

**MINNESOTA RURAL DEVELOPMENT BOARD**

**IN THE MATTER OF THE PROPOSED  
RULES OF THE RURAL DEVELOPMENT  
BOARD GOVERNING ADMINISTRATION  
OF THE CHALLENGE GRANT PROGRAM**

**STATEMENT OF  
NEED AND  
REASONABLENESS**

**INTRODUCTION:**

The 1987 Minnesota Legislature established the Rural Development Board (Board) Minn. Stat. chap. 116N (Supp. 1987) to investigate and evaluate new methods to enhance rural development, particularly methods relating to economic diversification through private enterprises, including technologically innovative industries, value-added manufacturing, agriprocessing, information industries and agricultural marketing.

Under this legislation the Board shall administer the assets of the Rural Rehabilitation Revolving Fund by establishing a rural rehabilitation pilot program and the Challenge Grant Program.

This statement of needs and reasonableness describes the rules proposed for operation of the Challenge Grant program. The format used in preparing this statement is as follows: each rule is stated first, followed by a discussion of the necessity of the proposed rule, and its reasonableness.

**"I. DEFINITIONS"**

**ANNUAL REPORT.** "ANNUAL REPORT" INCLUDES A DESCRIPTION OF PROJECTS SUPPORTED BY THE CHALLENGE GRANT PROGRAM, AN ACCOUNT OF LOANS MADE DURING THE CALENDAR YEAR, THE SOURCE AND AMOUNT OF MONEY COLLECTED AND DISTRIBUTED BY THE CHALLENGE GRANT PROGRAM, THE PROGRAM'S ASSETS AND LIABILITIES, AND AN EXPLANATION OF ADMINISTRATIVE EXPENSES.

This definition is necessary because it lists the information which will be used to evaluate the Regional Organizations' Challenge Grant activities. It is reasonable because it is consistent with the reporting requirements of Minn. Stat. sec. 116N.08 subd. 10, and these items will provide information sufficient to evaluate the effectiveness of the program.

**BOARD.** "BOARD" MEANS THE RURAL DEVELOPMENT BOARD.

This term is necessary because it informs readers that Board can only mean the Rural Development Board in the content of the rules. It is reasonable because it adds to the readability of the rules.

**COMMISSIONER.** "COMMISSIONER" MEANS THE COMMISSIONER OF TRADE AND ECONOMIC DEVELOPMENT.

This term is necessary to clarify that Commissioner can only mean the Commissioner of Trade and Economic Development in the content of the rules. It is reasonable since a shortened term allows for easier reading of the rules.

**ECONOMIC RECOVERY FUND.** "ECONOMIC RECOVERY FUND" MEANS THE STATE-FUNDED ECONOMIC DEVELOPMENT GRANT PROGRAM ESTABLISHED BY THE 1984 STATE LEGISLATURE IN MINNESOTA STATUTES SECTIONS 116J.401-.403; 116J.873.

This definition is necessary to identify a program that is referenced, but not explained, in the rules. It is reasonable because it identifies the section of statutes where further information about the Economic Recovery Fund can be obtained.

**FUNDING REGION.** "FUNDING REGION" MEANS THE SIX RURAL AREAS OF MINNESOTA THAT HAVE BOUNDARIES THAT ARE COTERMINOUS WITH ONE OR MORE OF THE DEVELOPMENT REGIONS ESTABLISHED UNDER MINNESOTA STATUTES SECTION 462.385. THEY ARE IDENTIFIED AS FOLLOWS:

NORTHWEST REGION IS COTERMINOUS WITH DEVELOPMENT REGIONS 1 AND 2;  
NORTHEAST REGION IS COTERMINOUS WITH DEVELOPMENT REGION 3;  
WEST CENTRAL REGION IS COTERMINOUS WITH DEVELOPMENT REGION 4;  
CENTRAL REGION IS COTERMINOUS WITH DEVELOPMENT REGIONS 5, 7E AND 7W;  
SOUTHWEST REGION IS COTERMINOUS WITH DEVELOPMENT REGIONS 6E, 6W, AND 8; AND  
SOUTHEAST REGION IS COTERMINOUS WITH DEVELOPMENT REGIONS 9 AND 10.

This definition is necessary to identify and describe the regional boundaries from where Challenge Grant recipients shall be selected. It is reasonable since the boundaries stated are in accordance with Minn. Stat. 116N.08 subd. 2.

**GRANT AGREEMENT.** "GRANT AGREEMENT" MEANS AN AGREEMENT BETWEEN THE STATE AND A REGIONAL ORGANIZATION THROUGH WHICH THE STATE PROVIDES FUNDS TO CARRY OUT SPECIFIED PROGRAMS, SERVICES, OR ACTIVITIES.

This definition is needed to identify the legally binding agreement made between the State and the Challenge Grant recipient. It is reasonable since the State will provide funds for only those programs, activities or services mutually agreed to in the grant agreement.

**INDEPENDENT ANNUAL AUDIT.** "INDEPENDENT ANNUAL AUDIT" MEANS A YEARLY FINANCIAL COMPLIANCE AUDIT PERFORMED BY A CERTIFIED PUBLIC ACCOUNTANT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRACTICES AND AUDITING STANDARDS.

