

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2361 Rayburn House Office Building  
Washington, DC 20515-0315

Memorandum

To: Members, Committee on Small Business  
From: Committee Staff  
Date: June 15, 2018  
Re: Field Hearing in Southaven, MS: “The Perspective of Rural Small Businesses in North Mississippi”

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**I. Introduction**

On Monday, June 18, 2018, at 2 PM (CT), the Committee on Small Business will meet for a field hearing titled “The Perspective of Rural Small Businesses in North Mississippi” at the ServPro Training Center, 1160 Stateline Road East, Southaven, MS.

Rural America is still recovering from the last recession in 2008. Many rural small businesses have not been able to survive because of overregulation, lack of access to capital, and a drop in net farm income. With the United States economy now flourishing, rural small businesses are finally starting to see the effects and get back on their feet. Through H.R. 1, the Tax Cuts and Jobs Act, and the rollback of numerous regulations by many government agencies, the federal government is working to help rural small businesses survive. This hearing aims to highlight how rural small businesses are faring in today’s economy and the outlook going forward.

**II. Mississippi Snapshot**

There are currently 254,598 small businesses<sup>1</sup> in the state of Mississippi,<sup>2</sup> which constitutes 99.3 percent of all businesses in the state.<sup>3</sup> 434,843 employees, or 46.9 percent of the state’s workforce, is currently employed by firms classified as small.<sup>4</sup> In April 2018, the unemployment rate for the state was 4.2 percent, slightly behind the national average of 3.8 percent.<sup>5</sup> Firms with fewer than 100 employees have the largest share of small business employment.<sup>6</sup>

Using the most recent data available, in total, the health care and social assistance industries employed the both the largest number of total employees (162,749) with 39 percent of those being

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<sup>1</sup> There are multiple definitions of small business and this memorandum adopts one such categorization, less than 500 employees.

<sup>2</sup> UNITED STATES SMALL BUSINESS ADMINISTRATION, OFFICE OF ADVOCACY, MISSISSIPPI 2018 SMALL BUSINESS PROFILE, 101, available at <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-MS.pdf>. [hereinafter “Advocacy Snapshot”].

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> <http://mdes.ms.gov/media/8651/uratesmap.pdf>.

<sup>6</sup> Advocacy Snapshot, *supra note 2*, at 101.

employed by small firms.<sup>7</sup> The percentage of employees employed by small firms increases dramatically in other areas of the economy: 87 percent in the agriculture, forestry, and fishing and hunting industries, 77 percent in the professional, scientific, and technical services, and 74 percent in the construction industry.<sup>8</sup>

### III. Recent Workforce Trends (National)

In May 2018, there were 6.1 million unemployed Americans, and the national unemployment rate was at an 18-year low of 3.8 percent.<sup>9</sup> This rate is down significantly from the most recent high of 10 percent in October 2009.<sup>10</sup> Long term unemployment, which also peaked in 2010, has fallen by 83 percent over the past eight years to 1.2 million in May 2018.<sup>11</sup> In the past year, the number of discouraged workers decreased by 10 percent and the number of Americans defined as marginally attached to the labor force decreased by almost 20 percent.<sup>12</sup> Job creation has been strong in the first few months of 2018. From January to May, over 1 million jobs were created.<sup>13</sup> The economy has created 16 percent more jobs in the first five months of 2018 than the first five months of 2017.<sup>14</sup> The industries with the largest increases in job creation included leisure and hospitality, education and health services, and professional and business services.<sup>7</sup>

With the increase in job creation, the number of job openings and unfilled positions is currently at its highest point this century.<sup>11</sup> In just the past two years, the number of job openings increased from 5.9 million in March 2016 to almost 6.6 million in March 2018.<sup>15</sup> The manufacturing industry has seen the number of job vacancies triple since the Great Recession.<sup>16</sup> Also, for the first time since the Department of Labor began tracking job vacancies, the number of vacant jobs (6.6 million) surpassed the number of unemployed Americans (6.1 million).<sup>17</sup> So, while

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<sup>7</sup> *Id.* at 103.

