



THE **STIMULUS** PACKAGE

What it Means for **Growing Businesses**

Steve King, Barbara Weltman + Erik Pages



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Robin Carey: Introduction

When I first met Ken Yancey, CEO of [SCORE](#), this past February he had just come from Capitol Hill where he had been discussing the President's stimulus package with key lawmakers. We chatted about how the bill might benefit growing businesses and how they might find out about those opportunities. SCORE has an impressive membership of 11,200 people who both advise and run small businesses and Ken thought we might partner on a research project to help them take advantage of the coming bill.

Shortly after that blogger and friend [Steve King](#), who runs Emergent Research, weighed in. He was on his way to D.C. to learn more about the bill and how the Administration was going to work with small business. He suggested we tackle this major initiative in three ways—from a strategic, industry-specific view, from a tax implication perspective and finally, assessing what the new bill meant for the Small Business Administration.

We unanimously chose [Barbara Weltman](#), another of our featured bloggers and a national spokesperson for small business taxes, to report on the tax segment. Featured blogger Chad Moutray, head of the SBA's Office of Advocacy and a Federal employee, had to exempt himself, but pointed us to [Erik Pages](#) who writes frequently about the SBA.

The result is the best thinking anywhere on what the Stimulus Package means means for growing businesses—and how you can find opportunities in it. Please accept it with our compliments. Use it, twitter it and share it with your staffs. Our nation's recovery depends on you.



A handwritten signature in black ink that reads "Robin Carey".

Robin Carey
MyVenturePad



Steve King: The Stimulus Package Means Jobs for Small Business

The American Recovery and Reinvestment Act of 2009, informally known as the stimulus package, was signed into law by President Obama on February 17th, 2009. It amounts to \$787 billion in government spending, incentives and tax cuts with the major goals of kick-starting U.S. economic growth and creating or saving 3 to 4 million jobs over the next two years.

The U.S. Council of Economic Advisors (CEA) projects, and many independent analysts agree, that the stimulus package will hit its jobs target. The CEA, for example, is projecting the package will create or save 3.65 million jobs.

Our research indicates that a significant share of jobs created or saved will be in sectors where growing businesses play a major role. Small and mid-sized businesses (SMBs) employ slightly more than half of the U.S. private workforce. If CEA targets are met, Emergent Research estimates that approximately 1.6 million of those jobs will be in small and mid-sized businesses.

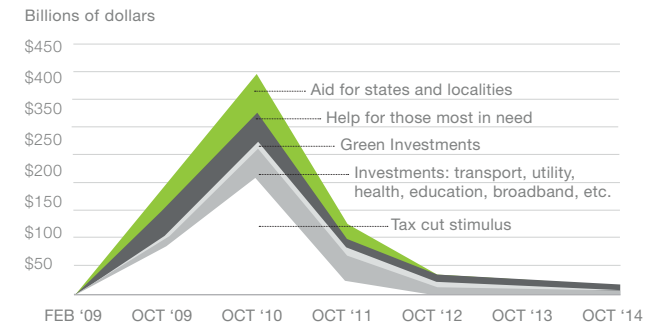
Most of the Stimulus Money will be Spent Quickly

The government plans to have 75% of money committed to projects by September of 2010 and 91% committed by September of 2011. Stimulus spending has already started and will ramp up over the summer and into the fall of 2009.

Because of this, growing businesses need to be prepared now to act on opportunities created by stimulus spending.

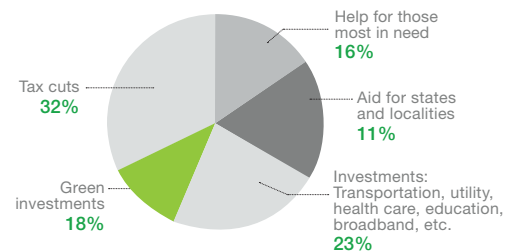
STIMULUS PACKAGE SPENDING OVER TIME

Source: Congressional Budget Office; Joint Committee on Taxation, calculated by each fiscal year beginning October 1st.



FUNDING ALLOCATIONS IN THE AMERICAN RECOVERY AND REINVESTMENT ACT

Source: CAP analysis



“We estimate that approximately 505,000 of these new jobs will be with small and mid-sized businesses.”

Opportunities for Growing Businesses

The stimulus package contains a wide range of measures designed to fuel U.S. economic growth. It aims to:

- ▶ Modernize nation's infrastructure
- ▶ Accelerate shift to clean energy
- ▶ Improve health care
- ▶ Broaden educational opportunities
- ▶ Expand use of technology

Industries that will realize greatest benefits
OR

Industries that will be employment winners
While most areas of the economy will be impacted by increased government spending, three broad industries in particular will generate substantial SMB gains: construction, clean and renewable energy, and information technology (IT). Combined spending in these sectors will generate or save over 900,000 SMB jobs. Here's a closer look at each industry.

