy, and current farm issues, by consumers, nonfarm segments of the population, members of the state legislature and congress, and other residents of the state.

Discussion: This paragraph is necessary because Minn. Stat. 116J.961 (1985 Supp.) expressly requires the council to identify prominent rural issues and formulate and advocate policies that serve the needs of the rural population of the state. Since agriculture is an important aspect of the rural economy of the state, projects which protect this resource are within the intent of this statute. It is reasonable therefore, to place considerable emphasis in this area.

- 3. Value-added processing and marketing issue area; goals. The council's goals in the value-added processing and marketing issue area are to:
 - A. research and identify new products, processes, and services to add value to Minnesota agricultural and forest resources;
 - B. inform Minnesotans about opportunities and the skills required to take advantage of processes, products, growing crops, and markets that add value to Minnesota resources;
 - C. provide resources to Minnesotans to act on growing, processing, and marketing opportunities through grants, matching funds, and help from state organizations and agencies; and
 - D. measure project results and inform the public about the results from experimental projects.

Discussion: This paragraph is necessary to inform applicants of the third priority issue area of value added and marketing. It is reasonable because it provides applicants with an understanding of what the council means and attempts to address. This permits applicants to design projects with council goals clearly in mind.

- 4. Rural small business assistance issue area; goals. The council's goals in the rural small business assistance issue area are to:
 - A. provide technical and management assistance for rural small business;
 - B. establish formal networks to assist rural small businesses and technical resources in rural Minnesota with information sharing; and
 - C. encourage enterprise development to improve management, marketing, business skills, and availability of risk capital.

Discussion: The purpose of this paragraph is to describe the types of small business assistance the council feels are important to address through project responses. It is reasonable since it allows applicants to know ahead of time what areas in small business assistance the council feels are important and address project applications accordingly.

Minn. Rule 4360.0400 Project Start and End Date.

The project start date for each project is 30 days after approval of the project by the council at its annual meeting. A project sponsor or fiscal agent shall not make a contract for services or supplies before receiving written notification of funding from the council. Grant program guidelines shall be published in the State Register 90 days before the deadline for submission of grant applications. No grant may be made to cover a period longer than one year from the project start date.

Discussion: This rule is necessary to describe the procedure and timeline for beginning council funded projects. It is reasonable since it clearly identifies the rights and responsibilities of both the grantee and grantor.

Minn. Rule 4360.0500 Fiscal Agent.

A project sponsor not meeting the requirements for an eligible applicant under part 4360.0800, subpart 2 or 4360.1000, subpart 2 shall use, and a project sponsor meeting those requirements may use, the services of a fiscal agent to accept council grant funds on the sponsor's behalf, pay project expenses, and prepare financial reports and the final audit. The sponsor and fiscal agent must both sign the application and, if a grant is received, the sponsor and the fiscal agent must both sign the grant agreement. When a fiscal agent is used, the project sponsor remains ultimately responsible for the completion of the project, the proper management of the grant funds and other acts of the fiscal agent, notwithstanding any agreement between the sponsor and the fiscal agent requiring the agent to take any acts on behalf of the sponsor. The portion of fiscal agent fees directly attributable to the grant, up to a maximum of ten percent of the grant, may be included in the amount of grant funds requested from the council.

Discussion: The council realizes that not all project sponsors will have the technical staff resources to handle all aspects of project grant administration. Therefore, this rule is necessary since it allows such a project sponsor to work with a fiscal agent to meet the requirements under part 4360.0800, subpart 2 or 4360.1000, subpart 2. It is reasonable in that it clearly defines the responsibilities and duties of each party.

Minn. Rule 4360.0600 Restrictions.

1. Equipment. The use of council grant funds for the purchase of equipment is prohibited except as provided in this subpart. A project sponsor desiring to purchase equipment with grant funds must show that equipment is essential to the implementation of the project, and that the equipment is not available for lease or rent during the grant period or that the equipment will cost more to rent or lease than to buy.

Discussion: This paragraph is necessary to inform prospective applicants of the restrictions on the use of grant funds for the purchasing of equipment. Since grant funds are limited, the council feels it is reasonable to restrict their use in purchasing of equipment if at all possible.

2. Application costs. Grant funds shall not be used to pay any costs incurred in the preparation or submission of any grant application to the council.

Discussion: This paragraph is necessary to inform prospective applicants of the prohibition against using grant funds to pay for application costs. It is reasonable since grant funds are to be used only for direct costs of implementing the project. Diverting funds to pay for application expenses only dilutes their effectiveness.

