



Block Grant Management

Report to the Legislature
as required by Minn. Stat. Chapter 347, Article 1, Section 31

January 28, 2011

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Total cost of salaries, printing, and supplies in
developing/preparing this report is \$5,500
(reported as required by Minn. Stat. 3.197)

INTRODUCTION

Independent grant recipients, on behalf of the legislature and the Department of Employment and Economic Development (DEED), provide a variety of workforce and business services. This is a common practice and has been used for a number of years. In the most recent biennium covering state fiscal years (SFY) 2010 and 2011, the legislature directly appropriated over \$25 million from the Workforce Development Fund and General Fund to DEED to “pass-through” to 29 legislative-specified independent organizations.

In its February 2010 evaluation report on workforce programs administered by DEED, the Office of the Legislative Auditor (OLA) identified two major findings related to the practice of direct appropriations providing pass-through grants:

- Direct legislative appropriations to specific grant recipients named in law bypass a best practices competitive process for selecting service providers.¹
- DEED’s monitoring of providers receiving legislative appropriations is inconsistent and not funded fairly.²

Based on these findings, OLA recommended that:

- The legislature should not mandate grant recipients in law but instead allow the selection of recipients through a competitive process administered by DEED.³
- DEED should more consistently monitor recipients of legislative appropriations and develop an equitable way of funding its monitoring activities.⁴

Chapter 347, Article 1, Section 31 of 2010 Minnesota Session Law, has now directed DEED to report on options for administering block grants:

“The commissioner of employment and economic development shall study and report to the chairs and ranking minority members of the house of representatives and senate committees having jurisdiction over economic development and workforce issues on the use of block grant funding to be administered by the Workforce Development Division and the Business and Community Development Division. The report must include recommendations for the use of block grant funding including goals, grant award criteria, RFP procedures, priorities for target populations and the services to be provided, and inclusion of all pass-through grants administered by the department including those receiving direct state appropriations. The recommendations must contain specific proposals on providing grant oversight, evaluation, and administration of allocated funds in order to maximize services to target populations.”

This is DEED’s report on those options. DEED currently manages many grants to independent organizations through a competitive-bid process and over time has developed best practices to enhance the process. If the legislature were to eliminate the practice of direct appropriations to specific grant recipients named in law and instead use block grants, the same administrative framework could be used.

BACKGROUND AND ANALYSIS

The state legislature and the federal government provide DEED with money to deliver a wide variety of services. Describing the process for how those services are funded is complicated due to the ways in which multiple funding streams often come together to support individual programs. From a high-level perspective, though,

¹ “Evaluation Report: Workforce Programs.” Office of the Legislative Auditor, February 2010, p. 63.

² Ibid., p. 66.

³ Ibid., p. 65.

⁴ Ibid., p. 68.

DEED administers programs either directly by using state staff or indirectly by subsidizing independent service providers through the following funding methods:

- **Federal formula:** This is a formula that uses a set of variables to determine how much each state and its localities receive from the federal government. For example, DEED receives Workforce Investment Act (WIA) dollars that it then awards to the 16 local workforce service areas to fund the Adult, Dislocated Worker, and Youth programs.
- **Competitive grants:** These are funds that DEED has the discretion to award to an independent entity after holding a competitive bidding process. Per legislative mandates, the following programs administer competitive grants:
 - Bioscience Business Development Public Infrastructure Grant Program⁵
 - Contamination Cleanup and Investigation Grant Program
 - Extended Employment⁶
 - Greater Minnesota Business Development Public Infrastructure Grant Program
 - Independent Living
 - Job Skills Partnership
 - Mental Illness Supported Employment
 - Minnesota Investment Fund
 - Redevelopment Grant Program
 - Small Business Development Center Program
 - Small Cities Development Grant Program
 - Transportation Economic Development Program
 - Unemployment Insurance Penalty – Mitigation of Construction Impacts⁷
 - Youthbuild Program
- **Direct legislative appropriations to specific grant recipients named in law:** Pass-through grants fall under this category and are appropriations that the legislature provides to DEED but names a specific independent organization that the money must go to.

Using grant money to partner with independent organizations and other third parties through these methods is a common practice for DEED. It can be an efficient form of service delivery because the necessary staff and infrastructure already exist to work with the target populations.