This definition is necessary to identify a reporting requirement imposed by Minn. Stat. sec. 116N.08 subd. 10(2) and information which will be used to evaluate Regional Organizations' Challenge Grant activities. This definition is reasonable since it is consistent with Minn. Stat. 116N.08.

**LOAN LIMITS.** "LOAN LIMITS" MEANS THAT FOR BUSINESSES THE MINIMUM LOAN IS \$5,000 AND THE MAXIMUM IS \$100,000. FOR LOCAL GOVERNMENTAL UNITS THE MINIMUM IS \$5,000 AND THE MAXIMUM IS \$50,000.

This definition is necessary to identify the limits on loans made from the regional revolving funds. It is reasonable since it is consistent with Minn. Stat. sec. 116N.08 subd. 5 and 8, which set the limits on regional loans, and because it assures widespread use of the funds.

**LOCAL GOVERNMENTAL UNIT.** "LOCAL GOVERNMENTAL UNIT" MEANS A HOME RULE CHARTER OR STATUTORY CITY WHEN THE PROJECT IS LOCATED IN AN INCORPORATED AREA, A COUNTY WHEN THE PROJECT IS LOCATED IN AN UNINCORPORATED AREA, OR AN AMERICAN INDIAN TRIBAL COUNCIL WHEN THE PROJECT IS LOCATED WITHIN A FEDERALLY RECOGNIZED AMERICAN INDIAN RESERVATION OR COMMUNITY.

This definition is necessary to clarify what constitutes an eligible loan recipient, or the sponsor by resolution if the loan recipient is a business. It is reasonable because it provides for entities in unincorporated areas as well as incorporated areas and ensures that every loan recipient has a local sponsor. Also, it is consistent with the local government unit definition in Minn. Stat. 116N.01.

**LOCAL REVOLVING LOAN FUND.** "LOCAL REVOLVING LOAN FUND" MEANS A REVOLVING LOAN FUND ESTABLISHED BY A LOCAL GOVERNMENTAL UNIT TO PROMOTE ECONOMIC DEVELOPMENT.

This definition is necessary to differentiate between the Rural Rehabilitation Revolving Fund, the Regional Revolving Fund and the Local Revolving Fund. It is reasonable because it is consistent with Minn. Stat. 116N.08 subd. 8 in describing a fund which must be established by a local governmental unit to be eligible as a loan recipient.

**LOW INCOME.** "LOW INCOME" MEANS INCOME THAT IS EQUAL TO OR BELOW THE NON-METROPOLITAN MEDIAN HOUSEHOLD INCOME.

It is necessary to define low income since loans made with Challenge Grant funds must be used for projects designed principally to benefit low-income persons through the creation of job opportunities, as required in Minn. Stat. 116N.08 subd. 5. It is reasonable since it is consistent with the statutory definition which appears in Minn. Stat. 116N.01.

**MINIMUM INTEREST RATE.** "MINIMUM INTEREST RATE" MEANS THE INTEREST RATE ESTABLISHED BY THE BOARD WHICH CANNOT BE EXCEEDED BUT THAT WILL ENSURE COVERAGE OF THE NECESSARY MANAGEMENT COSTS INCURRED BY THE REGIONAL ORGANIZATION.

This definition is necessary since it describes the process for establishing a bottom interest rate for repayment of loans on Regional Revolving Funds. It is reasonable since the cost of operating the program regionally will be covered in whole or in part by the rate of interest charged on loans made from the Regional Revolving Fund.

**PRIVATE INVESTMENT.** "PRIVATE INVESTMENT" MEANS CASH INJECTIONS FROM SOURCES OTHER THAN STATE, LOCAL, OR FEDERAL GOVERNMENT APPROPRIATIONS.

This definition is necessary to identify what constitutes private investment as a means of financing and to distinguish these monies from the match requirement (nonpublic money). It is reasonable since the term is broad enough to cover all sources of funding except those stated above.

**REGIONAL REVOLVING LOAN FUND.** "REGIONAL REVOLVING LOAN FUND" MEANS A BOARD-CERTIFIED REVOLVING LOAN FUND ESTABLISHED BY A REGIONAL ORGANIZATION TO PROVIDE LOANS TO NEW AND EXPANDING BUSINESSES IN RURAL MINNESOTA TO PROMOTE ECONOMIC DEVELOPMENT.

This definition is necessary to differentiate between the Rural Rehabilitation Revolving Fund, the Regional Revolving Fund and the Local Revolving Fund. It is reasonable because it is consistent with Minn. Stat. 116N.08 subd. 4 in describing the loan fund required to be established by each Regional Organization.

**REGIONAL ORGANIZATION.** "REGIONAL ORGANIZATION" MEANS A NONPROFIT CORPORATION SELECTED BY THE RURAL DEVELOPMENT BOARD TO RECEIVE A CHALLENGE GRANT.

This term is necessary to clarify that in the context of the rules regional organization can only mean the recipient of a Challenge Grant. It is reasonable since it provides for easier readability of the rules.

**RURAL.** "RURAL" MEANS THE AREA OF MINNESOTA LOCATED OUTSIDE THE SEVEN-COUNTY METROPOLITAN AREA AS DEFINED BY MINNESOTA STATUTES SECTION 473.121, SUBD. 2.