3. Late applications. A project application that is incomplete or received after the deadline for application will not be considered for funding in the fiscal year in which it is received.

Discussion: This paragraph is necessary to inform prospective applicants of the procedure for dealing with late applications used by the council. Since the council meets only four times per year, it must consider all applications for each program at once. It would not be feasible or fair to allow late applications to be considered at the next council meeting. Therefore, it is reasonable to disqualify late applications.

4. Discussion of applications. Council staff, council members, employees of the Department of Energy and Economic Development, employees of the State Board of Investments, and other persons advising the council or the commissioner shall not discuss a project application with either a project sponsor or fiscal agent at any time between the time the project application is submitted to the council and the time the council makes its recommendation to the commissioner.

Discussion: This paragraph is necessary to inform prospective applicants of restrictions on discussion of applications by council members or related staff. This is reasonable since it helps assure unbiased evaluation of applications by the council.

Minn. Rules 4360.0700 Application Process.

1. In general. To apply for grant funds, the project sponsor and any fiscal agent shall submit a completed and signed application form to the commissioner on a form approved by the commissioner.

Discussion: This paragraph is necessary to explain to prospective applicants the process involved in applying for grant funds. It is reasonable since it assures that all will have equal access to grant funds.

2. Contents. A complete application consists of the following:
 - A. 20 copies of the completed and signed application form; and
 - B. 20 copies of all letters of commitment for all matching funds. Sources of matching funds and the type (for example, money or in-kind support) and amount of the funds must also be stated in the application form.

Discussion: This paragraph is necessary to inform prospective applicants of what a complete application will consist of. It is reasonable to require every applicant to submit the same types of data concerning an application. This helps insure an orderly and fair evaluation of all applications.

3. Application submission deadlines. A completed application for grant funds shall be submitted to the council according to the following schedule:

A. Demonstration grants-the last business day of the third week in January.

B. Seed grants-the last business day of the second week in December.

Discussion: This paragraph is necessary to identify the deadlines for submitting applications for both the demonstration grant program and the seed grant program. It is reasonable since it clearly establishes annually when grant applications are due.

4. Submission to regional development commissions. A project sponsor or any fiscal agent that is a governmental unit or public educational institution must submit one copy of the completed application form and letters to of commitment for requested matching funds to the appropriate regional development commission for review and comment where a commission exists, or the Metropolitan Council, where it has jurisdiction, in accordance with Minnesota Statutes, section 462.391, subdivision 3, or 473.171, respectively, no later than the appropriate application deadline date.

Discussion: This paragraph is necessary to inform prospective applicants of the requirement for submitting plans to regional review bodies where required. It is reasonable because it is required under Minn. Stat. 462.391, subd. 3, and Minn. Stat. 473.171.

5. Address. Application materials must be submitted to: Governor's Rural Development Council, Minnesota Department of Energy and Economic Development, 900 American Center Building, 150 east Kellogg Boulevard, Saint Paul, Minnesota 55101.

Discussion: This paragraph is necessary to inform prospective applicants of the address to which all applications are to be submitted. It is reasonable to require that all applications be submitted to one address for speed and efficiency as well as equity in processing grant applications.

6. Council review. Within 90 days after the application deadline, the council shall complete its review and select those projects to be recommended to the commissioner for grants.

Discussion: This rule is necessary to inform prospective applicants of the time involved for review and selection of grant applications. It is a reasonable amount of time since the council must complete indepth evaluations of all applications to determine the most effective and promising projects to recommend to the commissioner for funding.

7. Notification. Immediately following approval or disapproval of a grant by the commissioner, the council staff shall notify the project sponsor or fiscal agent, as appropriate, of the action taken by the commissioner.

Discussion: This paragraph is necessary to let applicants know the time and procedure for notification. It is reasonable to require the council staff to notify applicants as soon as possible as to their status so that they can make arrangements for begining project tasks or seek other sources of funds.

8. Grant agreement. The sponsor and fiscal agent, if a fiscal agent is used, of a project that is recommended by the council to the commissioner must sign a grant agreement that states the conditions to which the grant is subject. Upon approval of the grant by the commissioner, the grant agreement must be processed by the commissioner and the Department of Finance. The council staff shall provide a copy of the fully executed grant agreement, forms for all required reporting, and other information to the project sponsor and any fiscal agent.

