# Small Business Administration's Role in Climate Solutions under the SBA 504 Loan Program

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**U.S. House of Representatives**
**Committee on Small Business**
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Chairman Phillips, Ranking Member Van Duyne, distinguished members of the Subcommittee, good morning, and thank you for having me today. My name is Laurel Walk, and I am the Chief Lending Officer at Colorado Lending Source, a Certified Development Company (CDC) based in Denver, Colorado. Colorado Lending Source was formed in 1990 and today our staff of 38 fulfill our mission of creating economic growth in the state of Colorado. In addition to the 504 loan program, we also act as a Lender Service Provider (LSP) to banks. We lend directly as a Community Advantage participant and under our direct lending arm as well. Since 1990, we have approved over 4,000 loans, which created 30,000 jobs, and injected $4.98 billion into the local economy. In 2020, we approved 152 loans through the 504 program resulting in 746 jobs in Colorado.

I joined Colorado Lending Source in 2008 and have worked for the organization for the past 13 years. I started as a loan officer working with small businesses to access the 504 loan program. Before joining Colorado Lending Source, I worked with a nationwide SBA lender. For the past two years, I have been the Chief Lending Officer, which means I oversee our Production, Closing, Portfolio Management, and Direct Lending teams. I have assisted with the approval of over 1,500 SBA 504 loans, which created nearly 11,000 jobs and injected $2 billion into the economy. Our organization has been a longtime supporter of the SBAs renewable energy public policy goals. In 2009, we approved one of the first loans under the designation, a woman-owned Comedy Club expanding to a second location, expanding her business and strengthening the community.

Colorado Lending Source is also a member of the National Association of Development Companies (NADCO), the trade association representing more than 200 private, nonprofit SBA

CDCs. I am also pleased to testify today on behalf of NADCO and my CDC colleagues. I am honored to discuss the role of Small Business Administration lending programs, particularly the 504 program, in supporting a resilient 21st-century economy, including lending in the energy space.

I would like to take a moment to frame the discussion from the CDC industry perspective. First, the 504 program is SBAs premier economic development financing tool, and CDCs who deliver the program are dedicated to building strong communities across the country. The 504 program is uniquely crafted to support economic development through a combination of low-cost, long-term financing with fixed rates and meeting a public policy or job creation goal with each loan. The program is primarily used to finance real estate, including new construction, remodeling, and retrofitting existing real estate and equipment. The program also has specific energy reduction goals, which include:

- reducing energy consumption by at least 10 percent;
- increasing the use of sustainable designs that reduce the use of nonrenewable resources and minimize environmental impact; and
- upgrading plant, equipment, and processes involving renewable energy sources.

Like the other public policy and job creation goals, the energy-related goals of the program have an impact. Using Colorado Lending Source as an example, over the past ten years we have partnered with 16 businesses that have utilized the program. In addition to the overall statistics, these goals and the loans they support also have a human impact. For instance, just this year, we approved a project for a pediatric dentist who was able to use the 504 program after building his business over several years. The doctor had used the SBA 7(a) loan program to expand, and with an eye for utilizing renewable energy for his building, he received a 504 for a new facility. In previous years, we have worked with local restaurateurs to purchase real estate for their multiple operations in the metro area and make improvements using renewable energy.

After considering the components of the program and examples of the program at work, it is prudent to consider the current economic climate and how the 504 program fits into this landscape. The onset of the COVID-19 pandemic immediately and irrevocably changed so much about American life. Public health closures hampered many small businesses across the country and necessitated the passage of programs like the Paycheck Protection Program (PPP) and the Restaurant Revitalization Fund (RRF) to assist struggling businesses. As states across the country have opened back up and resumed business, real estate and construction costs have quickly risen. Even taking the pandemic into consideration, owner-user buildings in the Denver Metro area have increased over the past five years by 9.4 and 8.7 percent for average and median prices per square foot, respectively.[1] Nationally, the same increases are present with 5.9 and 8.6 percent for average and median prices per square foot.[2] This trend shows continued increases in the cost of real estate, which we see across the industry. Additionally, the post-pandemic push to recovery has also seen increases in construction costs and materials like lumber, which saw a 375 percent increase in price from April 2020 to April 2021. These dynamics will all have an impact on the small business sector and how the 504 program is able to robustly assist small businesses to a successful recovery.

