

The FY 2020 Presidential Budget: Missed Opportunities for Small Businesses

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A report prepared by the Democrats of the House Committee on Small Business
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EXECUTIVE SUMMARY

SMALL BUSINESS ADMINISTRATION¹

- Cuts the SBA by 6.5% from \$715 million to \$669 million,² a \$46 million cut.
- Cuts Entrepreneurial Development Programs by over \$67 million or 27%.
- Reduces Women’s Business Centers by \$1 million, or 6%.
- Slashes Small Business Development Centers by \$30 million, or 23%.
- Cuts State Trade Expansion Promotion Program by \$9 million or 56%, which reduces the assistance to small business exporters.
- Eliminates PRIME, the FAST Program, Regional Innovation Clusters, and Growth Accelerators, which hinders small business entrepreneurship.
- Cuts Small Business Innovation Research program and Small Business Technology Transfer program by nearly \$3 million.

LENDING

- Decreases Microloan technical assistance by \$6 million and Microloans by \$2 million.
- Removes funding for the U.S. Department of the Treasury’s Community Development Financial Institutions Fund Program.
- Proposes considerable fee increases in the 7(a) loan guaranty program and 504/CDC program.
- Cuts lending under the 504 Loan Refinancing Program from \$7.5 billion to \$1 billion.

VETERANS PROGRAMS

- Cuts over \$ 1 million from the Office of Veterans Business Development, which provides business training, counseling, and resource partner referrals to transitioning service members, veterans, National Guard and Reserve service members, and military spouses interested in launching or expanding a small business.

ENTREPRENEURSHIP RESOURCES

- Eliminates the U.S. Department of Commerce Economic Development Agency.
- Refocuses and slashes the budget of the Minority Business Development Agency within the U.S. Department of Commerce from \$40 million to \$10 million.

¹ The Committee compared the funding request made by the Small Business Administration in the FY 2020 Congressional Justification and FY 2019 Annual Performance Report to the enacted amount in Pub. L. 116-6, H.J.Res.31, Consolidated Appropriations Act of 2019.

² Excludes disaster assistance.

ENERGY

- Slashed funding for the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy by 85.6 percent, an industry employing 2.2 million Americans.³
- Creates new user fees to administer the U.S. Department of Energy's Energy Star program, harming both consumers and small business manufacturers and retailers.
- Phases out the Advanced Research Project Agency-Energy within the U.S. Department of Energy, cutting billions of dollars of highly innovative research.

RURAL BUSINESS

- Eliminates many of the Rural Business Development Programs in the U.S. Department of Agriculture, including Rural Business Development grants, Intermediary Relending Program, Delta Regional Authority grants, Rural Cooperative grants, Small, Socially Disadvantaged Producers grants, Rural Technology Transfers, and Value-added Producer grants.
- Cuts \$427 million from the Rural Business-Cooperative Service.
- Cuts funding for the Rural Utilities Services under the U.S. Department of Agriculture by over \$4 billion.

INNOVATION, TECHNOLOGY, AND MANUFACTURING

- Cuts SBIR and STTR by nearly \$ 3 million, which includes the complete elimination of the FAST program to help small innovative firms compete in the SBIR and STTR programs successfully.
- Eliminates the Manufacturing Extension Partnership within the U.S. Department of Commerce, hurting the nation's small firms, domestic job creation, and the manufacturing industry.

³ The Committee compared the funding request made by the President in A Budget for a Better America: Promises Kept. Taxpayers First, FY 2020 and FY 2019 Enacted in Pub. L. 115-244, H.R. 5895, the Energy and Water, Legislative Branch, and Military Construction and Veterans Affairs Appropriations Act, 2019. *See also* Dept. of Energy FY 2020 Budget Justification FY Summary Table by Organization, available at <https://www.energy.gov/sites/prod/files/2019/03/f60/doe-fy2020-summary-table-by-organization.pdf>.

INTRODUCTION

America's small businesses are a catalyst for creating employment opportunities and driving growth in the U.S. economy. The estimated 30 million small firms in the U.S., represent 99.9 percent of all employers, generate two-thirds of all net new jobs, and support nearly 56 million jobs. That is why it is critical to formulate federal policy in a manner that supports their continued development. Such policy starts with the federal budget.

Unfortunately, President Trump's FY 2020 Budget is a missed opportunity to ensure small businesses have the resources and tools they need to start, grow, and expand. If enacted, this budget would put up a roadblock for small businesses by cutting funding for Small Business Development Centers, increasing loan fees on small businesses participating in the SBA loan programs, and sever programs that have proven critical to the rural economy.

