

SBA 504

Growing Small Businesses, Jobs, Communities

2008

ECONOMIC IMPACT STUDY

SBA 504 LOAN PROGRAM



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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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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EXECUTIVE SUMMARY

PURPOSE OF THE STUDY

This study evaluates the economic impact of the SBA 504 Loan Program, which provides low interest loans to businesses for purposes of acquiring, constructing, expanding, or otherwise improving real estate, and capital equipment to support business expansion and job creation, among other goals. More than 260 Certified Development Companies (CDCs) operate the program throughout the nation. This study represents the first formal economic assessment of the benefits of the 504 program.

STUDY APPROACH

The study conducted a survey of CDC's and evaluated the economic impact of 831 504 program loans issued between January 2003 and February 2005. The survey sample represents 5.5 percent of the 504 loan volume issued throughout the nation during that time and the sampling error for the survey ranges from +/- 3.6 to 3.9 percent. The average loan size from the survey sample was about \$506,000, which is very close to the national average of \$481,400. In addition, the industry distribution of survey respondents closely matches the nationwide mix of loan recipients.

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 result from the net growth in the program participants and estimates the return on investment from the federal government's expenditures on the program.

RESULTS OF THE ANALYSIS

Key finding of the study are highlighted below.

- Seventy-seven percent of the businesses reported increasing revenues within two years of their 504 loans, while about 23 percent reported a decline. For the average firm, revenue grew from \$3.2 million to \$4.8 million annually.

- About 62 percent of the businesses reported job growth, while 25 percent report a decline and nearly 13 percent report no change 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 and 25 percent reported declines.
- 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.

CONCLUSIONS

The study demonstrates that the 504 loan program very clearly provides a cost effective means of generating new business activity for the national economy. In addition, the corresponding increase in tax revenues for the federal government is many times greater than the funding required to administer the program.

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.

INTRODUCTION

The National Association of Development Companies (NADCO) commissioned this study in order to estimate the economic impact of the SBA 504 loan program, and provide a benchmark overview of how the program impacts reach beyond just the direct activities of loan recipients. This study represents the first formal assessment at the national level of the SBA 504 program's economic impact. Applied Development Economics conducted this study on behalf of NADCO, in association with the Program for Applied Research at CSU, Chico. NADCO has been in existence since 1981 for the purpose of providing regulatory and legislative support for the SBA 504 program.

OVERVIEW OF THE SBA 504 PROGRAM

SBA 504 was created as a community lending program designed to help spur job creation/retention.² The program is also used to fulfill public policy directives related to community revitalization, increase exports, improve productivity and competitiveness, adapt to changes spurred by regulatory changes, and expand opportunities for minority, rural, woman-owned, and veteran-owned businesses. Other community development goals for the program include improving, diversifying, and/or stabilizing a local economy, stimulating development of other businesses, creating new sources of income, assisting manufacturing firms, and matching new opportunities to a local labor force. The 504 program is administered by a network of Certified Development Companies (CDCs).

BENEFITS OF SBA 504 RELATIVE TO OTHER BUSINESS FUNDING SOURCES

The SBA 504 loan program provides a source of long-term capital for businesses, and requires as little as 10 percent equity (down payment). The loans are long-term (10 or 20 years) and financed at low fixed interest rates. These loans are designed to cover a large portion of project costs such as building construction, renovation, capital equipment, and soft

² Information about the SBA 504 program is available on NADCO's website, and in other NADCO publications.

costs, so that a business owner can have more available working capital during expansion or start-up.

CERTIFIED DEVELOPMENT COMPANY (CDC) ROLE

CDCs are regional economic development organizations licensed by the U.S. Small Business Administration (SBA). The geographic regions they cover can range from a single county to a multi-state region. For the fiscal year ending in 2006, there were approximately 253 active CDCs. CDCs make loans under the SBA 504 loan program to assist small businesses. The CDC processes, approves, closes and services the loans. Funding is arranged by the CDC issuing a bond, and in all ways, the CDC is the direct lender for the SBA 504 loan program.

OVERVIEW OF SBA 504 LOAN USES AND ELIGIBILITY

The SBA 504 loan proceeds can be used for a wide range of business expansion and/or start-up costs. Potential permitted SBA 504 loan uses include:

- Vacant land acquisition
- Acquisition of existing building
- Tenant improvements
- Building renovation and/or building addition
- Building construction
- Marine facility acquisition, including fishing vessels and commercial boats
- Capital equipment, including heavy machinery
- Associated soft costs such as title and insurance; legal fees; appraisals; environmental reports; architects; surveys; equipment installation; points on bridge loans, furniture and fixtures, etc.

Non-permitted 504 loan uses include the following:

- Mortgage broker fees;
- Points on permanent financing;

- Moving/relocation expenses;
- Refinancing, except to take out financing on property acquired within last nine months with interim funds.

Company Eligibility Criteria

Generally, SBA 504 loans are made to for-profit businesses in most legitimate business categories. Other loan eligibility criteria include:

- Legal entity-corporation, partnership, sole proprietor, limited liability company;
- Located in or planning to locate in any area of the United States;
- Small business with a net worth under \$7 million and net profits under \$2.5 million, or eligible under SBA's other size standards based on sales or number of employees (depending on industry category);
- Planned usage of proceeds for capital investment (land, building, leasehold improvements, renovation, construction, machinery & associated soft costs), and not for working capital;
- Financing participation by another loan provider with the other lending financing 50 percent of project costs, and the SBA 504 loan financing up to 40 percent of the total project cost;
- Economic development goals must be achieved through the project being financed;
- Owner-user of the project being financed must occupy at least 51 percent of an existing building or 60 percent of a newly constructed building. Two or more unrelated small businesses can also receive a SBA 504 loan if they combine to occupy 51 percent of an existing building or 60 percent of a new building.

Companies that are not eligible for SBA 504 loans include the following:

- Not-for-profit businesses (except sheltered workshops);

- Businesses engaged in lending; passive holders of real estate and/or personal property; life insurance companies -- however an insurance agency is eligible;
- Businesses located in a foreign country or solely owned by a foreign born non U.S. citizen;
- Businesses with patronage restrictions;
- Government owned entities (excluding Native American tribes);
- Businesses engaged in promoting religion;
- Consumer and marketing cooperatives (producer cooperatives are eligible);
- Businesses engaged in loan packaging;
- Businesses owned by persons of poor character;
- Equity interest by lender, CDC or associates in applicant concern;
- Businesses providing prurient sexual material;
- Businesses that have previously defaulted on a Federal loan;
- Businesses engaged in political or lobbying activities;
- Speculative businesses.

