

# Minnesota Investment Fund

Update to 2018 Evaluation Report

January 2019

## Problems Identified

- **Unclear Impact.** The Minnesota Investment Fund (MIF) provides funding to help businesses create jobs and increase investment in Minnesota. However, for many awards we examined, there was little or no convincing evidence that the businesses actually needed state assistance. Providing funding to businesses that would have expanded anyway is a poor use of public funds.
- **Unnecessary Program Complexity.** MIF is administered through an indirect process in which the Department of Employment and Economic Development (DEED) makes grants to local governments, which then make loans to businesses. Local governments and the state share the loan repayments, but local governments have made little productive use of these funds.
- **Lack of Transparency.** For each successful applicant, DEED decides (1) how large a loan to provide and (2) whether to forgive the loan, allowing the business to keep the money. DEED made these decisions using unclear and inconsistent criteria. In recent years, DEED has made most awards forgivable or partly forgivable.
- **Weak Administrative Procedures.** DEED's public reports on program outcomes were incomplete and sometimes inaccurate. DEED allowed some businesses to meet their hiring or investment commitments by counting actions that had occurred before they entered the MIF program. DEED did not require many businesses to pay workers the wages proposed in their MIF applications.
- **Ambiguous Law.** A statutory requirement that businesses receiving MIF assistance pay their workers at least a minimum amount is unclearly worded and could be interpreted in multiple ways.

## Changes Implemented

- **Scoring Process Adjusted.** DEED now explicitly evaluates why MIF funding is needed and the proposed size of the funding award during its application review process. Awards that are larger than existing guidelines or that involve loan forgiveness will require additional justification.
- **Administrative Procedures Tightened.** DEED has made several administrative changes to improve its public reporting, documentation, and recordkeeping.

## Action Needed

- **Restructure Program.** The Legislature should reexamine the indirect, two-step process that requires local governments to serve as the lenders. DEED could administer the program directly, possibly with some monitoring assistance from local governments.
- **Constrain DEED's Discretion.** Although DEED has made some administrative changes, state law still gives DEED wide latitude to award money to businesses without many constraints. The Legislature should consider whether it wishes to set additional statutory limits on participation, funding amounts, or forgiveness.
- **Adjust Compensation Requirement.** The Legislature should clarify the statutory requirement regarding the minimum amount that MIF businesses must pay their employees.