The following report provides an assessment of the Trump budget's impact on small businesses across several areas, including the Small Business Administration, innovation, trade, technology, manufacturing, energy, and rural development. What it finds is that agencies and programs supporting small business and promoting entrepreneurship across many demographics--- veterans, women, minority-owned, and rural businesses would be substantially curtailed under the budget. The result would be lower startup rates, decreased opportunities for small business growth, and reduced levels of job creation.

For small businesses to continue to be the foundation of the U.S. economy, they only need the opportunity to compete with their larger corporate competitors. Many of the programs highlighted in this report simply level the playing field for small firms in such critical areas as manufacturing, technology, entrepreneurial development, rural assistance, and business financing. The network of federal government programs in these areas has enabled the development of a strong and vibrant small business sector, which is essential if we are to have an economy that works for everyone. To be effective, however, these programs require the support of Congress.

While ensuring that government operates efficiently is a priority, the decreases in small business resources do not represent a promising path forward. At a time when we are witnessing increasing deficits, decreased revenue from corporations, the FY 2020 budget proposal attempts to balance the budget on the backs of small businesses by increasing SBA loan fees on small business lenders and borrowers while simultaneously cutting vital entrepreneurial development programs.

As the following report details, many small businesses will face tougher challenges receiving the assistance and support they need. By not adequately funding the programs that promote entrepreneurship and support small firms, the Trump Budget misses a valuable opportunity to prioritize small business growth and development.

PRESIDENTIAL BUDGET IMPACT ON THE SMALL BUSINESS ADMINISTRATION

Small Business Administration

Program	FY2019 Enacted	FY2020 Requested	Change
Small Business Administration	\$715,000,000	\$669,226,000	-6.4%

The Small Business Administration (SBA) provides loans, investment capital, training, and contracting opportunities to small firms across the U.S. The agency supports more than \$29 billion in small business financing; facilitates access to nearly \$100 billion in federal contracts; and counsels and trains over one million small business owners through a nationwide network of resource partners. Under President Trump’s proposed budget, the SBA would lose over \$46 million in funds. The impact would be significant as it would have to cut capital, training, and procurement resources for small firms. Below, this reduction and its impact on small businesses and job creation are further assessed.

Small Business Development Centers

Program	FY2019 Enacted	FY2020 Requested	Change
SBDCs	\$131,000,000	\$101,000,000	-23%

Across the United States, Small Business Development Centers (SBDCs) promote the economic growth of small firms, generating business revenue, job creation and job retention as well as advancing local and regional economies. These centers provide a wide range of counseling and technical assistance to small businesses through an extensive business education network comprised of 63 lead centers managing over 900 outreach locations in all 50 states and the insular territories. The Presidential budget proposes to cut SBDCs by \$30 million next year. This cut would greatly reduce service levels at these centers resulting in fewer resources for small businesses and would-be entrepreneurs. In FY 2018, SBDCs trained and advised more than 440,000 entrepreneurs and helped create nearly 14,500 small businesses.

Women’s Business Centers

Program	FY2019 Enacted	FY2020 Requested	Change
Women’s Business Centers	\$18,500,000	\$17,400,000	-6%

Women’s Business Centers (WBCs) provide counseling and training services primarily to women entrepreneurs, many of whom are socially and economically disadvantaged. With more than 100 locations, many WBCs provide multilingual services and offer flexible hours, including evenings and weekends, allowing mothers with children to attend training classes. WBCs predominantly utilize long term training courses to maximize the delivery of services to a population of primarily nascent entrepreneurs. Many of the training courses focus on business and financial planning, helping women entrepreneurs gain business financial literacy. WBCs also provide direct counseling and help clients understand various loan programs, including loan applications. In FY 2018, WBCs advised 28,181 clients and helped create 11,687 small businesses.

PRIME (Program for Investment in Microentrepreneurs)

Program	FY2019 Enacted	FY2020 Requested	Change
PRIME Technical Assistance	\$5,000,000	\$-	-100.0%

The focus of the SBA’s Program for Investment in Microentrepreneurs (PRIME) is to aid low-income entrepreneurs who may not have the training to successfully manage their business. PRIME was created to help the small business owners and is meant to provide guidance, so entrepreneurs 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 Presidential Budget proposes to end the PRIME program. Without PRIME, many would-be entrepreneurs will be unable to get their business off the ground and achieve self-sufficiency.

