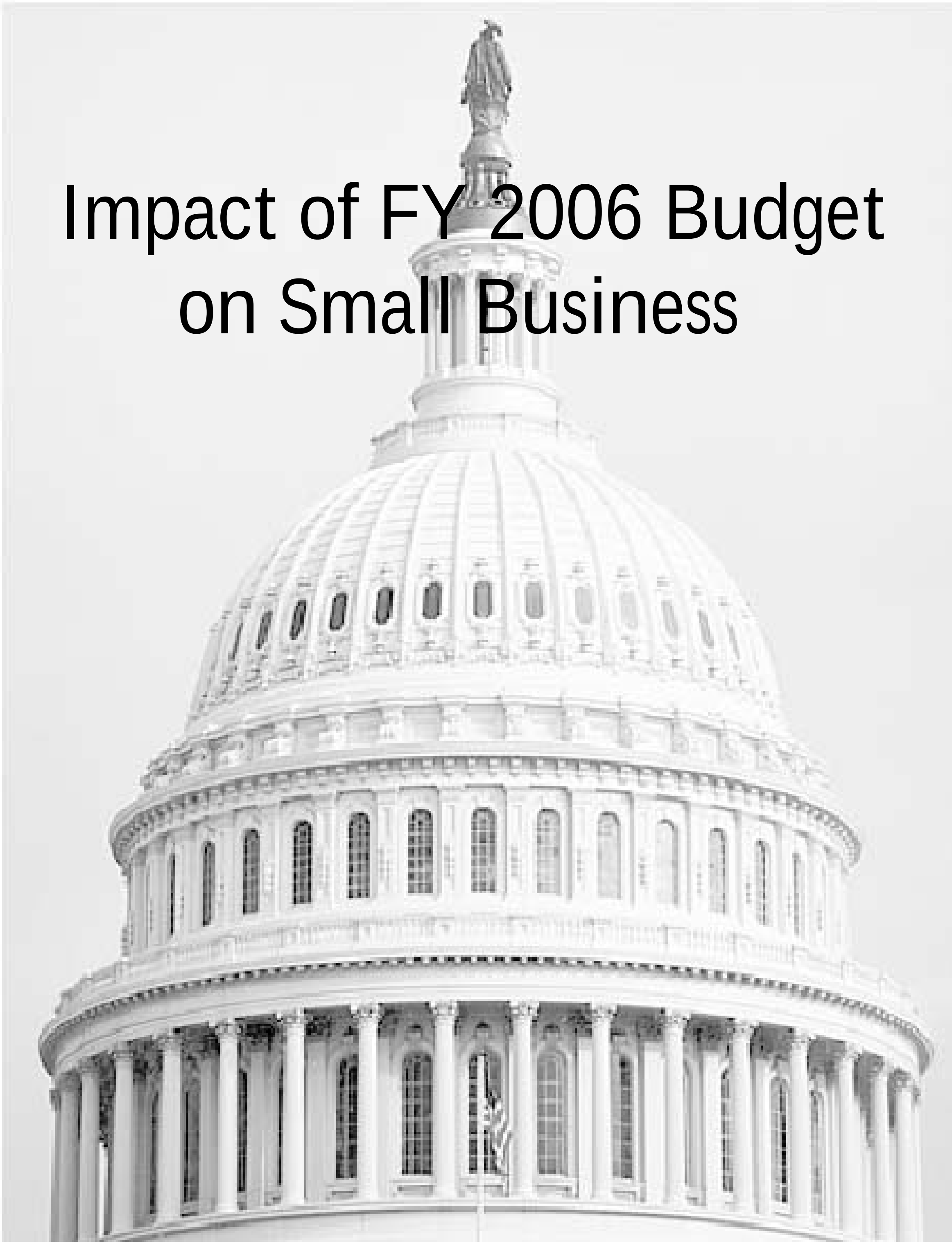
# Impact of FY 2006 Budget on Small Business



A report prepared by

## House Small Business Committee Democratic Staff

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## INTRODUCTION

The administration submitted a fiscal year (FY) 2006 budget proposal of $2.57 trillion. The budget increases overall spending by 3.5 percent, but reduces spending on non-entitlement spending. The FY 2006 budget request for non-homeland security, non-defense discretionary spending is $339 billion, a reduction of 19 percent from the FY 2005 request of $348 billion.

A significant portion of the budget is spent on entitlement programs, with social security costs of $540 billion, Medicare costs of $340 billion, and Medicaid to be $193 billion. Finally, in FY 2006, net interest payments on the debt will be $211 billion. The budget does not include the cost of the expected $80 billion supplemental appropriation request for activities in Iraq and Afghanistan.

The FY 2006 budget provides for an extension of a number of previously enacted tax measures, as well as new tax cuts which will reduce revenues by almost $130 billion over five years and $1.4 trillion over ten years. According to OMB, the projected budget deficit for 2005 is $427 billion and for 2006, OMB projects the deficit to decrease to $390 billion.

The most notable aspect of the FY 2006 is the level of program cuts. The FY 2006 budget includes a 1 percent reduction in discretionary spending relative to the CBO FY 2006 baseline. A closer look at these cuts reveals that some cuts are more significant than others. Reductions to small business programs are much greater than the average program cut contained in the budget.

The large cuts to programs aimed at providing assistance to small businesses – whether it be through technical assistance, incentive programs or providing access to capital – are surprising given the critical role that small firms play in the overall economy. The importance of entrepreneurs in this country is highlighted by the fact that the 23 million small businesses are responsible for creating 75 percent of all new jobs. Many of the federal programs targeted in the FY 2006 budget provide a framework for specific sectors of the small business economy to grow and expand.

In order to understand the impact of the FY 2006 budget, the Committee on Small Business has undertaken this report to measure the total impact of the budget on the nation's small businesses. The following analysis and descriptions of the impacted small business programs provide insight into the nature and effect that these cuts will have on the small business community and the economy more generally.

## ANALYSIS

In order to measure the impact that the FY 2006 budget will have on entrepreneurs, the Committee on Small Business tracks 100 programs that affect virtually every aspect of the small business economy. Of the programs tracked by the Committee, it was found that 50 programs have either been terminated or cut – this number is up 28 percent from last year's report. The average program cut increased this year by nearly 10 percent; last year, the average cut was 70 percent and this year it has risen to almost 80 percent.

The programs cut in the FY 2006 budget play a particularly important role in helping small businesses grow and prosper. This is why examining these small business programs, and their corresponding funding levels, offers an indication of the federal government's commitment to the small business sector.

### PROGRAMS TARGETED ARE GOVERNMENT-WIDE, BUT SOME AGENCIES HIT HARDER THAN OTHERS

The fifty programs identified that were cut or terminated are administered by seven agencies. While they cover a broad array of areas, the cuts were particularly concentrated in the United States Department of Agriculture (USDA), the Department of Housing and Urban Development (HUD), and the Small Business Administration (SBA). Eleven programs were cut in both the SBA and the USDA, while seven programs were cut in HUD. The balance of the targeted programs are relatively evenly divided among the Department of Education (ED), the Department of the Treasury (Treasury), the Department of Commerce (DOC), and the Department of Labor (DOL).

Looking at which groups are served by USDA, HUD and SBA, a pattern emerges as to the impact of these program cuts. While seemingly different in their focus – HUD mainly caters to residents of inner cities, the SBA targets start-ups; and the USDA targets rural communities – the agencies have a commonality in the type of entrepreneur served. These programs are also linked by their shared purpose of integrating selected, isolated business communities into the economy. These are programs focused on sectors and regions that have been historically slow to experience economic growth and generally tend to lag behind the economy as a whole. In rural communities, the poverty rate is 20 percent higher than in the rest of the country and approximately 90 percent of the nation's unemployed reside in cities. These are the types of communities where the programs are most in need and have their biggest impact.

The cuts in HUD and the USDA seem to represent a shift away from funding programs designed to increase economic opportunities for those on the periphery of the economy. Many of these agencies' programs support the only infrastructure of economic activity in many regions and, by eliminating these programs, the networks that have formed around them will cease to exist as well. The result will be an increase in the economic gap between these communities and mainstream America.

## SMALL BUSINESS PROGRAMS DISPROPORTIONATELY CUT

The number of programs cut and terminated is also significant, but the severe nature of these cuts is particularly notable when compared to the budget deficit. While the average program highlighted in this report saw its funding reduced by 80 percent, the total cost of these cuts represent less than a quarter of one percent of the overall FY 2006 budget, having an immaterial effect on deficit reduction. The total FY 2005 appropriation of programs in this report, approximately $10 billion, is 0.39 percent of the total $2.57 trillion budget. Furthermore, the $6.1 billion in savings that would be realized by these cuts is 1.6 percent of the total projected $390 billion deficit for FY 2006.

While the size of these programs relative to the deficit is relatively miniscule, the size of the cuts relative to previous budget requests and appropriated levels is not insignificant. In FY 2005, the administration requested $8.8 billion for these 50 programs, while Congress appropriated over $10 billion. For FY 2006, the administration's request is $3.9 billion, which represents a 62 percent cut when compared to the FY 2005 appropriated level. When compared to the FY 2005 budget request, it represents a 55 percent decrease.

These cuts are significantly deeper than the average 1 percent decrease that the CBO calculated for other discretionary programs relative to the FY 2006 baseline. If this 1 percent reduction were carried across the programs in this report, the total funding level would be reduced by only $100 million; instead of $6.1 billion when compared to the FY 2005 appropriated levels. If this were the case, then the stress that will be placed on the remaining programs would be greatly reduced.