SBA 504 LOAN VOLUME

During the two year period between February 2003 and January 2005, the SBA 504 program issued a total of 15,723 loans. These loans had a total value of nearly \$7.6 billion with an average loan value per recipient of over \$481,000.

TABLE 1
OVERALL SBA 504 LOAN VOLUME, FEBRUARY 2003 TO JANUARY 2005

	Loans	Amount Loaned	Months
February 2003 to September 2003	4,956	\$2,307,124,997	8
October 2003 to September 2004	8,353	\$4,023,041,127	12
October 2004 to January 2005	2,414	\$1,238,827,000	4
Total 504 Loans Originated	15,723	\$7,568,993,124	24

Source: NADCO

PURPOSE OF THIS STUDY

Until this point, the economic benefits of the SBA 504 program at the national level have primarily relied on anecdotal assessments of the impact that these loan funds have had on individual businesses. This study seeks to go beyond anecdotal evidence and apply a more quantitative and systematic approach to documenting the economic impacts created by the SBA 504 program.

In order to create an economic impact assessment, this study was conducted in three phases – a business survey, an economic multiplier analysis, and a program assessment. First, ADE teamed with the Program for Applied Research & Evaluation at the California State University (CSU), Chico, to prepare and distribute a business survey that would 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 filled out the confidential survey forms from their financial records.

This survey data served as the primary data source for conducting an economic multiplier analysis of the SBA 504 program. The survey 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 estimates the economic multiplier impacts that these loan recipient businesses create for other businesses through buyer-supplier relationships and household spending by employees.

SURVEY SUMMARY

As a primary data input for the economic impact analysis, a survey covering SBA 504 loan recipients was distributed. The survey sample was intended to document the business characteristics – both before and after receiving the loan – for individual businesses receiving SBA 504 loans.

SURVEY ADMINISTRATION

The tasks pertaining to the business survey were administered by the Program for Applied Research and Evaluation (PARE) at CSU Chico. The CSU Chico staff developed and tested the survey instrument. Survey administration included a combination of direct mail, e-mail, and website response options to obtain data from the survey sample (see Appendix A for a copy of the survey instrument).

SURVEY DISTRIBUTION

An initial survey distribution was made directly to a sample of SBA 504 loan recipients based on contact information provided by the CDCs selected to participate in the study. PARE staff mailed cover letters that explained the purpose of the survey together with the survey forms to individual businesses. With the initial responses, the project staff refined the survey and sampling methodology to solicit participation from a larger and more representative survey sample.

For the final survey, the project staff contacted individual CDCs and requested that they complete the survey questionnaires for individual loan recipients based on the financial records that they keep as part of the SBA 504 program documentation. In most cases, the loan file documentation normally maintained by the CDC's was sufficient to provide the data needed for the study as indicated in the survey instrument (Appendix A).

Because the majority of funds in the SBA 504 program are loaned out by a small group of CDCs, the project team decided to make a concerted effort to ensure the largest volume CDCs participated in the survey. The CDCs across the country were rank-ordered by their loan volume, and a list of 30 CDCs was developed. The desired survey sample would

consist of 25 of the highest volume CDCs (selected from among the top 50), and a randomly selected group of five other CDCs that do not rank among the 50 largest CDCs. For each of these CDCs, the project staff sent a list of businesses that would comprise the survey sample. The number of individual business financials requested was selected in order to ensure a representative sample of SBA 504 loans. Participation from the CDCs selected in the sample varied, and in the end, a total of 21 CDCs participated in the survey by providing financial information on 831 of the 3,293 total loans issued by these participating CDCs. The final sample size of 831 has an associated sampling error of +/- 3.6 to 3.9 percent. This range in sampling error is due to the absence of some financial data on some of the questionnaires completed for a portion of the individual SBA 504 loan recipients.

Participating CDCs in the survey are listed as follows:

- Advantage CDC (Long Beach, CA)
- Bay Area Development Company (Walnut Creek, CA)
- Bay Colony Development Corporation
- Business Development Finance Corp. (Tucson, AZ)
- Business Finance Group of St. Louis County (Clayton, MO)
- California Statewide CDC (Davis, CA)
- Capital Access Corp. (Louisville, KY)
- Capital Certified Development Corp. (Austin, TX)
- CDC Small Business Finance (San Diego, CA)
- Evergreen Community Development Assn. (Seattle, WA)
- Florida First Capital Finance Corp. (Tallahassee, FL)
- Mountain West Small Bus. Fin. (Salt Lake City, UT)
- NEDCO (Lincoln, NE)
- New Jersey Business Finance Group (Fort Lee, NJ)
- Northwest Business Development (Tacoma, WA)
- Premier Capital Corporation (Indianapolis, IN)
- Small Business Capital Corp OK
- Southland EDC (Santa Ana, CA)
- Southwestern Business Financing Corp. (Phoenix, AZ)
- Success Capital EDC (Modesto, CA)
- Wisconsin Business Development Finance Corp. (Madison, WI)

SURVEY INFORMATION REQUESTED

Businesses included in the study group received their SBA 504 loans between February 1, 2003 and January 31, 2005. Information requested in the survey questionnaire included the following:

- Business type
- Revenue, employment, and payroll for the fiscal year prior to receiving the SBA 504 loan
- Amount of the SBA 504 loan
- Amount of other business expansion financing sources
- Amount expended for different uses (e.g., land acquisition, building acquisition, capital equipment, soft costs, etc.)
- Revenue, employment, and payroll for the most recent fiscal year after receiving the SBA 504 loan

SURVEY RESULTS

OVERALL SAMPLE LOAN VOLUME

The survey included data from 831 SBA 504 loan recipients. The \$419 million loan volume that comprises the survey sample covers approximately 5.5 percent of the \$7.6 billion total loan volume authorized between February 2003 and January 2005. The average loan amount in the survey sample nearly matches the overall average loan amount for the 504 program as a whole (see Table 2).