Discussion: This paragraph is necessary to inform prospective applicants of the requirement of a grant agreement prior to the exchange of funds. Since the grant agreement is the vehicle through which funds are transferred from the commissioner to the grantee, it is reasonable to require a contract be signed stating the rights and responsibilities of both parties before releasing funds.

9. Grant close-out. At the next council meeting following receipt of the reports required by part 4360.0900, or 4360.1100, the council shall review the reports received and determine whether the project sponsor or fiscal agent has complied with parts 4360.0100 to 4360.1100 and the conditions of the grant agreement, and notify each project sponsor or fiscal agent whether it has complied.

Discussion: This paragraph is necessary to inform the grantee of his or her rights under these rules as they relate to grant close-out. It is reasonable since it allows ample time for the council to review the documents and gives the grantee an idea of when this procedure will be carried out.

10. Unexpended grant funds. If, during the grant close-out required by subpart 9, the council determines that any grant funds have not yet been expended for project purposes, the council shall require the sponsor or fiscal agent to return the unexpended funds to the council. Upon request of the council, a project sponsor or fiscal agent shall return unexpended funds to the council.

Discussion: This paragraph is necessary to establish the precedent for dealing with unspent funds. It is reasonable since grant funds are awarded on the basis of project proposals. The council assumes that project cost estimates are as accurate as possible. Since it is the intention of the council to fund as many projects as possible, it is reasonable to require the return of unexpended funds.

11. Denial and revocation of grant funds. if the council determines on the basis of a quarterly, final, or other report that a project sponsor or fiscal agent has violated or may violate a provision of parts 4360.0100 to 4360.1100 or a condition of the grant agreement, or both, the council may withhold grant funds not already released. Upon request of the council, the project sponsor or fiscal agent shall return grant funds to the council.

Discussion: This paragraph is necessary to inform prospective applicants of the penalty for violating these rules. Since grant funds are awarded on the basis of the application, it is reasonable to require their return if the sponsor is not meeting the requirements of the grant agreement.

TYPES OF GRANTS AVAILABLE

Minn. Rule 4360.0800 Demonstration Grants.

1. Purpose. The council, through the demonstration grant program, provides grant funds to nonprofit organizations, public institutions, units of state and local government, and special districts within the state for innovative projects with potential statewide applications that seek to accomplish one or more of the goals in one or more of the priority issue areas established in part 4360.0110. The intent of the demonstration grants program is to assist organizations unable to provide financing from their own resources or unable to obtain financing from conventional sources.

Discussion: This paragraph is necessary to inform prospective applicants of the purpose behind the demonstration grant program. It is reasonable since these criteria will later be used in evaluating applications.

2. Eligible applicants. Nonprofit organizations, units of state and local government, public institutions, and special districts within Minnesota are eligible to apply for demonstration grants.

Discussion: This paragraph is necessary identify who is eligible to apply for demonstration grants. It is reasonable because it specifically details who may request grant funds. Since the council feels it would be inappropriate to financially assist private businesses, it is reasonable to limit eligibility to these applicants.

3. Eligible uses of funds. The council shall consider applications for grant funds for proposed demonstration projects begun before or after the effective date of parts 4360.0100 to 4360.1100 that:
- A. will use grant funds for action-oriented, as opposed to studies or plans, components of the project;
 - B. provide direct benefit to farmers, immediate farm family members, or low income rural residents of Minnesota;
 - C. have objectively measurable short-term (less than 12 months) results;
 - D. inform those regional development commissions or other entities referred to in part 4360.0700, subpart 4 of the existence of the project; and
 - E. seek to accomplish any of the goals in one or more of the three priority issue areas related to the project.

Discussion: This paragraph is necessary to inform prospective applicants of the uses to which grant funds may be put. It is reasonable since these uses are consistent with council goals expressed in part 4360.0300.

4. Ineligible use of funds. The council shall not consider an application for grant funds for a proposed project that:
- A. does not primarily serve the needs of farmers, immediate farm family members, or low income rural residents of Minnesota;

- B. will use council grant funds for physical construction or improvement of existing facilities;
- C. duplicates or is substantially similar to other programs or efforts already being made within the state;
- D. uses council grant funds to provide operating capital or start-up capital for for-profit private businesses or enterprises;
- E. has not been submitted by the project sponsor or fiscal agent to regional development commissions or other entities for review and comment as required by law; or
- F. does not seek to accomplish any of the goals in one or more of the three priority areas related to the project.