> CONSTRUCTION

Stimulus money allocated:
\$140 billion

Job creation:

The Associated General Contractors of America estimates that the stimulus package will fund 650,000 construction jobs. The CEA is estimating that 678,000 construction jobs will be created.

We estimate that approximately 505,000 of these jobs will be with small and mid-sized businesses.

(Note: Most construction in the U.S. is done by SMBs and over 80% of those employed in the construction industry work for small or mid-sized businesses.)

Target expenditures:

Roughly one-third of construction-related stimulus funds targets roads, bridges and other transportation projects. The remaining two-thirds are divided



“Working directly or by subcontracting to larger firms, small and mid-sized construction firms will find many opportunities created by the stimulus package.”

across a range of government projects. These include building and renovating public and private housing, wastewater treatment plants, military facilities, federal offices and other federal facilities, schools, hospitals, energy production and transmission systems and others.

SMB Forecast:

Working directly or by sub-contracting to larger firms, small and mid-sized construction firms will find many opportunities created by the stimulus package. SMBs that support or supply construction companies or projects with materials, equipment and services will also benefit from the increased construction spend.

> **RENEWABLE AND CLEAN ENERGY**

Stimulus money allocated:

\$80 billion in spending and tax incentives

Targeted expenditures:

Tax credits and incentives for solar and wind power, funds to improve energy efficiency and for energy research and commercialization.

Job creation:

The CEA forecasts that the stimulus package will create or save 459,000 jobs in the energy sector, some of which are in construction. Adjusting for the construction jobs, we estimate that 215,000 SMB energy-related jobs will be secured by the stimulus package.

SMB Forecast:

Expect SMB jobs to be created in companies that manufacture, install and support small distributed power systems such as wind and solar. SMB jobs will also be created to support larger scale energy plants and new transmission grids as well as in SMBs that monitor, audit and improve energy usage and related service providers.

> **INFORMATION TECHNOLOGY**

Stimulus money allocated:

\$30 billion to information technology and related infrastructure; \$20 billion of this allocated to health IT spending. Broadband infrastructure projects are funded with \$7.2 billion and education, science and other areas also receive IT funding.

Target expenditures:

Creating and deploying electronic medical record systems, purchasing IT-related products as well as training and support services.

Job creation:

The Business Roundtable and others have forecast that the health IT spending in the stimulus package will save or create around 200,000 IT jobs. We estimate that 114,000 of those jobs will be in small to mid-sized businesses. Job estimates for expanding broadband infrastructure vary widely and many of the jobs created by broadband deployment are in construction. Job estimates also vary as it relates to





other IT-related spending. We estimate that broadband deployment and other IT-related spending will create or save 97,000 SMB jobs.

SMB Forecast:

The IT spending in the stimulus package will create a wide range of opportunities for IT providers. In addition to purchasing IT-related products, stimulus package money will also be spent on training and support services. Hospitals, clinics, physicians and other health care workers will require substantial help to roll out electronic medical records.

Targeting Small Business Opportunities: Which Sectors Have Funding?

In addition to the three big employment winners described above, the ESP provides job opportunities across other industry sectors as well. The section below is a guide to the major spending areas of interest to small and mid-sized firms, including more details on the three sectors discussed above.

> TRANSPORTATION INFRASTRUCTURE

Roughly \$50 billion will support the transportation infrastructure, including \$27.5 billion for roads, bridges, traffic signal upgrades and

other transit projects. Most of this money will be distributed by the U.S. Department of Transportation to state departments of transportation, who will issue work contracts. Small and mid-sized construction companies and suppliers to the construction industry should benefit from these projects.

An additional \$8 billion has been allocated for high-speed rail projects and \$8.4 billion for public transportation. While large corporations are likely to win most of the contracts in these areas, there will be opportunities for small firms to sub-contract and supply these larger firms with goods and services.

> ENERGY AND WATER

There are a number of measures in the stimulus package designed to improve energy efficiency and develop cleaner, renewable energy solutions.

\$20 billion in tax incentives will encourage installation of solar and wind energy systems in homes and businesses. Distributed, small-scale power systems require local installation and support and are an opportunity area for small businesses with the right skill sets.

\$5 billion will fund energy efficiency improvements in the homes of qualified homeowners

”Distributed, small- scale power systems require local installation and support and are an opportunity area for small businesses with the right skill sets.”