<sup>8</sup> *Id.*

<sup>9</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, THE EMPLOYMENT SITUATION SUMMARY – MAY (2018), available at <https://www.bls.gov/news.release/empsit.nr0.htm>.

<sup>10</sup> *Id.*

<sup>11</sup> Long term unemployment is defined by the BLS as when someone has been out of the workforce for over 27 weeks. U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, DURATION OF UNEMPLOYMENT (2018), available at <https://www.bls.gov/charts/employment-situation/duration-of-unemployment.htm>.

<sup>12</sup> The BLS defines a person as marginally attached to the workforce if the individual is not in the labor force and wants to and is available for work, and who has looked for a job sometime in the prior 12 months, but was not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached. A discouraged worker is defined by the BLS as an individual who did not actively look for work in the prior 4 weeks. U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE STATISTICS FROM THE CURRENT POPULATION SURVEY (2018), available at <https://www.bls.gov/cps/lfcharacteristics.htm#discouraged>.

<sup>13</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, EMPLOYMENT, HOURS, AND EARNINGS FROM THE CURRENT EMPLOYMENT STATISTICS SURVEY (2018), available at [https://data.bls.gov/timeseries/CES0000000001?output\\_view=net\\_1mth](https://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth).

<sup>14</sup> *Id.*

<sup>15</sup> U.S. DEP'T OF LABOR, BUREAU OF LABOR STATISTICS, JOB OPENINGS, HIRES, AND SEPARATIONS LEVELS, SEASONALLY ADJUSTED (2018), available at <https://www.bls.gov/charts/job-openings-and-labor-turnover/openinghire-seps-level.htm>.

<sup>16</sup> According to the Federal Reserve, the Great Recession started in December 2007 and ended in June 2009. [https://www.federalreservehistory.org/essays/great\\_recession\\_of\\_200709](https://www.federalreservehistory.org/essays/great_recession_of_200709).

Patrick Gillespie, *U.S. Manufacturing Job Openings at 2007 Levels*, CNN (Dec. 21, 2016), available at <http://money.cnn.com/2016/12/21/news/economy/job-openings-manufacturing-trump/index.html>.

<sup>17</sup> Eric Morath, *American Job Openings Outnumber the Jobless*, WALL STREET JOURNAL (June 5, 2018), available at <https://www.wsj.com/articles/american-jobs-outnumber-the-jobless-1528212776>.

employees who are looking for work are finding it easier to locate jobs in several industries and can even command higher wages and better benefits, the increase in unfilled jobs inhibits business growth, and therefore, economic growth.<sup>18</sup>

#### **IV. The Small Business Workforce**

With nearly 30 million small businesses that employ almost half of all private sector employees and create roughly two of every three new jobs, small businesses are a significant component of the workforce.<sup>19</sup> Although small businesses are the primary creator of new jobs, they typically lack the resources to compete with larger companies during periods of low unemployment.<sup>21</sup>

Job vacancies are becoming one of the top concerns of many small business owners. According to the National Federation of Independent Business April 2018 Economic Trends Report, 57 percent of small business owners either hired workers or were trying to hire workers in the last month, and 88 percent of those hiring or trying to hire reported few or no qualified applicants for vacant positions.<sup>20</sup> The survey also found that while only 15 percent of business owners in June 2012 had positions they could not fill, 35 percent of surveyed business owners in March 2018 reported positions they were unable to fill.<sup>21</sup> This is becoming a pressing problem for small firms, and particularly for small firms in rural areas where the pool of available employees is small then their urban counterparts.

