



Request for Council Action

TO: Mayor and City Council
THROUGH: Tim Murray, City Administrator
FROM: Deanna Kuennen, Com and Econ Dev Director
MEETING DATE: March 12, 2019
SUBJECT: Authorize Sending Letter of Support for the
Establishment of the Venture SE MN
Diversification Loan Fund (HF 994/SF 1825)

Background:

As an outcome of the SE MN Economic Impact Study that was completed last fall, a bill is being proposed to create and fund the Venture SE MN Diversification Loan Fund (HF 994/SF 1825). Venture SE MN Diversification Loan Fund is a new economic development revolving loan program that supports and encourages a wide variety of business activity including agricultural business, manufacturing, technology, health care related businesses, main street commercial district improvements, and others. Eligible borrowers must be located within Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, **Rice**, Steele, Wabasha, and Winona counties. The bill (SF1825), whose authors include Senator Miller, Jasinski, Sparks, Goggin, and Draheim – and (HF 994) Senators Davids, Bennett, Haley, Petersburg, and Sauke – seeks the appropriations of \$25 million in fiscal year 2020 as a one-time appropriation.

Communities located within the area that this program will benefit, are being asked to support the bill by sending signed letters of support. The bill has had its first reading in both the House and Senate.

Recommendation:

Authorize the Mayor to sign, on behalf of the City Council of the City of Faribault, the attached letter of support for the establishment and funding for the Venture SE MN Diversification Loan Fund (HF 994/SF 1825)

Attachments:

- Letter of Support
- HF 994 – Current Version



March 12, 2019

Dear Legislators:

The City of Faribault fully supports the establishment of the regional revolving loan fund called the Venture SE MN Diversification Loan Fund or SE DLF (HF 994/[SF 1825](#)).

This fund will address the economic development needs of communities in SE MN through the initiatives identified within the SE MN Regional Economic Impact Study funded during the 2017 legislative session and completed and shared with the public in 2018.

If passed, this bill would provide funding and investment tools for businesses, as well as funding for community initiatives that local EDAs and political subdivisions currently do not have the resources to support. These tools can target the numerous issues and opportunities cited in the SE MN Regional Impact Study, and do it despite the absence of a Regional Development Commission (RDC) which other parts of the state have.

The SE DLF bill provides flexibility for the various needs of the communities in southeast Minnesota, with permitted uses including but not limited to: housing, childcare, agriculture, manufacturing, technology, health care, business startup and/or expansion, and community improvement/infrastructure projects. Greater economic diversification in these communities brings housing for families, young adults, and downsizing seniors. It creates opportunities for working moms and dads to have the childcare they need. It helps create the communities and region that will attract the workforce our employers need, and makes it a suitable pilot project for other regions within the state.

The initial investment of \$25 million in this revolving loan fund would offer communities across eleven counties, and thus the entire southeast Minnesota region, a future of continued economic diversification by establishing an evergreen fund as loans are repaid. During the next 20 years, as much as \$200 million of new investment within southeast Minnesota will be captured due to the Southeast DLF, and a strong economy in southeast Minnesota is good for all of Minnesota.

The City of Faribault offers our full support for this important funding request. These funds would assist with continued growth and vitality of our southeast Minnesota communities and businesses, and we ask that you please fund the SE DLF bill (HF 994/[SF 1825](#)).

Thank you for your consideration.

Respectfully,

Mayor Kevin F. Voracek – on behalf of the City Council for the City of Faribault, MN

1.1 A bill for an act
1.2 relating to economic development; creating the Venture SE Minnesota
1.3 Diversification revolving loan program; appropriating money.
1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. **PURPOSE.**

1.6 The purpose of this act is to implement resources to further the economic development
1.7 initiatives identified within the findings of the economic impact study and analysis of the
1.8 effects of current projected economic growth in southeast Minnesota funded and completed
1.9 pursuant to Laws 2017, chapter 94, article 1, section 2.

1.10 Sec. 2. **VENTURE SE MINNESOTA DIVERSIFICATION LOAN FUND.**

1.11 Subdivision 1. Establishment; revolving loan fund. The commissioner of employment
1.12 and economic development must establish a Venture SE Minnesota Diversification revolving
1.13 loan program to provide loans to eligible borrowers. The commissioner shall collaborate
1.14 with Journey to Growth, who shall serve as the loan administrator under this section.

1.15 Subd. 2. Eligible borrower. (a) To receive a loan under this section, the borrower must
1.16 be a sole proprietorship, partnership, corporation, or a political subdivision of the state that
1.17 engages in or is borrowing in support of one of the following industries:

1.18 (1) agriculture, including farms that produce or supply inputs into value-added products
1.19 produced within the state of Minnesota;

1.20 (2) manufacturers or suppliers to manufacturers that produce durable and non durable
1.21 goods, the majority of which result in sales to customers located outside the state;

2.1 (3) technology businesses, the majority of which services or products sell primarily to
2.2 customers located outside the state;

2.3 (4) health care related businesses, the majority of which services or products sell primarily
2.4 to customers located outside the state;

2.5 (5) businesses that provide for the transportation of people within the area served by
2.6 this program;

2.7 (6) child care facilities;

2.8 (7) residential development projects; and

2.9 (8) political subdivisions of the state in support of:

2.10 (i) redevelopment projects;

2.11 (ii) main street commercial district improvements;

2.12 (iii) local business infrastructure expansions and improvements; or

2.13 (iv) transportation infrastructure.

