# The Impact of the FY 2007 Budget on Rural Small Business

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## INTRODUCTION

The administration's 2007 budget proposes to cut funding for domestic non-homeland security programs by $16.8 billion below the amount necessary to maintain purchasing power at the 2006 level. As many analyses of the administration's FY 07 budget have concluded, the proposed funding cuts will impose severe burdens on public service programs administering educational and health care resources. Yet, it is critical that proposed cuts in resources essential to the stability of rural economies are not overlooked, as they will similarly impose detrimental impacts on these communities. In fact, the proposal cuts over $1 billion in funds and almost $9 billion in loan authority for federal programs that support rural economies. Therefore, this report highlights aspects of the President's FY 07 budget that will limit economic growth in rural areas of the country.

Small businesses are the main source of entrepreneurial and employment growth in most rural communities. Supporting this sector is a plethora of federal investments that provide access to capital, economic development, and agricultural production assistance. Unfortunately the administration's FY 07 budget proposal drastically reduces public resources threatening to undermine the capability and competitiveness of these firms. Specifically, at least 26 major programs administered by 8 federal agencies designed to provide assistance to small businesses in rural areas have been slated for cuts or termination in the current proposal. The cuts threaten the viability of rural entrepreneurial activities, the revitalization efforts of local communities, and the strength of many of the country's industries that are supported by these small businesses.

Small firms operate 90% of the establishments and employ two-thirds of the population in rural regions. Home based businesses and other micro-enterprises currently employ 20% of the average rural county's workforce. In regions that are often abandoned by a large corporate presence, these businesses are key to the economic stability of these communities.

Small businesses dominate many industries concentrated in rural areas. Independent farmers account for 70% of agricultural producers. Small agribusinesses also thrive in non-metropolitan regions, from equipment providers, agricultural transporters, and fertilizer and chemical producers. Many other industries, both within and external to rural areas, are impacted by the agricultural sectors dominated by small businesses, including grocery stores, food export companies, food processing plants, and restaurants. These firms are important components of the supply chain providing food and other resources to communities across the nation.

The service sector in rural areas is largely represented by small businesses. These firms provide health and education services, and retail trade. Entrepreneurs generate unique and niche goods perpetuating the cultural value of these communities in the country. They also provide recreational services creating tourism opportunities and income for the country while preserving natural resources and historical heritage. By establishing value in rural-based products, entrepreneurs expand growth opportunities for local and national industries.

Small firms have also enabled these communities to successfully respond to dynamic conditions and pressures from an increasingly globalized world of commerce. In order to enhance trading power and market share, these small businesses have enormous abilities to adapt and respond to shifts in the marketplace. They are strongly positioned to take advantage of the unique products and services that rural communities possess. By employing creative marketing processes, these business owners ensure that goods produced in their regions reach a broad customer base. This has been an equation for successful economic conditions in rural areas across the country.

These firms, therefore, expand rural economies further, connecting them with both global and urban markets. By linking regions outside of the urban core with large companies across the country, these firms also help bring communities in contact with broader systems of commercial, cultural, and financial resources.

Small businesses are key entities in the industrial structure of rural communities. Given smaller populations and the trend for large businesses to avoid or temporarily locate in these regions, small firms are appropriately structured to meet their communities' economic demands. By providing a diverse economic base for communities, small businesses protect against the destabilizing impact caused from having a communities' economic system tied to one major business.

Rural communities with a large proportion of entrepreneurs generally possess robust regional economies, and are critical to maintaining economic productivity. To support the growth of these enterprises, small firms require business development assistance to produce and sell their products efficiently. Entrepreneurial assistance is necessary for these firms to obtain training and informational resources. Given the lack of private investment and limited bank lending in rural areas, they also require access to capital to start and expand their enterprises. Further, these communities need a strong entrepreneurial framework, including physical resources and financial tools that support small business development. With adequate public/private partnerships, small firms can meet their communities' needs.

The administration's budget proposal portends future difficulties for rural small businesses to adjust to dynamic economic shifts and support local and national economic growth. Cuts have been consistently proposed in the agricultural safety net, rural business training and working capital to small farms. These slashes in funding have inhibited the abilities of these programs to meet their missions in support of rural economies – and, if current under-funding trends continue, these programs could very soon be at the tipping point of becoming irrelevant. Therefore, this is a critical time to fully fund programs that support rural small businesses in order to ensure steady entrepreneurial and employment opportunities in these regions for years to come.

