

SBA 504

Growing Small Businesses, Jobs, Communities



SBA 504 Borrower - Lixit Corporation - Napa, California

Economic Impact

SBA 504 Loan Program

SBA 504

Methodology

In order to create an economic impact assessment, the study was conducted in three phases – a business survey, an economic multiplier analysis, and a program assessment. First, Applied Development Economics teamed with the Program for Applied Research & Evaluation at the California State University (CSU), Chico, to prepare and distribute a business survey to document the revenue, employment, and payroll changes incurred by SBA 504 loan recipients, and how they applied their loan funds. These surveys were conducted in cooperation with a representative sample of participating CDCs, who completed confidential survey forms from their financial records.

The survey served as the primary data source for conducting an economic multiplier analysis of the SBA 504 loan program. It provided information about revenue, employment, and payroll for businesses participating in the SBA 504 program between February 2003 and January 2005. In addition, the analysis estimated the economic multiplier impacts that these loan recipient businesses create for other businesses through buyer-supplier relationships and household spending by employees.

With the survey data as a basis, the study prepared an input-output analysis to calculate the *economic multiplier effects* of net business expansions occurring within two years of the businesses receiving the 504 loans. In addition to private sector economic impacts, the *study calculated the federal, state and local tax revenues* that resulted from the net growth in the program participants and estimated the return on investment from the federal government's expenditures on the program.

What is SBA 504

The SBA 504 Loan Program provides long-term, fixed rate financing to small, for-profit businesses for purposes of acquiring, constructing, expanding, or otherwise improving real estate, and capital equipment to support business expansion and job creation. The amount of SBA 504 loan financing is tied to the number of jobs either created or retained by the project.

More than 260 Certified Development Companies (CDCs) operate the program throughout the country. The study released in 2008 represents the first formal economic assessment of the benefits of the SBA 504 program.

Why an Economic Impact Study

Prior to 2008, the economic benefits of the SBA 504 loan program at the national level relied primarily on anecdotal assessments of the impact these loan funds have had on individual businesses. In late 2007 an economic impact study was conducted to apply a more quantitative and systematic approach to documenting the economic impacts created by the 504 loan program.

The economic impact of 831 SBA 504 loans issued between January 2003 and February 2005 were evaluated in the study. The survey sample represented 5.5 % of the 504 loan volume issued throughout the nation during that time. The average loan size from the survey sample was about \$506,000, which was very close to the national average of \$481,400. In addition, the industry distribution of survey respondents closely matched the nationwide mix of loan recipients.

Change in Revenue (FY Prior to Receiving Loan & Most Recent Fiscal Year) for SBA 504 Loan Recipients in Survey Sample

Revenue Growth	Responses	Percent of Total
Positive	503	77.1%
Total	652	100.0%

Percent Reporting Revenue 78.5%

Source: ADE, and Applied Research and Evaluation

Change in Employment (FY Prior to Receiving Loan & Most Recent Fiscal Year) for SBA 504 Loan Recipients in Survey Sample

Job Growth	Responses	Percent of Total
Positive	439	62.3%
Total Responses	705	100.0%

Percent Reporting Jobs 84.8%

Source: ADE, and Applied Research and Evaluation

504 ECONOMIC IMPACT STUDY

Based on the data sources used for the economic impact study, the SBA 504 loan program very clearly provides a cost effective means to generate new business activity for the national economy.

As a source for business expansion capital, the 504 loan program allows businesses to operate at a higher level of capacity, increasing revenue and productivity, and adding jobs and income. In particular, the 504 loan program allows businesses to expand that would not qualify for conventional financing, thus stimulating economic growth that could not otherwise occur.

Moreover, the study demonstrates that this increased business activity has a corresponding increase in tax revenues for the federal government that is many times greater than the funding required to administer the SBA 504 program. In short, the SBA 504 loan program represents an investment that creates positive returns many times over.

Study Highlights

- 77% of the businesses reported increasing revenues within two years of their 504 loans. For the average firm, revenue grew from \$3.2 million to \$4.8 million annually.
- About 62 % of the businesses reported job growth, in the two years following the loan. For the average business, their workforce grew from 24 jobs before the loan to 28 jobs after.¹ Three quarters of the businesses reported increasing payroll.
- Applying the survey results to the more than 15,000 businesses who received 504 loans nationally during the two year study period (2003-2005), the program supported the net growth of 54,000 jobs and about \$4.6 billion in added labor income. In addition, the businesses themselves increased revenues by about \$24.4 billion.
- Economic multiplier effects from the increase in direct economic activity contributed to the addition of another 66,000 jobs and \$4.5 billion in wages and salaries. Total business output (revenues) grew by an additional \$23.6 billion.
- The total increased business activity and employment also generated an increase in federal taxes and other revenue of \$1.75 billion per year, and state and local taxes and revenues of \$2.2 billion. For the federal revenue alone, this business activity and employment represents a 23% return for every dollar of loan funds in the program.
- The SBA spent an estimated \$46.6 million operating the 504 program during the 2003-2005 study period. The increased federal revenue represents of return of \$37.50 for every \$1.00 spent on program costs. State and local revenues add about \$57.00, increasing this **return on investment to about \$94.00 per dollar of program cost.**

¹ Businesses with job growth, not counting business start-ups, averaged nearly 12 new jobs per business and about \$41,600 in 504 loan dollars per new job.



National Association of Development Companies

The economic impact study was commissioned by the **National Association of Development Companies** (NADCO). The complete study can be viewed on the NADCO website at www.nadco.org

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Applied Development Economics, Inc.

The report was prepared by Applied Development Economics, Inc. (ADE), with offices in Walnut Creek and Sacramento, California. The study was directed by ADE President, Douglas H. Svensson, AICP, with key research and analysis completed by Peter Cheng, ADE Senior Associate and Matt Yancey, ADE Associate.



The survey research conducted for the study was completed by the Program for Applied Research and Evaluation at California State University, Chico, under the direction of Dr. James Fletcher. ADE has worked on local and regional projects throughout the western United States. The firm also has experience on national projects and in the Midwest. Over the years, the firm has received numerous critical accolades, including 14 state and national awards since 1995.

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Program for Applied Research and Evaluation

The Program for Applied Research and Evaluation (PARE) is a social science research organization within the California State University, Chico Research Foundation. PARE specializes in qualitative research methods including focus groups and key informant interviews as well as quantitative methods such as mail, telephone, internet, and in-person surveys. PARE is directed by Dr. James E. (Jim) Fletcher who has conducted research for numerous governmental, non-profit, and private sector clients as the local, state and national levels over the past 31 years.



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