

April 7, 2017

The Honorable Pat Garofalo
Chair, House Job Growth and Energy Affordability Committee
485 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, Minnesota 55155

Dear Representative Garofalo:

On behalf of the Minnesota Department of Employment and Economic Development (DEED), I am writing to provide feedback on the House version of the Omnibus Jobs Bill heading into conference committee.

I appreciate the challenge of crafting a legislative budget, especially when faced with a difficult target. The House bill, however, inadequately funds DEED programs and includes harmful policy that will limit workforce and economic development opportunities throughout Minnesota. Governor Dayton and Lt. Governor Smith proposed an opportunity budget focused on protecting Minnesota's financial future while supporting a strong economy for everyone in our state. It is my hope that we can work together to pass a bill that reflects those priorities. Though not an exhaustive list, below you will find areas of concerns that are in the bill.

Economic Development

Inadequate Funding for Border-to-Border Broadband

From attracting and retaining businesses and talent to improving student success, robust, high-quality broadband is leveling the playing field and driving economic development in communities throughout Greater Minnesota. That is why the Governor recommended \$60 million in FY18-19 for the Border-to-Border Broadband Development grant program in efforts to expand access to at least 23,000 households and businesses in Greater Minnesota.

I am concerned that the \$7 million proposed in the House bill will not keep pace with identified needs and will leave Greater Minnesota without access to broadband development. This bill also eliminates funding for the Office of Broadband Development's (OBD) staffing and statutory mapping requirements. OBD's current staffing level is crucial to maintaining its ability to provide technical assistance to communities designing broadband projects and to providers looking to expand their broadband networks. If funding for the office is eliminated, the agency would not have the capacity to administer future grant awards, measure progress toward the State's goals, and monitor the \$66 million in existing grants awards.

I urge you to increase funding for broadband grants to meet the Governor's level, which will expand broadband access meeting the state standards set out in law. I also encourage you to continue supporting base funding for the Office of Broadband Development, which will ensure that DEED has the necessary staff to administer the program and keep our Minnesota on track to meet our broadband goals.

Inadequate Funding for the Minnesota Investment Fund and Job Creation Fund

Competition for attracting and retaining companies and high quality jobs is fierce. When site location attributes and assets are similar, stable economic development incentives often play a key role in influencing a company's final location decision.

The Minnesota Investment Fund (MIF) and the Job Creation Fund (JCF) provide Minnesota with modest, yet accountable and effective tools to craft incentive packages based on differing business financial needs. Since 2014, MIF and JCF have invested over \$70 million in business expansions, helped to create or retain over 10,600 jobs, and led to \$1.96 billion in private investment throughout Minnesota. Fully funding these programs at the Governor's recommended levels, \$30 million in FY18-19 for MIF and \$25 million in FY18-19 for JCF, is critical to the future economic growth of communities throughout the state.

The House bill falls short of replenishing the cuts from last session, only increasing MIF funding by \$1 million in FY18 and cutting JCF by \$3 million in FY18-19. I strongly encourage you to fund the programs to Governor's recommended levels. I also urge you to include the Governor's policy recommendations for these programs, which will make them more accessible to businesses in Greater Minnesota, as well as businesses owned by people of color, veterans, women, and people with disabilities.

Detrimental Policy Changes to the Minnesota Investment Fund and Job Creation Fund

The Minnesota Investment Fund (MIF) is intended to spur economic growth of communities throughout the state. I share your goal of greater flexibility in the use these funds. I do not, however, support the recommendation in the House bill that allows communities to use their MIF loan repayments for purposes not related to economic development. I fully support the Governor's proposed change to allow local governments to use MIF revolving loan funds for such industries as retail development and related activities like economic development planning, in addition to the current allowable uses under law. I encourage you to follow the Governor's policy recommendations for repayment funding.

I appreciate that the House recognized language limiting JCF resources to only certain areas of the state would have had a negative impact on business expansions statewide. This restriction would have eliminated DEED's ability to invest in impactful projects, which benefit neighboring communities and often have a regional significance. This is not the intent of JCF. Thank you for taking this provision out of the House bill.

Harmful Limitations on Expending Resources

The House bill includes language limiting the amount of time DEED is able to expend funds until June 30, 2021 for three key economic development programs: MIF, Minnesota Job Skills Partnership grants, and Contamination Site Cleanup program. Historically, funds for these programs have been available until expended. This is because these programs require flexibility to finalize agreements with local governments, companies, and educational institutions.

With MIF, DEED enters into contracts lasting up to ten years in order for companies to repay MIF loans within their desired timeline. Minnesota Job Skills Partnership grants last up to three years, so a contract executed in the last year of the next biennium would extend beyond the 2021 deadline. Finally, the Contaminated Site Cleanup program awards grants twice each year, in coordination with the construction season. Without having funds available until spent, DEED would be unlikely to offer the second grant cycle because of the timing restrictions. I urge you to remove this restriction on these funds and instead make the appropriations available until expended.

Inadequate Funding for the Minnesota Trade Office

The House bill cuts funding to the Minnesota Trade Office (MTO) by 23 percent, seriously impacting MTO's ability to assist Minnesota specifically small and medium sized companies with exporting their products and services abroad and connecting foreign companies with investment opportunities in Minnesota. The bill also eliminates funding to promote

the state at domestic and global trade shows. The bill also eliminates MTO's three trade offices which are located in strategic international markets. For the first time in 13 years, Minnesota would have no foreign offices, which would greatly impact the State's presence in the global market.