## ANALYSIS

The FY 07 budget proposes to limit and terminate Federal programs designed to ensure rural areas maintain steady economic and entrepreneurial development. The proposal concentrates spending reductions in programs from which rural small businesses benefit, including those that provide capital access, entrepreneurial assistance, economic development, technological advancement, and rural initiatives.

*Access to Capital*

Access to capital is particularly important for small rural businesses, as they generally encounter difficulties obtaining private investment from banks that are traditionally risk averse in the loan market. Federal programs throughout many agencies have been established to spur emerging private enterprises through public investment in various forms of financial assistance.

Many programs create incentives for private development by microenterprises and other small businesses through the provision of loans, credit and fee subsidies to reduce loan transaction costs, and financing for working capital. A critical source of financial assistance, SBA's Microloan program helped rural microenterprises receive loans totaling over $12 million last year. Although this program has been a fundamental resource for many small businesses starting and expanding their enterprises in these regions, for the third consecutive year, the administration's budget proposes to terminate its funding.

Federal programs have also assisted small firms in agricultural industries obtain working capital. The US Department of Agriculture offers loans and payments to farmers through the Commodity Credit Corporation (CCC) to maintain agricultural production. By providing capital during low production seasons and in areas that lack adequate private lending capacity, the CCC helps independent farmers remain viable competitors to their corporate and foreign counterparts. Unfortunately, the administration proposes to cut $5 billion in loan authority for the CCC, thereby reducing the ability of small farmers and ranchers to obtain needed capital and overcome financial shortages.

Rural communities facing chronic economic distress have also received resources from federal programs that provide capital to spur business development. The US Department of Housing and Urban Development administers the Section 108 loan guarantee program, which provides communities with financing to initiate and spur business. Many of these communities have utilized the loans to attract small businesses. For example, communities have received loans to finance public infrastructure, which through the construction of roads and buildings, provides the resources to enable small firms to operate their enterprises. With $3 billion in loan authority cut from the program, rural communities will have fewer resources to attract these firms and promote economic revitalization.

By reducing the availability of financing offered through these types of programs, small business growth in rural areas will be impeded. Furthermore, these firms will have more difficulty contributing to the development of regional industries and economies.

*Entrepreneurial Assistance*

Rural areas have been significantly impacted by the trend of large companies closing their facilities or shifting production overseas. In most of these areas, small businesses are the sole remaining economic engines. For small firms to continually contribute to local economies, they require business development and entrepreneurial support to maintain competitive enterprises. In rural areas, however, these resources are scarce. Therefore, rural entrepreneurs have greatly benefited from federal entrepreneurial assistance programs that serve their unique needs.

Unfortunately, many federal programs serving rural entrepreneurs with business development assistance and skills training have been slated for cuts in the administration's FY 07 budget. Cuts in the current proposal target programs that help businesses develop strategies to cost efficiently produce, add value to their products/services, and provide outreach to assist minority and women-owned businesses.

Entrepreneurs require ongoing education and training to successfully execute their business plans. The SBA offers several programs that entrepreneurs can access for business development throughout the country. SBA operates nearly 30 Women's Business Centers in rural areas that provide training and technical assistance for women entrepreneurs. Small Business Development Centers operate in over 500 rural communities throughout the country, providing technical, management, and market-development assistance for local entrepreneurs. Funding cuts for these programs, as proposed in the administration's budget, will reduce the resources available from these centers, which are otherwise difficult to access in many rural communities.

Many federal agencies have established programs to assist entrepreneurs adjust their business plans and products to meet global market demands. The Department of Labor's Trade Adjustment Assistance program allocates almost half of their available funding to rural applications to retrain entrepreneurs in these communities. This program supports the creation of pioneering entrepreneurs and products, and ensures the continued viability of rural communities as markets change. Proposed cuts will threaten the creation of new products and stifle innovation in these communities.

Like their corporate counterparts, small firms must be able to obtain training, information and networking resources to enhance their business capacity. Given the distance from major markets, public investment is necessary to ensure these resources are affordably accessible to rural communities. Cuts in entrepreneurial development programs will exacerbate the gap between rural small businesses and their corporate counterparts in technology, market access and competitiveness.