Discussion: This paragraph is necessary to inform prospective applicants of the uses to which grant funds may not be placed. It is reasonable since these prohibitions are consistent with part 4360.0300.

- 5. Grant Limits. A request for a demonstration grant may not exceed:
 - A. \$60,000 or 70 percent of the total cost of the project, whichever is less, for the first year of a project;
 - B. \$40,000 or 50 percent of the total cost of the project, whichever is less, for the second year of a project; or
 - C. \$20,000 or 30 percent of the total cost of the project, whichever is less.

Discussion: This paragraph is necessary to inform prospective applicants of the grant limits for the demonstration grant program. Since funds are extremely limited each year, and since grant funds are to assist in leveraging other funds, the limits imposed here are seen as reasonable.

- 6. Continued support. Support for demonstration projects is determined annually by the council on a competitive basis. Support for a project in the first year does not obligate the council to continue the support in a second or third year. The determination whether to continue support for a project must be based on the success of the project and the need for further grant-supported activities. A project sponsor must provide at least 15 percent of the total project cost in cash.

Discussion: This paragraph is necessary to inform prospective applicants of the amount and type of continuing support from outside sources necessary in order to remain eligible for demonstration grant funds in the second and third years. It is reasonable to require additional, outside support by project sponsors in order to demonstrate ongoing commitment and the ability to involve others in the project. Since council funds will be available for a maximum of three years, it is reasonable to insist that outside sources contribute a proportionately larger share of support in subsequent years.

7. Letters of commitment. Letters verifying the commitment of required matching funds must be submitted to the council at the time of application for demonstration project grants.

Discussion: This paragraph is necessary to inform prospective applicants of the requirement of Letters of Commitment from all funding sources verifying that the organization or individual is providing matching or in-kind support. It is reasonable to require this since the council will make it's determination of project feasibility based on the total budget, including outside sources of support.

8. Criteria for application review and selection. Demonstration project grant applications shall be reviewed by council staff, technical advisors to the council, and subcommittees as the council may direct, who shall make recommendations to the council. Applications shall be ranked by the council based upon the following factors:

- A. the extent to which the project will meet the council's issue area goals (maximum 15 points);
- B. the innovative qualities of the project, or the extent to which project results will provide new knowledge and benefits to rural residents (maximum 15 points);
- C. the potential for future project replication in other areas of rural Minnesota, or the statewide impact of the project (Maximum 15 points);
- D. the merit of the project design and implementation plan (maximum 15 points);
- E. the feasibility of the project work program, budget, and timeline for completion (maximum ten points);

- F. the project sponsor's experience and ability to successfully implement the demonstration project (maximum ten points);
- G. the potential for future leveraging of other sources of funds, or the ability to become self-sufficient (maximum ten points);
- H. the proposed methods for publicizing project activities and results (maximum five points); and
- I. the level of proposed coordination with appropriate local, state, and federal agencies and organizations with expertise in the project area (maximum five points)

Discussion: This paragraph is necessary to inform prospective applicants of the criteria to be used in the review and selection process. It is necessary for the council to evaluate proposals in order to assess compatibility with program objectives, as well as to assess the need for and the feasibility of the proposed activities. Since the council expects more applications for funds than will be available for distribution, it is both necessary and reasonable to evaluate applications so that they can be ranked for purposes of making recommendations to the commissioner.

- 9. Deadline for release of funds. The council shall release grant funds to the sponsor or, if a fiscal agent is used, to the fiscal agent, according to the schedule contained in items A to C and the sponsor should plan expenditures with the following deadlines in mind:
 - A. The council shall release the initial 40 percent of the total grant funds upon execution of the grant agreement.
 - B. The council shall release an additional 40 percent of the total grant funds upon receipt of an expenditure report covering the portion of grant funds released under item A, that demonstrates compliance with parts 4360.0100 to 4360.1100 and the conditions of the grant agreement.
 - C. The council shall release the final 20 percent of the total grant funds upon receipt of all reports required by part 4360.0900.

Discussion: This paragraph is necessary to inform prospective applicants of the deadline for the release of funds. It is reasonable since it allows the grantee to plan project related expenditures with a clear understanding of when those funds will be available.

- 10. Accounts required. The sponsor or fiscal agent shall establish and maintain for each project separate bookkeeping accounts for grant funds, matching funds in the form of money, and in-kind matching funds.