“Under federal government contracting rules, 20% of these funds are allocated to qualified small businesses.”

free of charge. The goal of the Weatherization Assistance Program is to weatherize 2 million homes over the next two years. Federal tax credits are in place to spur demand for high-efficiency windows, which are often manufactured and installed by small, local vendors.

\$4.5 billion will fund energy efficiency upgrades to federal buildings and facilities.

The goal of this construction renovation-oriented program is to save \$2 billion a year in Federal government energy costs.

\$4.5 billion is allocated for smart electrical grid investments. This money will largely be allocated to large corporations and utility companies. But like high speed rail spending, small businesses will benefit through sub-contract and supplier relationships.

\$3.2 billion is allocated for energy efficiency grants to states. These funds can be spent in a variety of ways including energy audits and other programs designed to conserve energy. A number of states utilize private sector companies to implement these programs.

Roughly \$10 billion is allocated to energy research and development. This includes energy efficiency and renewable energy research (\$2.5 billion), fossil fuel research (\$3.4 billion), basic energy research (\$2.0 billion) and advanced battery research and development (\$2 billion). Under fed-

eral government contracting rules, 20% of these funds are allocated to qualified small businesses.

\$6 billion is allocated for water projects and most of that money will spent on improving existing water systems or building new water projects. One of the goals of this funding is to help fund 1,300 new wastewater projects.

> HEALTH CARE

Health care is one of the major spending areas in the stimulus plan, garnering roughly \$150



1. Introduction

2. Steve King

3. Barbara

4. Erik Pa

5. Resource

billion in spending. Most of this funding is allocated for state Medicaid funding (\$87 billion) and COBRA health insurance subsidies for workers who have lost their jobs (\$24.7 billion).

Other spend areas include \$1.5 billion for construction and renovation of community health care facilities, \$1.3 billion for University lab renovation and \$1 billion for disease prevention and wellness programs. \$9.3 billion is allocated for biomedical research.

SMBs that provide services and products to hospitals and health care providers will benefit from the influx of Medicaid and other funding for disadvantaged and special needs groups.

> HEALTH CARE INFORMATION TECHNOLOGY

About \$20 billion is allocated for healthcare IT.

This provides funds to help physicians, hospitals and other caregivers develop and deploy electronic health records and related IT services. Purchases will include everything from mobile and handheld computing devices to enterprise-scale data warehouses.

Less than 2% of hospitals have comprehensive electronic health records and less than 8% have basic electronic record systems. It is expected that the cost of implementing electronic health records

will run small hospitals \$6-8 million and up to \$100 million for very large health care facilities. Physicians in group and private practice will also need to implement electronic health records systems.

In addition to IT products, design, installation, support and training services will be required to implement these systems. Technology companies of all sizes are now gearing up for the opportunities presented by this effort. With over 7,000 hospitals employing more than 5 million people, electronic health records are a large IT opportunity for businesses of all sizes.

> EDUCATION

About \$100 billion is allocated for education—double the annual federal education budget. \$53.6 billion is designated for state-level education funding. States have discretion over how this money is spent, but many states will use at least part of their allocation for school construction and renovation projects.

Special education programs will get \$12.2 billion, and programs for disadvantaged students will receive \$13 billion. Supplemental education services will receive \$2 billion. All of these areas use private firms to supplement school staff and services.

“Technology companies of all sizes are now gearing up for the opportunities presented by this effort.”



> **WORKFORCE TRAINING**

The ESP contains about \$4 billion for workforce development and training. Much of this money is allocated to state and local workforce investment boards—the organizations that connect workers with training and other services. California, for example, has 49 local workforce investment areas that deliver services relevant to their local businesses. Many growing businesses take advantage of these programs by hiring new trained workers or having existing workers go through training programs.

> **HOUSING**

\$13.61 billion will fund projects and programs administered by the Department of Housing

and Urban Development. \$4 billion is allocated to public housing authorities to repair and replace public housing. This money can also be used for improving energy efficiency. \$2 billion is allocated for neighborhood stabilization, which includes renovation of foreclosed houses.

> **BROADBAND INTERNET**

\$7.2 billion has been authorized for broadband programs. \$4.5 billion is designated for the National Telecommunications and Information Administration and \$2.5 billion for the Rural Utilities Service. While large corporations will garner a large share of these funds, growing businesses will be able to bid on projects and sub-contract and supply services to others.