These cuts are inconsistent with the overall budget as they are much more severe then the cuts directed at similar discretionary projects. According to the CBO baseline, domestic, non-homeland security, non-defense programs were cut an average of 5.4 percent. This average cut demonstrates the degree to which the cuts to small business programs are anomalous. If this cut were applied to the programs detailed in this report, funding would be reduced $0.54 billion from the FY 2005 appropriated level. The funding reduction which the programs chronicled in this report receive in the FY 2006 budget are significantly deeper and out of line with all other reductions in the budget.

While the overall budget is relatively static, the drastic reductions included within the budget would create harsh consequences for the network of businesses, lenders and local communities that rely on such programs. Cutting these programs is also counter-intuitive due to the positive effect that they have on deficit reduction. Many of them foster economic growth and increase tax revenue, contributing to deficit reduction, particularly when the cost of these programs is relatively minimal compared to overall governmental spending. For example, the Community Development Financial Institutions attracts $21 for every dollar contributed by the federal government.

Without the initial federal investment it is unlikely that resources would flow to the communities served. Many of these programs function as economic lynchpins and removing them will severely disrupt the networks of assistance that have evolved around them. While the overall impact of cutting these programs is minimal, the price of cutting these programs is high.

## REMAINING PROGRAMS ILL-EQUIPPED FOR ADDED RESPONSIBILITIES

As a result of the budget cuts, small businesses will be forced to rely on a smaller universe of dedicated programs. These remaining programs, however, receive virtually no additional funding and instead will have greater demands placed on their limited resources and staff. As a result, it will be nearly impossible for these remaining programs to function effectively and compensate for the lost services and resources.

While demand for these small business programs has not decreased, the government's capacity to provide such services has waned. The effort to reduce funding for the programs covered in this report has been sustained over multiple budget cycles, weakening the ability of the remaining programs to compensate for the loss of so many programs. Unfortunately many of the programs in this report support unique constituencies and their functions have very little overlap with the remaining programs. As a result of these cuts, small business will lose access to programs, and as a result, economic opportunities.

The following is a program-by-program analysis of the how those programs targeted for elimination or budget reduction serve small businesses and what the possible effect of such cuts may be. The programs have been divided into five categories: Economic Development, Entrepreneurial Assistance, Technology, Rural Initiatives and Access to Capital. These program areas are representative of the needs of the small business sector.

**PROGRAM DESCRIPTIONS**

## ACCESS TO CAPITAL

### 7(A) LOAN PROGRAM (U.S. SMALL BUSINESS ADMINISTRATION)

One of the greatest challenges facing entrepreneurs is securing access to affordable capital. Often times, small business owners are unable to obtain reasonably priced financing, and instead turn to higher-priced forms of capital, such as credit cards. Filling this financing gap is the Small Business Administration's (SBA) 7(a) loan program. Designed as a public-private partnership that leverages financial institutions' knowledge of their communities and the government's ability to mitigate risk, the 7(a) program allows small businesses to tap into the financing they need for success. Last year, this program provided small business with more than $12.5 billion in capital, accounting for 30 percent of all long-term small business lending. Small business owners across the country rely on the 7(a) loan program as a source of financing so they can launch and expand their operations. As the economy struggles to create high-paying jobs, the 7(a) loan program can give businesses a steady source of reliable capital, critical to making future plans for growth and hiring new employees. In the FY 2006 budget proposal fees are again raised on program participants, making the program less accessible and more costly for small businesses. Given this administration's weak job creation record, and the role small business financing plays in helping spur employment opportunities, the demise of the 7(a) loan program will only hurt entrepreneurs' ability to put our nation back to work.

### PRIME (PROGRAM FOR INVESTMENT IN MICROENTREPRENEURS) (U.S. SMALL BUSINESS ADMINISTRATION)

The main focus of the SBA's Program for Investment in Microentrepreneurs (PRIME) is to provide assistance to low-income entrepreneurs who may not have the training to successfully manage their business. Low-income and very low-income entrepreneurs operate nearly 2 million businesses in the United States, yet many studies show just a fraction of them receive any kind of business assistance. PRIME was created to help these small business owners and is meant to provide guidance to these owners so they can better overcome the barriers that confront them in the early stages of business development. PRIME funding can be used by an organization to provide much-needed training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their own businesses. They also can be used to engage in capacity building activities targeted to microenterprise development organizations that serve low-income and disadvantaged entrepreneurs. The SBA has not requested funding for this program since FY 2001and its FY 2006 budget continues to not request funding for PRIME. Without PRIME, many would-be entrepreneurs will be unable to get their business off the ground and achieve self-sufficiency.

**BANK ENTERPRISE AWARDS PROGRAM (BEA) (U.S. DEPARTMENT OF THE TREASURY)**

Finding credit is an uphill battle for many small businesses in this country. This challenge is particularly difficult for entrepreneurs in economically distressed neighborhoods some of which are without commercial banks. Significant economic redevelopment is unlikely to take place in these communities without opportunities for business financing. Many times the flexible nature of small businesses enables them to be successful in communities ignored by big business. In order for small businesses to help foster a community's economic well-being they need sufficient support from financial institutions. Small businesses do an excellent job of making the most of business opportunities when they have the appropriate level of access to capital. The BEA program expands the financial services and amount of resources provided in distressed communities through government programs. The BEA encourages the expansion of government community development activities and overall financial commitments through incentives. By offering incentives the BEA program leverages its awards into further expansion of the government credit programs and the opportunities that they create. The FY06 budget proposes the termination of the BEA program. The BEA program has a proven track record of increasing community development in distressed communities, its removal will deprive entrepreneurs their initial opportunity to start a business and to improve their community.

**NEW MARKETS VENTURE CAPITAL PROGRAM (NMVC) (U.S. SMALL BUSINESS ADMINISTRATION)**

Although much of the nation has experienced economic development in recent years, pockets of poverty continue to persist throughout many areas of our nation. In an attempt to bring investment to these areas of the country, the New Markets Venture Capital (NMVC) program was created. This initiative sought to spur economic development, job growth, and neighborhood revitalization in America's forgotten communities. The NMVC program brings equity investment and technical assistance to help small businesses located in low- and moderate-income areas. This need is highlighted by the fact that just three percent of all venture capital goes to minority firms. Since its inception, the NMVC program made available \$100 million in capital to low-income areas in some fifteen states and up to \$30 million in operational assistance grants to investment firms participating in the program. Currently, six NMVC companies have been established. Consistent with its previous budget request, the administration does not request any funding for this program in FY 2006. As a result, SBA will be unable to bring new NMVC companies into the program, limiting the availability of equity financing to entrepreneurs located in distressed urban and rural areas when the need for quality jobs persists.

**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM (CDFI) (U.S. DEPARTMENT OF THE TREASURY)**

Many times small businesses that are located in underprivileged communities are the most in need of capital. Often times these businesses are overlooked by conventional financial institutions, and as a result their neighborhoods lack opportunities for economic development and are forced into decline. The Community Development Financial Institutions program (CDFI) was created to fill this gap. As a result of the CDFI program more than $534 million has been awarded to community development organizations and financial institutions for the expansion of credit availability, investment capital, and financial services in distressed urban and rural communities. CDFI offers several services to entrepreneurs including, commercial loans for the expansion of an existing small business, investment in start-ups and general financial services in low-income communities. In addition, CDFI provides services that help ensure credit from the CDFI is used effectively; this is achieved through technical assistance to small businesses recipients of CDFI capital. CDFI has channeled capital to countless enterprises such as grocery stores, construction contractors and daycare providers, creating jobs and improving the standard of living in underserved communities. Through their community development loan funds, CDFI helps businesses expand while community development venture capital funds provide equity and management expertise to small, minority-owned businesses that promise rapid growth. The FY06 budget contains no funding for the CDFI program, despite the fact that CDFI has a proven track record of helping underserved communities revitalize their local economies by providing jobs and entrepreneurial opportunities for the residents who live there. The administration's request scraps the success of the CDFI program and creates a new program with less funding and no existing relationships or track record in the communities traditionally served by CDFI.

**COMMUNITY DEVELOPMENT LOAN GUARANTEES (SECTION 108) (U.S. DEPARTMENTOF HOUSING AND URBAN DEVELOPMENT)**

One path to economic revitalization is through the infusion of capital into businesses that anchor local communities. Large corporations abandoned many of this nation's most vulnerable communities long ago, meaning that small businesses are the only economic pillars left. The Community Development Loan Guarantees (Section 108) were designed to fund community renewal projects that can transform entire neighborhoods. As a federally-funded initiative, these loans help to encourage private economic activity, providing the incentive for investment in distressed areas of the country. The Section 108 Loan program can be utilized by entities for a number of economic development activities that emphasize small business growth and the cultivation of local entrepreneurship. Often times these funds are used in tandem with CDBG funds to further strengthen economic development projects. These projects include microenterprise loans to low-income individuals, business loans to help small firms that employ low-income workers expand, or securing land to attract industry. Cities have used Section 108 funds to provide gap financing, as a credit enhancement for local businesses and to fund start-ups and grow existing businesses. By terminating the Section 108 program, the budget proposal will decrease the ability of entrepreneurs and small businesses to help their areas rebound and create jobs for local residents.

