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# **Minnesota State Competitiveness Fund Report**

Pursuant to Minnesota Statutes § 216C.391, subd. 7

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## REPORT PREPARED BY

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As requested by Minnesota Statutes § 3.197: This report cost approximately \$2,550 to prepare, including staff time, printing, and mailing expenses.

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## Minnesota Department of Commerce

### Mission

For more than 150 years, the Minnesota Department of Commerce and its predecessor agencies have served Minnesotans. Our mission is to protect and assist consumers, to ensure a strong, competitive, and fair marketplace, and to engage people and communities across the state.

### Our Strategic Priorities

- Protect the public interest through consumer protection, consumer education, assistance to consumers, safety, health and financial security, and lowering inequities.
- Serve as a trusted public resource for consumers and businesses by listening and learning from the Minnesotans Commerce services, being effective stewards of public resources, advocating for Minnesota consumers and developing a policy, programmatic, and regulatory environment that meets their needs.
- Reduce economic barriers within Commerce regulatory oversight and reduce disparities within those of all races, ethnicities, religions, economic statuses, gender identities, sexual orientations, (dis)abilities, and zip codes.
- Ensure all, especially historically disadvantaged Minnesotans, are resilient to Minnesota's climate and engaged in advancing efforts to mitigate climate change.
- Ensure a strong, competitive, and fair marketplace for Minnesotans.

For more about the Department of Commerce: [mn.gov/commerce](http://mn.gov/commerce).

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In accordance with requirements set forth in Minnesota Statutes § 216C.391, subd. 7, this report is provided to the Legislative Chairs and Ranking minority members of the legislative committees with jurisdiction over energy finance on Commerce’s activities in calendar year 2023.

## State Competitiveness Fund Background

Minnesota Statutes § 216C.391 established the [Minnesota State Competitiveness Fund](#) (SCF) with the purpose of increasing the success of Minnesota applicants in the pursuit of federal funds available through the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA) and in completion of funded projects. State funding was appropriated to provide grants for grant development assistance and to offset the cost-share requirements of federal funding programs, and to reduce the project costs for the Minnesota entities receiving federal grant funding. Funding was also provided to support Commerce’s Technical Assistance and Administration work, Reports and Audits, and Information Systems development related to the State Competitiveness Fund.<sup>1</sup>

Funding appropriated for each of the programs covered by the \$190M appropriation is displayed in the table below.

**Table 1: 2023 State Competitiveness Fund Legislative Appropriations**

Program	Legislative Bill, Article and Section SF3035 – Chapter 53, MN Laws HF1656 – Chapter 24, MN Laws	Funding Appropriated (FY24-25)
Match Program (Cost-Share Coverage)	HF 1656	\$ 100,000,000
Grants to leverage IRA Tax Credits and Loans (Income Qualified focus)	SF 3035, Article 21, Section 6 (c)	\$75,000,000
Support for Grant-seeking Assistance	HF 1656	\$6,000,000
Commerce Reports and Audits	HF 1656	\$750,000
Commerce Information Systems Development	HF 1656	\$1,500,000

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<sup>1</sup> Status updates about the State Competitiveness Fund are available at [mn.gov/commerce/energy](https://mn.gov/commerce/energy).

Commerce Administration and Technical Assistance	HF 1656	\$6,750,000
<b>Total</b>		<b>\$190,000,000</b>

Commerce has begun activities to ensure the legislatively appropriated funds are effectively and efficiently utilized.

## 2023 SCF Activities

### Matching Funds Program

The Matching Funds Program within the State Competitiveness fund was created to encourage applications for IJA and IRA grant funding to support energy projects in the state. At least \$75 million of the \$100 million SCF Matching Funds must go to awards of less than \$1 million and no funded entity may receive more than \$15 million in grants. The law also establishes priorities in awarding grants.

### Program Design

Commerce issued a Request for Proposals on October 26, 2023, from entities seeking cost-share coverage for eligible projects pursuing federal funding. It also published and has updated a list of available federal funding opportunities available on Commerce's [State Competitiveness Fund web page](#).