Steve King, Partner, [Emergent Research](#)

Steve's current research and consulting is focused on economic decentralization and the growth of small business, and the impact of the Internet and social technologies on media and marketing. Steve has served as vice president of Corporate Marketing for Macromedia, vice president and general manager of Asia Pacific for Lotus Development Corporation and vice president of marketing for Isys Corporation. He has also been the interim CEO, CMO or head of business development for 6 start-up technology companies and has served on the fiduciary or advisory boards of over a dozen companies.

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Barbara Weltman: Tax Changes following the American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 made dramatic tax changes that affect small business owners. The federal government's budget for fiscal year 2010, as well as bills currently pending before Congress, portend additional tax changes affecting businesses.

Key Provisions of the Recovery Act

Small businesses, especially those with employees, need to take note of tax law changes. They should pay careful attention to effective dates; many breaks run only for a limited time. Also they should look for strategies that can be used to capitalize on these tax breaks.

Making Work Pay tax credit

The single largest feature of the Act is a tax credit for working individuals for 2009 and

2010. For employees, the credit is implemented by a change in wage withholding so employees can keep more of their wages throughout the year. From an employer perspective, this means adjusting wage withholding according to new IRS tables found in [IRS Publication 15-T, New Wage Withholding and Advance Earned Income Credit Payment](#). Employers were supposed to implement the tables by Apr. 1, 2009. The credit applies both to full-time and part-time workers.

Since self-employed individuals do not receive wages, they can take advantage of the Making Work Pay tax credit by reducing their quarterly estimated tax payments for 2009. Self-employed individuals should determine whether they expect to be eligible for this credit before adjusting their estimated tax payments. A full credit of \$400 for singles, or \$800 for joint filers, is allowed if modified adjusted gross income (MAGI) for the year is no more than \$75,000 for singles, or \$150,000 on a joint return. A partial credit is allowed when MAGI is between \$75,000 and \$95,000 for singles, or \$150,000 and \$190,000 for joint filers; no credit is allowed when MAGI exceeds \$95,000 for singles or \$190,000 for joint filers.

COBRA subsidies

The federal government will pay 65% of COBRA health insurance



“Usually, losses from business operations that cannot be fully deducted in the year they occur can be carried back for a certain period to offset income in those prior years.”

premiums for nine months for workers who are involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009.

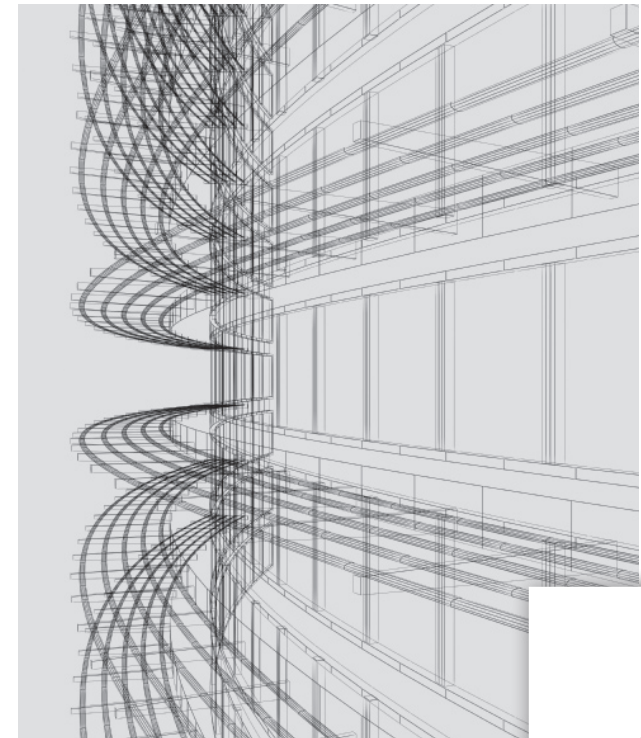
EMPLOYER RESPONSIBILITIES WITH RESPECT TO THE NEW FEDERAL SUBSIDY INCLUDE:

- ▶ Providing notification to affected workers about the federal subsidy. The Department of Labor has provided [notices](#) that employers can use for this purpose.
- ▶ Permitting workers terminated between Sept. 1, 2008, and Feb. 17, 2009, who previously failed to elect COBRA coverage, to opt for coverage. These individuals should be notified no later than Apr. 18, 2009, of the new opportunity to elect COBRA coverage. The workers will then have 60 days after the notice to elect COBRA coverage and apply for the subsidy.
- ▶ Handling insurance premiums. The employer must collect the 35% premium owed by workers who opted for COBRA and then pay the insurance company 100% of the premium due. The employer can then recoup the 65% federal subsidy by reducing deposits for employment taxes or claiming an overpayment on the employer's quarterly employment tax return. [Form 941, Employer's Quarterly Federal Tax Return](#), has been revised to account for COBRA assistance payments.