2.14 (b) An eligible borrower under this section must maintain the eligible industry type
2.15 under this paragraph throughout the term of the loan.

2.16 (c) An eligible borrower must be located within the counties of Dodge, Fillmore,
2.17 Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona, but
2.18 not within the city of Rochester, nor is a business eligible if it is relocating from elsewhere
2.19 in the state of Minnesota without consent from the local municipality from which it is
2.20 relocating.

2.21 Subd. 3. Use of loan proceeds. (a) Loan proceeds must be used for the purposes described
2.22 in this subdivision.

2.23 (b) Loan proceeds may be used for the purchase of equipment and construction of or
2.24 improvement to facilities that improve energy efficiency or competitiveness of overall
2.25 business operations. Eligible borrowers seeking loans for this purpose must document in
2.26 the loan application how the project completion increases the competitiveness or energy
2.27 efficiency of the business.

2.28 (c) Loan proceeds may be used to assist financing of income-qualified housing projects
2.29 meaning:

2.30 (1) for owner-occupied residential property, 95 percent of the housing units must be
2.31 initially purchased and occupied by individuals whose family income is less than or equal
3.1 to the income requirements for qualified mortgage bond projects under section 143(f) of
3.2 the Internal Revenue Code; and

3.3 (2) for residential property, the property must satisfy the income requirements for a
3.4 qualified residential rental project as defined in section 142(d) of the Internal Revenue Code,
3.5 for the life of the loan.

3.6 (d) Loan proceeds may include homeowner remodeling projects that add licensed in-home
3.7 child care centers. Loans to licensed in-home child care centers need not be income qualified.

3.8 (e) Loan proceeds may be used for public infrastructure.

3.9 Subd. 4. Loan terms. (a) The maximum term of a loan made under this section must
3.10 not exceed ten years. The loan administrator must set an interest rate that is not more than
3.11 one point above the prime rate as published in the Wall Street Journal on the date of

3.12 application depending on credit review except that interest rates for political subdivisions
3.13 of the state may be negotiated on a case by case basis and may not exceed one point less
3.14 than the prime rate as published in the Wall Street Journal on the date of application. The
3.15 loan administrator may charge a onetime fee of up to 0.5 percent of the amount loaned for
3.16 administrative services. This fee may be deducted from the loan proceeds.
3.17 (b) The loan amount may be the lesser of 25 percent of the total project costs or \$500,000
3.18 per project. The borrower or participating financial institution must provide the balance of
3.19 funds needed to fully fund the proposed project. The fund administrator may subordinate
3.20 all or a portion of its position to other financial institutions who provide project funding.
3.21 Subd. 5. **Fund administration; report.** (a) The loan administrator shall establish and
3.22 administer a revolving loan fund that contains any appropriation for the purposes of this
3.23 section, interest, fees, and loan proceeds. The loan administrator shall form a loan approval
3.24 Committee, or partner with another nonprofit development organization's loan approval
3.25 committees that already exist in the designated counties, comprised of individuals experienced
3.26 in economic development projects and that are representative of the areas served by the
3.27 loan fund to review and approve loans made under this section. The loan administrator may
3.28 contract with another nonprofit development organization. The loan administrator committee
3.29 shall develop a loan application form and provide the application along with application
3.30 procedures and deadlines to the commissioner of employment and economic development
3.31 who shall publish the same on the department's website.
3.32 (b) The loan administrator may use up to \$500,000 of program income annually generated
3.33 from interest and fees to offset any administrative costs.
4.1 (c) The loan administrator may invest all income over expenses in businesses eligible
4.2 under subdivision 2 to develop regional apprenticeship, internship, and mentorship programs.
4.3 (d) By January 15, 2020, and annually thereafter, the loan administrator must report to
4.4 the commissioner of employment and economic development and legislative committees
4.5 with jurisdiction over economic development on all uses of funds under this section, including
4.6 but not limited to current balance of funds, loan activity, status of all loans made, and costs
4.7 associated with administering the program.
4.8 (e) Beginning August 1, 2020, the commissioner of employment and economic
4.9 development shall certify the loan administrators annual budget before the expenditure of
4.10 any funds and shall provide the legislative committees with jurisdiction over economic
4.11 development a copy of the certification. The program is subject to audit by the legislative
4.12 auditor.

4.13 Sec. 3. **APPROPRIATION.**
4.14 \$25,000,000 in fiscal year 2020 is appropriated from the general fund to the commissioner
4.15 of employment and economic development for the Venture SE Minnesota Diversification
4.16 loan fund in section 2. This is a onetime appropriation and is available until expended.