#### **V. Additional Barriers to Small Business Growth in Rural Areas**

##### *1. Access to Capital*

Despite the nimbleness and creativity of American small businesses, their ability to access capital is limited. While large companies regularly raise capital through debt and equity markets, small businesses often finance their endeavors with personal assets or commercial bank borrowing. Unfortunately, the lending environment around the country for small businesses continues to be depressed. According to a recent article published by the Federal Reserve Bank of Dallas, lending to small businesses has decreased nearly 15 percent since the mid-2000s.<sup>22</sup>

Since the end of the Great Recession in the summer of 2009,<sup>23</sup> the United States economy has slowly been improving.<sup>24</sup> Recent trends, such as growth in small business optimism scores<sup>25</sup>

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<sup>18</sup> NATIONAL FEDERATION OF INDEPENDENT BUSINESS, APRIL 2018 SMALL BUSINESS OPTIMISM INDEX (2018) [hereinafter “NFIB April 2018”], available at <https://www.nfib.com/surveys/small-business-economic-trends/>.

<sup>19</sup> SMALL BUSINESS ADMINISTRATION, OFFICE OF THE CHIEF COUNSEL FOR ADVOCACY, FREQUENTLY ASKED QUESTIONS 1 (2016), available at [https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016\\_WEB.pdf](https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf).

<sup>20</sup> NFIB April 2018, *supra* note 18.

<sup>21</sup> *Id.*

<sup>22</sup> KELSEY REICHOW, FEDERAL RESERVE BANK OF DALLAS, SMALL-BUSINESS LENDING LANGUISHES AS COMMUNITY BANKING WEAKENS, 12 ECON. LETTER 1 (2017), available at <https://www.dallasfed.org/research/ecllett/>.

<sup>23</sup> ROBERT RICH, FEDERAL RESERVE BANK OF NEW YORK, THE GREAT RECESSION, FEDERAL RESERVE HISTORY (2013), available at [https://www.federalreservehistory.org/essays/great\\_recession\\_of\\_200709](https://www.federalreservehistory.org/essays/great_recession_of_200709).

<sup>24</sup> <https://fred.stlouisfed.org/series/A191RL1Q225SBEA>.

<sup>25</sup> NATIONAL FEDERATION OF INDEPENDENT BUSINESS: DECEMBER 2017 REPORT: SMALL BUSINESS OPTIMISM INDEX (2017), available at <https://www.nfib.com/surveys/small-business-economic-trends/>.

and a decreasing unemployment rate,<sup>26</sup> indicate overall economic confidence. Despite promising macroeconomic conditions, the lending and financial environment continue to remain stagnant for businesses.<sup>27</sup> For small businesses, which regularly utilize commercial bank borrowing for expansion projects and other endeavors, a tepid lending environment is troubling.

## 2. Access to Broadband

Modern communications technology provides endless opportunities to small businesses in rural America. Past hearings held by this Committee have made clear that investing in rural broadband has far-reaching effects, improving the quality of life for citizens by promoting economic development, producing jobs, and creating efficiencies in the agricultural, energy, and healthcare sectors.<sup>28</sup> Continued oversight of the Federal Communications Commission (FCC) and of the mobile wireless marketplace by Congress is essential to ensure that small firms and enterprises located in rural America have equal access to technology and interconnectivity as their larger and more urban areas. The importance of equal access is underscored by the crucial role small firms play in this landscape: while small telecommunications (telecom) companies serve just under 5% of the United States population, this population is spread across approximately 37% of the United States.<sup>29</sup> Small carriers are often the only entities available to provide fixed, full-service networks in these areas.

Internet access is readily accessible and commonplace in affluent urban and suburban centers, but in rural communities, the lack of access is glaring. The disparity in service may be attributable to persistent industry dynamics which discourage large internet service providers (ISPs) from offering improved internet services. In many urban and suburban centers, including major roadways, a large provider leverages the high density of potential customers in these areas, spreading the cost of high-speed internet across the base. In rural areas, the inverse is true – a low density of potential customers creates disincentives for large providers from making the effort to connect them to the internet.<sup>30</sup> Simply put, nationwide carriers believe it is unprofitable to make the investment in such sparsely populated areas, often resulting in these areas at the bottom of their network upgrade list. This poses significant challenges for citizens living and working in these areas.

## 3. Lagging Infrastructure

A reliable American infrastructure system is key to the growth of the United States economy and the success of our nation's small businesses. Small firms both build our nation's infrastructure and rely upon it to create jobs, promote competition, and get their goods to the market. The American infrastructure system is a widely-encompassing umbrella, including roads, bridges, railways, waterways, sea ports, airports, broadband deployment, and more. Providing a reliable and

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<sup>26</sup> <https://data.bls.gov/timeseries/LNS14000000>.