Regional Innovation Clusters

Program	FY2019 Enacted	FY2020 Requested	Change
Regional Innovation Clusters	\$5,000,000	\$-	-100.0%

Regional Innovation Clusters are public-private partnerships comprised of regional businesses, researchers, educational institutions, financial lenders and government institutions that work together to develop and grow a particular industry. They connect small businesses with financial

and consulting resources to help them commercialize new technologies and expand into new markets. The President’s budget proposes to eliminate the program.

Growth Accelerators

Program	FY2019 Enacted	FY2020 Requested	Change
Growth Accelerators	\$2,000,000	\$-	-100.0%

The Growth Accelerators program was created in 2014 to support small business job creation by giving early-stage entrepreneurs an opportunity to immerse themselves in intense learning. The program has provided invaluable support to startups and has helped to fill the void by making awards in underserved regions. The President’s budget proposes to eliminate the program.

State Trade Expansion Program (STEP)

Program	FY2019 Enacted	FY2020 Requested	Change
State Trade Expansion Program	\$18,000,000	\$8,000,000	-56%

The State Trade Expansion Program (STEP) was created in the Small Business Jobs Act of 2010 and provides matching federal funds to states and territories to carry out export promotion efforts for small businesses. Grant recipients use their funds for trade missions, international marketing efforts, business counseling, export trade show exhibits, and other promotional activities. Approximately, 300,000 of the 30 million small businesses in the United States utilize international markets and export their products. With 95 percent of consumers living outside of the United States, more emphasis can be placed on the potential to expand the economy by helping small businesses sell their products overseas.

PRESIDENTIAL BUDGET IMPACT ON LENDING

7(a) Loan Guaranty Program

SBA’s 7(a) Loan Guaranty Program is the federal government’s primary small business loan program, assisting small businesses with financing when they are unable to access conventional credit. SBA guarantees a portion of each loan that a participating lender makes to an eligible small

business. In 2018, SBA guaranteed more than 60,000 7(a) loans totaling \$25.4 billion, which supported more than 543,100 jobs.⁴

Traditionally, one of SBA's goals is to achieve a zero-subsidy rate for its loan guaranty programs, including the 7(a) program. This occurs when the loan guaranty programs generate sufficient revenue through fee collections and recoveries of collateral on defaulted loans to not require appropriations to issue new guarantees. SBA predicts that without modifications to current law, it cannot achieve a zero-subsidy rate for the 7(a) program in Fiscal Year 2020.⁵ In response, SBA proposed a "counter-cyclical policy scenario," which includes numerous fee increases.⁶

Specifically, the Trump Administration is seeking authority to change the fee structure to not only cover the anticipated subsidy in the program of \$99 million, due to changes in their modeling and assumptions at the Office of Management and Budget (OMB), but to also extract an additional \$93 million, in an unprecedented attempt to cover the administrative costs of the 7(a) program. The fees would be paid by small business borrowers and lenders in the program to offset the administrative costs, such as oversight, salaries and expenses, etc.

The Committee is concerned this proposal will ultimately put considerable downward pressure on access to capital for small businesses. Not only will small business borrowers potentially be forced to pay higher fees, 7(a) lenders may withdraw from the program, which further reduces the effectiveness of the program.

504/CDC Loan Program

SBA's 504/Certified Development Company (CDC) Loan Program is one of SBA's key economic development programs, providing plant, real property, major equipment financing, and/or the refinancing of debt incurred for these major fixed assets. By statute, the program mandates job creation, community development, or public policy goals such as manufacturing, to support economic development. A typical 504 project includes a loan from a private sector lender (providing up to 50 percent of the total financing package) with a senior lien, an SBA-backed loan from a CDC (providing up to 40 percent of the total financing package) with a junior lien, and the small business providing at least 10 percent of the financing as equity. In 2018, SBA approved nearly 6,000 504 loans for \$4.8 billion, which supported more than 55,000 jobs.⁷

⁴ U.S. Small Business Administration, FY2020 Congressional Budget Justification and FY2018 Annual Performance Report, 2019.

⁵ *Id.*

⁶ *Id.*

⁷ See *supra* note 1.

As with the 7(a) program, SBA is proposing a counter-cyclical policy scenario for FY2020 under which fees would likely increase.⁸ The Committee is similarly concerned about potential unintended consequences associated with such a policy shift, including a departure of 504 lenders and borrowers who may not be able to afford increased fees. Moreover, SBA is proposing to cut lending under the 504 Loan Refinance Program from \$7.5 billion to \$1 billion.⁹ By making this cut, the administration is limiting the ability of small businesses to refinance previous debt incurred for the purchase of heavy machinery, real estate, and other fixtures.

