
State Agency Needs Clearer Direction on Awarding Grants and Loans to Businesses

SUMMARY

According to a study released by the Legislative Auditor's Office, the Department of Trade and Economic Development (DTED) needs clearer direction from the Legislature on which types of businesses should receive assistance from the state's primary grant and loan program for job creation. The 1995 Legislature requested the study after reports of businesses being considered for financial assistance for expansions that the businesses could have financed without state help.

The study focused on the Economic Recovery Grant program and the similar federally-funded Small Cities Community Development Block Grant program, collectively called the Economic Recovery Fund. Legislation passed in 1995 can be interpreted to restrict Economic Recovery Grant financing to businesses that are unable to finance expansions, relocations, or startups internally or through private financial markets.

However, DTED has interpreted the law more liberally, sometimes using the fund to provide incentives to businesses that could have financed projects without public assistance. The report recommends that this discrepancy be eliminated through legislation that makes the intended use of the Economic Recovery Grant program clearer.

Program Evaluation Report:
**State Grant and Loan Programs
for Businesses**
February 14, 1996

Key Findings:

- Businesses assisted by the Economic Recovery Fund in FY 1991 through 1995 created over 8,300 jobs, paying an average wage of \$8.64 and a median wage of \$7.20.
- Most jobs created offered employee benefits.
- The Economic Recovery Fund has been used to assist some businesses that could have financed their projects without state help.

Recommendations:

- The Legislature should clarify the intended use of the Economic Recovery Grant program.
- In awarding future grants and loans, DTED should give preference to businesses promising higher level wages.

For copies of the full report, call 612/296-4708.

The study found that businesses assisted by the Economic Recovery Fund through financial awards distributed in fiscal years 1991 through 1995 created over 8,300 jobs. About 4/5 of the projects met or exceeded their job goals, and most of the jobs created provided employee benefits.

On average, the jobs created by businesses receiving assistance paid \$8.64 per hour, but the median wage was only \$7.20 per hour and some of the jobs were not permanent. Wage levels have increased somewhat recently, though some of the increase is likely due to inflation.

Federal rules specify that the federal program must benefit low- and moderate-income individuals, and DTED has adopted this focus for the state program, interpreting it to mean that jobs created cannot require specialized job training beyond that provided by the employer. The report recommends removing the income requirement from state funds to allow financing projects that will create high-skill, high-wage jobs and modifying DTED's scoring process in order to give preference to higher wage jobs.

Other loan programs examined in the report include local revolving loan funds, the Small Business Development Loan program, the Rural Challenge Grant program, and the

Capital Access program. The Capital Access program, which works through banks, is very popular among bankers that offer the program, but only 6 percent of banks do. The report recommends that DTED study why more banks do not use the program.

Copies of the report, entitled *State Grant and Loan Programs for Businesses*, may be obtained from the Office of the Legislative Auditor. The executive summary may be found on the World Wide Web at <http://www.auditor.leg.state.mn.us/econ-dev.htm>. For more information, call Tom Walstrom or Roger Brooks at 612/296-4708.



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