**TABLE 2
COMPARISON OF SURVEY SAMPLE LOAN VOLUME AND OVERALL SBA
504 PROGRAM**

	Loans	Amount Loaned	Months
Total 504 Loans Originated	15,723	\$7,568,993,124	24
Total 504 Loans in Survey Sample	831	\$419,387,698	24
Survey Sample Percent of Total	5.3%	5.5%	
Overall Average Per Loan		\$481,396	
Survey Average Per Loan		\$505,896	

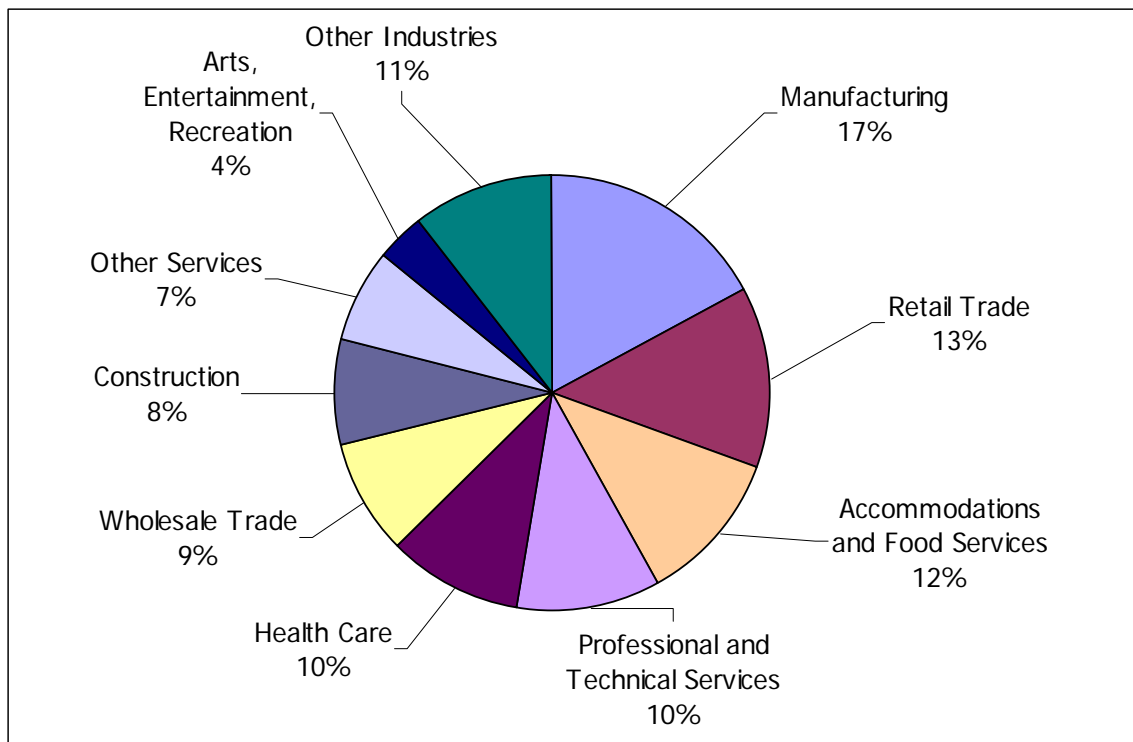
Source: ADE, Applied Research and Evaluation, and NADCO

INDUSTRY REPRESENTATION

The types of industries represented in the survey sample covered a broad range. The largest groups of businesses were in manufacturing and retail trade (Figure 1). However, each of these industry groups comprised less than 17 percent of the total, with virtually all of the major NAICS industry groups represented in the sample (Table 3). Moreover, when all of the services sectors are added together, they comprise about 40 percent of the total businesses represented.

For comparison, the 17 percent of survey cases represented in manufacturing is slightly higher than the representation of manufacturing businesses in the total SBA 504 loan portfolio, which ranged from 12 to 15 percent between FY 2001 and FY 2007. In addition, the representation of the hotels/accommodations sectors ranged from 5.5 to 7.8 percent during this time, which is generally slightly lower than the 8.3 percent representation of these sectors in the survey sample. Taken as a whole, the industry profile of the survey respondents appears very representative of the population of businesses participating in the program nationally.

FIGURE 1
REPRESENTATION OF SBA 504 LOAN RECIPIENTS BY INDUSTRY GROUP



Source: ADE, and Applied Research and Evaluation, CSU Chico

TABLE 3
INDUSTRY DISTRIBUTION OF SBA 504 LOAN RECIPIENT CASES
REPRESENTED IN THE SURVEY SAMPLE

NAICS Code	Industry Description	Survey Responses	Percent of Total
11	AGRICULTURAL PRODUCTION	4	0.5%
111	Crop Production	1	0.1%
112	Animal Production	3	0.4%
21	CONSTRUCTION	63	7.6%
31-33	MANUFACTURING	141	17.0%
311	Food manufacturing	7	0.8%
312	Beverage manufacturing	1	0.1%
313	Textile mills	1	0.1%
314	Textile product mills	2	0.2%
315	Apparel manufacturing	3	0.4%
321	Wood products	7	0.8%
322	Paper manufacturing	2	0.2%
323	Printing	12	1.4%
325	Chemical manufacturing	7	0.8%
326	Plastics and rubber products	5	0.6%
327	Nonmetallic mineral products	6	0.7%
331	Primary metal manufacturing	1	0.1%
332	Fabricated metal manufacturing	30	3.6%
333	Machinery	11	1.3%
334	Computer and electronic products	7	0.8%
335	Electrical equipment	6	0.7%
336	Transportation equipment	3	0.4%
337	Furniture and related product manufacturing	13	1.6%
339	Miscellaneous manufacturing	17	2.0%
42	WHOLESALE TRADE	71	8.5%
44-45	RETAIL TRADE	110	13.2%
441	Motor vehicle and parts dealers	20	2.4%
442	Furniture and home furnishings	9	1.1%
443	Electronics and appliance stores	3	0.4%
444	Building material and garden supply stores	13	1.6%
445	Food and beverage stores	13	1.6%
447	Gasoline stations	29	3.5%
448	Clothing stores	3	0.4%
451	Sporting goods, hobby, book, and music	2	0.2%
453	Miscellaneous store retailers	13	1.6%
454	Nonstore retailers	5	0.6%
48-49	TRANSPORTATION	11	1.3%
484	Truck transportation	5	0.6%
485	Transit and ground passenger transportation	1	0.1%
488	Support activities for transportation	3	0.4%
493	Warehousing and storage	2	0.2%
51	INFORMATION	10	1.2%
511	Publishing	2	0.2%
512	Motion picture and sound recording	4	0.5%
514	Other information	1	0.1%
517	Telecommunications	2	0.2%
518	Data processing	1	0.1%
52	FINANCE AND INSURANCE	17	2.0%
521	Monetary authorities	1	0.1%
522	Credit intermediation	3	0.4%
523	Securities, commodities, investments	2	0.2%