Discussion: This paragraph is necessary to inform prospective applicants of the requirement for separate accounts for grant funds. It is a reasonable requirement since the council is responsible to the federal government (through the Farmers Home Administration) for the proper expenditure of funds. Separate accounts allow for more accurate and timely accounting reports.

Minn. Rule 4360.0900 Demonstration Grant Reporting Requirements.

A project sponsor or fiscal agent receiving a demonstration grant shall submit the following reports to the council:

- A. quarterly reports, on a form provided by the council, shall be submitted once each calendar quarter in the third week of the last month of the quarter according to the following schedule: first quarter (January, February, March); second quarter (April, May, June); third quarter (July, August, September); and fourth quarter (October, November, December), and a time period not covered in any report shall be addressed in the next subsequent report; the quarterly report shall include a project promotion and publicity component that will clearly show the progress of the project during the quarter in order to provide the general public, target population groups, members of the council, and other funders with timely communication on major project activities;
- B. an expenditure report, showing in detail the purposes for which the second 40 percent of the grant funds were spent, and showing that those purposes complied with parts 4360.0100 to 4360.1100 and the conditions of the grant agreement;
- C. a final expenditure report, showing in detail the purposes for which the second 40 percent of the grant funds were spent, and showing that those purposes complied with parts 4360.0100 to 4360.1100 and the conditions of the grant agreement;
- D. a final project evaluation report, on a form provided by the council, to be submitted at least three weeks before the close of the final grant year for the project;
- E. a brief narrative report, suitable for publication, explaining the project, the activities conducted during the grant period, and any suggestions based upon the experience of the sponsor that can be shared with organizations or individuals interested in replicating the project, to be submitted at least three weeks before the close of the final grant year for the project; and
- F. a final audit, based upon generally accepted principals of accounting, of both grant funds and matching funds, demonstrating compliance with parts 4360.0100 to 4360.1100 and the conditions of the grant agreement, to be submitted at least three weeks before the close of the final grant year for the project.; and
- G. a publicity report outlining the results of the project sponsor's

Discussion: This rule is necessary to inform prospective applicants of the reporting requirements. it is reasonable to demand timely, accurate periodic and final reports from all grantees since the state (through the council) is responsible to the federal government (through the Farmers Home Administration) for proper expenditure of rural development funds.

Minn. Rule 4360.1000 Seed Grant.

1. Purpose. The council, through the seed grant program, provides grant funds to encourage promising projects by providing funds that will attract other grants and contributions.

Discussion: This paragraph is necessary to inform prospective applicants of the purpose and intent of the seed grant program. It is reasonable to inform applicants since these criteria will be used in evaluating applications.

2. Eligible applicants. Nonprofit organizations, units of state and local government, public institutions, and special districts within the state are eligible to apply for seed grants.

Discussion: This paragraph is necessary to inform prospective applicants specifically who is eligible for grants under this program. It is reasonable to limit eligibility to these organizations since the council feels public funds should not be used to directly aid profit-making concerns.

3. Eligible uses of funds. The council shall consider applications for seed grant funds for proposed projects that:
- A. seek to accomplish one or more of the goals in one or more of the three priority issue areas that are related to the project;
 - B. will use seed grant funds to leverage other public or private funds or both public and private funds;
 - C. provide direct benefit to farmers, immediate farm family members, or low income rural residents of Minnesota;
 - D. have objectively measurable short-term (less than 12 months) results;
 - E. will use seed grant funds to implement new and innovative projects and programs; and
 - F. inform appropriate agencies and organizations of the existence of the project.

Discussion: This paragraph is necessary to inform prospective applicants of the uses to which seed grant funds may be used. It is reasonable since these uses are consistent with council goals expressed in part 4360.0300.

4. Ineligible uses of funds. The council shall not consider an application for seed grant funds for a proposed project that:
- A. is receiving or has received council demonstration or seed grant funds;

- B. does not primarily serve the needs of farmers, immediate farm family members, or low income rural residents of Minnesota;
- C. will use seed grant funds for physical construction or improvement of existing facilities;
- D. duplicates or is substantially similar to other efforts already being made in the state;
- E. uses seed grant funds to provide operating capital or start-up capital for for-profit private businesses or enterprises;
- F. will replicate a council demonstration project in another geographic area of the state;
- G. has not been submitted by the project sponsor to other agencies of federal, state, or local government for review and comment, as required by law; or
- H. does not seek to accomplish one or more of the goals in one or more of the three priority issue areas related to the project.