**CDFI NATIVE AWARDS PROGRAM (U.S. DEPARTMENT OF THE TREASURY)**

Many Native American populations have not experienced the economic prosperity that has touched the majority of the country. Mirroring the rest of the communities in America, small businesses offer native populations the opportunity to be the engine of economic development. Small business has been particularly effective at promoting economic growth in Native American communities. From 1992 to 1997, Native American and Native Alaskan-owned small businesses grew by 84%, and their gross receipts grew by 179 percent in that same time period. These figures compare favorably with the overall small business growth rate of 7 percent and total gross receipt growth of 40 percent. Like other distressed communities, native communities often times lack sufficient financial institutions, which offer the opportunity to spur needed growth. Recognizing the special economic development needs of these communities, Congress established the CDFI Awards Program to ensure that native communities receive a guaranteed level of investment. These funds are only available to Native Hawaiian, Native Alaskan and Native American communities. These funds are used for three types of projects: technical assistance, development of new funds and funds for the expansion of existing economic development activities. By cutting the Native Awards program the strong economic development potential of small businesses for Native American communities will be lost. Under the administration's new proposal, there will no longer be guaranteed that distressed native communities receive a set minimum level of funding.

**MICROLOAN PROGRAM (U.S. SMALL BUSINESS ADMINISTRATION)**

Many entrepreneurs lack sufficient personal assets do not conform to traditional credit screening, or lack the business training necessary to access to affordable capital. These entrepreneurs have difficulty securing conventional loans and often look elsewhere to satisfy their capital needs. The SBA's Microloan program is one such program where entrepreneurs can turn to receive smaller loans. Through this initiative, entrepreneurs are able to secure loans up to $35,000. Last year, the program provided $23 million in loans and $15 million in training and education assistance to U.S. microenterprises. A recent analysis of the microenterprise industry found that return on investment in microenterprise development is over $2 for every $1 invested. In addition, microbusinesses have very favorable survival rates when compared to other small businesses, and are a way out of poverty for low-income individuals. Although the Microloan program is key to the development and strengthening of America's microbusinesses, in its FY 2006 budget proposal, the administration proposed to terminate it. By cutting this program, the administration will limit the potential for many low-income, and minority entrepreneurs to become self-sufficient, and prevent our nation from utilizing a successful economic development tool.

**RURAL BUSINESS INVESTMENT PROGRAM (RBIP) (U.S. DEPARTMENT OF AGRICULTURE)**

Many times rural communities lag behind with regard to job creation and economic development. Small businesses offer the potential to provide economic development and employment opportunities. However the ability of small business in rural areas to serve as catalyst of economic development is hampered by the limited number of financial institutions that will extend capital. In response to the unique needs of rural entrepreneurs, the Rural Business Investment Program (RBIP) was created. The purpose of the RBIP is to promote economic development and job creation in rural areas, by providing venture capital to promising start-ups. At least 50% of RBIC investments must be in smaller enterprises, and of those, 50% must be in small business concerns. Last year, RBIP received $10 million in funding, but this year's request is for zero funding. By eliminating funding for this vital program, small businesses will not have the access to the capital they need in order to spur economic development in these traditionally underserved areas.

**SBIC PARTICIPATING SECURITIES PROGRAM (U.S. SMALL BUSINESS ADMINISTRATION)**

Venture capital investment has been credited with aiding in the small business boom of the 90's. This was especially critical in the high tech arena that was dominated with entrepreneurs that went from the garage to the Fortune 500 in a short period of time. Increasing access to this form of capital is critical for small businesses to move from a role in local economies to a more visible role in the national economy. While SBA's SBIC Participating Securities was developed to address this issue, in its FY 2006 budget the administration has ceased providing funds to new investment companies. As a result, small businesses will face greater challenges in securing venture capital. In FY 2002 and FY 2003, the SBA approved nearly 50 SBIC Participating Securities firms to receive funding under this program. In 2004, firms in the SBIC Participating Securities Program made over 2,000 investments in small businesses totaling over $1.4 billion, with an average investment of almost $700,000. The decay and eventual loss of this program will create difficult challenges for transportation, manufacturing, information technology, and scientific research companies that often rely on this program for venture capital. The administration's failure to support this program comes at a time when the venture capital industry is struggling to stabilize its investment activities. Venture capital investment now averages approximately $5 billion per quarter, a far cry from investment levels in 2001 when it reached its high point of $28.5 billion in the first quarter of 2001. This decline has greatly limited the ability of small companies to secure equity financing, forcing them to look to other funding sources. The decay of the SBIC Participating Securities program will also make it more difficult for minority-owned firms to access venture capital. Minority-owned firms already face great obstacles in accessing venture capital, receiving only 2 percent of venture capital investment. In 2004, 11 percent of the total number of SBIC program financings totaling $148 million went to minority-owned firms. An erosion in the SBIC Participating Securities program, which is responsible for nearly half of the SBIC program's investment, will likely lead to further decline in the investment in minority-owned firms.

## ENTREPRENEURIAL ASSISTANCE

### MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA) (DEPARTMENT OF COMMERCE)

One of the fastest growing small business sectors are minority-owned firms. Minority-owned businesses are growing at a rate four times that of the national average for small businesses, employing 4.5 million workers, generating $591 billion in annual revenues, and accounting for 15 percent of all private U.S. firms in 2002. Established in 1969, the Minority Business Development Agency (MBDA) is the only federal agency created to solely focus on the establishment and growth of minority-owned businesses throughout the United States. MBDA promotes the growth and competitiveness of minority-owned businesses by providing access to public/private debt and equity financing, market opportunities and one-on-one training for minority entrepreneurs through its business centers. The agency also focuses on international trade, franchising, and minority supplier corporate development. Through its minority matchmaker program in international trade, it operates as a mentor-protégé program. Also operating as a mentor-protégé program is the Minority Supplier Corporate Development program that involves the referral of firms in the middle- to upper-level of growth to Fortune 1000 corporations. Finally, MBDA also assists minority entrepreneurs interested in franchising by facilitating partnerships with fast food giants including, McDonald's and Burger King. The FY 2006 budget requests almost 20% less funding for this program than was requested last year. Reducing funding for this program will unnecessarily weaken one of the fastest sectors in the United States' economy, minority-owned small businesses.

### BUSINESSLINC (U.S. SMALL BUSINESS ADMINISTRATION)

The SBA's BusinessLINC (Learning, Information, Networking, and Collaboration) program was designed to promote business-to-business relationships that build the competitive strengths of small businesses – especially those located in economically disadvantaged rural and urban areas. Although small businesses generate the majority of new jobs in this country, little attention has been given to how cultivating business relationships with larger firms can help small companies to better compete and grow. Through these business-to-business relationships, which include information-sharing, networking, and mentoring, small companies show higher rates of success. Not only do small businesses reap the benefits from these relationships by obtaining technical advice, leveraging core strengths, and increasing marketplace credibility, but large firms also are able to reach new markets, create stronger ties with the community, and partner with agile companies. By giving these large firms an incentive to partner with already established local small businesses in distressed areas, BusinessLINC serves as a key component in economic development and job creation. The continued failure to request funding for this valuable program in every budget threatens its future and leaves many small firms without the business expertise and networking opportunities that would allow them to access national supplier networks that would let them grow and expand their business.

**FUNDING FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION (FIPSE) (U.S. DEPARTMENT OF EDUCATION)**

The challenges affecting small business are an area which is often overlooked by academia. Small businesses typically do not have the resources necessary to finance studies of challenges and possible solutions. The Funding for the Improvement of Postsecondary Education (FIPSE) competition is designed to support innovative projects that hold promise as models for the resolution of important issues and problemsfacing small business. FIPSE funds have been used to create a consortium of schools to focus on the creation and operation of small- and medium-size enterprises (SMEs). The goal of the project is to provide a broad theme that can integrate the full range of academic disciplines associated with building and operating a successful global small to medium-sized enterprise. FIPSE has also funded case studies that are relevant to the needs of small business owners. Projects like these are vital for future entrepreneurs - allowing innovative research to be done on practices that will enable small businesses to become even more efficient, and result in better performance within the small business sector. The reduction in the funding in the FY 2006 budget means that the economy will not be able to benefit from the possible research that has allowed Corporate America to excel, and could also allow small businesses - the main job creators - to further excel.

**WOMEN'S BUSINESS CENTERS (WBC) (U.S. SMALL BUSINESS ADMINISTRATION)**

Today, women own nearly half of all privately-owned firms – totaling 10.6 million enterprises. In 1988, in response to women's business organizations that insisted more needed to be done to help women overcome the barriers to success, the SBA established the Women's Business Center Program. Each Women's Business Center provides assistance and/or training in finance, management, marketing, procurement and the Internet, and addresses specialized topics such as home-based businesses, corporate executive downsizing, and welfare-to-work. All centers provide individual business counseling and access to the SBA's programs and services. Each WBC tailors its programs to the needs of its constituency, many offer programs and counseling in two or more languages. The administration requested only $12 million for this program despite the fact that Congress provided $12.5 million last year. This means that the SBA will not be able to open new centers to assist aspiring female entrepreneurs in many underserved areas across the country.

**THE NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION**

The National Veterans Business Development Corporation (Veteran's Corporation or Corporation) was established by the *Veteran's Entrepreneurship and Small Business Development Act of 1999* (PL 106-50) for the purpose of creating an independently chartered, agency-wide advocate for veteran-owned small businesses. The Veteran's Corporation operates as a quasi-private/public entity that has the ability to formulate a variety of means to assist veterans entrepreneurs. The administration has zeroed out funding for the program for FY 2006.