<sup>27</sup> <https://fred.stlouisfed.org/series/CILACBQ158SBOG>.

<sup>28</sup> *Improving Broadband Deployment: Solutions for Rural America: Hearing Before the Subcomm. on Agric., Energy and Trade of the H. Comm. on Small Bus.*, 115th Cong. 2-3 (2017) (statement of Michael R. Romano, Senior Vice President for Indus. Affairs & Bus. Dev., The Rural Broadband Ass'n).

<sup>29</sup> *Id.*

<sup>30</sup> Brian Fung, *Why the Agriculture Department is Giving out tens of millions of dollars for Internet access*, WASH. POST (July 20, 2015), [https://www.washingtonpost.com/news/the-switch/wp/2015/07/20/why-the-agriculture-department-is-giving-out-tens-of-millions-of-dollars-for-internet-access/?utm\\_term=.7f9c0866c2e8](https://www.washingtonpost.com/news/the-switch/wp/2015/07/20/why-the-agriculture-department-is-giving-out-tens-of-millions-of-dollars-for-internet-access/?utm_term=.7f9c0866c2e8).

secure infrastructure is one arena where federal, state, and local governments can play a major role in supplying the tools for success for America's small businesses.

A robust surface transportation system provides endless opportunities to small businesses all across America. Past hearings held by this Committee have shown that transportation infrastructure is critical for facilitating commerce, promoting competitiveness, allowing businesses to expand, and lowering prices for American families.<sup>31</sup> The nation's current surface transportation network allows goods and services to travel over 4 million miles of public roadways, 125,000 miles of railroad, and 25,000 miles of navigable waterways.<sup>32</sup> In 2015, highways carried more than 3.1 trillion vehicle miles.<sup>33</sup> While rail and waterway shipping play important roles in our surface transportation infrastructure, road transportation is by far the most commonly utilized.

However, this network, if inadequate, imposes significant costs on the public and small businesses and hinders their abilities to make timely deliveries and get goods to the marketplace. Time spent stuck in traffic results in higher out-of-pocket costs for small businesses and wastes time that could be spent invested in business productivity. On average, the typical American commuter spends 42 hours each year stuck in traffic.<sup>34</sup> Deficient roads cost American drivers approximately \$160 billion per year in vehicle repairs and operating costs.<sup>35</sup> Currently, an estimated 20 percent of roads on the Federal-Aid Highway System provide poor ride quality and 25 percent of bridges are functionally obsolete.<sup>36</sup> This is in large part due to a federal investment backlog, which in 2012 the Federal Highway Administration estimated to be over \$645 billion.<sup>37</sup> Compounding matters further, as more Americans are driving than ever before, the Department of Transportation expects that vehicle travel will increase by 26 percent over the next 30 years.<sup>38</sup>

The federal government's road and mass transit programs are financed mostly through the Highway Trust Fund (HTF).<sup>39</sup> The HTF is financed from a number of sources, including sales taxes on tires, trucks, buses, and trailers, as well as truck usage taxes. However, approximately 90% of trust fund revenue comes from taxes on motor fuels, which is currently 18.3 cents per gallon on gasoline and 24.3 cents per gallon on diesel.<sup>40</sup> The HTF is comprised of two accounts: one for highways and one for mass transit.<sup>41</sup> Of the two accounts; the highway account receives 15.44 cents

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<sup>31</sup> *The Road Ahead: Small Businesses and the Need for a Long-Term Surface Transportation Reauthorization: Hearing Before the H. Comm. on Small Bus.*, 114th Cong. (2015) (Memorandum).

<sup>32</sup> U.S. DEP'T OF TRANSP., BUREAU OF TRANSP. STATISTICS, POCKET GUIDE TO TRANSPORTATION, Tbl. 1-1, <https://www.bts.dot.gov/sites/bts.dot.gov/files/docs/browse-statistical-products-and-data/bts-publications/pocket-guide-transportation/215726/pocket-guide-2018complete.pdf> (last modified Jan. 2018).