*Economic Development*

Community and economic development programs provide incentives for small businesses to operate in rural communities. These public investments provide a substantial return as the businesses then support local economic growth.

Federal resources that promote the establishment of a rural economic development framework are key factors in the creation of incentives and resources that enable small businesses to develop in these communities. The administration's FY 07 budget proposes to cut funding for programs that promote the establishment of a strong foundation for rural communities' economic and physical growth. In fact, funding has been cut throughout various federal agencies for programs that provide financial incentives, resources, and other tools that generate private and additional public investment for needed infrastructure. Cuts will reduce resources for transportation facilities and modern communication networks that help rural small businesses connect with global markets.

A centerpiece community development program, the USDA's Rural Empowerment Zones/Enterprise Communities (EZ/EC), operates 60 zones in rural regions across the country. The program provides incentives for small businesses to locate in distressed rural areas by establishing tax deductions for capital costs assumed by businesses in the designated zones. The administration's proposed termination of the program will have the effect of perpetuating the economic gap between rural and urban communities and impeding the establishment and maintenance of small rural businesses.

The Economic Development Administration (EDA), which originated as a rural development agency, invested 66% of its funds and increased the amount of private capital by 115% in rural communities in 2004. Through projects that fund brownfields redevelopment and investments in public infrastructure, EDA awards provide resources spurring small businesses to locate and thrive in rural communities that lack private investment. Furthermore, half of the agency's funds for economic adjustment objectives were provided to rural areas. The awards have assisted businesses outside of the metropolitan core in accommodating to changing markets. However, the administration proposes to cut $200 million from EDA's budget, which would result in fewer public incentives to spur small business growth in these communities.

Without a robust physical and financial framework, rural communities will be constrained in their ability to attract and maintain small businesses. By reducing public spending to develop their industries and entrepreneurs, these communities lose opportunities for economic growth.

*Access to Technology*

Rural businesses' access to advanced technology is a main determinant of their overall competitiveness, particularly as the economy shifts to an emphasis on service and information-based assets. Small farmers, manufacturers, and service sector firms located outside of the urban core are particularly in need of information and efficiencies from technologies to stay at the cutting edge of their industries and maintain competitive prices. However, continued access to technology is under threat from the FY 07 budget proposal as programs designed to promote research into innovative technologies, products and procedures have been slated for cuts.

Small business development and transferal of technology has significantly benefited rural areas. A key resource to help these firms access advanced technology in rural areas has been the Technology Opportunities Program (TOP) administered by the Department of Commerce. Since 1994, TOP awarded 255 grants to rural communities and businesses to develop and utilize advanced communication, data storage, and resource monitoring technologies. Unfortunately, during the past four years, the administration has proposed terminated funding for the program. This resource elimination is likely to maintain the technology gap between urban and rural businesses.

These communities have also been impacted by a lack of access to information through advanced technologies. The Department of Education's Community Technology Centers (CTCs) has attempted to overcome this problem by establishing low and no-cost centers throughout the country which provide access to computers and internet technology, thereby increasing small business networks with consumers and other businesses across the globe. Over the past 5 years, this program has supported the operation of nearly 70 centers in rural communities. This program has been targeted for termination since 2002, when the Bush administration proposed its first budget. Without affordable access to these technologies, rural entrepreneurs will be constrained in the markets that they can reach.

Given the cuts in programs that support equitable access to innovative products and procedures, small businesses will have to shift more of their resources to obtaining the benefits from modern technologies. Consequently, they will have fewer resources for investments that will expand their enterprises placing them at a competitive disadvantage in the market.

*Rural Initiatives*

Federal programs have historically assisted rural areas develop advanced economic systems and entrepreneurs. Many of these resources have supported initiatives to implement economic development strategies that attract small businesses and maintain competitive industries in these regions.

However, the administration's FY 07 budget proposes to reduce funding for federal programs designed to assist rural and agricultural communities in addressing their unique needs. Nearly $90 million has been cut from programs designed to spur competitiveness in these communities. These programs provide resources and financial incentives to ensure that rural economic growth is sustained and continues to support national productivity. The FY 07 budget cuts for rural initiatives include those programs designed to attract employment and businesses to particular regions. It also slashes initiatives that enhance the industries that have historical success and future potential to strengthen local economies.