**TABLE 3
INDUSTRY DISTRIBUTION OF SBA 504 LOAN RECIPIENT CASES
REPRESENTED IN THE SURVEY SAMPLE**

NAICS Code	Industry Description	Survey Responses	Percent of Total
524	Insurance carriers	11	1.3%
53	REAL ESTATE	19	2.3%
531	Real estate	15	1.8%
532	Rental and leasing services	4	0.5%
54	PROFESSIONAL AND TECHNICAL SERVICES	86	10.3%
55	MANAGEMENT OF COMPANIES	2	0.2%
56	ADMINISTRATIVE AND WASTE SERVICES	13	1.6%
561	Administrative and support services	12	1.4%
562	Waste management and remediation services	1	0.1%
61	EDUCATIONAL SERVICES	9	1.1%
62	HEALTH CARE	83	10.0%
621	Ambulatory health care service	61	7.3%
623	Hospitals	8	1.0%
624	Social assistance	14	1.7%
71	ARTS, ENTERTAINMENT, RECREATION	29	3.5%
711	Performing arts and spectator sports	15	1.8%
713	Amusements, gambling, and recreation	14	1.7%
72	ACCOMMODATIONS AND FOOD SERVICES	95	11.4%
721	Accommodations	69	8.3%
722	Food services and drinking places	26	3.1%
81	OTHER SERVICES	59	7.1%
811	Repair and maintenance	42	5.1%
812	Personal and laundry services	16	1.9%
813	Membership organizations	1	0.1%

Source: ADE, and Applied Research and Evaluation, CSU Chico

SUMMARY OF CHANGES AFTER RECEIVING SBA 504 LOANS

In general, the SBA 504 program has had a positive impact on business operations based on the survey results. The average revenues, employment, and payroll were all higher in the most recent fiscal year compared to the year prior to the loan allocation.³

The annual revenue for the year prior to receiving the SBA 504 loan averaged \$3.2 million, and increased to \$4.8 million in the most recent fiscal year (Table 4). Businesses in the survey each averaged 24 jobs in the fiscal year prior to

³ The change in revenue, employment, and payroll in this table represents an aggregate average for all cases reported in the survey. Some cases might not have data for both the prior fiscal year and most recent fiscal year.

receiving the SBA 504 loan, and this average increased to 28 jobs per business for the most recent fiscal year after receiving the loan. In addition, the payroll per business averaged \$689,700 in the fiscal year prior to receiving the SBA 504 loan, and increased to \$952,100 for the most recent fiscal year.

**TABLE 4
SUMMARY CHARACTERISTICS FOR SBA 504 LOAN RECIPIENTS IN SURVEY SAMPLE**

	Fiscal Year Prior to Receiving SBA 504 Loan	Responses	Most Recent Fiscal Year	Responses
Survey Average Revenue Per Business	\$3,202,183	735	\$4,758,170	713
Survey Average Employment Per Business	24	772	28	751
Survey Average Payroll Per Business	\$689,701	690	\$952,136	676

Source: ADE, and Applied Research and Evaluation, CSU Chico

REVENUE GROWTH

The survey data shows that the SBA 504 loan program had an immediate positive impact on business revenues.⁴ About 77 percent of loan recipients reported revenue growth during this period, with only 23 percent of loan recipients reporting declines in revenue (Table 5). This data is inclusive of the 79 percent of survey cases that reported revenue in both the fiscal year prior to receiving the 504 loan and most recent fiscal year.

**TABLE 5
CHANGE IN REVENUE (FISCAL YEAR PRIOR TO RECEIVING LOAN, AND
MOST RECENT FISCAL YEAR) FOR SBA 504 LOAN RECIPIENTS IN
SURVEY SAMPLE**

Revenue Growth	Responses	Percent of Total
Negative	148	22.7%
No Change	1	0.2%
Positive	503	77.1%
Total	652	100.0%
Percent Reporting Revenue		78.5%

Source: ADE, and Applied Research and Evaluation

⁴ Revenue growth only includes cases that include data for both the fiscal year prior to receiving the SBA 504 loan, and the most recent fiscal year after receiving the loan.

JOB GROWTH

Most of the loan recipients (62 percent) reported job growth during this period, while 13 percent reported no change in their employment levels (Table 6). The 62 percent of businesses reporting job growth is lower than the 77 percent that reported revenue growth. This indicates that some of the business expansion projects that these loans fund improve the productivity of the business, and jobs are not added at the same rate as revenue growth. Approximately 84 percent of the loan cases reviewed reported jobs for both the fiscal year prior to receiving the 504 loan and the most recent fiscal year.

**TABLE 6
CHANGE IN EMPLOYMENT (FISCAL YEAR PRIOR TO RECEIVING LOAN, AND MOST RECENT FISCAL YEAR) FOR SBA 504 LOAN RECIPIENTS IN SURVEY SAMPLE**

Job Growth	Responses	Percent of Total
Negative	176	25.0%
No Change	90	12.8%
Positive	439	62.3%
Total Responses	705	100.0%
Percent Reporting Jobs		84.8%

Source: ADE, and Applied Research and Evaluation

PAYROLL GROWTH

Even though a lower percentage of businesses reported employment increases than revenue increases during the most recent fiscal year, the 75 percent of cases reporting growth in the payroll during this period nearly equaled the 77 percent of respondents that reported revenue growth after receiving their SBA 504 loan (Table 7). Approximately 72 percent of the loan cases reviewed reported payroll for both the fiscal year prior to receiving the 504 loan and the most recent fiscal year.

**TABLE 7
CHANGE IN PAYROLL (FISCAL YEAR PRIOR TO RECEIVING LOAN, AND MOST RECENT FISCAL YEAR) FOR SBA 504 LOAN RECIPIENTS IN SURVEY SAMPLE**

Payroll Growth	Responses	Percent of Total
Negative	147	24.5%
No Change	1	0.2%
Positive	452	75.3%
Total Responses	600	100.0%
Percent Reporting Payroll		72.2%

Source: ADE, and Applied Research and Evaluation, CSU Chico

USE OF LOAN FUNDS

Of the loan cases reviewed in the survey sample, most of the loan funds (combining 504 loan funds with other financing resources) were applied towards construction and building/land acquisition. The majority (73 percent) of loan recipients applied loan funds towards acquisition of existing buildings, with an average funding allocation of \$1.3 million applied towards this activity among those recipients acquiring existing buildings (see Table 8). As indicated in Figure 2, 64 percent of the total funding levels went to this activity. Very clearly, the participants in the SBA 504 program seek to assume more control over their operations by taking ownership of their business space.