<sup>33</sup> *Id.*

<sup>34</sup> U.S. DEPT. OF TRANSP., THE PRESIDENT'S INITIATIVE FOR REBUILDING INFRASTRUCTURE IN AMERICA p. 9 (Feb. 2018), available at <https://www.transportation.gov/sites/dot.gov/files/docs/briefing-room/305216/infrastructure-initiative-booklet.pdf> [hereinafter "REBUILDING INFRASTRUCTURE"].

<sup>35</sup> *Id.*

<sup>36</sup> *Id.* at 10.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Status of the Highway Trust Fund*, U.S. DEPT. OF TRANSP., FED. HIGHWAY ADMIN., <https://www.fhwa.dot.gov/highwaytrustfund> (last visited Mar. 13, 2018).

<sup>40</sup> MICHAEL SARGENT, HERITAGE FOUNDATION HIGHWAY TRUST FUND BASICS: A PRIMER ON FEDERAL SURFACE TRANSPORTATION SPENDING 2 (2015), available at <http://www.heritage.org/research/reports/2015/05/highway-trust-fund-basics-a-primer-on-federal-surface-transportation-spending>.

<sup>41</sup> *Id.*

of the gasoline tax and the mass transit account receives 2.86 cents of the tax.<sup>42</sup> The fuel tax rates were last raised in 1993.<sup>43</sup> Under current law, the trust fund cannot incur negative balances, nor can it borrow to cover unmet obligations.<sup>44</sup> Since 2007, lawmakers have transferred approximately \$130 billion in federal funds to keep the HTF afloat.<sup>45</sup> At its current pace, the trust fund will expire in 2022.<sup>46</sup>

A reliable American infrastructure system is key to the growth of the United States economy and the success of our nation's small businesses. Small firms both build our nation's infrastructure and rely upon it to create jobs, promote competition, and get their goods to the market. The American infrastructure system is a widely-encompassing umbrella, including roads, bridges, railways, waterways, sea ports, airports, broadband deployment, and more. Providing a reliable and secure infrastructure is one arena where federal, state, and local governments can play a major role in supplying the tools for success for America's small businesses.

#### *A. Surface Transportation and the Highway Trust Fund*

A robust surface transportation system provides endless opportunities to small businesses all across America. Past hearings held by this Committee have shown that transportation infrastructure is critical for facilitating commerce, promoting competitiveness, allowing businesses to expand, and lowering prices for American families.<sup>47</sup> The nation's current surface transportation network allows goods and services to travel over 4 million miles of public roadways, 125,000 miles of railroad, and 25,000 miles of navigable waterways.<sup>48</sup> In 2015, highways carried more than 3.1 trillion vehicle miles.<sup>49</sup> While rail and waterway shipping play important roles in our surface transportation infrastructure, road transportation is by far the most commonly utilized.

However, this network, if inadequate, imposes significant costs on the public and small businesses and hinders their abilities to make timely deliveries and get goods to the marketplace. Time spent stuck in traffic results in higher out-of-pocket costs for small businesses and wastes time that could be spent invested in business productivity. On average, the typical American commuter spends 42 hours each year stuck in traffic.<sup>50</sup> Deficient roads cost American drivers approximately \$160 billion per year in vehicle repairs and operating costs.<sup>51</sup> Currently, an estimated 20 percent of roads on the Federal-Aid Highway System provide poor ride quality and 25 percent of bridges are functionally obsolete.<sup>52</sup> This is in large part due to a federal investment backlog, which in 2012 the

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<sup>42</sup> *Id.*

<sup>43</sup> The Revenue Reconciliation Act of 1993, incorporated into the Omnibus Budget Reconciliation Act of 1993, increased the gas tax by 4.3 cents, from 14.1 cents to 18.4 cents. Pub. L. No. 103-66, § 13242, 107 Stat. 327, 514 (1993) (codified at 26 U.S.C. § 4081(a)(2)(A)).