This term is necessary to describe that part of the state which for the purposes of these rules shall constitute rural Minnesota. It is reasonable since it is consistent with the definition in Minn. Stat. 116N.01 subd. 8.

**RURAL REHABILITATION REVOLVING FUND.** "RURAL REHABILITATION REVOLVING FUND" MEANS THE TRUST FUND ESTABLISHED IN MINNESOTA STATUTES SECTION 116J.955.

This definition is necessary to differentiate between the Rural Rehabilitation Revolving Fund, the Regional Revolving Loan Fund, and the Local Revolving Loan Fund. It is reasonable because it is consistent with Minn. Stat. 116J.955.

## "II. PURPOSE OF THESE RULES"

"THE PURPOSE OF THESE RULES IS TO ESTABLISH (1) PROCEDURES FOR THE RURAL DEVELOPMENT BOARD TO SELECT AND ENTER INTO AGREEMENTS WITH REGIONAL ORGANIZATIONS AND (2) PROCEDURES FOR THE USE OF REVOLVING LOAN FUNDS UNDER MINNESOTA STAT. SEC. 116N.08."

This purpose is necessary to identify the intent of the Challenge Grant rules. It is reasonable since it identifies the procedures that will be established by the rules.

## "III. OBJECTIVES OF THE CHALLENGE GRANT PROGRAM"

"THE OBJECTIVES OF THE CHALLENGE GRANT PROGRAM ARE TO ENCOURAGE PRIVATE INVESTMENT, TO PROVIDE JOBS PRINCIPALLY FOR LOW-INCOME PERSONS, AND TO PROMOTE ECONOMIC DEVELOPMENT IN THE RURAL AREAS OF THE STATE."

This paragraph is necessary to describe the mission of the Challenge Grant Program. It is reasonable since it is consistent with Minn. Stat. 116N.08 subd. 1.

## "IV. TYPES OF FUNDING AVAILABLE"

"THE RURAL DEVELOPMENT BOARD SHALL DESIGNATE UP TO \$1,000,000 FROM THE RURAL REHABILITATION REVOLVING FUND FOR EACH FUNDING REGION TO BE AVAILABLE OVER A THREE-YEAR PERIOD. THE MONEY AWARDED TO EACH REGIONAL ORGANIZATION WILL BE APPROPRIATED TO ITS REGIONAL REVOLVING LOAN FUND ON A PROJECT-BY-PROJECT BASIS AND MATCHED BY THE REGIONAL ORGANIZATION WITH AN EQUAL AMOUNT OF NONPUBLIC MONEY."

This paragraph is necessary to identify how Rural Rehabilitation Funds shall be allocated to the Regional Organizations for the establishment of Regional Revolving Loan Funds. It is reasonable because it ensures that each Regional Organization shall have an account of dedicated Rural Rehabilitation funds to be utilized by the Regional Organization over a three-year period. It will be appropriated on a project-by-project basis rather than all at once so that the Rural Rehabilitation Trust Fund earns the interest on the unused monies.

"THE REGIONAL REVOLVING LOAN FUND SHALL BE USED BY THE REGIONAL ORGANIZATION TO PROVIDE LOANS DIRECTLY TO NEW AND EXPANDING BUSINESSES OR TO LOCAL GOVERNMENTAL UNITS TO PROMOTE ECONOMIC DEVELOPMENT."

This rule is necessary to inform the public what constitutes an eligible applicant for a loan from the Regional Revolving Loan Fund. This rule is reasonable since Minn. Stat. 116N.08 clearly identifies these as eligible applicants for a loan from the Regional Revolving Loan Fund, and these are the types of applicants most likely to accomplish the objectives of this program.

"LOANS TO BUSINESSES FROM THE REGIONAL REVOLVING LOAN FUND MUST BE AT LEAST \$5,000 AND NO MORE THAN \$100,000. THE AMOUNT OF MONEY APPROPRIATED FROM THE REGIONAL REVOLVING LOAN FUND FOR EACH PROJECT MAY NOT EXCEED 50 PERCENT OF THE TOTAL COST OF EACH PROJECT. THE AMOUNT OF NONPUBLIC MONEY MUST EQUAL AT LEAST 50 PERCENT OF THE COST OF EACH PROJECT."

This rule is necessary to identify the loan limits on a Regional Revolving Loan Fund made directly to an eligible business and to establish the provision for matching funds. It is reasonable since it is consistent with the provisions in Minn. Stat. 116N.08 subd. 5 regarding loan criteria for an eligible business applicant.

"LOANS TO LOCAL GOVERNMENTAL UNITS FROM THE REGIONAL REVOLVING LOAN FUND MUST BE AT LEAST \$5,000 AND NO MORE THAN \$50,000. THE MONEY LOANED TO A LOCAL GOVERNMENTAL UNIT MUST BE MATCHED BY THE LOCAL REVOLVING LOAN FUND ESTABLISHED BY THE LOCAL GOVERNMENTAL UNIT AND USED TO PROVIDE LOANS TO BUSINESSES TO PROMOTE LOCAL ECONOMIC DEVELOPMENT."