**OFFICE OF REGULATORY ANALYSIS (U.S. GENERAL ACCOUNTING OFFICE)**

An obstacle to small business success is the overwhelming array of federal regulations they face, which costs them an estimated $7,000 per employee per year. In 2000, the Truth in Regulatory Act established an Office of Regulatory Analysis within the U.S. General Accounting Office (GAO) for the purpose of reporting on "economically significant rules" promulgated by federal agencies. This includes any federal agency regulation that has an annual effect on the economy of $100 million or more or any adverse effect on productivity, competition, jobs, the environment, local governments or communities. Overall, the office would increase the transparency of regulatory decisions and increase congressional oversight to ensure that rules are effective yet fair to all sectors of the U.S. economy, including small businesses. This office has particular importance today as the record for federal regulations is at an all time high under the current administration. The FY 2006 budget, as in previous years, fails to request any funding for this initiative. Without this office to increase agency accountability in the regulatory process, small businesses will continue to be weighed down by the high costs of complying with federal rules.

**OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)**

One of the fastest growing markets for small business' goods and services are emerging overseas markets. As the number of free trade agreements that the administration has entered into continues to increase so does the importance of overseas markets. In particular, emerging foreign markets are increasingly representing the new markets for small business products. The Overseas Private Investment Corporation (OPIC) is a federal agency, which assists with international business transactions. Recently OPIC has become more active in assisting small business, which it accomplishes through its Small Business Center where it caters to needs of small businesses. A main impediment for small business when doing business in emerging markets is political instability. In order to reduce this risk OPIC offers small businesses political risk insurance, through a streamlined process, which helps to ensure that a small business' deal is not jeopardized, by either political instability or delays in insurance processing. Many times small businesses have viable opportunities but are unable to secure funding through the private sector. Through its Small Business Center, OPIC is able to provide financing to small businesses with viable prospects who have been unable to secure private sector support. Additionally, overseas business transactions are incredibly time consuming and many small businesses have lost opportunities as a result of slow loan processing. OPIC processes loan applications on an expedited basis, ensuring that as many opportunities are taken advantage of as possible. OPIC allows small businesses to participate in international markets. Funding reduction to OPIC will result in small businesses losing opportunities either because they were unable to find financing or they were unable to secure the necessary insurance. As the world's economies grow closer, small businesses ability to sell in foreign markets is becoming increasingly important. The FY 2006 budget request will limit the ability of OPIC to assist small businesses reach international markets.

**VETERANS WORKFORCE INVESTMENT PROGRAM (VWIP) (U.S. DEPARTMENT OF LABOR)**

Having a skilled workforce is vital to America's small businesses. Corporate America has an advantage over small business, as they are able to provide more costly training to their employees; and typically pay their employees high wages, thus attracting more skilled workers. The Veterans Workforce Investment Program (VWIP) is an example of a program, which provides small businesses with skilled employees. The VWIP uses grants and contracts to provide technical training and employment services to veterans who are recently separated from the military, are service disabled, served in active duty, or face significant barriers to employment. By focusing on these populations, the VWIP is giving tools to a specific population which otherwise might have fallen through the cracks. In addition to providing veterans with skills, the VWIP also has a job placement component through which newly trained veterans can be placed with small businesses where their skills are most needed. The funding reduction in the current budget request will hurt two of the most deserving constituencies in the country. By denying training and job placement to veterans, the administration is ungratefully ignoring their service. Additionally, the administration is denying American small businesses a group of highly skilled workers, who have the talents they need for their successful business venture.

**U.S. EXPORT ASSISTANCE CENTERS (USEACS) (U.S. SMALL BUSINESS ADMINISTRATION)**

As the global market continues to grow it is apparent that participating in international trade is not limited to large U.S. companies. Small and medium-sized companies make up 97 percent of all exporters. However, international trade is an area where small businesses face more barriers than their larger competitors. Unlike large corporations, small exporters typically sell their product in only one foreign country meaning that they are unable to realize the potential of the global marketplace. There are a variety of reasons for the lack of participation by small exporters in the global marketplace, including: the intricacies of each international market, difficulty in securing timely financing, and not knowing the full extent of the opportunities offered overseas. In an effort to help small businesses navigate the international market, U.S. Export Assistance Centers (USEACs) provide small companies with a one-stop shop to meet all their exporting needs. USEACs provide clients with advice from the Small Business Administration (SBA), Department of Commerce, the U.S. Agency of International Development (USAID) and the Export- Import Bank (Ex-Im Bank). Located in 17 cities nationwide, USEACs provide customized export counseling, trade financial assistance, and technology training for a seamless transition to executing overseas transactions. Through this partnership, small businesses in the U.S. are able to find the help they need to better compete in the global marketplace. USEACs can mean the difference between realizing the potential of the global marketplace and never selling beyond a country line. The administration has not requested funding for these centers in its budget submission for FY 2006. This cut will mean that an untold number of small businesses will miss out on accessing the global marketplace thus hindering economic growth.

**ONE-STOP CAREER CENTERS (U.S. DEPARTMENT OF LABOR)**

Small businesses often do not have the resources that their larger counterparts do to recruit and interview prospective employees. Through One-Stop Career Centers, small business employers are provided with assistance during the entire hiring process. In addition to helping current small business owners, One-Stop Career Centers also assist potential small business owners. For those who decide that they would like to start their own business, training and assistance is also available to ensure that each fledging business starts at a sound place. Additionally, One Stops offer phone, fax and Internet services for start-up entrepreneurs who do not yet have office space. This program clearly helps our nation's entrepreneurs get up and running in their business ventures. The administration has once again cut funding to One Stop Career Centers. Given the critical role One-Stop Career Centers play in matching small employers with trained employees and helping new businesses get started, this lack of funding will only create additional recruitment and training burden for our nation's small firms.

**SMALL BUSINESS DEVELOPMENT CENTERS (U.S. SMALL BUSINESS ADMINISTRATION)**

The Small Business Development Center (SBDC) program was created by Congress in 1980 to foster economic development by providing management, technical and research assistance to current and prospective small businesses. SBDCs offer one-stop assistance to small businesses by providing information and guidance in central and easily accessible branch locations. In addition, these centers provide information to help with expansion, stimulating lending results and assisting businesses in maneuvering through industry or sector downturns. The SBDC program is a cooperative effort of the private sector, the educational community and federal, state and local governments. The program has been experiencing a decline in client hours due to the fact that the administration has continually underfunded this program well below its authorized level

**BUSINESS INFORMATION CENTERS (BICS) (U.S. SMALL BUSINESS ADMINISTRATION)**

The SBA's Business Information Centers (BICs) provide a one-stop location where small businesses can receive assistance and advice through the latest computer technology, hardware and software, an extensive small business reference library, and current management videotapes. BICs provide information, education and training designed to help entrepreneurs start, operate and grow their businesses. Generally, BICs operate under the direction of local SBA district offices, and they are in all 50 states. Private-sector cosponsors, SCORE volunteers, and representatives from local Small Business Development Centers (SBDCs), chambers of commerce and other educational- or business-related organizations help in the operation of the centers and in assisting clients. Many of the individuals who visit BICs are self-employed and lack basic business skills, but have the initiative to start a company. BICs also serve to point people in the right direction for those seeking start up capital, business plan assistance, and advice on meeting regulatory and tax requirements. In the administration's budget, no funding for BICs has been requested, leaving far fewer places disadvantaged entrepreneurs can turn to start or expand their businesses in poverty-stricken rural and urban areas of the United States.

## ECONOMIC DEVELOPMENT

**ECONOMIC DEVELOPMENT INITIATIVE (EDI) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**

A way to help low and moderate-income communities is to provide them with a steady infusion of capital for economic development purposes. The Economic Development Initiative (EDI) provides grants to local governments that can be used for the enhancement of loans guarantees, feasibility studies of the large economic development and revitalization projects. Since local governments pledge against potential repayment shortfalls with these loans, the EDI program offers communities a way to decrease their risk. An example of the impact that EDI funds can have on small business is EDI funds have been used to create a revolving loan fund to provide access to capital for small businesses and micro-enterprises. Increasing access to capital for entrepreneurs and small businesses has emerged as a key component of the job growth and investment strategy powered by the EDI grant program. It does this by enabling communities to obtain long-term, low-interest HUD loans for up to ten times the amount of their EDI grants for a wide range of economic and community development projects. Since 1994, HUD has awarded $500 million in EDI grants and has committed more than $4 billion in guaranteed loans, generating an estimated 300,000 jobs. The FY 2006 budget terminates the EDI program. This will severely impact the ability of small businesses across the country to access capital by hindering job growth and community initiatives relating to economic development.

**WORKFORCE INVESTMENT ACT (WIA) ADULT TRAINING PROGRAMS (U.S. DEPARTMENT OF LABOR)**

According to the Bureau of Labor Statistics, occupations requiring a vocational degree, which accounted for 29% of all jobs in 2000, will account for 42% of total job growth from 2000 to 2010. This trend will be particularly burdensome for small business owners who do not have the time or the network to conduct personnel searches, or the resources to lure skilled workers away from larger companies with higher salaries and better benefits. Small business owners face formidable challenges in finding money to train employees, which can cost from $250 an hour to a staggering $10,000 a day. The purpose of adult programs under Title 1 of the Workforce Investment Act (WIA) is to provide workforce investment activities that increase employment retention and earnings and occupational skill attainment of participants. These programs aim to improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of our nation's economy through comprehensive training tailored to community and employer needs. Small business owners depend on the Adult Training Programs for a skilled employee pool. Despite the fact that $898 million was appropriated for WIA in the FY 2005 budget, the FY2006 request is $22 million less in the FY 2006 budget. Without adequate funding for WIA, many small firms will see their revenue shrink as they are forced to spend critical funds on training programs to get the skilled labor force they need in order to be successful.