Discussion: This paragraph is necessary to inform prospective applicants of the uses to which seed grant funds may not be placed. It is reasonable since these prohibitions are consistent with parts 4360.0300.

- 5. Matching funds required. A project sponsor must demonstrate the ability to secure matching funds equal to 70 percent of the total project cost for the grant period. Matching funds that have been secured before the time of application must be documented by submitting a letter of commitment from the source of the matching funds. A project sponsor must include in its application a fundraising strategy and identification of potential sources of matching funds. A project sponsor must provide at least 15 percent of the total project cost in cash.

Discussion: This paragraph is necessary to inform prospective applicants of the requirement for matching funds. It is reasonable to require project sponsors to raise additional outside support since seed grant funds are awarded on a one time only basis. If a project is to reach self-sufficiency, it must be able to include others and raise significant amounts of its own budget.

- 6. Grant limits. Seed grants may be made for up to the lesser of 30 percent of the total project cost for the grant period or \$10,000. Seed grants are available on a one-time basis and may not be considered as a source of future or continuing support for projects.

Discussion: This paragraph is necessary to inform prospective applicants of grant limits for all seed grant projects. Again, since funds are expected to be limited, the inclusion of grant limits is deemed reasonable by the council.

- 7. Criteria for application review and selection. Seed grant applications shall be reviewed by council staff, technical advisors to the council, and subcommittees as the council may direct, who shall make recommendations to the council. Applications shall be ranked by the council based upon the following factors:

- A. the extent to which the project will meet the council's issue area goals (maximum ten points);
- B. the potential for leveraging other sources of funds to meet local match requirements (maximum ten points);
- C. the merit of the project design and implementation plan (maximum ten points);
- D. the innovative qualities of the project or whether the project results will provide new knowledge and benefits to rural residents (maximum ten points);
- E. the feasibility of the project work program, budget, and timeline for completion (maximum five points); and
- F. the project sponsor's experience and ability to successfully implement the project (maximum five points).

Discussion: This paragraph is necessary to inform prospective applicants of the method by which seed grant applications will be reviewed and evaluated. It is a reasonable method of evaluation since it provides for separate evaluation of special aspects of each application. The overall rating system is designed to afford the maximum feasible flexibility to organizations in their project design.

- 8. Deadline for release of funds. The council shall release grant funds to the sponsor or, if a fiscal agent is used, to the fiscal agent according to the schedule contained in items A to C, and the project sponsor should plan grant-related expenditures with the following deadlines in mind:
 - A. The council shall release the initial 40 percent of the total grant funds upon execution of the grant agreement.
 - B. The council shall release an additional 40 percent of the total grant funds upon receipt of an expenditure report covering the portion of grant funds released under item A, that demonstrates compliance with parts 4360.0100 to 4360.1100 and the conditions of the grant agreement.
 - C. The council shall release the final 20 percent of the total grant funds upon receipt of letters of commitment for matching funds and all reports required by part 4360.1100.

Discussion: This paragraph is necessary to inform prospective applicants of the deadline for the release of funds. Since project sponsors need to know when grant funds will be available in order to plan grant-related expenditures, it is reasonable to require the council to clearly state the deadline for the release of funds.

Minn. Rule 4360.1100 Seed Grant Reporting Requirements.

A project sponsor or fiscal agent shall submit to the council quarterly reports, an expenditure report, a final expenditure report, a final project evaluation report, a brief narrative report, a final audit, and a publicity report containing the same material and subject to the same requirements as the reports required in part 4360.0900, except that the reports required by this part shall contain information on and be submitted for the purpose of seed grants.

Discussion: This rule is necessary to inform prospective applicants of the types of reports required of all seed grant recipients. It is reasonable to demand timely, accurate reports from all grantees since the state (through the council) is responsible to the federal government (through the Farmers Home Administration) for the proper expenditure of rural development funds.

Minn. Rule 4360.1200 Incorporation by Reference.

The Office of management and Budget's Standard Industrial Classification Manual (Manual), published by the Office of Federal Statistical policy and Standards, U.S. Department of Commerce, is adopted by incorporation by reference. The Manual was last published in 1977, is not subject to frequent change, and is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (Stock Number 4101-0066).

Discussion: This rule is necessary to inform applicants of the adoption by reference of the Standard Industrial Classification Manual. This is a reasonable practice since the Manual is a widely used source that is available through most libraries or for purchase from the U.S. Government Printing Office.