About 24 percent of the loan recipients used their total combined loan funds to acquire vacant land with an average loan allocation of more than \$441,000. Concurrently, 28 percent of loan recipients used their loan funds for new building construction with an average loan allocation of over \$953,000. This indicates that about one out of every four participants in the SBA 504 program use their loan funds for real estate development activities. Use of loan funds for expansion of existing buildings, tenant improvements, and renovation of existing buildings was considerably lower.

In addition, 56 percent of loan recipients allocated funds to other related expenses that include soft costs, but with a much smaller average allocation of \$69,400.

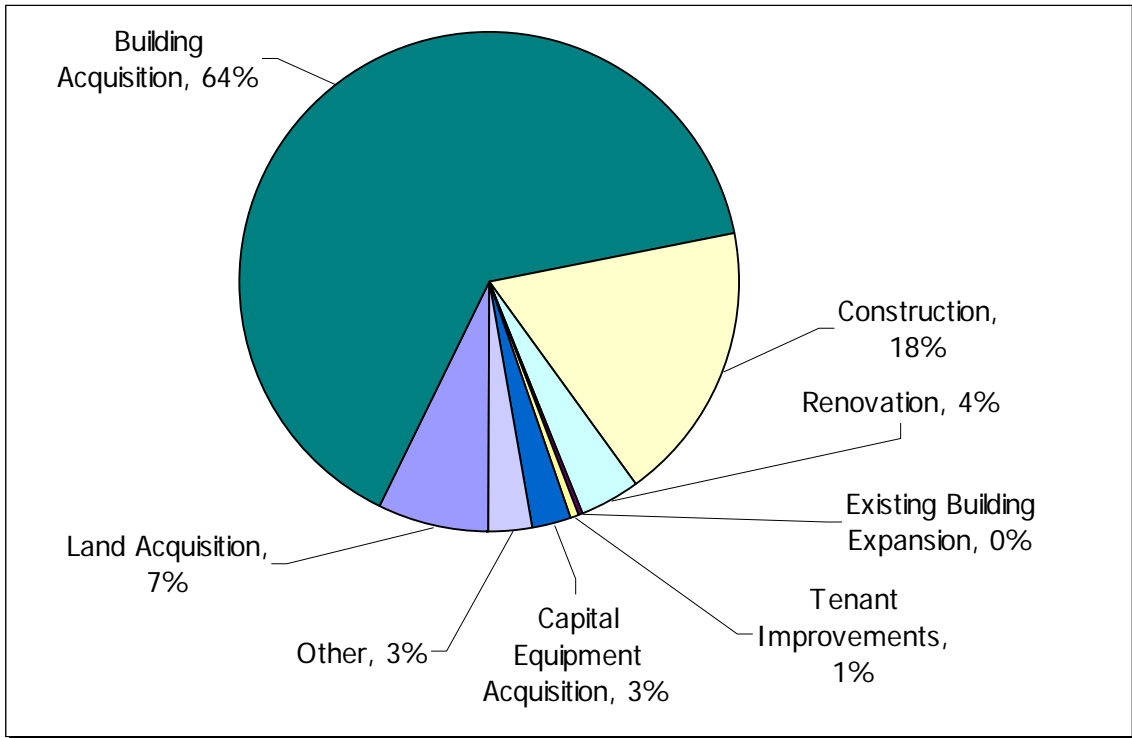
TABLE 8
USE OF LOAN FUNDS BY SBA 504 LOAN RECIPIENTS IN SURVEY SAMPLE

Use of Loan Funding	Total Respondent Loan Allocation	Loan Recipients	Percent of Loan Recipients	Average Loan Allocation
Acquisition of Vacant Land	\$86,467,487	196	23.6%	\$441,161
Acquisition of Existing Building	\$785,033,543	608	73.3%	\$1,291,174
New Building Construction	\$221,216,133	232	28.0%	\$953,518
Existing Building Renovation	\$46,125,359	140	16.9%	\$329,467
Existing Building Expansion	\$2,760,000	5	0.6%	\$552,000
Tenant Improvements	\$6,725,990	24	2.9%	\$280,250
Acquisition of Capital Equipment	\$32,037,215	200	24.1%	\$160,186
Other Related Expenses	\$32,149,761	463	55.9%	\$69,438

Source: ADE, and Applied Research and Evaluation, CSU Chico

Note: Loan allocations include all financing sources, and are not limited to SBA 504 loan funds.

FIGURE 2
USE OF TOTAL FUNDS, INCLUDING SBA 504 LOANS, BY SURVEY RESPONSES



Source: ADE, and Applied Research and Evaluation, CSU Chico

ECONOMIC IMPACT ANALYSIS

This section estimates the economic impacts generated on an annual basis by SBA 504 loan recipients receiving their loans between February 2003 and January 2005. An economic multiplier analysis is intended to systematically document the economic activity that a particular group of businesses and/or industries generates within a given geographic region.

These economic activities constitute the direct economic impacts that these businesses and/or industries create. These direct economic effects will also create economic multiplier effects, which occur when jobs and economic activity create multiplier benefits to other businesses. Multipliers are created because businesses engage in buyer/supplier relationships with other businesses and industries. In addition, employees make household purchases that in turn create jobs and revenue for local-serving businesses.

DESCRIPTION OF ECONOMIC MULTIPLIERS

The analysis calculated the multiplier impacts based on three economic measures – employment, industry output, and labor income. These measures are defined as follows:

- **Employment** indicates the number of jobs that the SBA 504 loan recipients directly generate, and the jobs that supplier and local-serving businesses generate through multiplier effects. This employment total includes self-employment as well.
- **Economic output** represents the sum of all economic activity generated by business operations. This activity includes all commodity inputs, labor income, property income, and other value added components, as well as profits. More commonly, this is understood as total business sales or revenue
- **Labor income** represents the income generated through both self-employment, and wage-and-salary employee compensation.

- **Tax receipts** represent the estimated federal, state, and local tax revenues that the direct and multiplied business activity from SBA 504 loan recipients generate annually.