The IRS has provided extensive guidance to employers for complying with the subsidy:

- ▶ [COBRA: Answers for Employers](#)
- ▶ [Premium assistance for COBRA benefits](#)

Longer net operating loss carryback period. Usually, losses from business operations that cannot be fully deducted in the year they occur can be carried back for a certain period to offset income in those prior years. The basic carryback period for net operating losses (NOLs) is two years.



“Purchasing furniture, computers, machinery, off-the-shelf software, and certain other property may result in substantial write-offs.”

However, small businesses that had NOLs in tax years beginning or ending in 2008 can choose a three-, four-, or five-year carryback. Using the longer carryback period ensures that current losses will be fully utilized to produce the largest tax refund possible. This can help with cash flow issues now.

Only small businesses qualify for the longer carryback period. A small business is defined as one with average annual gross receipts not exceeding \$15 million over a three-year period ending with the year of the loss. A small business includes a corporation, partnership, or sole proprietorship.

The carryback can be claimed by amending prior year returns. Alternatively, the refund can be expedited by filing for a quick refund. Individual business owners file Form 1045, Application for Tentative Refund, which is usually acted upon within 90 days of the filing of the form; corporations file Form 1139, Corporation Application for Tentative Refund.

Increased first-year expensing and bonus depreciation for certain equipment purchases. Purchasing furniture, computers, machinery, off-the-shelf software, and certain other property may result in substantial write-offs.

- ▶ A deduction of up to \$250,000 for the cost of equipment (called the Sec. 179 deduction or first-year expensing). The dollar limit begins to

phase out when purchases for the year exceed \$800,000; no first-year expensing can be claimed when purchases top \$1,050,000. There are, however, additional dollar limits for businesses in certain designated areas, such as any federally-declared disaster area after 2007.

- ▶ A depreciation allowance of 50% of the cost of qualified property (called bonus depreciation).

IN PLANNING EQUIPMENT PURCHASES THIS YEAR, NOTE SOME KEY POINTS:

- ▶ Both write-offs can be combined to produce sizable tax savings.
- ▶ First-year expensing applies to both new and used equipment; bonus depreciation is restricted to new equipment, as well as certain qualified leasehold improvements.
- ▶ First-year expensing is beneficial only if the business has taxable income at least equal to this deduction (i.e., it cannot be used to create or increase a net operating loss).
- ▶ First-year expensing must be elected; bonus depreciation applies automatically unless the taxpayer elects not to use it.
- ▶ The deductions apply whether the property is purchased for cash or



financed in whole or in part (i.e., the tax deduction can help create positive cash flow for financed equipment).

- ▶ First-year expensing applies to the 2009 tax year; bonus depreciation applies to property placed in service before Jan. 1, 2010 (Jan. 1, 2011, in the case of certain property).

Work opportunity credit.

Employers can claim a tax credit for hiring workers from certain disadvantaged groups. The Act creates two new targeted groups: (1) Unemployed veterans (persons who have served on active duty in the Armed Forces for more than 180 days or who have been discharged from active duty because of a service-connected disability, have been discharged during the five-year period ending on the hiring date, and have been receiving unemployment benefits for not less than four weeks during the one-year period ending on the hiring date) and (2) disconnected youth (individuals with a low-level of formal education and who are not readily employable because of a lack of skills). To claim the credit, the employee from one of these groups must begin work in 2009 and 2010.

Employers who want to qualify for the tax credit must obtain timely certification for eligible workers. Employers should contact their state labor or employment department for certification details.

Estimated tax relief for self-employed small business owners.

For 2009, eligible small business owners can minimize quarterly estimated tax payments without fear of penalty by relying on a new safe harbor; they only have to pay 90% of 2008 taxes to avoid penalty. This can have a positive impact on cash flow. A qualified small business owner is anyone with adjusted gross income shown on the return for 2008 that is less than \$500,000 (\$250,000 if married filing separately) and more than 50% of the gross income on the 2008 return is from a small trade or business (one with 500 or fewer employees).

Energy tax breaks.

There are numerous federal tax credits created or expanded to encourage investments in alternative energy and energy-saving properties. Businesses may be eligible for grants to make these investments. For links to grant opportunities, [click here](#).

“For 2009, eligible small business owners can minimize quarterly estimated tax payments without fear of penalty by relying on a new safe harbor; they only have to pay 90% of 2008 taxes to avoid penalty.”



“The National Small Business Association says that the number of small-business owners who can provide health insurance to their employees fell to 38% in 2008 from 67% in 1995.”

