

Working Capital Loan Fund Program

Request: A one-time appropriation of \$1.5 million from the General Fund to the Working Capital Loan Fund to promote economic equity and reduce disparities in contracting.



Background:

MnDOT's Working Capital Loan Fund (WCLF) is authorized by Minnesota Statutes 161.3212. In the past, the WCLF was administered by a third-party organization where applicants could apply for short-term loans for specific projects. Currently there is \$240,000 in trunk highway funds and \$173,000 in federal funds available for the program; for a total of \$413,000. MnDOT intends to seek a third-party organization to administer the program in the future. Participation in the program has declined due to restrictive lending criteria and low borrowing limits resulting in an ineffective program that does not meet the intended needs for small businesses. MnDOT seeks an appropriation to increase this funding to reduce disparities in contracting and increase access to economic opportunities.

Eligibility:

The Working Capital Loan Fund is open to a broad range of eligible individuals, and firms certified or eligible for certification as a Disadvantaged Business Enterprise (DBE) or a Targeted Group Business (TGB) firm. To be considered eligible for funds, the individual must be:

- Socially and Economically Disadvantaged; and
- Own a Small Business (as defined by the Small Business Administration); and
- Seeking contracts from a government agency for goods, services, or a construction contract.

Historical Use of the Funds:

The WCLF was active from 2010-2015 when the program was administered by the Metropolitan Economic Development Association (MEDA).

- 64 Loans were made to different types of eligible businesses. Examples are:
 - General Construction Firms
 - Landscaping Firms
 - Consultant Firms
- Loan amounts varied, capped at \$60,000
 - Loans ranged from \$3,000 to \$60,000
 - Most loans were for \$25,000
- Loans were utilized by women and minority owned businesses on a variety of projects

- Federal and Trunk Highway projects
- Projects were located throughout the state
- Loans were issued primarily for working capital
- Loans were traditionally repaid with one default of \$45,000 in 2015

Challenges with the previous WCLF Program¹:

- Lending amounts were capped at \$60,000 in practice
 - This limited the use of the loans to working capital for a single project
- Funds were dedicated to Trunk Highway and Federally eligible projects
 - Loan eligibility required the existence of an active subcontract on a Trunk Highway or Federally eligible project

WCLF Program Benefits from General Fund appropriation:

- More flexibility with lending amounts
- Eligibility would not be limited based on the projects source of funding
- Firms could access funding for a broader variety of business needs, such as:
 - Funding for materials
 - Payroll and benefit expenses
 - Purchasing or leasing equipment
 - Mobilization costs
 - Working Capital
- Allows MnDOT to use the statutory authority to offer financing to eligible businesses in an expanded manner

Benefits to the State of Minnesota:

- Increases opportunities for qualified small business' growth and development
- Increases opportunities for participation of certified small businesses on MnDOT projects
- Grows the pool of capable subcontractors to work on MnDOT projects
- Reduces employment and workforce disparities
- Funds loans to businesses owned by disadvantaged groups
- Combats structural racism by providing an alternative avenue for financing eligible business

Connecting to Equity in Contracting Statewide:

MnDOT will seek input from other entities/agencies with expertise in this program area to balance the growth in the participation with the inherent risks of administering the loan program.

For More Information:

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¹ Based on “MnDOT DBE and OJT Program Needs Assessment” prepared by [The Improve Group](#), December 16, 2015. The IMPROVE group recommended increasing the WCLF as part of their findings.