This rule is necessary to identify loan limits on Local Governmental Unit loans from each Regional Revolving Loan Fund. It is reasonable since it is consistent with Minn. Stat. sec. 116N.08 in providing for a Local Governmental Unit match on each loan received from the Regional Revolving Loan Fund.

"V. APPLICATION PROCESS AND REQUIREMENTS FOR SELECTION OF REGIONAL ORGANIZATIONS TO RECEIVE CHALLENGE GRANTS"

"A. ELIGIBILITY REQUIREMENTS"

"AN ELIGIBLE APPLICANT MUST BE A NONPROFIT CORPORATION THAT CAN DEMONSTRATE THE AUTHORITY AND ABILITY TO ESTABLISH AND ADMINISTER A REVOLVING LOAN FUND, TO INITIATE AND IMPLEMENT ECONOMIC DEVELOPMENT WITHIN ITS FUNDING REGION, TO BE FAMILIAR WITH OTHER AVAILABLE PUBLIC AND PRIVATE FUNDING SOURCES AND ECONOMIC DEVELOPMENT PROGRAMS, AND TO ANALYZE PROJECTS TO OBJECTIVELY REVIEW LOAN REQUESTS. SUBJECT TO THE APPROVAL OF THE COMMISSIONER, AN APPLICANT MAY CONTRACT WITH OTHER ENTITIES THAT HAVE THE TECHNICAL SKILLS TO

PROVIDE THE SPECIFIC SERVICES THAT FULFILL THIS REQUIREMENT. AN ELIGIBLE APPLICANT MUST DEMONSTRATE THAT ITS BOARD OF DIRECTORS INCLUDES CITIZENS WHO ARE EXPERIENCED IN RURAL DEVELOPMENT, HAS REPRESENTATIVES OF THE REGIONAL DEVELOPMENT COMMISSIONS (WHEN APPLICABLE), AND HAS DIRECTORS REPRESENTATIVE OF THE GEOGRAPHIC AREAS IN THE FUNDING REGION."

This paragraph is necessary to inform possible applicants what authority and abilities an eligible Challenge Grant applicant must demonstrate to be awarded a Challenge Grant. It is reasonable because it is consistent with Minn. Stat. 116N.08 subd. 3 which establishes eligibility requirements for Challenge Grant applicants and states characteristics which will ensure that selected applicants are duly qualified to administer a Regional Revolving Loan Fund.

**"B. PROCESS FOR SUBMITTING APPLICATION"**

"THE BOARD SHALL GIVE NOTICE OF THE PERIOD DURING WHICH APPLICATIONS WILL BE ACCEPTED. THE NOTICE MUST BE PUBLISHED IN THE STATE REGISTER AT LEAST 30 DAYS BEFORE THE CLOSING DATE."

This rule is necessary to establish the method for, and time period during which the Board will accept Challenge Grant applications. It is reasonable since this method allows sufficient time for and ensures that all potential applicants will receive notice of the period during which Challenge Grant applications will be accepted.

**"C. CONTENTS OF APPLICATION"**

"THE APPLICATION MUST BE IN A FORM PRESCRIBED BY THE BOARD AND MUST INCLUDE:"

- "1. AN ASSURANCE SIGNED BY THE REGIONAL ORGANIZATION'S CHAIRPERSON THAT THE APPLICANT WILL COMPLY WITH ALL APPLICABLE STATE AND FEDERAL LAWS AND REQUIREMENTS."

This rule is necessary to ensure that the organization is aware that it must comply with all state and federal laws and requirements. Since public money will be used by the Regional Organization, it is reasonable that the money be used in a lawful manner.

- "2. A RESOLUTION PASSED BY THE APPLICANT'S BOARD OF DIRECTORS APPROVING THE SUBMISSION OF AN APPLICATION AND AUTHORIZING EXECUTION OF THE GRANT AGREEMENT IF FUNDS ARE MADE AVAILABLE."

This rule is necessary to ensure that a consensus was met to submit an application and authorize the execution of a grant agreement by members of the governing body of the organization. It is reasonable since it constitutes a formal submission of the application for funding by the governing unit of the organization.

"3. DOCUMENTATION OF AN APPLICANT'S ELIGIBILITY."

This rule is necessary to inform potential applicants that documentation of eligibility is required and necessary. It is reasonable since it requires reliable eligibility information from applicants.

"4. ANY ADDITIONAL INFORMATION THAT THE BOARD REQUESTS AS NECESSARY TO CLARIFY AND EVALUATE THE APPLICATION."

This rule is necessary to give the Board the authority to request any additional information necessary to clarify and evaluate the application. It is reasonable since it gives the Board the ability to obtain more information from an applicant that seems to be a borderline candidate for Regional Organization designation.

"D. EVALUATION AND APPROVAL OF APPLICATIONS"

"APPLICANTS THAT MEET THE ELIGIBILITY REQUIREMENTS WILL BE EVALUATED IN TWO AREAS: (1) THEIR ABILITY TO PROVIDE A NONPUBLIC DIRECT DOLLAR MATCH TO THE CHALLENGE GRANT AWARD, AND (2) THEIR ABILITY TO IMPLEMENT REQUIREMENTS OF THE CHALLENGE GRANT PROGRAM (INCLUDING COOPERATION WITH OTHER RURAL DEVELOPMENT ORGANIZATIONS IN CARRYING OUT THE CHALLENGE GRANT PROGRAM TO PROMOTE RURAL DEVELOPMENT)."