**APPALACHIAN REGIONAL COMMISSION (ARC) (U.S. DEPARTMENT OF AGRICULTURE)**

Appalachia – home to the more than 23 million people living in the region stretching from Mississippi to New York – continues to struggle to increase its economic health and stability. While the region showed strong growth in the early 1990s, its economy began to slip between 1995 and 1999, leaving Appalachia with a per capita income of only 81.9% of the U.S. average. The small homegrown businesses play an integral role in creating and sustaining local economies and improving the quality of life in Appalachia. Through programs like its Entrepreneurship Initiative and Business Development Revolving Loan Fund, the Appalachian Regional Commission (ARC) creates opportunities for self-sustaining economic development. Each year ARC provides funding for several hundred projects throughout the 13 Appalachian states that support economic and human development, bringing more of Appalachia's people into America's economic mainstream. The ARC's Entrepreneurship Initiative provides communities with tools to assist entrepreneurs in starting and expanding local businesses such as greater access to capital, education and training opportunities, encouraging sector-based strategies to maximize the economic strengths of local communities, and strategic support for business incubators. Through its Business Development Revolving Loan Fund, ARC addresses the problem of credit availability that so often impedes small business development. ARC programs create thousands of new jobs and provide technical, managerial, and marketing assistance to emerging new businesses. With a funding cut in FY06, ARC will be unable to fully serve millions of individuals in one of our nation's most economically distressed areas – the Appalachian Mountain region – which relies heavily on the type of assistance provided by this valuable program.

**NATIONAL COMMUNITY DEVELOPMENT INITIATIVE (NCDI) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**

For many years a number of cities throughout the U.S. have not received the resources and attention that they need in order to thrive. In some cases, cities have been allowed to significantly deteriorate – having a negative effect on small businesses located in these urban areas. The National Community Development Initiative (NCDI) works to revive this country's cities and breathe new hope into them. NCDI is a public/private initiative which provides millions of dollars in grants and loans to nonprofit organizations and community development corporations. Community Development Corporations (CDCs) borrow money, invest it in the physical and social infrastructure of their neighborhoods, and repay their debts. NCDI works with leading national community development support organizations that serve as intermediaries with local foundations banks, corporations and state and local governments to bolster the efforts of more than 300 CDCs in 23 cities. The NCDI through its private partners is able to leverage federal funds into a wider impact than could be accomplished if there was not a private component to the program. The mission of the NCDI is very broad – in order to meet its goal of overall inner city development it has funded the construction of affordable housing, creation of small business incubators and the funding of small business development. The current budget submission proposes to eliminate funding for the NCDI altogether, and combine it with 17 existing programs and also cut their overall funding. Given that the federal government funds only a piece of NCDI, the other participating partners will question the government's commitment and will be less likely to commit resources, which are fully available to them, thus depriving urban small businesses of an opportunity to help revitalize their neighborhood.

**ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) (U.S. DEPARTMENT OF COMMERCE)**

Small businesses have the power to breathe new life into our most vulnerable communities. The Economic Development Administration (EDA) at the U.S. Department of Commerce stimulates industrial and commercial growth by generating jobs and retaining existing jobs in economically distressed areas. The basic guiding principle at EDA is that distressed communities must be empowered to implement their own economic development strategies. EDA helps such communities address challenges relating to chronic economic distress and severe economic dislocations due to closure of federal facilities, natural disasters, or rapidly changing trade patterns. These investments support a variety of specific economic development strategies including business incubators, redevelopment of Brownfields sites, and business/industrial development. EDA provides small business grants to help distressed communities attract new industry, encourage business expansion, diversify local economies, and generate long-term private jobs. One such undertaking which the EDA supports is entrepreneurial training and development. This serves the purpose of letting a community increase its say in its economic future rather than have external factors determine a community's economic condition. Since 1965, EDA has invested more than $16 billion in grants, and has generated more than $36 billion in private investment. It is through the launching of successful initiatives, the creation of jobs, and the expansion of local economies when the demand decreases for government expenditures. Terminating the EDA will remove the skills and experience it has provided to economic developments for the last 40 years. Communities that are in need will no longer benefit from the economic development functions provided by EDA initiatives.

**EMPOWERMENT ZONES (EZS) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**

Opportunities for entrepreneurial initiatives, small business expansion, and job training which offer upward mobility are critical to providing economic opportunity and direction for underserved areas and distressed neighborhoods. Through the creation of Empowerment Zones (EZs) in some of the nation's most distressed urban communities, economic development is encouraged through public-private partnerships. Urban EZs receive regulatory relief and tax breaks to help local small businesses provide jobs and promote community revitalization. EZs encourage small business development through substantial tax benefits, which help individual businesses to start and expand their enterprises. EZs are authorized to reward eligible employers, in many cases small businesses with tax credits for hiring employees from certain populations. These tax credits which can be worth up to $5,000 per employee provide an incentive for small businesses to expand their workforce and take on employees from some of the most vulnerable populations. Small businesses in EZs receive additional benefits, some of which come in the form of deductions. For example, EZs allow for the increased expensing of equipment and machinery. The creation of jobs by small businesses in EZ communities provides the foundation for residents to become economically self-sufficient while spurring the development of a community. The particular details of each Empowerment Zone is tailored to the needs of each targeted community and the businesses located there. Removing funding for EZs will not only thwart additional economic progress in underserved areas of this country, but will unravel some of the work accomplished by EZs, much of which has been accomplished by our nation's small businesses.

**NATIVE AMERICAN OUTREACH (U.S. SMALL BUSINESS ADMINISTRATION)**

Native Americans as a group face tremendous economic hardships, and have many unique impediments to economic development. The economic conditions in many native communities are not inline with the overall sustainability of the U.S. economy. This fact is underscored by the 2000 Census, which found that the average unemployment rate on reservations in 1999 was 43 percent. Small businesses offer a tool for economic development and serve as a way to help boost job creation and employment for entire communities. Recognizing the severe need for economic development in native communities, the SBA undertook its Native American Outreach program as a means to bring economic development to some of the country's neediest communities. The Native American Outreach Program is an initiative to establish partnerships with tribes engaged in economic development activity. The goal of the program is to ensure that all Native Americans who seek to create, develop and expand their own small business have full access to the necessary business development and expansion tools available through SBA. This program is a comprehensive initiative designed to meet specific cultural needs, and to result in job creation through small business. The FY 2006 budget does not request funding for the Native American Outreach Program, which will not allow small businesses to create the jobs and employment opportunities that these communities so desperately need.

**BROWNFIELDS ECONOMIC DEVELOPMENT INITIATIVE (BEDI) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**

In the U.S. today, the Environmental Protection Agency (EPA) estimates there are between 500,000 to one million brownfields that are draining the life out of communities. By definition, brownfields are properties in which redevelopment; expansion or reuse may be complicated by the occurrence of pollutants. Brownfield locations often times have desirable locations, but the high cost of their decontamination makes their development infeasible. Brownfields are found in all parts of the country from Maine to California. The goal of the U.S. Department of Housing and Urban Development's (HUD) Brownfields Economic Development Initiative (BEDI) is to stimulate economic growth by helping cities to clean-up and redevelop brownfields sites. On their own, small businesses are unable to undertake or reap the rewards of such projects. BEDI funds are used to help remove environmental hazards from communities, while revitalizing them through job creation and the reintegration of productive property. Small businesses have a clear role to play in helping to turn brownfields into safe, vibrant commercial areas – bringing employment opportunity to distressed areas that need them most. In 2004, HUD awarded $24.6 million in grants to redevelop brownfields – creating approximately 7,000 jobs in 17 communities throughout the U.S. However, in the FY 2006 budget request, the program requests no funding. In scrapping the BEDI, many small firms will be unable to participate in the economic development and job creation effects of the program, while brownfields sites across the country will continue to tarnish the landscapes of our communities.

**COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**

Over the past 30 years, cities and counties have used HUD's Community Development Block Grant (CDBG) program to rebuild and revitalize communities through the flexible funding of important local projects. The CDBG program has become an increasingly important catalyst for economic development and expanding small business opportunities in low-income neighborhoods. CDBG funds are used to develop projects that impact local communities, and can be used for an array of small business ventures. For example, the funds can be used for the development and operation of business incubators, which provide assistance to developing small businesses, and increase the likelihood that a start-up will be successful. CDBG grants are also used to assist for-profit businesses through special economic development activities, including microenterprise loans to low-income entrepreneurs, assembling land to attract new industry, or business expansion loans to help retain existing small businesses that employ low-income workers. Within the CDBG program there are set-asides, which have been established to insure that some of the neediest communities are targeted for assistance – enabling economic development to be fostered through these small business set asides. CDBG funds have been used to operate revolving loan programs to help small businesses start up. Overall, the flexibility offered by the CDBG program has allowed the program to meet small business' needs across the country. The FY06 budget proposes to end the CDBG funding and transfer its responsibilities into a new program. The budget request for the new program, which will be comprised of 18 current programs, is $700 million less than what CDBG received in FY05. Such a significant reduction in funding is guaranteed to have a devastating impact on small businesses in every community across the nation.