To cultivate these internal economies, the USDA established the Rural Business Enterprise Grants program, which awards projects to finance the establishment of small firms, funding various expenditures such as start-up costs and marketing studies. Last year, 424 grants totaling $40 million were awarded to rural communities providing critical assistance for emerging entrepreneurs and industries across the country. Slated for termination this year, an absence of this program will constrain the development of robust rural economies.

These communities have also pursued resources to enhance their businesses and products thereby making them more competitive in global markets. The Value Added Producer Grant Program administered over $14 million in awards last year to producers, cooperatives and trade associations to improve their production processes and marketing techniques. Proposed cuts in the FY 07 budget will limit profit opportunities for small businesses and advancements in industries in rural regions throughout the country.

Public resources are integral to promote the advancement of small rural businesses in order to help them develop innovative products, create niche industries, and remain competitive in global markets. Shifting resources from programs that strengthen these firms and entrepreneurs will impede their ability to initiate the development of robust economies and industries in rural regions.

For a more detailed analysis of the impacts of the administration's FY 07 budget on rural economies, the following section is a program-by-program analysis of how those programs targeted for elimination or budget reduction serve small rural businesses and the possible effects of such cuts. The programs have been divided into five categories: Capital Access, Entrepreneurial Assistance, Economic Development, Access to Technology, and Rural Initiatives. These programs are representative of the needs of the small business sector.

## PROGRAM DESCRIPTIONS

## ACCESS TO CAPITAL

### COMMODITY CREDIT CORPORATION (CCC)

Each crop season, small farmers are faced with a great deal of price instability and uncertainty. The price they receive for their crop is determined by a variety of factors, most of which are entirely out of the farmer's control. Unlike agribusiness, family farmers lack the market share of large-scale agricultural enterprise to set the market, and are thus forced to be price takers. Additionally, family farmers do not have the land resources necessary to diversify their crops, which would protect them from low prices in a particular commodity. The Commodity Credit Corporation (CCC), administered by the U.S. Department of Agriculture (USDA), functions as a safety net for family farmers by ensuring minimum commodity prices, which protects them from the volatility of the market by ensuring their continued viability. CCC ensures these commodity prices by entering the market as a purchaser, and buying enough of a certain commodity to ensure it receives a reasonable price. In addition to ensuring commodity prices, CCC provides loans to farmers when they need capital, as well as ensures there are adequate markets for domestic agricultural products, maintains domestic supplies, and distributes them accordingly. Over the years, CCC has helped to protect farmers from losing their land as a result of a single bad farming season or year of low commodity prices – yet the president has requested nearly $5.9 billion less in funding for the program in FY 2007, which reflects a 23 percent cut from the funding it received in FY 2006. Without the valuable services provided by CCC, family farms will face difficulty in planning for the coming crop season and recovering from the losses suffered as a result of unfavorable market forces or weather patterns.

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

Many times small businesses 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, the program provides services that help ensure credit from CDFI is used effectively, which is achieved through technical assistance to small businesses recipients of CDFI capital. CDFI has channeled this 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 by cutting funding by nearly 86 percent, leaving this program with less funding and fewer means to expand the availability of credit, capital and financial services in underprivileged communities across the country.

**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 remaining economic pillars. The Community Development Loan Guarantees (Section 108) were designed to fund community renewal projects that have the potential to transform entire neighborhoods. As a federally-funded initiative, these loans help to encourage private economic activity and provide 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. These funds are often used in tandem with CDBG funds to further strengthen economic development projects. These projects include microenterprise loans to low-income individuals, business loans to assist in the expansion of small firms that employ low-income workers, 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 again terminating the Section 108 program in FY 2007, this budget proposal will decrease the ability of entrepreneurs and small businesses to help their areas rebound and create jobs for local residents.

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

Many entrepreneurs that lack sufficient personal assets do not conform to traditional credit screening, or lack the business training necessary to access affordable capital. These entrepreneurs have difficulty securing conventional loans and often look elsewhere to satisfy their capital needs. 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 $20 million in loans and $14 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. In its FY 2007 budget proposal, the administration has again proposed to terminate Microloan – despite the fact that Congress has repeatedly restored funding for this initiative. The Microloan program has clearly been a key factor in the development and strengthening of America's microbusinesses. By cutting this program, the administration is limiting the potential for many low-income and minority entrepreneurs to become self-sufficient, and preventing our nation from utilizing a successful and proven economic development tool.