The RFP included two concurrent application rounds, a Quick Response round and a Standard Response round. Funds allocated to each application round were divided into the six statutory Prioritization Categories. **Note:** *\$5 million of the \$100 million appropriation was reserved for matching funds on Priority 1 projects, representing Commerce's required 15% match to the 40101d Grid Resilience Formula.*

- **Quick Response Round:** Open for applications 10.26.23 – 11.27.23. Applicants eligible for this round had already submitted federal grant proposals. This round was initially allocated \$70 million. Unallocated funds remaining at the close of the Quick Response Round were rolled into the Standard Response Application Round within the same Priority categories.
- **Standard Response Round:** Open for applications 10.26.23 – 1.15.24. Applicants eligible for this round had not yet submitted federal grant proposals by 11.27.23. At the end of the Standard Response Application Round, any funds remaining unreserved in a certain priority category will be redistributed for potential use in other priority categories with unfulfilled requests.

**Table 2: SCF Funding Allocations by Priority Category**

Priority Category	Entity Prioritization Order (according to Statute: Chapter 24, Sec. 2, Subd. 3)	Quick Response Round Allocation	Initial Standard Response Round Allocation	Total Initial Allocation	Share of Funding	Funds Reserved Under Quick Response Round	Standard Response Round* - Updated Funds Allocation
	<i>Funding allocated</i>	<i>\$75,000,000</i>	<i>\$25,000,000</i>	<i>\$100,000,000</i>	<i>100%</i>	<i>\$18,518,079</i>	<i>\$76,481,921</i>
1	Federal formula funds directed to the state that require a match;	\$5,000,000	\$-	\$5,000,000	5%	\$-	\$-
2	A political subdivision or a Tribal government, for eligible funding opportunities that require a match;	\$22,000,000	\$7,500,000	\$29,500,000	30%	\$4,793,080	\$24,706,920
3	An institution of higher education, a consumer-owned utility, a business, or a non-profit organization, for eligible funding opportunities that require a match;	\$19,000,000	\$6,000,000	\$25,000,000	25%	\$3,424,999	\$21,575,001
4	Investor-owned utilities, for funding opportunities that require a match;	\$14,000,000	\$5,000,000	\$19,000,000	19%	\$10,000,000	\$9,000,000
5	An eligible entity not included in clauses (1) to (4); for funding opportunities that require a match;	\$10,000,000	\$3,500,000	\$13,500,000	14%	-	\$13,500,000
6	Eligible entities for funding opportunities not requiring a match, but for which cost-share would enhance likelihood of grant receipt or to increase the potential amount of federal funds received.	\$5,000,000	\$3,000,000	\$8,000,000	8%	\$300,000	\$7,700,000

Applications were assessed according to the Application Assessment Guide, which reviewed applications for completeness and eligibility, including fund, project, location, entity, project attributes, and maximum statutory allowances. For any over-subscribed priority category, a point matrix was developed to allow additional adjustment of the individual funding reservations based on a comparison of projects' Justice40 impact, the timeliness of the funding opportunity, the expected start date of projects, the projects' support in meeting the State's clean energy and energy-related climate change goals, and the geographic location of projects.

## Quick Response Round

Ten applications were initially received under the Quick Response Round, totaling \$32.08 million. Funding eligibility stipulations or applicant-requested reductions adjusted the final amount requested under the Quick Response round to \$19,582,726. Funding reservations totaling \$18,518,079 were allocated to applicants in the Quick Response Round of the SCF Match Program. Table 3 provides information on applications received by priority category and reasons for non-eligibility determination or reduction to the funds allocated in the round.

**Table 3: Quick Response Round – Synopsis of Applications Received and Reservations**

Priority	Eligible Entities	App Count	Total Amount Requested	Total Amount Eligible	Total Reserved	Explanation regarding reductions: Eligibility factors or Applicant request
2	A political subdivision or a Tribal government, for eligible funding opportunities that require a match	3	\$5,857,727	\$4,793,080	\$4,793,080	Funding Reduced to align with legislatively set maximums.
3	An institution of higher education, a consumer-owned utility, a business, or a non-profit organization, for eligible funding opportunities that require a match	4	\$12,425,000	\$3,424,999	\$3,424,999	Originally submitted joint application withdrawn and resubmitted at a lower ask. Other joint applicants subsequently submitted applications under Standard Response Round.
4	Investor-owned utilities, for funding opportunities that require a match	1	\$10,000,000	\$10,000,000	\$10,000,000	
5	An eligible entity not included in clauses (1) to (4); for funding opportunities that require a match	-				
6	Eligible entities for funding opportunities not requiring a match, but for which cost-share would enhance likelihood of grant receipt or to increase the potential amount of federal funds received	2	\$3,800,000	\$300,000	\$300,000	One Application ineligible due to ineligibility of federal funding program.