## RURAL INITIATIVES

### RURAL BUSINESS ENTERPRISE GRANTS PROGRAM (RBEG) (U.S. DEPARTMENT OF AGRICULTURE)

Rural communities in the U.S. typically have higher rates of unemployment than the national average. Small businesses offer a successful way to bring rural unemployment more inline with the national average. The U.S. Department of Agriculture's Rural Business Enterprise Grants (RBEG) program reaches out to local businesses and cooperatives in rural communities to help preserve and develop new job opportunities. Under the program, RBEG funds are awarded to eligible organizations to finance the development of small and emerging firms with less than 50 new employees and less than $1 million in gross annual revenue. These grants can be used for a variety of purposes relating to small businesses including the development of land, construction of buildings for an incubator or small company, technical assistance such as marketing and feasibility studies, business plans or training, start-up operating costs and working capital, and the development of distance learning networks. In 2004, this program provided in total more than 500 grants and $47 million in rural small business development assistance – providing funding for at least one project in all 50 states. This program is especially important today as many companies that formerly looked to rural communities to meet their labor needs are now moving these same jobs offshore. Although the program has supported small business growth and job creation across the nation, the administration has terminated the RBEG program in its FY 06 budget submission. Given that such sources of federal financing can contribute to lowering unemployment and counteract job flight through small business creation, the failure of the administration to adequately fund RBEG will cause hardship in rural communities in every state across the country.

### MIGRANT AND SEASONAL FARMWORKER PROGRAMS (U.S. DEPARTMENT OF LABOR)

Across the country, rural communities and the small businesses that anchor them depend on seasonal and migrant farm workers to fulfill their labor needs. These workers are often some of the poorest members of a community and in many cases lack the education and assistance to better their situation. In addition to job training the program also offers an opportunity to those workers who have the drive to move toward self-sufficiency through entrepreneurial development. These programs are aimed to create entrepreneurial and microenterprise development opportunities for farm workers, giving them the training they need to actually start a small business. Without these opportunities, farm workers are increasingly likely to be stuck in low paying jobs, rather than working toward economic independence through entrepreneurship. This initiative received a $76 million appropriation in FY 2005, despite the fact that the administration did not request any funding in its FY 2005 budget. Given this program's repeated termination, the budget submission is passing up the opportunity to provide some of the neediest communities with an opportunity to better their situation through entrepreneurship.

**RURAL COMMUNITY DEVELOPMENT INITIATIVE (RCDI) (U.S. DEPARTMENT OF AGRICULTURE)**

There are many distinctive assets in rural communities that lend themselves to economic development. Rural and agricultural communities tend to have higher rates of self-employment, increasing the opportunity for entrepreneurial activities. However, there are also challenges to promoting small business growth in rural areas, such as lower wages, the cyclical nature of seasonal work, and the lack of basic infrastructure. To help overcome these barriers, the Rural Community Development Initiative (RCDI) was created to provide grants to organizations and low-income communities located in rural areas with populations of 50,000 or less. These grants, ranging from $50,000 to $500,000, are a way to help bring about rural economic development. By providing technical assistance in the form of support to microenterprises, cooperatives and sustainable development, the RCDI allows communities to undertake projects that encourage entrepreneurship at the local level. It is through such microenteprise development that these areas are able to create and sustain jobs, leading to overall economic expansion. In some farm and ranch counties, it is said that some 70 percent of net job growth comes from people creating their own jobs. In fact, entrepreneurship in rural areas, supported by the RCDI, has been proven to work in agricultural areas that have been unable to attract manufacturing or other large employers. This initiative was funded at $6 million in FY 2004, yet the administration's latest budget proposal does not request any money for RCDI. This will ultimately cause a gap in much-needed technical assistance to small businesses and microentrepreneurs in our nation's most distressed rural communities, stifling job creation.

**RURAL HOUSING AND ECONOMIC DEVELOPMENT (RHED) PROGRAM (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)**

The need for capacity building in rural communities is great as local residents face a number of barriers to access economic opportunities. Recognizing the unique needs of rural communities the Rural Housing and Economic Development (RHED) program was created to focus on helping rural areas support innovative economic development activities through federal grants. Funds can be used for a variety of economic activities and are provided to local organizations, such as rural non-profits, Community Development Corporations (CDCs) and economic development agencies. Recognizing the importance of catering economic development initiatives to the needs of a local community the RHED program allows for great flexibility in how its funds can be used. RHED funding can be used for the acquisition of land and buildings, job training, financial assistance to businesses, and the establishment of loan funds, lines of credit, microenterprises and small business incubators. The projects which are funded by RHED work to level the playing field for rural small businesses and their communities. Each year since its inception, the program has awarded grant funding to approximately 100 organizations across the U.S. This year, the budget proposal eliminates funding for this popular program, leaving many rural entrepreneurs without the assistance they require to help spur economic growth in their communities.

**RURAL BUSINESS OPPORTUNITY GRANTS (U.S. DEPARTMENT OF AGRICULTURE)**

The lack of economic opportunities available in some of this nation's rural areas are threatening to a community's ability to remain viable. Rural communities face a variety of impediments to economic opportunity that non-rural communities do not. Small businesses in rural communities also face a unique set of challenges. Successful small business formation can truly be the economic backbone of a rural community and ensure that it is able to thrive. In recognition of the special need that rural communities have for small business development, the USDA created the Rural Business Opportunity Grants (RBOG) Program. This program makes grants to public bodies, nonprofit organizations, Indian tribes and cooperatives for the purposes of providing training and technical assistance to rural businesses, economic planning for rural communities, or training for rural entrepreneurs and economic development officials. The RBOG program has identified a specific need among rural communities for economic development through small business development and expansion. The current budget, terminates funding for the RBOG program. Without the opportunities RBOG provides for small business expansion, the future viability of rural communities could become undermined as their economic basis continues to fall behind the pace of the rest of the country.

**RURAL EMPOWERMENT ZONES/ ENTERPRISE COMMUNITY INITIATIVE (EZ/EC) (U.S. DEPARTMENT OF AGRICULTURE)**

In rural areas, oftentimes a large segment of their population is living below the poverty line and have unemployment rates far below the national average. In these communities small businesses play an especially important role. Without sufficient assistance the positive economic impact of small businesses to economically revitalize these community is lost. The Rural Empowerment Zone/Enterprise Community Initiative (EZ/EC) was created in recognition of the unique difficulties severely distressed rural communities face. The program identifies communities that are most in need of assistance, and makes them eligible for tax credits and grants. The tax credits and grants provided by EZ/EC allow small business to become competitive and focus on being agents of economic change in their communities. Rural EZ/ECs have been credited with saving nearly 20,000 jobs and have raised an aggregate of more than $10 for every dollar spent. Just like urban empowerment zones, rural EZ/ECs use tax credits to encourage economic development in places where it is most needed. The administration's cut will have the effect of making those already economically distressed communities fall even further behind – leaving small businesses less likely to do what they do best, creating the jobs so desperately needed in these areas.

**RISK MANAGEMENT AGENCY (RMA) U.S. DEPARTMENT OF AGRICULTURE)**

The challenges faced by family farmers are unique because their size makes it difficult to diversify, and they lack the economy of scale to absorb crop failures. As a result small farms are much more likely than their larger counterparts to be affected by market fluctuations. The RMA works to strengthen farms through a portfolio of risk programs, which help stabilize the agricultural sector. The primary way RMA manages risk is through crop insurance. The RMA oversees $40 billion in insurance liabilities. Properly managing risk requires that farmers have basic knowledge of the concepts of risk management. To increase risk knowledge, the RMA uses outreach projects aimed at educating disadvantaged farmers about proper risk management, and provides them with the necessary assistance to take advantage of the crop insurance provided by the RMA. Cutting funding for this program will cause America's family farms, particularly those who are lacking the necessary resources to be left on their own with regard to absorb risk or market changes.

**RURAL UTILITIES SERVICE (RUS) BROADBAND LOAN PROGRAM (U.S. DEPARTMENT OF AGRICULTURE)**

The deployment of broadband services, or high-speed Internet, in small rural towns is far less than in large cities across the nation. Lack of broadband can be especially acute for small businesses since the Internet is becoming a major avenue of commercial activity. In fact, in a recent survey of small businesses, the majority of DSL subscribers said the productivity benefits of their services exceeded their expectations. In an effort to give small firms more readily available and affordable access to broadband services, the U.S. Department of Agriculture's Rural Utilities Service (RUS) broadband loan program was created and is the only federal initiative designed to encourage broadband investment in our nation's rural communities. For small businesses to be used as engines of economic development they need to be able to have access to the World Wide Web. Technology has allowed people to start a microenterprise with a high-speed connection and an idea – home-based businesses have flourished in large part due to this. In 2003, USDA funds allowed for $1.3 billion to be used to increase broadband access to rural communities and the entrepreneurs who live there. By attempting to bridge the digital divide in this country, especially for small businesses in rural areas of the U.S., the RUS broadband loan program gives small companies access to important technology to better compete in the 21st century. This program is critical today as the U.S. continues to lag behind other technologically-savvy countries, including those in Asia and Europe. The FY 2006 budget submission reduces the funds for RUS at a time when the economy is becoming increasingly dependent on technology. Rural small businesses will lose out on maximizing their full job creation potential as they get cut off by the digital divide.

### RURAL UTILITIES SERVICE (RUS) ELECTRIC LOAN PROGRAM (U.S. DEPARTMENT OF AGRICULTURE)

Many rural communities face the challenges of high energy costs and unreliable service. Since small businesses are the majority of energy users, such problems make it very difficult for them to compete with other businesses that have lower costs and more reliable electricity suppliers. The USDA's Rural Utilities Service (RUS) electric loan program provides an affordable, reliable energy source to some of our nation's most isolated rural communities. Since the program's inception in 1936, RUS has enabled many rural small businesses to access energy and electric service through loans and loan guarantees to finance the construction of generation and transmission facilities, upgrades to existing systems, and for energy conservation programs. RUS also provides financial assistance to rural communities that are experiencing high energy costs to construct, extend and improve their energy distribution and transmission capabilities. Unfortunately, the FY 2006 budget cuts funding for this program. At a time when energy prices are skyrocketing, the administration is removing assistance that helps small businesses access reliable, affordable energy.