This paragraph is necessary to establish guidelines for selecting a Challenge Grant recipient once eligibility has been determined. It is reasonable since it is consistent with Minn. Stat. 116N.08, and it allows for broad evaluation of each organization's abilities to administer the Challenge Grant Program.

"E. AGREEMENTS AND RECORDS"

"1. GRANT AGREEMENT REQUIRED. A GRANT AGREEMENT SHALL BE ESTABLISHED WITH EACH REGIONAL ORGANIZATION APPROVED FOR FUNDING BY THE BOARD. THE AGREEMENT MUST BE SIGNED BY A PERSON AUTHORIZED TO COMMIT THE REGIONAL ORGANIZATION TO LEGALLY BINDING AGREEMENTS AND TO EXECUTE THE AGREEMENT."

This rule is necessary to establish the grant agreement as the legally binding agreement made between the Board and the regional organization. It is reasonable since it will obligate each party to perform in accordance with the agreement made.

"2. CONTENTS OF GRANT AGREEMENT. THE GRANT AGREEMENT MUST INCLUDE BUT SHALL NOT BE LIMITED TO THE FOLLOWING:"

"a. ASSURANCE THAT THE REGIONAL ORGANIZATION HAS OR WILL ESTABLISH A BOARD-CERTIFIED REVOLVING LOAN FUND TO PROVIDE LOANS TO NEW AND EXPANDING BUSINESSES IN THEIR FUNDING REGION TO PROMOTE ECONOMIC DEVELOPMENT."

This rule is necessary to inform potential applicants that a Board-certified revolving loan fund must be established to provide loans to new and expanding businesses in their region. It is reasonable since it is in accordance with Minn. Stat 116N.08 subd. 4 and would commit the Regional Organization to perform accordingly.

- "b. ASSURANCE THAT THE GRANT RECIPIENT WILL COMPLY WITH ALL APPLICABLE STATE AND FEDERAL LAWS, INCLUDING THE REQUIREMENTS OF MINNESOTA STATUTES SECTION 116N.08."

This rule is necessary to inform potential applicants that they are obligated to comply with all state and federal laws. It is reasonable since the grant award is composed of public funds and, therefore, must be used in a lawful manner.

- "c. RESTRICTION ON USE OF FUNDS. NO CHALLENGE GRANT FUNDS SHALL BE USED TO FINANCE ACTIVITIES NOT APPROVED IN EITHER THE GRANT AGREEMENT OR EACH LOAN AGREEMENT. IF IT IS DETERMINED THAT AN IMPROPER USE OF FUNDS HAS OCCURRED, THE BOARD WILL TAKE WHATEVER ACTION IS NECESSARY TO RECOVER IMPROPERLY SPENT FUNDS. GRANT RECIPIENTS MUST RETURN FUNDS THAT ARE IMPROPERLY EXPENDED."

This rule is necessary to ensure that only those activities agreed to in the grant agreement shall be financed by the Challenge Grant Program. It is reasonable since it clarifies allowable activities to avoid conflict during and after the grant agreement has been prepared. Also, it informs recipients that improperly used funds must be returned to the Rural Rehabilitation Fund.

- "d. SUSPENSION OF PAYMENTS. THE BOARD SHALL SUSPEND PAYMENT OF FUNDS TO RECIPIENTS THAT ARE NOT IN COMPLIANCE WITH APPLICABLE STATE AND FEDERAL LAWS, RULES, AND REGULATIONS."

This rule is necessary to ensure that recipients of Challenge Grant funds are in compliance with applicable state and federal laws, rules and regulations. It is reasonable since it allows the Board to suspend funding for any Regional Organization that is in violation of applicable state and federal laws, rules and regulations.

- "e. AMENDMENT. AMENDMENTS TO THE GRANT AGREEMENT MUST BE IN WRITING."

This rule is necessary to establish the amendment procedure for grant agreements. It is reasonable because only those amendments in writing and signed by both parties shall constitute an acceptable grant amendment.

"3. RECORDKEEPING. THE FOLLOWING RECORDKEEPING REQUIREMENTS ARE ESTABLISHED:"

- "a. FINANCIAL RECORDS. CHALLENGE GRANT RECIPIENTS SHALL MAINTAIN FINANCIAL RECORDS THAT IDENTIFY THE SOURCE AND APPLICATION OF FUNDS FOR CHALLENGE GRANT-SUPPORTED ACTIVITIES. THESE RECORDS MUST CONTAIN INFORMATION ABOUT APPROVED LOANS, OBLIGATIONS, UNOBLIGATED BALANCES, ASSETS, LIABILITIES, OUTLAYS AND INTEREST INCOME, USE OF INTEREST INCOME, AND OTHER INFORMATION AS REQUIRED BY THE BOARD TO FULFILL ITS RESPONSIBILITIES. FINANCIAL RECORDS, SUPPORTING DOCUMENTS, STATISTICAL RECORDS, AND ALL OTHER RECORDS PERTINENT TO THE CHALLENGE GRANT PROGRAM MUST BE RETAINED BY THE REGIONAL ORGANIZATION FOR ONE YEAR AFTER THE GRANT PROGRAM EXPIRES AND RECORDS OF EACH LOAN FOR ONE YEAR FROM THE FINAL REPAYMENT. NO RECORDS OR DOCUMENTS MAY BE DISPOSED OF WHILE AUDITS, CLAIMS, OR LITIGATION INVOLVING THE RECORDS ARE IN PROGRESS."