<sup>44</sup> Federal Aid Highway Act of 1956, Pub. L. No. 84-627, 70 STAT. 397.

<sup>45</sup> REBUILDING INFRASTRUCTURE, *supra* note 34, at 11.

<sup>46</sup> *Id.*

<sup>47</sup> *The Road Ahead: Small Businesses and the Need for a Long-Term Surface Transportation Reauthorization: Hearing Before the H. Comm. on Small Bus.*, 114th Cong. (2015) (Memorandum).

<sup>48</sup> U.S. DEP'T OF TRANSP., BUREAU OF TRANSP. STATISTICS, POCKET GUIDE TO TRANSPORTATION, Tbl. 1-1, <https://www.bts.dot.gov/sites/bts.dot.gov/files/docs/browse-statistical-products-and-data/bts-publications/pocket-guide-transportation/215726/pocket-guide-2018complete.pdf> (last modified Jan. 2018).

<sup>49</sup> *Id.*

<sup>50</sup> REBUILDING INFRASTRUCTURE, *supra* note 34, at 9.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 10.

Federal Highway Administration estimated to be over \$645 billion.<sup>53</sup> Compounding matters further, as more Americans are driving than ever before, the Department of Transportation expects that vehicle travel will increase by 26 percent over the next 30 years.<sup>54</sup>

The federal government's road and mass transit programs are financed mostly through the Highway Trust Fund (HTF).<sup>55</sup> The HTF is financed from a number of sources, including sales taxes on tires, trucks, buses, and trailers, as well as truck usage taxes. However, approximately 90% of trust fund revenue comes from taxes on motor fuels, which is currently 18.3 cents per gallon on gasoline and 24.3 cents per gallon on diesel.<sup>56</sup> The HTF is comprised of two accounts: one for highways and one for mass transit.<sup>57</sup> Of the two accounts; the highway account receives 15.44 cents of the gasoline tax and the mass transit account receives 2.86 cents of the tax.<sup>58</sup> The fuel tax rates were last raised in 1993.<sup>59</sup> Under current law, the trust fund cannot incur negative balances, nor can it borrow to cover unmet obligations.<sup>60</sup> Since 2007, lawmakers have transferred approximately \$130 billion in federal funds to keep the HTF afloat.<sup>61</sup> At its current pace, the trust fund will expire in 2022.<sup>62</sup>

## VI. Conclusion

While the American economy is currently burgeoning, there are still lingering impediments to economic growth that are restricting small firms' ability to expand and become more profitable. Chief among them for rural small companies are a skills gap and lack of qualified potential employees, inadequate access to working capital, restricted access to broadband services and a lagging infrastructure. This hearing will provide committee members the opportunity to hear from small businesses in North Mississippi about how they are progressing in an ever changing economic environment.

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<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> *Status of the Highway Trust Fund*, U.S. DEPT. OF TRANSP., FED. HIGHWAY ADMIN., <https://www.fhwa.dot.gov/highwaytrustfund> (last visited June 13, 2018).

<sup>56</sup> MICHAEL SARGENT, HERITAGE FOUNDATION HIGHWAY TRUST FUND BASICS: A PRIMER ON FEDERAL SURFACE TRANSPORTATION SPENDING 2 (2015), available at <http://www.heritage.org/research/reports/2015/05/highway-trust-fund-basics-a-primer-on-federal-surface-transportation-spending>.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

<sup>59</sup> The Revenue Reconciliation Act of 1993, incorporated into the Omnibus Budget Reconciliation Act of 1993, increased the gas tax by 4.3 cents, from 14.1 cents to 18.4 cents. Pub. L. No. 103-66, § 13242, 107 Stat. 327, 514 (1993) (codified at 26 U.S.C. § 4081)(a)(2)(A).

<sup>60</sup> Federal Aid Highway Act of 1956, Pub. L. No. 84-627, 70 STAT. 397.

<sup>61</sup> REBUILDING INFRASTRUCTURE, *supra* note 34, at 11.

<sup>62</sup> *Id.*