### VALUE-ADDED GRANTS (U.S. DEPARTMENT OF AGRICULTURE)

For our local economies that depend on agriculture, one way for businesses in these areas to grow is to develop new products and markets for these products. Value-added grants at the U.S. Department of Agriculture promote activities that will help to improve the customer base for the commodity or product, helping the producer to keep a greater portion of the revenue. Such activities could include changing the physical state of a product, using an agricultural product for renewable energy on farms or ranches, and making and marketing a product that enhances its value, such as being organically-produced. These grants of up to $500,000 can take two forms – working capital grants or planning grants – and are awarded to independent producers, farmer and rancher cooperatives, agricultural producer groups and producer-based business ventures. Planning grants allow producers to examine the feasibility of a value-added project while working capital grants fund the actual implementation of a value-added initiative. Small agricultural-based businesses have used value-added grants as working capital for the operation of their plants, to conduct feasibility studies and business plans, and to package, market, and survey new products lines. While these grants can help small firms add value to their products, expand their operations, and hire new employees, the administration has proposed to cut the program below its previous levels. By slashing this program by more than half, many small companies focused on staying competitive in the agricultural marketplace will find this federal assistance no longer exists to help them maintain an edge.

## TECHNOLOGY

### ADVANCED TECHNOLOGY PROGRAM (ATP) (U.S. DEPARTMENT OF COMMERCE)

Small businesses are this nation's leaders of new ideas, generating five times the innovation per dollar of investment compared to large companies. In an effort to support this leadership, the Advanced Technology Program (ATP) works to bridge the gap between the research lab and the marketplace, stimulating prosperity through innovation. This unique government-industry partnership stimulates the U.S. economy by accelerating the development of emerging or enabling technologies for the creation of revolutionary new products, industrial processes and services that can compete in today's rapidly changing world markets. ATP challenges industries to take on higher-risk projects with commensurately higher potential payoff and provides multi-year funding to single companies and industry-led joint ventures. To date, approximately 65 percent of these awards have gone to small businesses or joint ventures led by a small business. ATP award winners have included many small start-up companies, and can mean the difference between their success and failure. ATP projects in small firms have led to radical new designs in the semiconductor industry, and new techniques in the pharmaceutical and chemical industries. Even though the ATP program scored high in planning, management and accountability in an Office of Management and Budget (OMB) analysis of government programs, the White House requests no funding for ATP in the FY 2006 budget. By doing this, many small companies will lack the financial support they need to develop and expand their ideas, which lead to the creation of new industries, jobs and increased global competitiveness.

### SMALL BUSINESS INNOVATION RESEARCH (SBIR) FAST AND TECHNICAL ASSISTANCE PROGRAM (U.S. SMALL BUSINESS ADMINISTRATION)

Small businesses account for more than 55 percent of all innovations in this country, yet it is often cost-prohibitive for them to participate in research and development (R&D) efforts. The SBA's Small Business Innovation Research (SBIR) program is a highly competitive initiative that encourages small business participation in the area of government research. Federal agencies administer the SBIR program, allowing small businesses to assist in conducting innovative research for commercialization or public benefit. The SBIR program helps to fund the critical start up and development stages, and then encourages the commercialization of the product or service. The goals of the SBIR program include using small firms to stimulate technological innovation, strengthening the role of small businesses in meeting federal R&D needs, and fostering participation of rural, low-income and women-owned small businesses in federal R&D initiatives. Currently there are eleven government agencies participating in the program, including the Department of Defense (DOD), the Department of Energy (DOE), The Department of Homeland Security (DHS) and the National Aeronautics and Space Administration (NASA). Since the start of the SBIR program, more than $12 billion has been awarded to various small businesses. After being severely underfunded in the past, the FY 2006 budget request by this administration cuts funding altogether within the SBIR program to provide outreach to small businesses in low-income and rural areas of the nation.  Such a move will lead to a concentration of SBIR awards to small firms in certain geographic areas, precluding worthy and capable small firms in economically-distressed parts of the country from fully developing their R&D potential.

**COMMUNITY TECHNOLOGY CENTERS (CTC) PROGRAM (U.S. DEPARTMENT OF EDUCATION)**

Access to technology, including a Web site and interactive e-commerce, is key to small business growth in this country. These tools give entrepreneurs a way to enhance their products and services, access new markets at a low cost, and compete with larger operations. Yet those entrepreneurs living in underserved urban and rural communities often find it difficult to gain access to the technology they need for their business ventures. The U.S. Department of Education's Community Technology Centers (CTCs) program is able to help bridge the digital divide by demonstrating the educational and economical benefits of technology. While the CTC program exists to provide more access to technology in distressed communities, it also serves as a building block for technological advancement and training in these areas. As the Community Technology Centers take root in neighborhoods across the country, entrepreneurs are able to learn the technological skills for starting-up and developing a small business. By helping to provide computer access to many who simply do not have it at their fingertips, CTCs serve a vital purpose in helping to bring economic support to small businesses. The funding for CTCs in FY 2005 was $5 million, yet the current budget proposal requests no funding in FY 2006. By failing to fund a program that supplies information technology tools and training to local businesses, this administration is undermining the potential, competitiveness, and profitability of these firms in the future.

**ENVIRONMENTAL QUALITY INCENTIVES PROGRAM (EQIP) U.S. DEPARTMENT OF AGRICULTURE)**

A successful national agricultural policy requires preserving the quality of farmland for future use. The need to protect the future viability of agricultural lands often is at odds with farmer's bottomline. Family farmers are faced with the problem of trying to balance current productivity with future sustainability. Technological gains and improved farming techniques have made it easier to align current productivity with future sustainability. Increasing conservation is costly and many small farms are unable to afford the initial high costs required to purchase the necessary equipment or the initial lost income resulting from a transition to a new method of cultivation. The Environmental Quality Incentives Program (EQIP) offers both financial and technical assistance in order to conserve valuable farmland. The technical assistance typically takes the form of general management processes, designing and installing conservation practices. The financial assistance allows farmers and ranchers to purchase new equipment, which they otherwise could not afford and will allow them to preserve the family farm for generations to come. By reducing funding for the EQIP, the administration is increasing the likelihood that farms will not be able to preserve the family farms, as they will give into production pressures at the expense of conservation.

**RENEWABLE ENERGY SYSTEMS AND ENERGY EFFICIENCY IMPROVEMENTS PROGRAM (RES AND EEI) (U.S. DEPARTMENT OF AGRICULTURE)**

It is our rural small business owners, ranchers and farmers who are the lifeblood of a successful effort to develop a meaningful renewable energy policy in America. Currently, the United States is overly dependant on foreign sources of energy and as a result, this nation's economy and its small businesses are vulnerable to high energy costs. These costs are particularly high for small farmers who are often located a great distance from distribution points and accordingly are forced to pay higher energy costs. Fortunately, America's farmers and ranchers have the potential to produce renewable, environmentally friendly, domestic sources of energy. The mission of the Renewable Energy Systems and Energy Efficiency Improvements (RES and EEI) program is to provide loans and grants to small businesses and farmers in rural areas to reduce energy costs and consumption in an effort to better meet the energy needs of our nation. Many times the initial costs of implementing a new energy system are prohibitive. This program helps to finance such projects. Projects which have been funded include producing energy from wind, solar or geothermal energy sources. This program allows farmers to produce their own energy, thus lowering their usage of foreign energy sources and begin the process of becoming energy producers which will have the effect of driving energy prices down for all small businesses. This year the administration's budget proposal for RES and EEI is just $10 million, cutting the program in half. By reducing funding for these energy programs tapped by small enterprise, this administration is shortchanging the ability of these firms to develop renewable energy sources – while at the same time decreasing the overall likelihood that the country will be able to produce enough energy to meet its needs.

**TECHNOLOGY OPPORTUNITIES PROGRAM (TOP) (U.S. DEPARTMENT OF COMMERCE)**

Technology and digital networks can support learning initiatives for all Americans, and ensure health services and economic development reach rural and urban communities. The U.S. Department of Commerce's Technology Opportunities Program (TOP) seeks to promote the innovative use of digital network technology in both the private and public sectors by providing matching grants to state, local and tribal governments, schools, libraries, police departments, health care and other community based organizations. A component of TOP is using the application of digital networks to support economic development in areas by connecting entrepreneurs with small business assistance. Since small businesses require extra support, have thin profit margins, and lack a safety net, TOP can bridge this assistance gap electronically, creating an extensive support network online. An example of this type of network is happening in Delaware, where TOP funds have been used to start a non-profit initiative aimed at promoting small business procurement and networking opportunities. To date, TOP has awarded approximately 555 grants in every state, Puerto Rico, the District of Columbia, and the Virgin Islands, totaling almost $205 million and garnering $282 million in local matching funds. TOP projects serve as models for communities across the country, and the initiative is specifically targeted toward minority and women-owned businesses. In the FY 2006 budget proposal, the administration requests no funding for TOP. Since funding will no longer be available, a significant number of entrepreneurs will not be be able to take advantage of the technological tools used for economic development that TOP would have provided.