Microloan Program

Program	FY2019 Enacted	FY2020 Requested	Change
Microloan Program Subsidy	\$4,000,000	\$4,000,000	0.00%
Microloan Program Level ¹⁰	\$42,000,000	\$40,000,000	-4.8%
Microloan Technical Assistance	\$31,000,000	\$25,000,000	-19.4%

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 and it has experienced growing demand in recent years. Through this initiative, entrepreneurs can secure loans up to \$50,000. In 2018, Microloan intermediaries approved more than 5,000 microloans totaling nearly \$77 million and supported over 20,000 jobs.¹¹ Microbusinesses have very favorable survival rates when compared to other small businesses and are a way out of poverty for low-income individuals.

The Microloan program has been a key factor in the development and strengthening of America's microbusinesses. By cutting the technical assistance component of this program by \$6 million,¹² the administration is limiting the potential for many low-income and minority entrepreneurs to become credit-ready as first-time commercial borrowers, and eventually self-sufficient as business owners. The bottom line is this cut will prevent our economy from fully utilizing a successful and proven economic development tools.

⁸ *Id.*

⁹ *Id.*

¹⁰ Loans to the intermediaries to support lending to businesses.

¹¹ See *supra* note 1.

¹² *Id.*

Community Development Financial Institutions Program (CDFI)

Program	FY2019 Enacted	FY2020 Requested	Change
CDFI	\$250,000,000	- \$261,000,00	-104.40%

Small businesses located in underprivileged communities are the most in need of capital. Often, 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. 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 business recipients of CDFI capital. Through their community development loans, CDFI helps businesses expand while community development venture capital provides equity and management expertise to small, minority-owned businesses that promise rapid growth.

The budget contains no funding for the CDFI program, even though 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 budget eliminates funding for the CDFI Fund's four discretionary grant and direct loan programs (i.e. the CDFI Program, the Bank Enterprise Award Program, the Native American CDFI Assistance Program, and Health Food Financing Initiative) and includes a proposal to eliminate new funding for Capital Magnet Fund (CMF) effective in 2020.

PRESIDENTIAL BUDGET IMPACT ON ENTREPRENEURSHIP RESOURCES

Minority Business Development Agency (MBDA)

Program	FY2019 Enacted	FY2020 Requested	Change
MBDA	\$40,000,000	\$10,000,000	-75.0%

One of the fastest growing small business sectors are minority-owned firms. 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 and 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. The President’s budget proposes to drastically cut funding and refocus the agency on policy, advocacy, and research by eliminating advisory and assistance services and grant. Cutting this agency will unnecessarily weaken one of the fastest growing sectors in the United States’ economy – minority-owned small businesses.

U.S. Economic Development Administration (EDA)

Program	FY2019 Enacted	FY2020 Requested	Change
EDA	\$294,000,000	\$--	100%

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 and retaining existing jobs in economically distressed areas. The EDA also promotes collaboration among small firms by providing financial support for clusters through the country. In addition, the EDA supports revolving loan funds that are directly used by entrepreneurs. EDA provides small business grants to help distressed communities attract new industry, encourage business expansion, diversify local economies, and generate long-term private jobs. Overall, small businesses reap the benefits of the EDA’s support for R&D, worker training, business expansion, and infrastructure improvements. However, the administration’s budget proposes eliminating the EDA, allotting \$30 million in FY2020 for a close out of the program. This drastic cut for EDA will remove the skills and experience it has provided to economic developments for the last 50 years.

PRESIDENTIAL BUDGET IMPACT ON ENERGY

Office of Energy Efficiency and Renewable Energy

Program	FY2019 Enacted	FY2020 Requested	Change
EERE	\$2,379,000,000	\$343,000,000	-85.6%

The mission of the Office of Energy Efficiency and Renewable Energy (EERE) is to create and sustain American leadership in the transition to a global clean energy economy. Its vision is a strong and prosperous America powered by clean, affordable, and secure energy. The EERE works closely with the National Laboratories and America’s best innovator and businesses to support

high-impact, early-stage applied research and development in sustainable transportation, renewable power, and energy efficiency.