For SFYs 2010 and 2011, the legislature appropriated \$1.41 billion to DEED for programs both administered by DEED and for pass-through grants directed toward independent entities to deliver services or carry-out projects on behalf of the state. Of the total appropriation, \$25.8 million in pass-through grants went to 29 independent nonprofit organizations and local government units that were specifically directed to offer various workforce, business, and professional services to particular target populations. The table below lists the pass-through grantees receiving direct state appropriations from the General Fund and the Workforce Development Fund.

While DEED has been given the oversight authority to administer and monitor these grantees, the organizations generally operate independently from the agency. Twin Cities RISE!, for example, offers job training and education programs for low-income adults in the seven-county metropolitan area. Another organization, Minnesota Inventors Congress, primarily provides informational assistance to inventors and prospective inventors and also administers a grant for the annual Minnesota Student Inventors Congress Program.

⁵ The 2010 MN State Legislature renamed this program to Innovative Business Development Public Infrastructure Grant Program.

⁶ The program does release RFPs for new grants, but most dollars are guaranteed to providers that meet contract requirements from the prior program year under provisions in Minn. Rule 3300.2035.

⁷ Result of a one-time appropriation made through a dedication of existing funds in SFY 2010.

Pass-through Grants to Independent Organizations, State Fiscal Years 2010-11 (In thousands)

Program/Organization	General Fund	Workforce Development Fund	Special Revenue ^a
21 st Century Fund – NE Higher Education District Engineering			[\$1,000]
21 st Century Fund – Iron Range Resources and Rehabilitation ^b			[\$10,000]
Advocating Change Together	\$300		
BioBusiness Alliance of Minnesota	\$960		
Center for Rural Policy Development	\$200		
Deaf/Hard of Hearing Interpreters (VECTOR)		\$680	
Entrepreneurial and Small Business Facilitation		\$378	
Enterprise Minnesota	\$960		
Lifetrack Resources	\$200	\$400	
Lutheran Social Services ^c	\$150		
Metropolitan Economic Development Association	\$210	\$100	
Minneapolis Learn-to-Earn		\$600	
Minneapolis Summer Youth Program		\$1,800	
Minnesota Alliance of Boys and Girls Clubs		\$1,500	
Minnesota Diversified Industries	\$350		
Minnesota Employment Center for Deaf (Rise, Inc.)	\$290	\$350	
Minnesota Inventors Congress	\$115		
Minnesota Investment Fund – Aircraft Manufacturing & Assembly Company			[\$3,000] ^d
Minnesota Investment Fund FLOOD ^e	\$10,000		
MN Works!		\$150	
Network for Better Futures/High Risk Adults Demonstration Project		\$300	
Northern Connections	\$300	\$100	
Opportunities Industrialization Centers		\$2,750	
Ramsey County WIB Building Lives Program		\$200	
Saint Paul Summer Youth		\$1,116	
Twin Cities Rise!	\$700	\$210	
Unemployment Insurance Penalty – Green Isle Fire Relief			[\$64] ^f
Unemployment Insurance Penalty – Lake County Ice Storm			[\$250] ^g
WomenVenture	\$400		
Total	\$14,935	\$10,834	[\$14,314]

Note: Grants from the federal American Recovery and Reinvestment Act funding are not included.

^a Indicates appropriations made through the dedication of existing funds for SFY 2010.

^b The appropriation originally set up a grant or forgivable loan for a wind turbine blade manufacturing facility, but the language was amended to also allow for other renewable energy projects.

^c One time appropriation in SFY 2010.

^d One time appropriation in SFY 2010.

^e This was a one-time appropriation that came from a special legislative session for flood relief in Fall 2010.

^f One-time appropriation in SFY 2010.

^g One-time appropriation in SFY 2010.

BEST PRACTICES FOR GRANTS MANAGEMENT

In its 2007 report on state grants to nonprofit organizations, OLA highlighted best practices for grants management.⁸ According to OLA, when searching for a service provider that provides the highest value for the state, best practices should include:

- **Grant Announcement or Request for Proposal (RFP):** The announcement should be publicized as broadly as possible and contain clear selection criteria and expectations.
- **Grant Award and Application Review:** Agency staff should review all applications through a competitive process using standardized scoring at least once every five years. The organizational health of grantees should also be assessed.