This rule is necessary to ensure accountability by specifying the types of records which must be retained by the recipient of Challenge Grant funds. It is reasonable since the above-stated records will be necessary for review by the Board to ensure that Challenge Grant funds are used by the organization as intended.

- "b. AUDITS. CHALLENGE GRANT RECIPIENTS MUST ARRANGE AND PAY FOR AN INDEPENDENT ANNUAL AUDIT AND SUBMIT A COPY OF THE ANNUAL AUDIT TO THE BOARD."

This rule is necessary to establish the annual audit as a mechanism for reporting to the Board. It is reasonable since Minn. Stat. 116N.08 subd. 10 clearly states that the organization that receives a Challenge Grant shall provide for an independent annual audit to be performed.

- "c. ANNUAL REPORTS. BY FEBRUARY 15TH OF EACH YEAR, AN ANNUAL REPORT MUST BE SUBMITTED TO THE BOARD. THE ANNUAL REPORT SHALL INCLUDE A DESCRIPTION OF PROJECTS SUPPORTED BY THE CHALLENGE GRANT PROGRAM, AN ACCOUNT OF LOANS MADE DURING THE CALENDAR YEAR, THE SOURCE AND AMOUNT OF LOANS MADE DURING THE YEAR, THE SOURCE AND AMOUNT OF MONEY COLLECTED AND DISTRIBUTED BY THE CHALLENGE GRANT PROGRAM, THE PROGRAM'S ASSETS AND LIABILITIES, AND AN EXPLANATION OF ADMINISTRATIVE EXPENSES."

This rule is necessary to establish the contents of the annual report, as well as the annual deadline for submitting the report. This rule is reasonable since it is consistent with Minn. Stat. 116N.08 subd. 10 in detailing the type of information to be included in the annual report, information which would assist in determining whether funds are used appropriately.

THE ANNUAL REPORT WILL BE USED AS A BASIS FOR REVIEWING THE UTILIZATION OF CHALLENGE GRANTS AWARDED BY THE BOARD. GRANT AGREEMENTS WILL MAKE PROVISIONS FOR REALLOCATION IN THE EVENT THAT THE REGIONAL ORGANIZATION FAILS TO PERFORM ITS DUTIES."

This rule is necessary since it states a method for evaluating Challenge Grant recipients and gives the basis for the annual report. It is reasonable since the Board wants to ensure that its money is being used to accomplish its objectives. It also needs a process for redress when the Regional Organization is failing to carry out its assigned tasks.

- "d. ACCESS TO RECORDS. REPRESENTATIVES OF THE BOARD AND THE LEGISLATIVE AUDITOR SHALL HAVE ACCESS TO ALL BOOKS, RECORDS, ACCOUNTS, REPORTS, FILES AND OTHER PAPERS, THINGS, OR PROPERTY BELONGING TO THE REGIONAL ORGANIZATION WHICH ARE RELATED TO THE ADMINISTRATION OF THE CHALLENGE GRANT PROGRAM.

This rule is necessary to enable the Board and the legislative auditor to have access to all records and information related to the Challenge Grant program. It is reasonable since the Board is empowered by the legislature to administer and monitor the Challenge Grant program in accordance with Minn. Stat. 116N.08. The legislative auditor is empowered by Minn. Stat. 3.971 to review programs established by the Minnesota Legislature.

**"VI. OPERATIONAL REQUIREMENTS FOR REGIONAL REVOLVING LOAN FUNDS"**

**"A. CHALLENGE GRANT ADMINISTRATION MANUAL"**

"THE BOARD SHALL PREPARE AN ADMINISTRATION MANUAL FOR DISTRIBUTION TO ELIGIBLE REGIONAL ORGANIZATIONS. THE MANUAL MUST INSTRUCT CHALLENGE GRANT APPLICANTS IN THE PREPARATION OF LOAN APPLICATIONS AND DESCRIBE THE METHOD BY WHICH THE REGIONAL ORGANIZATION WILL EVALUATE AND RATE SUCH APPLICATIONS."

This rule is necessary to establish an application process for loan funding. It is reasonable since the application manual provides instructions for the preparation of applications as well as information on how applications shall be evaluated.

**"B. THRESHOLD REQUIREMENTS"**

"REGIONAL POLICIES MUST BE DEVELOPED TO ENSURE THAT BUSINESS LOAN APPLICATIONS MEET SPECIFIED ELIGIBILITY THRESHOLD REQUIREMENTS. THE FOLLOWING CRITERIA MUST BE INCORPORATED INTO THE REGIONAL POLICIES."