## ENTREPRENUERIAL ASSISTANCE

**OCCUPATIONAL AND EMPLOYMENT INFORMATION STATE GRANTS (U.S. DEPARTMENT OF EDUCATION)**

Despite current economic uncertainty, an increasingly important concern for small businesses is the recruitment and training of workers. The U.S. Department of Education's Occupational and Employment Information State Grant programs are targeted at providing the labor force of the 21st century, with career guidance and counseling. These grants, which are awarded to local entities, including community colleges and universities, promote improved career and education decisions by individuals. Educational institutions that receive Occupational and Employment Information State Grants use their funds to create matchmaking networks of graduating students and potential employers – ultimately providing small businesses with steady access to a skilled employee pool. Working with small businesses to identify their employee needs, grant recipients prepare students for available jobs, which reduces the cost and time of small businesses in employee searches, provides them with a better skilled work force, and increases employee retention by fostering career-oriented individuals. Like previous budgets, the FY 2007 budget overlooks this critical program and once again requests no funding for it. Failing to provide such services to students diminishes the availability of next generation workers to be employed by small businesses and possibly become future entrepreneurs.

**REGIONAL RURAL DEVELOPMENT CENTERS (U.S. DEPARTMENT OF AGRICULTURE)**

One-quarter of the U.S. population lives in rural areas located across the country. Small businesses and farmers in these rural locations face many challenges in maintaining economic success. Some of these problems include dealing with high unemployment rates, operating costs, and energy prices that make it difficult to make a profit. However, entrepreneurial development in these isolated areas is viewed as an integral contribution to the future sustainability of these rural communities. The four Regional Rural Development Centers – located in North Central, Northeast, Southern, and Western regions of the U.S. – were established under the Rural Development Act of 1972 to support entrepreneurship throughout rural America by providing education and research opportunities. Operating in conjunction with land-grant universities in areas across the country, each center works to address the most pressing economic and social issues of rural communities by building partnerships with local entrepreneurs, decision makers, and organizations. Specific programming efforts include the promotion of value-added agriculture, investment capital, rural tourism, and retail and e-commerce as a means to ensuring the continued economic sustainability of these communities. Each Rural Development Center also offers a variety of publications, newsletters and report on rural development policy and implementation, and information on federal government training classes, funding opportunities, and rural development conferences. However, after proposing to flat fund the program from FY 2004 through FY 2006, the administration has now chosen to reduce its funding request for the program in FY 2007. By reducing funding for an initiative that encourages small business owners and entrepreneurs to become more active citizens – it is clear that the administration has chosen to turn its back on aiding the advancement of rural economies, the promotion of regional and national rural community development – and ultimately allowing these businesses a chance to give back to the communities that have supported them.

**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. Rural small businesses have received assistance from SBDCs marketing products to global markets and improving the production process and value of their goods and services. SBDCs in farm states have also provided services to train farmers and ranchers on the loan repayment process to help preserve family farm enterprises. However, 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.

**TRADE ADJUSTMENT ASSISTANCE (TAA) PROGRAM (U.S. DEPARTMENT OF LABOR)**

With the rapid globalization of the American economy, many small companies in the U.S. often look to overseas markets to expand sales, increase revenues, and boost incomes. Making up 96 percent of all exporters, many small business exporters face difficulty in remaining competitive in the international arena dominated by large companies due to a combination of high production costs and little flexibility in lowering their prices. Many large firms are able to outsource their products or services at a lower cost; however, small businesses often lack a share of this market – which in turn threatens the future success of many small business owners and their employees. The Trade Adjustment Assistance (TAA) program provides aid to those business owners and workers who have lost their jobs, or have seen diminished hours, wages, or work due to increased imports or shifts in production out of the U.S. Eligible workers are offered a variety of benefits and employment services through TAA in an effort to reintegrate these individuals back into the workplace, including income support, relocation allowances, job search capabilities, and health care coverage tax credits. TAA protects the interests of small exporters while creating opportunities for displaced workers to re-train, create new products, and continue to support their local communities. Although the program has supported small business growth and job creation here in the U.S. and in international markets, the administration has proposed cutting funding for the program this year by $27.4 million. This is unfortunate for a program that has worked to assist those small business owners and their employees who have suffered trade-related job losses and helped to place them back into the labor force.