Once a grantee that best meets the criteria has been selected, effective administration should contain the following components:

- **Grant Contract:** A contract should be written that clearly describes the services to be delivered as well as the expected outcomes.
- **Grant Payment:** Payments to grantee should be made on a reimbursement basis.
- **Monitoring:** Over the course of a grant period, agency staff should conduct at least one grantee site visit to review and document the activities and services provided.
- **Performance Reports:** Grantee should submit progress reports at least every six months outlining the services provided.
- **Grant Closeout:** An assessment of a grantee's performance should be written and used as a consideration when awarding future grants.

Although there are some differences in the way agencies manage their grants, the state has followed OLA's lead and implemented basic standards for the award and administration processes. In Minnesota Statute 16B.97, subd. 4(a)(1), the Department of Administration commissioner was directed to create grant management policies that apply to all executive agencies to ensure fairness and consistency in competitive grant awards. The result was 13 policies issued between 2008 and 2009 by the Office of Grants Management that mirror many of OLA's suggested best practices.

DEED has adopted state and OLA guidance on the grant selection and administration processes for all of the competitive-bid grants it oversees, and in some areas, has added additional requirements. If the legislature eliminated the practice of direct appropriations to specific grant recipients named in law and instead chose to fund initiatives through competitive block grants, DEED could administer the new programs in the same way it manages other grants. The following are examples of DEED's adoption of these best practices in grants management.

RFP and Selection Process

In practice, most non-state entities seeking public funds from DEED must first go through a competitive grant review process using the State Register or the agency's external RFP website. For example, the Dislocated Worker Program's Rapid Response group runs a competitive bidding process for service providers. There is no presumed provider when a layoff event that requires state resources is identified. Instead, all potential service providers are informed of the project by Rapid Response program staff and asked for expressions of interest. Once the expressions of interest are reviewed by a layoff-specific Employee-Management Committee (EMC), program staff solicits more detailed service information through a Request for Further Information (RFI). The EMC and program staff may choose to focus on additional selection criteria, but an RFI response must at least include information on

⁸ "Evaluation Report: State Grants to Nonprofit Organizations." Office of the Legislative Auditor, January 2007, p. 78.

the service provider's experience, a basic services plan, demonstrated knowledge of the area labor market and employers, demonstrated service provider strengths on this or similar projects, and contact information.⁹

In the Business and Community Development Division, several programs also administer a competitive grants process per legislative mandates. For example, the Redevelopment Grant Program, which provides grants to help communities with the costs of redeveloping blighted industrial, residential, or commercial sites, uses a detailed application process. By having the same application dates every program year, consistency has been built into the redevelopment grant cycle. There is also consistency in the review process. The legislature originally established five criteria with which to review applications in an objective manner and select redevelopment projects that provide the highest return in public benefits relative to the public costs. Additionally, the statute on the Redevelopment Grant Program directs DEED to apply maximum point values to each criterion so that applications can be systematically compared using cumulative scores.¹⁰ Over time, these scores have been adjusted and additional criteria added to respond to the state's changing redevelopment needs and priorities.

Contracts

Once a grantee is chosen to provide services, a clearly written contract is prepared that details conditions and expectations of the grant. DEED policy requires that every contract contains a work plan and performance goals that are to be met by the grantee over the course of the grant period. There must also be language on the fiscal management of the grant including the requirement that a grantee regularly submits financial status reports on its expenditures. The Department of Administration has provided guidance on performance measures, but has left it up to state program staff to determine the progress report format and content, which may include a narrative, goals, objectives, activities, outcomes, and financial information.¹¹

DEED's Small Business Development Center (SBDC) state office releases an RFP every three years for applicants seeking to serve as a regional SBDC host partner. For those selected, their contracts clearly describe the customers SBDC partners are to serve, what services they will provide, staffing requirements, and how the budget should be managed. A scorecard is also used to show performance targets and the way outcomes will be evaluated in areas such as job creation and retention, wealth creation and growth, and new business creation.

In addition to the SBDC Network, the Small Business Development Center state office manages several directly appropriated pass-through grants, including one with a nonprofit organization called WomenVenture. The language in the 2009 session law that appropriated funding to the organization contained some broad goals but nothing that that could be realistically measured during the grant period. In the contract negotiations, however, program staff was able to increase accountability by developing a work plan and creating more specific and quantifiable performance goals. The goals include assisting in the creation of 150 new businesses and 250 new jobs; providing training around sound business development practices to 2,500 potential entrepreneurs; and holding a mid-term progress meeting with DEED.