The multiplier impacts for these measures come from the Type II multipliers. These multipliers include the direct, indirect, and induced impacts. These multiplier descriptions are as summarized below.

- **Direct** impacts represent the jobs and other economic impacts that are directly generated through the business activities of SBA 504 loan recipients.
- **Indirect** impacts represent the jobs and other economic effects that will potentially be generated elsewhere in the U.S. as a result of the direct activities. These indirect impacts result from supplier purchases, commonly referred to as business-to-business transactions.
- **Induced** impacts represent the economic effects that will be generated through household purchases as a result of employee spending. These induced impacts most typically occur in retail and other local-serving industry categories such as personal services, education, and health care.

ESTIMATING ECONOMIC IMPACTS

DIRECT IMPACTS

In order to estimate the economic impacts for SBA 504 loan recipients, the analysis used the survey results as a primary data source. The business survey data provided a large sample from which to estimate the relationship between business expansion expenditures and annual revenue, and the degree to which incremental growth in revenue, employment, and payroll occurs after receiving SBA 504 loan funds. In addition, the survey data provided the basis for estimating the revenue per business, revenue per employee, and the payroll per employee.

The businesses in the survey accounted for a total of \$419 million in loan funds, while the total amount loaned during the two-year study time period (February 2003 to January 2005) was \$7.6 billion nationally. The direct economic

impacts for SBA 504 loan recipients were calculated by applying the revenue, employment, and payroll characteristics for the businesses in the survey sample to the entire population of SBA 504 loan recipients. This generalization included the distribution of businesses by industry.

MULTIPLIER IMPACTS

In addition to estimating the direct economic impacts, the analysis also accounts for the multiplier effects that SBA 504 loan recipients create with other businesses. These indirect and induced impacts are estimated using the IMPLAN Impro Professional input-output model. This application calculates impacts and buyer-supplier relationships for 528 individual industry and commodity categories. For this study, these categories were aggregated down to the two-digit North American Industry Classification System (NAICS) level. It should be noted that the industry classification system used in the IMPLAN model roughly approximates, but still differs from the NAICS and formerly used Standard Industry Classification (SIC) systems.

The input-output matrices that form the main database come from the 2004 Bureau of Labor Statistics dataset, and the analysis used the national dataset. For more geographically specific studies, county and ZIP code level datasets are available. These matrices contain the assumptions regarding economic output per employee, the amount of commodity input that is imported, and the production functions, which define the inputs and supplier services for each industry category. For this study, the economic output per employee, and labor income per employee were adjusted based on the survey results.

ECONOMIC IMPACTS OF SBA 504 LOAN RECIPIENTS

IMPACTS AFTER RECEIVING SBA 504 LOAN FUNDS (DURING MOST RECENT FISCAL YEAR)

Based on a volume of \$7.6 billion loaned through the SBA 504 program between February 2003 and January 2005, loan recipients from this period accounted for approximately \$70.7

billion in direct economic output annually in the most recent fiscal year after receiving their SBA 504 loan. In addition to the economic output, these businesses also account for over 415,000 jobs with \$16.1 billion in annual labor income (Table 9 – Direct Impacts column).

**TABLE 9
ESTIMATED ECONOMIC MULTIPLIER IMPACTS RESULTING FROM SBA 504 LOAN RECIPIENT BUSINESS
ACTIVITY (MOST RECENT FISCAL YEAR)**

Economic Impact	Direct Impacts	Indirect Impacts	Induced Impacts	Total
Industry Output	\$70,711,776,342	\$33,960,955,648	\$30,949,510,512	\$135,622,241,536
Employment	415,688	195,287	216,795	827,770
Labor Income (Wages and Proprietor Income)	\$16,147,174,436	\$8,249,638,440	\$8,595,086,656	\$32,991,899,232

Source: ADE, data from IMPLAN Impro Professional and Applied Research and Evaluation business survey.

The direct business activity created by SBA 504 loan recipients generates additional economic opportunities for other businesses. These indirect impacts that are created through buyer-supplier relationships with SBA 504 loan recipients total approximately \$34 billion in the most recent fiscal year after receiving SBA 504 loan funds. In addition, the indirect impacts include over 195,000 jobs and \$8.2 billion in payroll. The indirect impacts are crucial to the national economy because they tend to occur more in export-oriented industries.

Induced economic impacts created through household spending by employees total approximately \$31 billion in industry output. These induced impacts tend to be focused in the areas adjacent to where these employees live and work, since they occur primarily in local-serving business sectors. The induced impacts created through SBA 504 recipients also generate over 216,000 jobs and \$8.6 billion in payroll.

INCREMENTAL ECONOMIC GROWTH IMPACTS (FISCAL YEAR PRIOR TO RECEIVING SBA 504 LOAN FUNDS COMPARED TO MOST RECENT FISCAL YEAR)

The most important measure for determining the effect of the SBA 504 program is the degree to which businesses grow after receiving SBA 504 loan funds. As shown previously in the survey results, the majority of businesses that receive SBA

504 loan funds increase their revenue, add jobs, and grow their labor income.

Applying the growth estimates to all SBA 504 loan recipients, the incremental increase in industry output between the fiscal year prior to receiving loan funds and the most recent fiscal year totals approximately \$24.4 billion in additional industry output (Table 10). In addition, SBA 504 loan recipients also collectively added more than 54,000 new jobs with \$4.6 billion in additional labor income. It should be noted that this only estimates the incremental growth for existing businesses that could document their business revenue in both the fiscal year prior to receiving the SBA 504 loan and after receiving the loan. The growth increment does not include business start-ups, or businesses for which revenue could not be verified for either the prior fiscal year or the most recent year after receiving SBA 504 loan funds.

TABLE 10
ESTIMATED INCREMENTAL GROWTH IN ECONOMIC MULTIPLIER IMPACTS RESULTING FROM SBA 504
LOAN RECIPIENT BUSINESS ACTIVITY
(COMPARISON OF FISCAL YEAR PRIOR TO RECEIVING LOAN AND MOST RECENT FISCAL YEAR)

Economic Impact	Direct Impacts	Indirect Impacts	Induced Impacts	Total
Industry Output	\$24,361,088,350	\$13,122,000,640	\$10,524,137,616	\$48,007,227,072
Employment	54,069	40,026	25,761	119,856
Labor Income (Wages and Proprietor Income)	\$4,596,997,776	\$2,292,696,874	\$2,201,357,938	\$9,091,052,960

Source: ADE, data from IMPLAN Impro Professional and Applied Research and Evaluation business survey.