**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, the Small Business Administration (SBA) established the Women’s Business Center (WBC) Program in response to women's business organizations that insisted more needed to be done to help women overcome the barriers to success. Each WBC 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 SBA 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 has submitted a budget request for this program that again reduces funding for this vital entrepreneurial development program. 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.

## ECONOMIC DEVELOPMENT

**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 new jobs as well as by helping to retain 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 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. However, the administration's FY 2007 budget proposes slashing the EDA budget by 89.5 percent. This drastic cut for 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.

**LAND AND WATER CONSERVATION FUND (LWCF) STATE ASSISTANCE (U.S. DEPARTMENT OF AGRICULTURE)**

Private landowners and small farmers face many challenges in maintaining the sustainability of their business, while protecting wildlife habitats. If these business owners are unable to remain profitable, they are often forced to sell their land for some other use. This land is then converted for industrial uses that can threaten the natural ecosystems of these areas. Recent studies by the American Farmland Trust have found that every minute of every day, America loses two more acres of rural farmland to alternative operations. There are many tools available to help farmers, ranchers and loggers conserve and restore the habitat of endangered species and other at-risk plants and animals, including the Land and Water Conservation Fund (LWCF). This initiative authorizes federal, state or local governments to purchase land, water and other wilderness areas for conservation purposes, which will be converted into national forests, parks, wildlife refuges and other public areas. LWCF provides these landowners with the opportunity to work in a positive partnership to preserve their land without having to sell to commercial developers. However, the President's FY 2007 budget proposes cutting funding for LWCF state grants by nearly 95 percent, making it more difficult for private landowners to protect their land and achieve significant conservation results on a national scale.

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

In rural areas, oftentimes large segments of their population live below the poverty line and have unemployment rates far below the national average. In these communities small businesses play a particularly important role. Without sufficient assistance, the positive role small businesses play in economically revitalizing these communities is lost. The Rural Empowerment Zone/Enterprise Community Initiative (EZ/EC) was created in recognition of the unique difficulties facing severely distressed rural communities. 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 Rural EZ/EC allow small business to become competitive and focus on becoming 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 decision to eliminate the Rural EZ/EC program 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.

## RURAL INITIATIVES

**FARM SERVICE AGENCY (FSA) (U.S. DEPARTMENT OF AGRICULTURE)**

There are 1.4 million small farms across America, all of which play an important role in contributing to the framework of their local community and the fiber of the national economy. However, farmers face a great deal of uncertainty due to the high volatility of agriculture as a business – from unstable farm prices, to unpredictable crop yields, and changing weather patterns. The Farm Service Agency (FSA), dedicated to keeping our nation's farmers and ranchers on their land and helping those who wish to break into the agricultural arena, administers a myriad of programs to make these goals a reality. With its roots tracing back to the Great Depression era, FSA underwent reorganization in 1994, but continues to operate with the same mission of assisting small, local farmers, and preserving and promoting American agriculture for future generations. Today, FSA administers farm commodity and conservation programs for farmers, and makes and guarantees farm emergency, ownership, and operating loans that guarantee the continued sustainability of American agriculture. As small farms continue to compete against large agribusiness for a share of the market, the $248 million reduction in funding as proposed in the President's budget will only push small farmers closer to the edge of extinction.

**PARTNERS FOR FISH AND WILDLIFE (U.S. DEPARTMENT OF THE INTERIOR)**

Many small businesses located in coastal regions of the U.S. – particularly those in the tourism, recreation, travel and transportation industries – face increasing pressure in keeping these areas healthy and thriving. Population growth in coastal communities, coupled with a rise in visitors throughout the year, is an immense cause of concern for the continued viability of naturally occurring species in critical habitats throughout these regions. While these industries help to boost job creation and stimulate economic growth, it is important for business owners to find ways to assist in controlling unintended negative consequences these opportunities may bring – including decreased water quality, loss of fish and wildlife habitats and adverse health risks, to name a few. The Partners for Fish and Wildlife Program is a voluntary incentive program designed to assist private business and landowners with technical and financial backing for the protection of critical habitats that occur on their private land. Specifically, the program seeks to guide business owners in restoring degraded wetlands, native grasslands, streams, riparian areas, and other habitats that are in need of protection. The Fish and Wildlife Service reports that demand for the program has been strong since its inception in 1987, with funds helping 33,000 landowners to restore nearly 1.3 million acres of prairie and grasslands, 677,000 acres of wetlands, and 5,560 miles of riparian and in-stream habitats. By providing business owners in coastal areas with the tools they need to improve water quality, assist in fish and wildlife management, and protect natural habitats on their land, the Partners for Fish and Wildlife Program has spawned a new generation of Americans dedicated to conservation. However, in FY 2007 the Bush administration has requested reduced funding for the program, which will limit the ability of small business owners in these areas to participate fully and effectively in conservation efforts on their properties.