The EERE has yielded an estimated net economic benefit to the United States of more than \$230 billion from just a \$12 billion investment by improving energy efficiency of consumer products, homes, buildings, businesses, and industries.¹³ It has helped lead to improvements in sustainable transportation technology and power generation from renewable sources. These efforts have led to a surge in small business startups in the energy sector and in domestic clean energy manufacturing. Not only are small firms leading the way in the energy sector, they are also major consumers of energy efficient products.

The President’s budget cuts the EERE by over 85 percent, which includes a 69 percent cut to EERE’s solar, wind, water and geothermal programs and a 78.7 percent cut to the vehicle technologies program. Such draconian cuts for these energy programs, which are tapped by small enterprise, 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.

Advanced Research Project Agency-Energy (ARPA-E)

Program	FY2019 Enacted	FY2020 Requested	Change
ARPA-E	\$366,000,000	- \$287,000,000	-178.4%

The Advanced Research Projects Agency-Energy (ARPA-E) advances high-potential, high-impact energy technologies that are too early for private-sector investment. ARPA-E empowers America's energy researchers with funding, technical assistance, and market readiness. In just seven years, the office has invested \$1.5 billion in research funding across more than 35 programs and 500 projects.¹⁴ Over 30 percent of ARPA-E grants go to small businesses, who then go on to create jobs and commercialized technology.¹⁵ In fact, the latest data show that federal funding has in turn won \$1.25 billion in private funds, a 20 percent margin on initial investments.¹⁶ Research from the National Academies of Sciences, Engineering, and Medicine (NAS) has shown that ARPA-E is meeting the goals of the 2007 law that created it, and doesn't need to be reformed or overhauled to keep bringing new energy technologies to market.¹⁷

¹³ U.S. Dept. of Energy, FY2018 Congressional Budget Justification, Vol. 3, 2017.

¹⁴ Joseph S. Manser, et al., ARPA-E: Accelerating U.S. Energy Innovation, ARPA-E, Oct. 18, 2016.

¹⁵ *Id.*

¹⁶ John, Jeff St. “Report Finds That ARPA-E Is Working, Even as Trump Seeks to Shut It Down.” *Greentech Media*, Greentech Media, 13 June 2017, www.greentechmedia.com/articles/read/report-finds-that-arpa-e-is-working-while-trump-seeks-to-shut-it-down.

¹⁷ *Id.*

Nonetheless, the Trump administration has proposed to eliminate ARPA-E by utilizing portions of its unobligated balances to execute a multi-year termination, with all operations ceasing by FY 2022. Abolishing this program will leave small innovators without the assistance they need because research supported by ARPA-E is too risky for private firms to undertake, counter to what President Trump believes to be true.

Energy Star

The program, which was created in 1992, sets an international standard for energy-efficient products, including heating and cooling systems, appliances, and electronics. Homes, businesses, and buildings may receive Energy Star certification by meeting certain standards for energy efficiency. Since it began, it has saved \$430 billion for consumers and reduced greenhouse gas emissions by 2.7 billion metric tons.¹⁸ While the program has clearly been beneficial for consumers, it also boosts small businesses as they are the primary manufacturers and installers of these products. But in his effort to shrink the size of government, President Trump wants to provide FY20 appropriations to cover expenses for maintaining the program until user fees are implemented and charged to businesses using it. This only serves to pass the financial burden onto the small business retailers and manufacturers utilizing the program and eventually the consumers.

PRESIDENTIAL BUDGET IMPACT ON RURAL SMALL BUSINESSES

U.S. Department of Agriculture’s Rural Utilities Service (RUS)

Program	FY2019 Enacted	FY2020 Requested	Change
Rural Utility Services	\$12,370,000,000	\$7,993,000,000	-64.6%

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 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. Other RUS programs include electric, telecommunications, distance learning and telemedicine programs that all have a loan and grant component.

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 homebased businesses have flourished in large part due to this. By attempting to bridge the digital divide in this country, especially for small businesses in rural areas of the U.S., the RUS programs 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, such as those located in Asia and Europe. The FY 2020 budget proposes to reduce RUS funding by almost 65 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.

USDA Rural Business-Cooperative Service (RBS)

Program	FY2019 Enacted	FY2020 Requested	Change
Total RBS	\$1,463,000,000	\$1,036,000,000	-29.2%

The U.S. Department of Agriculture’s (USDA) Rural Business-Cooperative Service programs provide loans to establish, expand, or modernize rural businesses, and other funding options to support rural housing, food, and renewable energy assistance. In doing so, the RBS programs drive growth and employment in rural communities. USDA’s FY 2020 budget proposes to eliminate numerous RBS programs, including the Rural Business Development Grants, Rural Economic Development Loans and Grants, the Intermediary Relending Program, and others.¹⁹ Overall, USDA’s budget proposes a \$427 million cut to the RBS programs,²⁰ eliminating a body of financing options for rural businesses and their communities, leading to low economic growth, high unemployment rates, and population loss.