The incremental increase in indirect impacts totals approximately \$13 billion in industry output, with over 40,000 new jobs and \$2.3 billion in additional labor income. This all represents new growth opportunities for other businesses that might not have otherwise resulted without the SBA 504 loan funds.

Growth with SBA 504 loan recipients also creates an additional \$10.5 billion in induced industry output, with over 25,000 new jobs and \$2.2 billion in additional labor income.

TAX REVENUE IMPACTS

The growth in business revenue and employment generated by the 504 Loan Program also has consequences for federal, state and local tax receipts. As shown in Table 11 below,

increased employee compensation, along with increased business proprietor income, are estimated to have increased social security payments by nearly \$700 million (\$324.8 million employee contribution plus \$267.9 million employer contribution). Personal federal income taxes increased \$697 million, while corporate income taxes added more than \$104 million to the federal accounts. A variety of other federal business revenues, including customs duties, and excise taxes added \$345.5 million for a total federal revenues increase of \$1.75 billion per year as a result of the increased business activity supported by the 504 program.

State and local revenues increased an additional \$2.66 billion, including \$263.2 million in employee-paid taxes, \$953 million in property taxes and nearly \$1.1 billion in sales taxes. Combined with the Federal tax revenues, the total public revenues generated by the program are \$4.4 billion per year.⁵

⁵ These figures are based on average local/state tax rates across the nation. Local tax rates may vary.

**TABLE 11
INCREMENTAL GROWTH IN ANNUAL TAXES FROM BUSINESSES RECEIVING 504 LOANS 2003-2005 (INCLUDES ALL MULTIPLIERS)**

	Employee Compensation	Proprietary Income	Household Expenditures	Enterprises	Indirect Business Taxes	Total	
Corporate Profits Tax	\$0	\$0	\$0	\$104,481,443	\$0	\$104,481,443	
Indirect Bus Tax: Custom Duty	\$0	\$0	\$0	\$0	\$67,315,587	\$67,315,587	
Indirect Bus Tax: Excise Taxes	\$0	\$0	\$0	\$0	\$206,280,411	\$206,280,411	
Indirect Bus Tax: Fed Non-Taxes	\$0	\$0	\$0	\$0	\$71,938,123	\$71,938,123	
Personal Tax: Estate and Gift Tax	\$0	\$0	\$0	\$0	\$0	\$0	
Personal Tax: Income Tax	\$0	\$0	\$696,970,533	\$0	\$0	\$696,970,533	
Personal Tax: Non-Taxes (Fines- Fees)	\$0	\$0	\$10,871,142	\$0	\$0	\$10,871,142	
Social Ins Tax- Employee Contribution	\$257,998,110	\$66,769,160	\$0	\$0	\$0	\$324,767,271	
Social Ins Tax- Employer Contribution	\$267,929,072	\$0	\$0	\$0	\$0	\$267,929,072	
Federal Government Non-Defense	Total	\$525,927,182	\$66,769,160	\$707,841,675	\$104,481,443	\$345,534,122	\$1,750,553,581
Corporate Profits Tax	\$0	\$0	\$0	\$18,417,792	\$0	\$18,417,792	
Dividends	\$0	\$0	\$0	\$39,228,615	\$0	\$39,228,615	
Indirect Bus Tax: Motor Vehicle License	\$0	\$0	\$0	\$0	\$21,957,018	\$21,957,018	
Indirect Bus Tax: Other Taxes	\$0	\$0	\$0	\$0	\$158,032,749	\$158,032,749	
Indirect Bus Tax: Property Tax	\$0	\$0	\$0	\$0	\$952,818,882	\$952,818,882	
Indirect Bus Tax: S/L Non-Taxes	\$0	\$0	\$0	\$0	\$100,251,122	\$100,251,122	
Indirect Bus Tax: Sales Tax	\$0	\$0	\$0	\$0	\$1,069,826,773	\$1,069,826,773	
Indirect Bus Tax: Severance Tax	\$0	\$0	\$0	\$0	\$19,934,661	\$19,934,661	
Personal Tax: Estate and Gift Tax	\$0	\$0	\$0	\$0	\$0	\$0	
Personal Tax: Income Tax	\$0	\$0	\$195,767,488	\$0	\$0	\$195,767,488	
Personal Tax: Motor Vehicle License	\$0	\$0	\$11,827,798	\$0	\$0	\$11,827,798	
Personal Tax: Non-Taxes (Fines- Fees)	\$0	\$0	\$47,224,228	\$0	\$0	\$47,224,228	
Personal Tax: Other Tax (Fish/Hunt)	\$0	\$0	\$3,565,730	\$0	\$0	\$3,565,730	
Personal Tax: Property Taxes	\$0	\$0	\$4,808,155	\$0	\$0	\$4,808,155	
Social Ins Tax- Employee Contribution	\$3,862,041	\$0	\$0	\$0	\$0	\$3,862,041	
Social Ins Tax- Employer Contribution	\$12,827,492	\$0	\$0	\$0	\$0	\$12,827,492	
State/Local Government Non-Education	Total	\$16,689,533	\$0	\$263,193,399	\$57,646,408	\$2,322,821,206	\$2,660,350,545
Total		\$542,616,714	\$66,769,160	\$971,035,074	\$162,127,850	\$2,668,355,326	\$4,410,904,126

Source: Applied Development Economics, Inc., based on data from IMPLAN Impro Professional input-output model.

OVERALL SBA 504 PROGRAM RETURN ON INVESTMENT

The federal government makes an investment in the 504 Program both in terms of the opportunity cost of the funds loaned to businesses and in terms of the administrative cost for SBA to operate the program. It is important to ask what direct return the government receives on this investment in addition to the private sector economic benefits of the program.

During the two-year period analyzed in this study, the total 504 loan volume was about \$7.569 billion. As discussed in the previous section above, the increase in federal taxes attributable to the business activity increase generated by the program are about \$1.75 billion. For every dollar loaned in the program, then, the federal government receives \$.23 in additional tax revenue. This represents a 23 percent return on the use of the money, since the program operates on a zero cost basis.⁶

The SBA's operating budget for the 504 program, in terms of loan making activities, was \$15.2 million in FY 2002, increasing to \$26.9 million in FY 2003 and \$31.1 million in FY 2004.⁷ The period under analysis for this study represents two-thirds of FY 2002, all of FY 2003 and one-third of FY 2004. The SBA's program cost during this period is estimated at \$46.6 million.