Monitoring

Monitoring ensures that grantees comply with government regulations and that the programs they run are free of fraud, waste, and abuse. This activity provides independent information to the legislature on how well a contract is being executed. Without reliable third-party analysis of a grantee, agencies and legislators must rely on the testimonies of the grantees alone when making budgetary decisions. The information presented by a grantee may be accurate, but without consistent methodologies, that information cannot be used for comparison. Best practices call for monitoring to include at least one formal site visit to the grantee during the contract period. The

⁹ "Chapter 13.0: Dislocated Worker Program, Section 13.10: Projects and Competitive Process," Administrative Manual WIA Title 1 Programs, February 21, 2006.

¹⁰ 2010 Minnesota Statutes 116J.575 Grants.

¹¹ "Policy on Grant Progress Reports," Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure, December 18, 2008, Number: 08-09.

Office of Grants Management has further clarified this by requiring at least one site visit per grant period for grants over \$50,000 and at least one annual visit for those over \$250,000.¹²

DEED's monitoring units have created standard policies for regular on-site and desk reviews of state contracts in accordance with state and federal grants guidelines. Monitoring may be performed by program staff, fiscal management staff, independent auditing firms, or a combination of all three. Some units require an annual site visit or desk review of all grants starting at \$50,000. At a minimum, though, at least one annual on-site visit is required for all grantees with an appropriation over \$100,000 and for 25 percent of those between \$10,000 and \$100,000.¹³ Program staff also performs monthly fiscal monitoring and monthly or quarterly desk monitoring of service activity. Once the end of the grant period arrives, a final closeout evaluation is completed to aid in making future award decisions.

Performance Reporting

State policy requires that written progress reports be submitted by every grantee at least annually, regardless of size, until all of the grant funds have been expended and all of the contract agreements have been met.¹⁴ The progress reports are based on the performance goals first established in the grant contracts. Reviews help both the state and organization staffs see if the provider is progressing toward its goals and operating within its work plan. Every grantee also receives an annual fiscal monitoring review. As mentioned previously, the Small Business Development Center state office uses a scorecard to measure annual performance outcomes for the regional SBDC locations. The office has also begun to incorporate more standardized outcomes for the grants it manages by adopting a similar scorecard system.

Generally, with established goals and work plans in place, DEED staff is able to provide the legislature with a clearer analysis of an organization's activity and effectiveness in service delivery. For grantees that are not meeting contractual obligations such as submitting their performance reports, program staff has the authority to withhold future payments until the required information is received. In addition, technical assistance will also be provided to help bring the organization into compliance.

RECOMMENDATIONS

1. Goals and Priorities for Serving Target Populations

a. Define priorities for awarding funds.

Determining the priorities for how public funds are spent should be a collaborative process, but ultimately, these are decisions the legislature is best suited to make. An appropriation should contain a clear purpose that is broader than the services provided by a single program. Otherwise, it can lead to situations where there is little cohesion among service providers regarding what they do and who they serve. In some cases, program staff has had to spend a disproportionate amount of time working with grantees to clarify expectations. The new process will require a more strategic partnership between DEED, the legislature, other state agencies, and those who advocate on behalf of specific populations to determine priorities at statewide and local levels. Ideally, the goal or intent for a block grant should be conveyed by the legislature and then implemented by the agencies.

¹² "Policy on Grant Monitoring," Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure, December 18, 2008, Number: 08-10.

¹³ DEED Policy and Procedures Manual 508 – Grants/Subgrants and Income Agreements.

¹⁴ "Policy on Grant Progress Reports," Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure, December 18, 2008, Number: 08-09.

b. Determine target populations to serve.

In its 2010 workforce report, OLA found that existing funding streams and programs that offer workforce services leave certain needs unmet. More specifically, the state's system of workforce programs tends to exclude the underemployed and public assistance recipients who need some type of training.¹⁵ Therefore, determining the priorities for the target populations and what services to provide for them is an important step in the process moving forward. A needs assessment is one tool that could be used to uncover gaps in services created by the existing funding structure.