**MANUFACTURING EXTENSION PROGRAM (MEP) (U.S. DEPARTMENT OF COMMERCE)**

In the last four years 2.7 million manufacturing jobs have been lost, severely eroding the manufacturing capabilities of the United States. These job losses are a result of the crisis that has struck the domestic manufacturing sector. As manufacturing jobs leave the U.S., the global competitiveness of the sector also falls behind. Small manufacturers are particularly vulnerable because they do not have the resources to weather sustained periods of economic downturn. The Manufacturing Extension Program (MEP) at the U.S. Department of Commerce is a network of not-for-profit centers in over 400 locations nationwide, which are focused on improving the overall competitiveness of the manufacturing sector. MEP helps improve the competitiveness of small manufacturers by providing technical and business solutions, and aids these businesses with process improvement, quality management systems, market development, materials engineering, product development, energy audits, financial planning and electronic commerce, among others. Operating in all 50 states and Puerto Rico, MEP has made it possible for approximately 150,000 of our nation's smallest firms to utilize the expertise of knowledgeable manufacturing and business specialists all over the United States. The information that small manufacturers receive through the MEP helps to ensure that they remain globally competitive despite an unfavorable economic environment. According to a recent survey of MEP clients served from October 2002 through September 2003, they created or retained more than 50,315 jobs, increased $1,483 million in sales, had $686 million in cost savings, and served 18,422 clients in FY 2003 as a result of MEP services. Given the loss of manufacturing jobs, the MEP is needed now more than ever to assist in the stabilization of manufacturing. Previously, cuts have been made to the MEP budget, in FY 2004 the budget request resulted in the closing of 58 MEP regional offices and lay offs of 15 percent of the MEP staff. FY 2006 budget is proposing cuts which will result in even fewer manufacturers getting the assistance they need to survive in a difficult environment.

## CONCLUSION

There are many issues to consider when viewing the latest budget submission and the spending priorities included within it. The rising budget deficits have further sharpened the focus on these budget priorities. The government will now be operating at an annual deficit for the foreseeable future because the predicted job creation as a result of economic policies have not produced the expected return.

Given that small businesses create seventy five percent of all new jobs, it is important that the nation's economic policies and spending priorities are designed to bolster entrepreneurship. Unfortunately, the past policies have failed to provide job creation in the small business sector. The latest figures projected by the administration expect only a job growth rate of 2.1 million jobs in 2005, down from 3.6 million.

The FY 2006 budget, with its disproportionate amount of cuts targeted to small business programs, will do little to change this course and improve job creation. Nearly half of all federal programs aimed at helping small businesses are either severely cut or eliminated. Had these program cuts been applied in line with the CBO baseline numbers, the total funding cut would have been closer to $100 million, as opposed to the $6.1 billion cut proposed. In effect, small businesses will experience a disproportionate economic burden compared to other sectors if these cuts are enacted.

The budget includes cuts from fifty programs that boost economic development and nurture the growth of small firms. This is a dramatic reversal of the government assisting small businesses due to the fact that they are an important part of the economy as the risk takers. Unfortunately, the nearly 80 percent average cut in funding for small business programs in the FY 2006 budget will limit investment in emerging ventures, which has typically been a catalyst for economic growth and expansion. With these cuts, as well as the three previous budgets, it will add corresponding uncertainty to not just continuation of the targeted programs, but to other programs aimed at helping small firms.

The severe nature of the cuts will also have significant effects on local economies. This is particularly the case with the new budget cuts – both HUD and USDA – where it is clear that urban and rural economies will be hit the hardest. While some businesses in these areas may not be directly taking advantage of these programs, they may have a buyer or seller who does. As such, when these critical programs are eliminated, it will be detrimental to economic infrastructures in these communities.

By failing to provide funding for these programs in the budget, it could not only harm this nation's small businesses, but hurt the very goal for which these cuts were rationalized in the first place – deficit reduction. Given that the cuts to these programs only reduce the overall budget by one quarter of one percent, the nature of the cuts appear to be overly drastic. If the concern is reducing the deficit while improving the economy, there are better alternatives. In contrast, no matter how one measures the small business program cuts -- whether in percentage of program dollars cuts, number of programs eliminated, or percentage of cuts in relation to the budget -- small firms do not fare well.

| PROGRAM TITLE | FY06 Request | Amount Cut ($ thousands) | Percent Cut |
|---|---|---|---|
| 7(A) LOAN PROGRAM | - | 79,100 | 100% |
| ADVANCED TECHNOLOGY PROGRAM (ATP) | - | 136,500 | 100% |
| APPALCHIAN REGIONAL COMMISSION (ARC) | 65,500 | 500 | 1% |
| BANK ENTERPRISE AWARDS PROGRAM (BEA) | - | - | 100% |
| BROWNFIELDS ECONOMIC DEVELOPMENT INITIATIVE (BEDI) | - | 24,000 | 100% |
| BUSINESS INFORMATION CENTERS (BICS) (U.S. SMALL BUSINESS ADMINISTRATION) | - | 396 | 100% |
| BUSINESSLINC | - | 6,600 | 100% |
| CDFI NATIVE AWARDS | - | - | 100% |
| COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM | - | 4,240,900 | 100% |
| COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM SET ASIDES | - | 301,568 | 100% |
| COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM (CDFI) | - | 56,000 | 100% |
| COMMUNITY DEVELOPMENT LOAN GUARANTEES (SECTION 108) | - | 275,000 | 100% |
| COMMUNITY TECHNOLOGY CENTERS (CTC) PROGRAM | - | 5,000 | 100% |
| ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) | 27,000 | 193,000 | 60% |
| ECONOMIC DEVELOPMENT INITIATIVE (EDI) | - | 262,000 | 100% |
| EMPOWERMENT ZONES (EZS) | - | 9,920 | 100% |
| ENVIRONMENTAL QUALITY INCENTIVES PROGRAM (EQIP) | 1,000,000 | 17,000 | 2% |
| FUNDING FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION (FIPSE) | 22,000 | 142,000 | 87% |
| MANUFACTURING EXTENSION PROGRAM (MEP) | 46,800 | 60,700 | 56% |
| MICROLOAN PROGRAM | - | 17,000 | 100% |
| MICROLOAN PROGRAM TECHNICAL ASSISTANCE | - | 13,800 | 100% |
| MIGRANT AND SEASONAL FARMWORKER PROGRAMS | - | 76,000 | 100% |
| MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA) | 30,700 | 3,800 | 11% |
| NATIONAL COMMUNITY DEVELOPMENT INITIATIVE (NCDI) | - | 30,000 | 100% |
| NATIONAL VETERANS BUSINESS DEVELOPMENT CORPORATION | - | 2 | 100% |
| NATIVE AMERICAN OUTREACH | 800 | 187 | 19% |
| NEW MARKETS VENTURE CAPITAL PROGRAM (NMVC) | - | 52,000 | 100% |
| OFFICE OF REGULATORY ANALYSIS | - | 5,200 | 100% |
| ONE-STOP CAREER CENTERS | 88,000 | 11,000 | 11% |
| OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) | 46,000 | 125,000 | 73% |
| PRIME (PROGRAM FOR INVESTMENT IN MICROENTREPRENEURS) | - | 5,000 | 100% |
| RENEWABLE ENERGY SYSTEMS AND ENERGY EFFICIENCY IMPROVEMENTS PROGRAM (RES AND EEI) | 10,000 | 13,000 | 57% |
| RISK MANAGEMENT AGENCY (RMA) | 87,800 | 3,800 | 4% |
| RURAL BUSINESS ENTERPRISE GRANTS PROGRAM (RBEG) | - | 40,000 | 100% |
| RURAL BUSINESS INVESTMENT PROGRAM (RBIP) | - | 10,000 | 100% |
| RURAL BUSINESS OPPURTUNITY GRANTS | - | 3,000 | 100% |
| RURAL COMMUNITY DEVELOPMENT INITIATIVE (RCDI) | - | 6,350 | 100% |
| RURAL EMPOWERMENT ZONES/ ENTERPRISE COMMUNITY INITIATIVE (EZ/EC) | - | 12,400 | 100% |
| RURAL HOUSING AND ECONOMIC DEVELOPMENT (RHED) PROGRAM | - | 24,000 | 100% |
| RURAL UTILITIES SERVICE (RUS) BROADBAND LOAN PROGRAM | 10,000 | 1,715 | 15% |
| RURAL UTILITIES SERVICE (RUS) ELECTRIC LOAN PROGRAM | 6,040 | 21739 | 78% |
| SBIC PARTICIPATING SECURITIES PROGRAM | - | 0 | 100% |
| SMALL BUSINESS DEVELOPMENT CENTERS | 88,000 | 1,000 | 1% |
| SMALL BUSINESS INNOVATION RESEARCH (SBIR) FAST PROGRAM | - | 1,979 | 100% |
| SMALL BUSINESS INNOVATION RESEARCH (SBIR) TECHNICAL ASSISTANCE PROGRAM | - | 247 | 100% |
| TECHNOLOGY OPPORTUNITIES PROGRAM (TOP) | - | 14,000 | 100% |
| U.S. EXPORT ASSISTANCE CENTERS (USEACS) | - | 15,000 | 100% |
| VALUE-ADDED GRANTS | - | 120,000 | 100% |
| VETERANS WORKFORCE INVESTMENT PROGRAM (VWIP) | 8,000 | 1,000 | 11% |
| WOMEN'S BUSINESS CENTERS (WBC) | 12,000 | 300 | 2% |
| WORKFORCE INVESTMENT ACT (WIA) ADULT TRAINING PROGRAM | 866,000 | 32,000 | 4% |