The \$1.75 billion in annual federal tax and other revenues represents a return of more than \$37.50 for every dollar spent on the program. Extended to the full tax and revenue generation for state and local governments as well, the program returns about \$94.00 in public revenues for every dollar spent in operating the program.

⁶ The fees charged to loan recipients cover loan servicing costs, as well as losses due to payment delinquencies. Therefore, the government's only cost of the program are the administrative activities of SBA relative to the program.

⁷ SBA Congressional Performance Budget requests for FY 2002, 2003 and 2004.

CONCLUSIONS

Based on the data sources used for this study, the SBA 504 loan program very clearly provides a cost effective means by which to generate new business activity for the national economy. As a source for business expansion capital, the SBA 504 program allows businesses to operate at a higher level of capacity, which increases their revenues and productivity, and adds jobs and income. In particular, the 504 program allows businesses to expand that would not qualify for conventional financing, thus stimulating economic growth that could not otherwise occur. Moreover, the study demonstrated 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 program represents an investment that creates positive returns many times over.

NEXT STEPS

This study provides an analytical framework for monitoring the performance of the 504 loan program. The survey approach can be replicated periodically to provide new data on the industry mix of businesses using the program, changes in the use of the funds, trends in the growth or decline of businesses in the program and changes in the economic multiplier effects of the program. NADCO is encouraged to consider updating the study at three to five year intervals to capture changes that may be occurring in the program as time passes.

The analysis prepared for this study was conducted at the national level. It provides a very good representation of the industry mix of businesses using the program across the nation. It would be possible to evaluate the same economic indicators by region, to identify variations in the economic multipliers that apply at a more local level. NADCO may wish to consider conducting similar studies at a statewide or regional level to provide information for program participants and policy makers at the local level.

As noted below, the authors of the study have developed a local impact model to allow individual CDC's to evaluate loan proposals or even their entire 504 loan portfolio to demonstrate the local benefit of the program in their area. This model uses the national economic multipliers developed in the present study. If regional analyses were conducted, such a model could be populated with regional or local multiplier that better reflect the industry variations in each area.

LOCAL IMPACT MODEL

In an effort to make the results of this study useful for the CDCs and local policy makers, the authors have developed a Local Impact Model that provides the national economic multipliers in spreadsheet format. This program allows the user to evaluate individual business loan proposals or a portfolio of loans initiated by a single CDC. It runs in Microsoft Excel and comes with a user manual. It is available by contacting NADCO in Washington DC.

REPORT AUTHORS

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.

APPLIED DEVELOPMENT ECONOMICS

Applied Development Economics, Inc. (ADE) is a consulting firm specializing in economic planning and development services. Since its founding in 1985, the firm has established a distinguished body of work resulting in tangible benefits for our clients. Our base of private- and public-sector clients includes government agencies, economic development organizations, foundations, businesses, and private investors. ADE's services include:

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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 at the local, state and national levels over the past 31 years.

APPENDIX A: SURVEY INSTRUMENT

SBA 504 Loan Program Economic Impact Analysis Business Questionnaire

The purpose of this survey is to determine how much each business has grown since receiving an SBA 504 loan. This information is vital to evaluating the economic impact of the SBA 504 lending program and its return on investment to the federal treasury.

TMC Development (Cynthia): You can log on to <http://yoloosx1.csuchico.edu/SBAlogn.htm> and enter: **CDC6** as your *user name* and **SBA6** as your *password*. **This is a secure server** and no one other than Applied Research and Evaluation can access your information. *As an alternative, you may enter the data in the Microsoft Excel database sent with this questionnaire.*

If you have questions about the survey or have problems logging onto the website, please contact:

Dr. Jim Fletcher, Director
Applied Research and Evaluation
California State University, Chico
Chico, CA 95929-0201
530-898-4332 (office) or 530-514-6912 (cell)
fletcher73@sbcglobal.net

Though your participation is voluntary, we sincerely hope that you will complete the survey, thus helping to evaluate the SBA 504 loan program.

Section A: Status of the business during the fiscal year before receiving the SBA 504 loan

1. What is the 6-digit NAICS code for your business? _____
2. In what month and year did you receive your SBA 504 loan? _____ Enter the month and year you received the loan: _____
Month Year

(If your loan was made between February 2003 and January 2005, inclusive, please continue to question 3. All other responses, STOP – you are not included in the study group)

3. What was your business' **total annual revenue** for the fiscal year prior to receiving the SBA 504 loan? \$ _____
(total annual revenue)
4. **How many people were employed** at your company at the end of the fiscal year prior to receiving the loan? _____
(number of people)
5. What was your business' **total annual payroll** for the fiscal year prior to receiving the loan? \$ _____
(total annual payroll)

Section B: About your SBA 504 loan

6. What was the total dollar amount of your SBA 504 loan? \$ _____
(total dollar amount)
7. What was the total dollar value of all loans received that were **received in the same package and/or otherwise leveraged** by your SBA 504 loan? \$ _____
(total loans)

(Survey continued on the next page.)

8. Of all combined loans mentioned in questions 6 and 7, please indicate the total dollar amounts used for each of the following purposes. **NOTE: Please check to see that the sum for all expenses equals the total in question 7.**

- | | | | |
|-------------------------------------|----------|--|----------|
| a. Acquisition of vacant land | \$ _____ | f. Tenant improvements | \$ _____ |
| b. Acquisition of existing building | \$ _____ | g. Acquisition of capital equipment
(such as machinery) | \$ _____ |
| c. New building construction | \$ _____ | h. Other related expenses
(title searches & insurance; attorneys fees; appraisals;
environmental reports; architects; permits; surveys;
installation of machinery; points on bridge loans, small
amount of furniture and fixtures, etc.) | \$ _____ |
| d. Existing building renovation | \$ _____ | | |
| e. Existing building expansion | \$ _____ | | |

Section C: Current Status of the business during the fiscal year before receiving the SBA 504 loan

9. What was your business' **total annual revenue** this past fiscal year? \$ _____
(total annual revenue)
10. **How many people were employed** at your company at the end of this past fiscal year? _____
(number of people)
11. What was your business' **total annual payroll** this past fiscal year? \$ _____
(total annual payroll)

Thank you for completing this important survey. If you have any questions, please contact **Applied Research and Evaluation at 530-898-4332.**

Printed by:

National Association of Development Companies
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