<b>Totals</b>	<b>\$32,082,727</b>	<b>\$18,518,079</b>	<b>\$18,518,079</b>
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Table 4 below details the reservation allocation awards made during the Quick Response round.

**Table 4: Quick Response Round Reservations**

	<b>Awardee</b>	<b>SCF Match Program Reserved Funds</b>	<b>Project Purpose</b>
1	ALLETE Inc.	\$10,000,000	Increase transmission capacity for additional renewable energy.
2	City of Windom, on behalf of the Cities of Windom and Blue Earth	\$4,523,985	Grid resiliency and clean energy integration.
3	Native Sun	\$1,875,000	Green EV infrastructure.
4	One Earth Renewables LLC on behalf of Elbow Lake Cooperative	\$999,999	Support MN agriculture cooperative participation in Heartland Hydrogen Hub.
5	Heliene USA Inc	\$500,000	Support for MN-made innovative agri-voltaic solar panels.
6	Center for Energy and Environment	\$300,000	Increase building energy efficiency via commercial building codes.
7	Region Five Development Commission, on behalf of Cass Lake- Bena School District	\$240,000	Increase energy efficiency of buildings on Tribal Lands.
8	The Cooperative Light and Power Association of Lake County	\$50,000	Grid resilience and reliability.
9	Lower Sioux Indian Community	\$29,095	Grid reliance and reliability upgrades.
<b>Total    \$18,518,079</b>			



## **Standard Response Round**

The Standard Response application round was launched on October 26, 2023 and closed on January 15, 2024. Information regarding the number of applications received and funds reserved should be finalized by March 2024.

## **Grants to Leverage IRA Tax Credits and Loans**

The State Competitiveness Fund includes \$75M to “award grants that are additive to federal tax credits received by an eligible entity to further reduce the cost of the technologies and activities eligible for such federal tax credits in disadvantaged communities.” The SCF will fully launch the program phase encouraging the use of other federal funding mechanisms in the IRA in 2024 in order to help Minnesota meet these additional emerging and longer-term federal opportunities.

## **Local Grant Development Assistance**

The Local Development Grant Assistance program was established to increase the competitiveness of entities across Minnesota in accessing federal funding by providing grant development assistance. Commerce issued a competitive grant funding opportunity for local grant development assistance on September 18, 2023. Twenty-five applicants were selected and will be announced once award contracts have been fully executed. Grant recipients include a range of entities including Tribal nations, regional development commissions, utilities associations, consumer-owned utilities, consultants, and nongovernmental organizations.

## **Reports and Audits**

This is the first report submitted under Minnesota Statutes § 216C.391, subdivision 7. Because the SCF program is so newly established and no grants have yet been administered, an independent financial audit is not yet possible. However, Commerce will submit an independent financial audit with its 2024 Legislative Report.

## **Information System Development**

SCF information system development is focused on technology and systems modernization to equip Minnesotans with clear, actionable information about potential federal opportunities, as well as documenting Minnesota successes in pursuing federal funds. This one-stop web platform will visualize key data and projects throughout the State. The website will also connect energy partners and communities via portal access to data in readily accessible formats and contextualize the data with insights and connections to other initiatives. While Commerce is developing this information system, it continues to connect with Minnesotans via its bi-weekly newsletters, existing web platforms, and robust outreach and engagement.

## **Technical Assistance and Administration**

Commerce conducted tribal consultation, working group sessions, and stakeholder sessions to identify areas for technical assistance and interest in federal grants. Two key themes emerged: 1) identifying, pursuing, and

securing opportunities - essentially the extensive logistics components of applying for funds; and 2) the need for topical and technical expertise to advise and support potential applicants.

To support these needs, Commerce deployed resources to share timely federal funding opportunity outreach and to provide support directly to potential grantees, including providing announcements through a robust email newsletter that provides updates to over 25,000 recipients at a minimum every two weeks and creating a new email account: [fedquestions.commerce@state.mn.us](mailto:fedquestions.commerce@state.mn.us) to support direct inquiries, and increased information on the [mn.gov/commerce](https://mn.gov/commerce) website, among other things.