**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 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 business 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 2005, this program provided funding for at least one project in all 50 states. This program is of particular importance 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 FY07 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.

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

The lack of economic opportunities available in some of this nation's rural areas is threatening the viability of local communities across the country. 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 helps to 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 COMMUNITY DEVELOPMENT INITIATIVE (RCDI) (U.S. DEPARTMENT OF AGRICULTURE)**

There are many distinctive assets of 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 are unable to attract manufacturing or other large employers. This initiative was funded at $6.4 million in FY 2006, 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 COOPERATIVE DEVELOPMENT GRANT (RCDG) PROGRAM (U.S. DEPARTMENT OF AGRICULTURE)**

Small farm and ranch owners face many unique challenges in maintaining the day to day operations of their business, from purchasing tools and equipment to selling their products in the marketplace. Often times, these entrepreneurs are forced to pay high costs and receive only marginal profits in return for the product they produce and sell. For this reason, Congress established the Capper-Volstead Act in 1922 to allow farmers and ranchers to join together in cooperative partnerships for their mutual benefit. Today, there are nearly 3,000 farmer cooperatives in the U.S., with a membership that includes a majority of our nation's 2 million farmers and ranchers. The Rural Cooperative Development Grant (RCDG) program was created to invest in projects that assist small cooperative producers, particularly those that are minority-owned, through rural operating centers. These centers are used to conduct feasibility analyses, outreach, and other forms of technical assistance and business development services for new and existing farming cooperatives in rural areas across America. Although RCDG has helped to provide small farms in rural communities with the tools they need to spur economic growth, job creation, and business development, the administration has proposed cutting funding by nearly 8 percent for FY 2007, down from the $29.5 million the program received for FY 2006.

**RURAL ECONOMIC AREA PARTERNSHIP (REAP) ZONES (U.S. DEPARTMENT OF AGRICULTURE)**

Small businesses form the backbone of our local communities and the national economy – and no where is this truer than in rural America. From family farms to local restaurants and manufacturers – small businesses make up the bulk of the rural economy. Ninety percent of all businesses in rural areas are small firms. However, business owners in these regions face many hardships due to geographic isolation, and continue to struggle in their ability to succeed due to less access to available capital, fewer government loan programs, and reduced economic opportunity. As a result, many communities face intense poverty, population loss, unemployment and overall economic distress. The Rural Economic Area Partnership (REAP) Zones were created to address these critical problems by providing these regions with financial and technical assistance that will result in rural revitalization and community development. Through the designation of targeted rural zones, the program is able to promote regional economic activity and growth, create employment opportunities, and encourage redevelopment of these disadvantaged and isolated communities. The REAP initiative strives to achieve this by providing rural small firms with the development resources, education, and support they need to grow their businesses and ultimately thrive. The ultimate goal of the REAP program is to develop a model for redeveloping the rural economy of other areas that have struggled under the weight of similar issues. To date, businesses in regions of North Dakota, upstate New York, and Vermont have benefited from these revitalization efforts. Last year, the program was funded at $11.2 million, yet this year the administration has requested no funding for the program. REAP has been vital in providing businesses and residents of these areas with the tools needed to build a stronger, more promising economic outlook for their communities, and a bright future for rural America.

**RURAL ECONOMIC DEVELOPMENT GRANT (REDG) PROGRAM (U.S. DEPARTMENT OF AGRICULTURE)**

Providing financial support for rural entrepreneurial and small business development is an important strategy in promoting the advancement of America's rural communities. Many entrepreneurs in these areas lack sufficient access to affordable utilities and energy services needed to keep their businesses up and running. Often, these small businesses are forced to compete with larger firms that are able to deal with the high costs of energy consumption, telephone services, and Internet connectivity. The Rural Economic Development Grant (REDG) program helps to bridge this gap by providing loans to electric and telephone utility companies that are then disbursed to local business incubators for the promotion of regional economic growth and job creation projects in rural areas. These grants, to be offered as a revolving loan fund, help to defer the high cost of the electric, energy, and telephone services that are integral to the success of rural-based entrepreneurs. In turn, REDG has given small firms in isolated areas the ability to increase their business productivity, accessibility and services, and encourage overall community development. Despite this, the Bush administration has proposed the elimination of REDG for FY 2007.