As recommended by OLA, the Governor's Workforce Development Council (GWDC) has prepared a report for the legislature titled "Working to Close the Skills Gap" that identifies and addresses the local gaps in workforce services. For the report, the GWDC surveyed community-based service providers in WorkForce Centers and organizations receiving pass-through grants for workforce-related services in SFY 2010. The findings on the unmet needs and how to address those service gaps could be used to inform decisions on specific block grant priorities.

Groups that advocate on behalf of specific populations can also be beneficial in informing the process. The State Rehabilitation Council and the State Rehabilitation Council for the Blind, both governor-appointed, exist to advise the state and the corresponding DEED programs on the performance and effectiveness of services provided. In the business and economic development world, there have not been comprehensive studies on service gaps or needs assessments in Minnesota, but groups do exist that could help shape statewide priorities. The Economic Development Association of Minnesota (EDAM), for example, is a professional association that regularly consults with the state on economic development issues.

2. RFP and Grant Award Procedures

a. Use competition to select service providers.

OLA notes that competition is "one of the hallmarks of a fair and open process for selecting service providers, but direct legislative grants to specific organizations mean grants are not awarded on a competitive basis."¹⁶ According to guidance issued by the Office of Grants Management regarding a competitive application process, the "policy applies only to competitive grant review processes. Legislatively-named, formula and sole/single source grants processes are not subject to this policy."¹⁷ This discrepancy can allow for specific projects to be pushed through by those in leadership positions even if those projects are not the best fit for a grant. Regardless of how funds are distributed, it is in the interest of the state that funding be in line with these principles when selecting service providers.

Once the intent of a block grant has been articulated by the legislature, it is recommended that DEED be given full authority to run a competitive RFP process for the various grant initiatives as it already does with other competitive-bid grants. In choosing specific recipients, for example, program staff would not be required to receive legislative approval. Additionally, rather than structuring grant descriptions that favor a specific type of provider, standard procedures would be followed by placing all block grant announcements in the State Register for all potential applicants to find and submit proposals.

b. Provide clear selection criteria.

As described previously, it is best to have clearly defined selection criteria and a standardized scoring system when evaluating grant applications. As it has done with several other competitive grant appropriations, DEED would use guidance from the legislature and other interested parties to develop a weighted scoring system for the block grant initiatives with which to select the service providers that provide the highest return of public

¹⁵ "Evaluation Report: Workforce Programs." Office of the Legislative Auditor, February 2010, p. 78.

¹⁶ "Evaluation Report: Workforce Programs." Office of the Legislative Auditor, February 2010, p. 64.

¹⁷ "Policy on Rating Criteria for Competitive Grant Review," Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure, July 15, 2008, Number: 08-02.

benefits relative to the cost. Even with specific criteria, opening up more grants to a competitive bidding process will inevitably lead to more applicants.

This is not a disadvantage, but unfortunately, some of those applicants may not be qualified to manage the specific grant they are applying for. In the experience of program staff, the level of sophistication of an organization is an important component in operating a successful grant. New, smaller organizations receiving appropriations, for example, may not have the expertise to manage grants as effectively as an organization with more staff and technical resources. Of course, more steps can be taken to address this.

In order to be as inclusive as possible, one option would be to encourage and assist grantees when necessary through greater technical assistance from DEED program staff. Another option would be to include a minimum organizational budget amount or a required funding match in the grant criteria to ensure that state funds will be properly leveraged. Many DEED programs already require this of grantees. With this method, there is a possibility that small or new organizations would be excluded from the process. If an organization by itself cannot meet the minimum budget amount or funding match, another avenue to funding could be created by encouraging groups to partner with other parties to meet the selection criteria.

3. Grant Oversight and Administration

a. Designate a percentage of grant dollars to be used for agency oversight.