Additional tax changes under consideration

As massive as the American Recovery and Reinvestment Act was, it did not address many tax concerns to business owners. These may be considered by Congress before the year is out:

Revised estate tax rules

The federal estate tax currently exempts up to \$3.5 million from being taxed at a person’s death; amounts above this are taxed at a top rate of 45%. There is no estate tax set for 2010, but the exemption is scheduled to fall to \$1 million, with a top rate of 55%. There is considerable interest in imposing an estate tax in 2009; there is disagreement in what the exemption amount and top tax rate should be.

Business owners who have business interests that could put their estates above taxable limits and possibly threaten the continued family ownership of the business should work with tax and legal advisors to create flexible estate plans so they can take advantage of or adapt to changes sure to come. It’s likely that the exemption amount will be fixed at somewhere between \$3.5 million and \$5 million and the top estate tax rate will be 35% to 45%.

Standard home office deduction

Currently, the estimated 20 to 25 million people who work from home must go through complex

calculations to claim a home office deduction. A pending proposal would allow a \$1,500 standard deduction and ease recordkeeping (H.R. 1509).

Health coverage

The National Small Business Association says that the number of small-business owners who can provide health insurance to their employees fell to 38% in 2008 from 67% in 1995. This steep expenditure for small businesses may get even higher under a universal health care proposal be-



ing developed in Washington. The cost of premiums could rise and the burden on small businesses would grow.

In any event, self-employed individuals are hoping for tax relief now that would allow them to deduct their premiums as a business expense rather than as an adjustment to gross income. A pending bill (H.R. 1470) would allow for a business deduction, which would save an average of \$1,850 in self-employment taxes annually.

Carbon tax (cap-and-trade)

If this measure is enacted, the government could cap the amount of carbon emissions a business could make; more efficient businesses would be able to trade their unused limits (credits) with less efficient businesses. Businesses would, in effect,

have to buy or sell credits to comply with the caps, and, for less-efficient companies, it would raise the cost of doing business. A 600-page cap-and-trade bill has been introduced in Congress (H.R. 1759).

Higher individual tax rates

A hike in the top federal individual income tax brackets as well as capital gains rates would adversely affect many small business owners since the majority of small business owners are taxed on their share of business profit on their personal returns. Capital gains tax changes, which would affect those selling their businesses, could come as soon as Oct. 1, 2009; changes in the ordinary tax brackets will happen automatically in 2011 if Congress lets current rules sunset as scheduled.



Barbara Weltman, Tax Expert

A tax and business attorney since 1977, Barbara Weltman is the author of J.K. Lasser's Tax Deductions for Small Business, The Rational Guide to Building Small Business Credit, and more than a dozen other published books, as well as her [Big Ideas for Small Business® newsletter](#). After graduating from Brooklyn Law School in 1976, Barbara joined J.K. Lasser Tax Institute. In 1983 she moved into private practice, serving primarily small business clients while writing professional and educational materials for accountants and other attorneys, and has since built a reputation as an experienced and helpful source for small business advice.

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Erik Pages: Economic Stimulus and the New SBA — What Does It Mean For Entrepreneurs?

Within the grand scheme of a \$787 billion stimulus package, billions of additional stimulus via the TARP program, and a proposed \$3.6 trillion budget for fiscal year 2010, it's tough to talk about proposed changes at the U.S. Small Business Administration as momentous or revolutionary. But, when looked at from a less lofty perspective, as a major policy shift after 12 to 15 years of relative neglect, anticipated changes at SBA could be quite significant.

Under President Obama, SBA is likely to receive more money, have more freedom to maneuver, and have higher standing within the federal government. Yet, it's unlikely that these changes will have much impact on Main Street businesses, at least over the

next few years. It will take some time for SBA to rebuild capacity and to scale up new or expanded business support and finance programs. Lots of new initiatives are under way, but the jury is still out on how quickly they can provide real opportunities for small business owners.

New Faces and New Funds

Change at the Obama administration's SBA begins at the top. Earlier this month, the Senate unanimously approved the nomination of Karen Mills to serve as the new SBA Administrator. Mills comes to the post with a background in family business (her family owns the maker of Tootsie Rolls), as a venture capitalist and investor, and as an economic development advocate in her home state of Maine. Her Maine connections will likely come in handy in close Senate votes, where Maine's two moderate Republican Senators, Susan Collins and Olympia Snowe, may represent critical swing votes.

Much like her predecessors in both the Clinton and Bush Administrations, Mills enjoyed a very smooth nomination process. However, what is different for her is that both Republicans and Democrats are

“Lots of new initiatives are under way, but the jury is still out on how quickly they can provide real opportunities for small business owners.”