I strongly urge you to fully fund the Minnesota Trade Office and ensure that Minnesota businesses continue to have access to the global marketplace.

Lack of Funding for the Angel Tax Credit

The House fails to fund the Governor's recommended \$10 million in FY18 to extend the Angel Tax Credit program in tax year 2018. This program is one of DEED's primary economic development tools to support early stage, high-tech businesses, and it promotes innovation in our state. The Angel Tax Credit program has resulted in over \$350 million in private investment in Minnesota startups, leveraged by the state's issuance of \$84 million in tax credits to angel investors. I encourage you to continue this program at DEED at the Governor's recommended level, preferably in the Tax bill. Without additional funding, this program will sunset at the end of this year.

Workforce Development

Inadequate Funding for Vocational Rehabilitation Services

The House bill fails to fund the Governor's recommended \$7 million increase for the Vocational Rehabilitation Services (VRS) program. Without this increase, VRS will be forced to close Category 1, which serves Minnesotans with the most severe disabilities. All new clients, an estimated 5,800 Minnesotans per year, would be placed on an indefinite waiting list this fall.

The gap between the unemployment rate of those with and without disabilities is substantial. According to the most recent data, the unemployment rate for Minnesotans with disabilities was 9.6 percent while the state's overall rate was 3.8 percent. The VRS program is DEED's most effective strategy to increase competitive, integrated employment for individuals living with disabilities. The program empowers Minnesotans with disabilities to find and keep jobs by providing services such as counseling, job training, and job placement.

DEED believes in working to ensure that Minnesotans with disabilities have the opportunity to live more independently, to engage in productive employment, and to participate in community life. It is critical that you fund the Governor's full recommendation to ensure that Minnesotans with disabilities are not left on the economic sidelines.

2016 Equity Investments

Minnesota has one of the largest economic disparities in the country. If the state intends to succeed, it must close the gap. I am encouraged that we agree that the Pathways to Prosperity program is one of our top strategies to connect Minnesotans, specifically those experiencing barriers to employment, with the education and training they need to enter high-growth, high-demand careers that offer family-sustaining wages. I thank the House for the additional funding and appreciate your work to streamline the program's funding sources.

The equity investments (direct appropriations and competitive grants) created in the 2016 session are also important components to our strategy to address economic disparities in our communities, specifically for people of color, veterans, youth, women, and people with disabilities. The House bill eliminates appropriations for these programs which, benefit specific target populations and allows DEED to use the Pathways to Prosperity appropriation for the equity competitive grants. That is not the intent of the Pathways to Prosperity program. I strongly encourage you to

restore dedicated funding for the equity investments and remove the language from the Pathways to Prosperity program.

Competitive Grant Limitations

The House bill includes a broad prohibition against organizations receiving direct appropriations from being eligible to participate in competitive grant programs, either directly or by receiving funds from a third party. DEED is concerned this language would prohibit organizations working on substantially different issues, such as economic development and job training from accessing funding to support the whole of their work. This prohibition could potentially exclude service providers that have diversified their portfolios to match community needs. I encourage you to remove this language or refine it to ensure that these organizations can continue to access needed funding.

Agency Operations

Operating Funding Adjustment

The House bill fails to allocate the Governor's recommended operating budget adjustment of \$2.01 million in FY18-19 and \$2.532 million in FY20-21, which includes resources necessary to pay for increased compensation, health care, and operation costs that grow every year. This cost growth puts pressure on DEED's operating budget, which remains flat from year to year.

Interfering with Executive Branch Duties

The House bill caps full time employee counts by division and program, and reduces the number of deputies from four to one. These caps are arbitrary, void of any strategic purpose, and could impact the quality and timeliness of DEED services. The agency must adjust staffing and service levels to meet the needs of the economy. Under this bill, DEED would be unable to respond to an increased demand for services as the economy changes. A commissioner should have the authority to determine the appropriate organizational structure and staffing levels to carry out the work of the agency.

Additionally, the bill contains language that limits transfers between agencies and between departments at DEED. For example, this would prohibit DEED from appropriating funds mandated by law to the Department of Labor and Industry for the PIPELINE project, apprenticeship programs, and Helmets to Hardhats. The bill would also prohibit DEED from entering into interagency contracts with agencies that provide workforce development services to clients, such as Department of Corrections, Human Services, Transportation, and the Metropolitan Council. These partnerships allow for leveraging of services and the expertise of existing staff, which is cost effective and more efficient for clients. This language is unnecessary and hinders efficiency within state government. I strongly encourage you to remove it.

Labor Market Information

The House bill cuts funding to DEED's Labor Market Information Office (LMI), limiting DEED's ability to develop and maintain several online data products such as the Cost of Living Calculator, Career Profiles, and Graduate Employment Outcomes. This is an important resource that helps DEED customers, workers, students and their parents explore education opportunities and research career pathways. It also helps businesses better understand employment demographics, competitive wages, and economic trends. On behalf of Minnesota students, workers, and businesses I urge you to fully fund LMI.

As the work of this session continues, I hope that we can work together to improve this bill in order to ensure DEED is able to carry out its essential work in service to the people of Minnesota. I thank you for your consideration of this feedback. Please do not hesitate to contact me, Allison Jones (allison.jones@state.mn.us), or Darielle Dannen (darielle.dannen@state.mn.us) with any questions.

Regards,



Shawntera Hardy
Commissioner

CC:
Representative Tim Mahoney
Senator Jeremy Miller
Senator Bobby Joe Champion
Members of the Omnibus Jobs Bill Conference Committee