With its competitive and formula-funded grants, DEED is able to perform the necessary oversight duties because an administrative budget is included in the grant appropriation. In administering federal grants, for example, 5 to 15 percent of the funding is set aside to cover administrative costs. DEED's policy on income agreements with non-state entities calls for them to include "an equitable share of DEED's administrative overhead."¹⁸ Pass-through grants, however, have not typically set aside administrative funds. Despite that, pass-through grants must be monitored using the same standards that are applied to other types of state grants according to state policy.¹⁹ As a result, grant administration has been scaled back in some cases to make up for the shortfall. The OLA described monitoring of these grantees as inconsistent because funding from the legislature for that purpose has been inequitable.²⁰

DEED is working with the new administration to suggest legislative language that would fund oversight activities. However, running an RFP process for block grants will require additional staff time on top of monitoring and oversight. More equitable funding for grants administration can be achieved in two ways. To cover the costs of the RFP and selection process, a percentage of money should come off the top of the block grant fund. Then, for continued monitoring of the grants through oversight and technical assistance, a percentage of the individual awards should also be reserved.

b. Provide DEED with the flexibility to take corrective action if goals are not being met.

In creating contracts with pass-through grantees, program staff attempts to apply measurable performance outcomes. There may be instances, however, where the service providers suffer from poor administrative practices or end up serving the wrong customer population. If the outcomes or other contractual obligations are not met, the type of authority DEED has for taking corrective actions differs depending on the type of grant. All DEED grant monitors can provide technical assistance and have the ability to withhold further payments from an organization until obligations are met, but taking money back or repurposing it elsewhere is only an option for some grants. For grants awarded to a particular business or group of businesses, for example, DEED has the

¹⁸ DEED Policy and Procedure Manual 508 – Grants/Subgrants and Income Agreements.

¹⁹ "Policy on Legislatively Mandated Grants," Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure, December 18, 2008, Number: 08-11.

²⁰ "Evaluation Report: Workforce Programs." Office of the Legislative Auditor, February 2010, p. 64.

statutory authority to “require a recipient failing to meet the job and wage goals to pay back the assistance plus interest” to DEED.²¹

When an organization knows there will be no consequences for not meeting expectations, enforcing compliance is more difficult. The legislature could ensure that DEED has the flexibility with all types of grants to take corrective actions to either suspend funding or repurpose it to one or more organizations. This authority would be carried over into block grant administration as well.

c. Establish a standard timeframe for awards.

When awarding block grants, it is important to articulate a sustainable strategy for grantees that is agile in responding to changing needs and encourages innovation. Some organizations have a history of receiving legislative appropriations year after year, which can allow for more stability in service delivery. It also gives current pass-through organizations the ability to plan beyond the funding period. However, creating the expectation of permanent funding can also lessen the impact of the services being provided over time as needs shift elsewhere. To aid in that, block grant funds should be appropriated over a set number of years after which grantees would have to rebid with other organizations.

Due to the time and cost associated with administering an RFP process for both state program staff and the applicants, a three-year funding period should be used, consistent with grant management best practices. For a program to run effectively and achieve meaningful results, time is needed to get the managerial and organizational structure in place. A three-year timeline provides grantees with a period to first refine services and then focus on longer term outcomes. However, the funding time frame is also not so long that it shuts out competition from other potential providers. At the end of the three-year cycle, grantees would have to reapply through a new RFP process along with other service providers.

CONCLUSION

When managing a grant, best practices show that grant announcements should be broadly publicized with clear selection criteria, all applications should be reviewed using standardized scoring, contracts should contain well-defined language regarding expected outcomes, and monitoring during the grant period should be consistent. With most of the state and federal grant appropriations it manages, DEED already follows these practices. If the legislature were to fund economic development and workforce services through block grants rather than pass-through grants using direct appropriations, DEED would continue to apply these best practices to the new funding framework.

For a block grant initiative to be successful, however, some crucial elements must be in place. DEED, along with advocates and independent service providers, can provide input to aid in determining the goals for using public dollars and the populations to target, but the legislature is best suited to make the final decision. Once goals have been communicated by the legislature, DEED could select service providers that best fit the established criteria after an open and competitive bidding process. Administrative money would need to be set aside for program staff to run the RFP process and for equitable monitoring and program performance oversight to ensure public funds are being effectively used.

DEED should also have the authority to take corrective actions or repurpose the money when a grantee fails to meet its contractual obligations. Finally, rather than building in the expectation of permanent funding for providers, individual block grant awards would be limited to a period of three program years. This will allow the legislature to respond to changing workforce and economic development needs and also encourage innovation on the part of grantees because they would have to reapply for funding after the grant period ends.

²¹ 2010 Minnesota Statutes 116J.995.