“A recent survey by Terry and Associates finds that 60 percent of SBA lenders expect to increase SBA lending in response to these new rules.”

clamoring for significant budget increases for SBA. In fact, the Senate Small Business and Entrepreneurship Committee has urged the Obama Administration to increase SBA's FY 2010 budget by \$180 million, up from the proposed \$700 million to a total of \$880 million. Advocates argue that this increase is required to compensate for the large 27 percent spending decline—the largest of any Federal agency—absorbed by SBA between 2001 and 2008.

As an SBA leadership team moves into place, it can begin by building on this warm reception. At the most basic level, this increased support manifests itself in the form of more funding. These increased funds come from three primary sources:

1. The stimulus bill provides \$730 million to SBA, with most of this money (\$630 million) devoted to expanding access to current SBA loan programs.
2. Up to \$15 billion in TARP funding has been set aside to purchase small business securities now frozen on the secondary market.
3. Funds authorized in the FY 2009 budget, which was not finally enacted until March 2009 (six months into the fiscal year). This proposal includes slight funding increases for many of SBA's technical assistance programs, such as the Small Business Development Center (SBDC) Network and the SBA Microloan Program.

What Does it Mean for Main Street?

> ACCESS TO CAPITAL

The biggest anticipated impact of these new dollars will hopefully come in the form of greater lending volume by banks. The stimulus plans seek to increase loan volume in two ways: by increasing the level of guarantees (up to 90%) on SBA 7(a) loans and by reducing or eliminating fees on both 7(a) and 504 loans. The need to jumpstart these programs is very clear as SBA 7(a) lending volume dropped 30 percent in 2008 and may drop another 50 percent in 2009. SBA is also in the process of designing a new initiative that will offer bridge loans of up to \$35,000. These loans will reportedly be available to refinance other debt, with the exception of other SBA loans.

These incentives are expected to have some impact. A recent survey by Terry and Associates finds that 60 percent of SBA lenders expect to increase SBA lending in response to these new rules. SBA 7(a) lending volume has increased slightly since President Obama's announcements on March 16. However, the impact of increased SBA lending may be limited from an economy-wide standpoint. Many firms will not be eligible for the loans, and problems of accessing early-stage equity finance remain unaddressed.

“The Obama administration has been a strong advocate for small business support and set-aside programs.”

The Obama administration’s plans to revitalize the secondary market for small business loans offer the best means to break the current logjam in small business lending. Obama has proposed that the government would step in to purchase securities backed by SBA loan guarantees, providing an infusion of capital that SBA-backed lenders could reinvest in the marketplace. Unfortunately, this proposal has received lukewarm support from bankers, investors, and other observers. Bankers have been critical of government rules that limit executive pay and that require the surrender of ownership stakes to the government. The largest government-backed lenders have indicated that they would prefer to hold onto current business loans and make money off interest payments. Because of current rules and restrictions, they see limited benefit in selling these loans to the government. Thus, it appears unlikely that the current plans will stimulate much new lending. Officials are now considering several alternatives, such as the creation of an independent entity (exempt from pay restrictions and other rules) that could purchase securities on the government’s behalf.

> GOVERNMENT CONTRACTING

The near-term prospects for government contracts also present something of a mixed picture. The Obama administration has been a strong advocate

for small business support and set-aside programs. It has even sent a formal directive to federal agencies that, where possible, stimulus funds should be used in a manner that supports other policy goals, with a specific emphasis on contracting with small and minority-owned businesses. Yet, at the same time, the stimulus plans demands to spend quickly creates significant pressure on strapped federal agencies to push money out via traditional channels and to limit their search for new small business partners and suppliers.





> MICROLENDING/TECHNICAL ASSISTANCE

SBA's various technical assistance and microloan programs also get a slight boost via the stimulus initiatives. SBA's microloan network, which provides business loans of up to \$35,000, had long been targeted for elimination in the Bush administration. The programs are likely to continue expanding over the next several years, and the stimulus plan includes an initial down payment that can support an additional \$50 million of microloans. These loans are made by approved intermediaries located across the U.S.—for a listing, [click here](#). If you are in need of small infusions of working capital, these programs can quite helpful.

Various technical assistance providers, such as SBDCs, Women's Business Centers, and Veterans' Business Centers, will enjoy slightly larger budgets. This should allow them to hire more consultants and provide more in-depth consulting and mentoring to a larger number of new and growing businesses. However, if these programs truly hope to meet emerging demand, they must

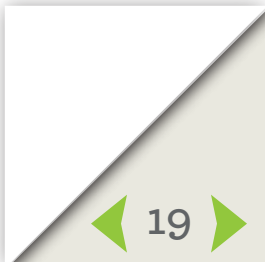
be supported with a sustained series of new investments that help the programs build capacity over a multiyear time frame.