¹⁹ U.S. Dept. of Agriculture, FY2020 Budget Summary, 2019, available at: <https://www.obpa.usda.gov/budsum/fy2020budsum.pdf>.

²⁰ *Id.*

PRESIDENTIAL BUDGET IMPACT ON TECHNOLOGY, INNOVATION, AND MANUFACTURING

Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR)

Program	FY2019 Enacted	FY2020 Requested	Change
SBIR/STTR	\$5,900,000	\$3,000,000	-49%

The Small Business Innovation Research (SBIR) program is a highly competitive program that encourages small businesses to engage in federal research and development that has the potential for commercialization. Through a competitive awards-based program, SBIR provides funding to small businesses to develop new technologies and pursue its commercialization. Similarly, the Small Business Technology Transfer (STTR) is another program that expands small business funding opportunities in the federal innovation R&D arena. The unique feature of the STTR program is the requirement that small businesses formally collaborate with a research institution, helping bridge the gap between basic science and commercialization of resulting innovations. In FY 2013, the SBIR and STTR programs made more than 5,000 awards for over \$2 billion.²¹

The budget would reduce SBIR/STTR funding opportunities and eliminate the Federal and State Technology (FAST) grants. This means that agencies would fund fewer SBIR/STTR proposals, leaving many small firms without the resources to pursue R&D. It would lead to fewer startups and less job creation in the technology sector, as well as lower levels of innovation in the life sciences, defense, and energy sectors. The elimination of FAST would mean lower participation of small companies in innovative fields and weakened competitiveness of small firms in the cutting-edge fields.

Manufacturing Extension Partnership

Program	FY2019 Enacted	FY2020 Requested	Change
MEP	\$140,00,000	\$-	-100.0%

Given that 98 percent of all manufacturers are small businesses, programs like the Manufacturing Extension Partnership (MEP) are critical for small firms. MEP is a federal-state-industry partnership that provides U.S. manufacturers with access to technologies, resources, and industry experts. For every dollar of federal investment, the MEP generates nearly \$18 in new sales growth, \$27 in new client investment, which translates into \$2.3 billion in new sales

²¹ See www.sbir.gov.

annually.²² For every \$1,501 of federal investment, MEP creates or retains one manufacturing job. FY2020 proposes \$5 million to close out the program.

The MEP program consists of centers located across the country that work directly with local manufacturers to help them cultivate new products, as well as the processes and services necessary to grow their businesses. America needs a robust manufacturing base and MEP is critical to the small and mid-sized U.S. manufacturers who strengthen that base. The Trump budget would eliminate the MEP program entirely in an effort to privatize the MEP centers. Doing so undermines supply chains that are important to sustaining America's competitive advantage in advanced manufacturing. Cutting the program also hurts the nation's most innovative businesses and undercuts opportunities for domestic job creation.

²² MEP performance data can be found at <http://www.nist.gov/mep/about.cfm>.

CONCLUSION

A budget provides is an indication of Administration's fiscal and economic priorities. The FY2020 budget should give many Americans, especially small firms and entrepreneurs, pause as it contains many missed opportunities to provide the requisite resources to support a strong economy. Instead of prioritizing programs and policies that create new businesses and the jobs that come with them, the administration's budget significantly cuts initiatives that encourage and support entrepreneurship.

While we need to be mindful of increased deficits, small businesses are not the reason our country faces these fiscal challenges. Cutting funding for Small Business Development Centers, increasing loan fees on small businesses participating in the SBA loan programs, and reducing services for serve women, minorities, and rural small businesses is the wrong approach. If the ultimate concern is the effect of budget deficits, these programs have paid for themselves by spurring economic development and increasing federal tax revenues.

A better course to reduce the deficit is to target investment in proven, revenue-generating initiatives along with a comprehensive infrastructure plan. By doing this, small businesses will be given the opportunity to do what they always do—expand, create new jobs, and drive economic growth.

However, this Administration's budget doubles down on policies that will not grow the economy for all Americans and attempts to balance the budget on the backs of small businesses by cutting services that have a proven track record of creating millions of good-paying jobs in communities across the country. Without a change of course, the administration's budget will jeopardize the vitality of small businesses and limit opportunities to invest in future economic growth.