- "1. FINANCING GAP. LOANS MUST BE MADE TO BUSINESSES THAT ARE NOT LIKELY TO UNDERTAKE A PROJECT FOR WHICH LOANS ARE SOUGHT WITHOUT ASSISTANCE FROM THE CHALLENGE GRANT PROGRAM. THE LOAN APPLICANT MUST DEMONSTRATE THE EXISTENCE OF A FINANCING GAP BY DOCUMENTING WHICH OF THE FOLLOWING APPLY TO THE BUSINESS:
- a. INADEQUATE EQUITY
  - b. INADEQUATE PRIVATE LENDER FINANCING
  - c. INABILITY TO PAY MARKET INTEREST RATE OR TERM REQUIREMENTS"

This rule is necessary to inform potential loan applicants what is meant by a financing gap and to establish that loans should be given to projects that would otherwise not be undertaken due to a lack of financing. It is reasonable since these are adequate criteria for determining whether a financing gap exists.

- "2. JOBS WHICH PRINCIPALLY BENEFIT LOW-INCOME PERSONS. A LOAN MUST BE USED FOR A PROJECT DESIGNED PRINCIPALLY TO BENEFIT LOW-INCOME PERSONS THROUGH THE CREATION OR RETENTION OF JOBS (PRINCIPALLY IS DEFINED AS MORE THAN 50 PERCENT OF THE PERSONS BENEFITTING)."

This rule is necessary to assure that loans are given to projects where the majority of persons benefitting are low income, and to establish criteria necessary for prioritizing potential projects. This rule is reasonable since the creation and retention of private sector jobs is an objective of the Challenge Grant program.

"IN ADDRESSING THIS CRITERION, AN APPLICANT SHOULD BE PREPARED TO SHOW HOW LOW-INCOME PERSONS DIRECTLY BENEFIT FROM THE CREATION OR RETENTION OF JOBS BY PROVIDING EVIDENCE THAT THE JOBS RETAINED EMPLOY LOW-INCOME PERSONS AND/OR THAT JOBS CREATED ARE FILLED OR MADE AVAILABLE TO LOW-INCOME PERSONS. THE FOLLOWING ARE MINIMUM THRESHOLD REQUIREMENTS RELATING TO LOW-INCOME JOB CREATION/RETENTION:"

- "a. AMONG LOAN APPLICANTS, PRIORITY MUST BE GIVEN ON THE BASIS OF THE NUMBER OF PERMANENT JOBS CREATED OR RETAINED BY THE PROJECT AND THE PROPORTION OF NONSTATE MONEY LEVERAGED BY THE REVOLVING LOAN."
- "b. ONLY JOBS DIRECTLY RESULTING FROM A SPECIFIC GRANT ACTIVITY WILL BE CONSIDERED."
- "c. IN ORDER TO COUNT RETAINED JOBS, THERE MUST BE CLEAR DOCUMENTATION PROVIDED BY THE BUSINESS THAT IT WOULD REDUCE OPERATIONS IN THE COMMUNITY OR DISCONTINUE OPERATIONS IN MINNESOTA IF ADDITIONAL FINANCING IS NOT MADE AVAILABLE."

This rule is necessary to define and explain to potential applicants minimum threshold requirements for low-income job creation/retention. It is reasonable because the Board wants more than a business's assurance that it would cut back jobs without state funding. The Board wants to ensure that its funds are allocated to needs that can be factually justified.

- "3. LEVERAGE PRIVATE INVESTMENT. THE AMOUNT OF MONEY MADE AVAILABLE FROM THE REGIONAL REVOLVING LOAN FUND MAY NOT EXCEED 50 PERCENT OF THE TOTAL COST OF EACH PROJECT. THE FOLLOWING ARE MINIMUM THRESHOLD REQUIREMENTS FOR LEVERAGING PRIVATE INVESTMENT:

- "a. EXCEPT WITH PRIOR APPROVAL BY THE COMMISSIONER, LEVERAGED PRIVATE INVESTMENT BY THE BUSINESS MUST BE IN THE FORM OF NEW COMMITMENTS THAT HAVE NOT YET BEEN EXPENDED."

This rule is necessary to inform Regional Organizations and loan applicants that commitments made by private investors, prior to a revolving loan fund application, do not qualify under the requirements for leveraging private investment. It is reasonable because the intent of the Challenge Grant program is to leverage new private dollars for rural economic development, but is also allows for exceptions if the Commissioner approves.

- "b. FINANCIAL COMMITMENTS SHOULD NOT BE CONTINGENT UPON EVENTS OTHER THAN THE APPROVAL OF THE REGIONAL REVOLVING LOAN."

This rule is necessary to ensure that a private investment will be made upon approval of a loan application. For the Regional Revolving Loan Fund to be successful, it is reasonable to provide an assurance that loans will immediately leverage private funds.

- "c. WITH THE APPROVAL OF THE COMMISSIONER, A LOAN MAY BE USED TO PROVIDE UP TO 50 PERCENT OF THE PRIVATE INVESTMENT REQUIRED TO QUALIFY FOR A GRANT FROM THE ECONOMIC RECOVERY FUND."

This rule is necessary to inform potential applicants that they may apply to both the Regional Revolving Loan Fund and the Economic Recovery Fund, and that the loan funds qualify under the private investment requirement of the Economic Recovery Fund. This rule is reasonable because it is a provision of Minn. Stat. 116N.08 subd. 5, and because it provides applicants with easier access to grants from the Economic Recovery Fund.