## Utilized and Unreserved Funds

### Matching Funds Program

Total Reserved funds after the Quick Response Round = \$23,518,079

- Quick Response Round total funds reserved = \$18,518,079, for nine Minnesota entities/projects.
- Priority Category 1 reservation = \$5,000,000 for Commerce use on 40101d Grid Resilience Formula grants

Unreserved Funds Account Balance available for Standard Response Round: = \$76,481,921.

At the end of the Quick Response Application Round, funds not reserved were carried forward into the Standard Response Application Round, as shown in Table 5 below. Any funds remaining unreserved within a given priority category within the Standard Response Application Round will be re-distributed for potential use in other priority categories with unfulfilled requests.

**Table 5: Funds reserved Quick Response Round and Funds available for Standard Response round, as of 1/8/2024**

Priority Category	Entity Prioritization Order (according to Statute: Chapter 24, Sec. 2, Subd. 3)	Funds Reserved Under Quick Response Round	Standard Response Round* - Updated Funds Allocation
	<i>Funding allocated</i>	<b>\$18,518,079</b>	<b>\$76,481,921</b>
<b>1</b>	Federal formula funds directed to the state that require a match;	\$-	\$-
<b>2</b>	A political subdivision or a Tribal government, for eligible funding opportunities that require a match;	<b>\$4,793,080</b>	<b>\$24,706,920</b>
<b>3</b>	An institution of higher education, a consumer-owned utility, a business, or a non-profit organization, for eligible funding opportunities that require a match;	<b>\$3,424,999</b>	<b>\$21,575,001</b>

4	Investor-owned utilities, for funding opportunities that require a match;	\$10,000,000	\$9,000,000
5	An eligible entity not included in clauses (1) to (4); for funding opportunities that require a match;	-	\$13,500,000
6	Eligible entities for funding opportunities not requiring a match, but for which cost-share would enhance likelihood of grant receipt or to increase the potential amount of federal funds received.	\$300,000	\$7,700,000

*\*\$72,880,906 will be designated for awards of < \$1million*

The Match Program statute requires at least \$75 million of the Match Program funding must be awarded in grants of < \$1 million.

- ~ Quick Response Round had two grants funded at \$1 million or more, for a total of \$16,398,985.
- ~ In the Standard Response application round, a **maximum** of \$3,601,015 will be available for grants of \$1 million or more.

## Commerce Technical Assistance and Administration

Total personnel charges as of December 2023 were \$142,000. Agency indirect costs were \$9,000. Additional expenses include printing charges of \$110, travel costs of \$1,850, and staff training costs of \$750.

## Recommendations for Enhancement

### Matching Funds Program

Pursuant to the reporting requirements, Commerce recommends the following amendments to the legislation to enhance the ability of eligible entities to successfully compete for federal funds:

- 1) Add federal grant programs funded by other federal law in addition to the IJIA and IRA as eligible for SCF Match Programs.

#### Reasoning

- Reserved funds that may become available later due to the failure of a grant proposal could provide important work in leveraging federal funds if the current requirements were relaxed to include programs funded by other existing federal laws, such as the Energy Act of 2020 and the Energy Policy Act of 2005 which includes the Tribal Energy Development and Self Determination Act of 2005.
- The Department of Energy and the Environmental Protection Agency are also using prize and challenge competitions to applicants with smaller cash incentives for assistance in project scoping, planning and development, technical assistance, and grant proposal planning and development. These programs are not grants or cooperative agreements and are generally less than \$500,000,

most often less than \$100,000. Adding an authority to the SCF Match Program to allow prize and challenge competition winners to receive state funded match dollars will support and incentivize the further development of clean energy, decarbonization and climate-related projects.

- 2) Replace the term “state money” in the definition of “Match” provided in the SCF statute with “non-federal money.” Minn. Stat. § 216C.391, subd. 1(g):

*“Match” means the amount of state money a successful grantee in Minnesota is required to contribute to a project as a condition of receiving federal funds.*

**Reasoning:**

- Federal funding grant programs with cost-share requirements generally allow cost-share funding to be from any **non-federal** sources. Match funds don’t need to be explicitly state funds.
- 3) If additional appropriations are provided, additional modifications to consider include:
- Providing an appropriation of funding for Tribal Nations separate from the appropriation of funds for all other entity types given in the Priority Categories
  - Funding Commerce’s cost-share needs with a separate Named Appropriation of funds to Commerce in order to allow for competitive, non-required match, that would enhance applications.