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

The deployment of broadband services, or high-speed Internet, in small rural towns trails that in large cities across the nation. Lack of broadband can be especially frustrating 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 – the only federal initiative designed to encourage broadband investment in our nation's rural communities. In order for small businesses to be utilized as engines of economic development, it is imperative in today's fast-paced global marketplace that they have access to the World Wide Web. Technology has allowed people to start a microenterprise with a high-speed connection and an idea – and home-based businesses have flourished in large part due to this. In 2003, USDA funds allowed for $1.3 billion to be used to increase broadband access to rural communities and the entrepreneurs who live there. By attempting to bridge the digital divide in this country, especially for small businesses in rural areas of the U.S., the RUS broadband loan program gives small companies access to important technology to better compete in the 21$^{st}$ century. This program is critical today as the U.S. continues to lag behind other technologically-savvy countries, such those located in Asia and Europe. The FY 2007 budget submission proposes to reduce RUS funding by 28.5 percent, 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.

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

One way for businesses in agricultural-dependent areas is through the development of new products and markets for their goods and services. Value-added grants, provided through the U.S. Department of Agriculture (USDA), promote activities that will help 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 product 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 cutting funding for this program, many small companies focused on staying competitive in the agricultural marketplace will find the federal assistance dedicated to helping them maintain an edge over their competitors more difficult to obtain in.

## TECHNOLOGY

### 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 – yet in every budget since FY 2002, the administration has proposed eliminating the program. The current budget proposal again requests no funding for CTCs. 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.

**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 are forced to pay higher energy costs accordingly. 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, in turn lowering their usage of foreign energy sources. Thus, RES & EEI help small businesses begin the process of becoming energy producers, which will drive down energy prices for all small businesses. This year the administration has proposed eliminating the RES and EEI programs. By eliminating funding for these energy programs, which are 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 uses 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. This year, the administration has requested no funding for TOP – following the trend of eliminating the program since FY 2004. Since funding will no longer be available, a significant number of entrepreneurs will not be able to take advantage of the technological tools used for economic development that TOP would have provided.

**CONCLUSION**

Public investment in our rural communities represent more than an outlay of resources – these funds support the establishment of a strong framework which promote further private investment and establishment of local rural economies. To effectively utilize public resources, the administration's budget proposal does not provide adequate support to the small businesses that will allow and help to sustain the country's rural communities.

At a time when global competition threatens the viability of many rural enterprises, including those involved in the agricultural, manufacturing and service sectors, federal resources are critical to ensure that businesses can adapt to dynamic economic conditions. As these enterprises produces a large portion of the country's food supply as well as provides necessary energy resources, continued investment is critical to the stability of the nation's economy.

Each region of the country must possess a sustainable economic system. Stable regions both support higher standards of living for local residents and are net contributors to the national economy. Expanding local economies not only provide for job creation, but they improve the federal government's fiscal status through increased tax revenues. In rural communities, the primary supplier of these jobs are small businesses.

Small firms which spur growth in rural areas, therefore, must be considered a priority when it comes to budget expenditures. Rather than trying to improve the problem of the $423 billion deficit through investment back into these areas, the administration is attempting to slash programs that are integral for communities across the country. The current cuts impose major burdens and will cause rural communities to forego investments and strategies designed to promote business and industry development.

The administration's FY 2007 budget is a shortsighted attempt to address the problems with the budget and current deficit problems. It fails to recognize the return on investment that the federal government is able to obtain from these programs. The proposed cuts for federal programs that support growth in rural regions will not only end up hurting the overall budget picture, but it will create economic hardship and instability in these communities.

The annual budget represents the priorities and commitments of Congress and the President to meet the needs of our nation and its economy. As part of this commitment, there must be recognition of the unique challenges facing the different sectors and that includes our rural economies. Unfortunately, this budget represents a willingness to forgo our investment in rural communities under the guise of fiscal constraint. In the end, it will provide for a minimal impact on the budget in the short term, and even greater problems in the years ahead as rural economies' contribution to the nation's GDP declines.