- "d. FOR BUSINESS LOANS, THE AMOUNT OF MONEY APPROPRIATED FROM THE RURAL REHABILITATION REVOLVING FUND MAY NOT EXCEED 50 PERCENT OF EACH LOAN MADE BY THE REGIONAL ORGANIZATION. THE AMOUNT OF NONPUBLIC MONEY MUST BE AT LEAST 50 PERCENT OF EACH LOAN MADE BY THE REGIONAL ORGANIZATION. THE LOAN LIMITS OF THE REGIONAL ORGANIZATION WILL BE \$5,000 MINIMUM AND \$100,000 MAXIMUM."

This rule is necessary to establish the loan limits on a loan made directly to businesses. It is also intended to establish criteria for the ratio of nonpublic money to public money to ensure that Challenge Grant funds are utilized as a tool for leveraging private investment. It is reasonable because the loan limit range is broad enough to accommodate a wide range of projects and because a 50 percent match ensures that private involvement in the Challenge Grant program will be at least as significant as public involvement. Also, this rule is consistent with the regional revolving loan fund criteria in Minn. Stat. 116N.08 subd. 5.

- "e. FOR LOANS TO LOCAL GOVERNMENTAL UNITS, THE AMOUNT OF MONEY APPROPRIATED FROM THE RURAL REHABILITATION REVOLVING FUND FOR EACH REGIONAL REVOLVING LOAN MAY NOT EXCEED \$25,000. THE MAXIMUM REGIONAL REVOLVING LOAN TO A LOCAL UNIT OF GOVERNMENT IS \$50,000. THE LOCAL GOVERNMENTAL UNIT MUST MATCH THE LOAN AT A MINIMUM DOLLAR-FOR-DOLLAR FROM ITS REVOLVING LOAN FUND. THE LOAN MADE BY A LOCAL GOVERNMENTAL UNIT MAY BE 100 PERCENT PUBLIC FUNDS."

This rule is necessary to establish the loan limits on local government unit loans and to establish criteria for meeting the leveraging of private investment required on local government unit loans. It is reasonable because it extends the leveraging of private dollars from the regional to the local level.

- "f. IN DETERMINING WHICH BUSINESS ACTIVITIES MAY BE CONSIDERED FOR LOANS, THE FOLLOWING MINIMUM REQUIREMENTS APPLY:

- A LOAN MAY NOT EXCEED 50 PERCENT OF THE TOTAL COST OF AN INDIVIDUAL PROJECT.
- ELIGIBLE BUSINESS ENTERPRISES INCLUDE TECHNOLOGICALLY INNOVATIVE INDUSTRIES, VALUE-ADDED MANUFACTURING, AGRIPROCESSING, INFORMATION INDUSTRIES, AND AGRICULTURAL MARKETING.
- A LOAN MAY NOT BE USED FOR A RETAIL DEVELOPMENT PROJECT."

- A BUSINESS APPLYING FOR A LOAN MUST BE SPONSORED BY A RESOLUTION OF THE LOCAL GOVERNMENTAL UNIT WITHIN WHOSE JURISDICTION THE PROJECT IS LOCATED.
- LOAN APPLICATIONS GIVEN PRELIMINARY APPROVAL BY THE REGIONAL ORGANIZATION MUST BE FORWARDED TO THE COMMISSIONER FOR FINAL APPROVAL.

This rule is necessary to establish eligibility requirements for businesses applying for a regional revolving loan. It is reasonable because it clearly defines the parameters of the Challenge Grant program, and it is consistent with the eligibility requirements established in Minn. Stat. 116N.08.

- "4. LOAN REPAYMENT. FOR LOANS MADE TO BUSINESSES, AMOUNTS EQUAL TO ONE-HALF OF EACH PRINCIPAL AND INTEREST REPAYMENT MUST BE DEPOSITED IN THE RURAL REHABILITATION REVOLVING FUND. THIS WILL BE USED FOR ADDITIONAL CHALLENGE GRANTS TO THE FUNDING REGION FOR WHICH THE MONEY WAS ORIGINALLY DESIGNATED. THE REMAINING AMOUNT OF THE LOAN REPAYMENT MAY BE DEPOSITED IN THE REGIONAL REVOLVING LOAN FUND FOR FURTHER DISTRIBUTION BY THE REGIONAL ORGANIZATION.

FOR LOANS MADE TO LOCAL GOVERNMENTAL UNITS, ONE-HALF OF THE MONEY LOANED BY THE REGIONAL ORGANIZATION MUST BE REPAID TO THE RURAL REHABILITATION REVOLVING FUND. WITH THE AGREEMENT OF THE REGIONAL ORGANIZATION, FIFTY PERCENT OF THE MONEY MAY BE RETAINED BY THE LOCAL GOVERNMENTAL UNIT'S REVOLVING LOAN FUND FOR FURTHER DISTRIBUTION BY THE LOCAL GOVERNMENTAL UNIT."

This rule is necessary to specify loan repayment restrictions and requirements on all regional revolving loans. It is reasonable because it ensures permanency of the Rural Rehabilitation Revolving Fund and Regional Revolving Loan Funds, and provides Local Government Units with the opportunity to establish permanent local revolving loan funds. Also, it is consistent with the loan repayment requirements established in Minn. Stat. 116N.08, subd. 6.

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