> R&D FUNDING

The Federal Small Business Investment Research (SBIR) program is a lifeline for technology-focused small businesses. SBIR directs federal agencies to set aside 2.5 percent of all R&D contracts for business with small firms. This small set-aside is big business—accounting for up \$2 billion in annual federal R&D contracts. Unfortunately, the economic stimulus bill contains provisions that weaken the SBIR program. Specifically, it exempts the National Institutes of Health (NIH) from SBIR requirements for its spending of \$8.2 billion in new research funds. This spending could have produced as much as \$229 million in new R&D funding opportunities for small firms.

At the same time, the SBIR program is mired in another controversy related to whether venture-capital-backed firms are eligible for SBIR funds. At present, these firms are ineligible because

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their VC owners are deemed “too large” to participate in the program. Many life science firms, who frequently have VC backing, are thus ineligible for SBIR funds, and are pressing for a change in current rules. Should this policy shift occur, fewer SBIR research dollars will be available for more traditional small businesses. Debate continues on Capitol Hill.

While these debates cloud the future of SBIR, the current rise in government R&D spending means that SBIR funding (based on percentage of total R&D dollars) will also rise. Thus, new opportunities are available, especially for firms that seek to contract with research-intensive agencies like NIH, the Department of Defense, and the Department of Energy. Each federal agency runs its own SBIR program; more information on opportunities can be found at www.sba.gov/SBIR.

The Bottom Line

So what's the bottom line for entrepreneurs looking to capitalize on big changes afoot at SBA? Be Patient! The SBA is in the midst of a significant upgrade of its capabilities, with the hiring of additional staff and the development of a host of new and improved programs. It will take some time for this new infrastructure to be put into place, but policies are moving in the right direction. With a new leadership team in place, SBA and its partner organizations should be able to provide a much more comprehensive set of support services and new programs to meet the needs of small business owners and aspiring entrepreneurs.



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Erik R. Pages leads EntreWorks Consulting, an economic development consulting and policy development firm focused on helping communities and organizations achieve their entrepreneurial potential. He has previously served as Policy Director for the National Commission on Entrepreneurship, as well as Director of the Office of Economic Conversion Information (OECI) at the U.S. Department of Commerce's Economic Development Administration. He has served as an official advisor to the White House Conference on Small Business, and is the author of Responding to Defense Dependence.

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Online Resources: 2009 American Recovery & Reinvestment Act

Below are links to stimulus-related websites and resources to help SMBs find, track, and pursue stimulus spending opportunities.

FEDERAL GOVERNMENT SITES

- ▶ [Recovery.gov](#) - Home page for federal government recovery act information.
- ▶ [List of federal government agency stimulus package websites](#) - Recovery.gov page with links to government departments/agencies stimulus websites.
- ▶ [List of State Stimulus Package Sites](#) - Recovery.gov list of state stimulus package sites.
- ▶ [Grants.gov](#) - Source to find and apply for government grants.
- ▶ [Federal Business Opportunities](#) - Portal for finding federal government contracting opportunities.
- ▶ [Government Loans](#) - Portal for finding government loans.

NON-PROFIT SITES WITH STIMULUS PACKAGE INFORMATION

- ▶ [ARRA Resources for States](#) - A stimulus website sponsored by the [Council of State Governments](#). The site covers the stimulus package from the perspective of states.
- ▶ [Business Matchmaking](#) is a public-private initiative supporting procurement opportunities for small business in every industry.
- ▶ [Council of Non-Profits](#) - Information for non-profits seeking stimulus package funds.
- ▶ [ProPublica](#) - Journalism in the Public Interest: Tracks each state's stimulus sites including detailed spending and project plans where available.
- ▶ [SCORE](#) "Counselors to America's Small Business" provides free and confidential mentoring to small businesses nationwide.
- ▶ [Shovel Watch](#) - Detailed list of stimulus package spending and projects.
- ▶ [Stimulus Watch](#) - Portal for finding and evaluating local stimulus projects. Searchable by state, town, & key word.

COMMERCIAL SITES WITH STIMULUS PACKAGE INFORMATION

- ▶ [INPUT](#) - A commercial government market and procurement site with a focus on federal government contract opportunities.
- ▶ [Onvia](#) - A commercial firm providing leads and contract opportunities.
- ▶ [Recovery.org](#) - A commercial website from Onvia with a focus on business opportunities generated by the stimulus package.