Though CDCs are doing all they can to support small businesses and those seeking to make energy enhancements to new or existing business properties, some policies could be considered to broaden the scope and reach of the 504 program. For example, Congress could consider reducing the required equity injection for green energy project loans from 10 percent to

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[1] Data compiled with [CoStar.com](CoStar.com), the industry standard for commercial property research
[2] Ibid.

five percent. This concept is something the Small Business Committee has already considered and included for manufacturing loans in the bipartisan *504 Modernization and Small Manufacturer Enhancement Act of 2021* (H.R. 1490) introduced by Representative Angie Craig (D-MN-2) and cosponsored by Representatives Young Kim (R-CA-39), Sharice Davids (D-KS-3), Steve Chabot (R-OH-1), Van Taylor (R-TX-3), Brian Fitzpatrick (R-PA-1), Marie Newman (D-IL-3), Claudia Tenney (R-NY-22), and Steve Cohen (D-TN-9). This bill, which the House passed on April 15, 2021, reduces the required equity injection for small manufacturers from 10 percent to five percent, among a number of other enhancements to expand access to small businesses in the manufacturing sector. In particular, a smaller equity injection from the borrower would increase access to smaller borrowers in the loan category under $500,000. Allowing borrowers to conserve their working capital for business operations has long been a hallmark of the program. As small businesses compete for commercial real estate in today's market, smaller equity requirements would truly benefit those who need loans of $500,000 or less, while being able to keep funds on hand for staff and other day-to-day costs. As we have seen with the renewable energy policy goals, many borrowers found the long term benefits to be an asset.

Second, Congress could increase the loan size for green energy projects, which is another enhancement provided for manufacturers in H.R. 1490. Like manufacturing, green energy projects and materials are capital intensive, and borrowers often come to us for both real estate, real estate enhancement, and equipment needs. At one time, a CDC could split project costs into two loans for a borrower to finance projects in manufacturing and other capital-intensive fields. SBA is no longer allowing this practice and as real estate and construction costs continue to rise or even maintain current levels, there will be a greater need for businesses trying to scale and grow.

Finally, Congress could instruct SBA to ensure that each local district office partners with at least one resource partner – a Small Business Development Center, Women's Business Center, Veteran Business Development Center, etc. – to promote loans to small businesses using alternative energy sources to reduce energy consumption, or to produce renewable energy. With the high profile of the SBA over the last 18 months, there is a real opportunity to engage with and educate business owners about the programs and types of projects that are eligible for SBA financing.

There are also several administrative changes that SBA could make to expand access to 504 for energy-related projects and inform both the industry and Congress about utilization of all public policy goals, not just energy goals. First, SBA should assess and consider adjusting the cap in place for energy-related projects in the 504 program. The SBA instituted a cap of $16.5 million as the maximum amount of 504 loan funds for a borrower under the existing energy goals for the program. From my own experience, and in conversation with colleagues, one of the most helpful components of the 504 program for borrowers in the energy efficiency space is the ability to come back to the program for additional equipment, retrofits, and expansions. These loans often occur over a period of years, allowing small businesses to plan for the future by ensuring long-term, fixed-rate financing. The impact on communities and job creation is apparent, and sometimes unexpected. Colorado Lending Source has been able to partner twice with the Garden of the Gods Resort located in Colorado Springs, a resort that has been a landmark in the community since 1951. In 2013, they were able to buy the property utilizing the 504 program and have continued to preserve its history while making sure it is still thriving under local ownership. The resort is woman-owned and has created approximately 95 jobs. Without the energy policy goal Garden of the Gods Resort would not have been able to benefit from the 504 program a second time, which allowed them to renovate and expand.

Finally, the SBA should publish public facing data on the usage of 504 policy goals like they do with the job creation statistics for the program. This information would inform industry and Congress about areas of success, as well as help identify any gaps or areas for improvement. As an industry, we want to do all we can to assist as many small businesses as possible, not only to realize the dream of owning their own business, but also to build roots in communities and generational wealth through real estate and equipment ownership. Again, I appreciate the opportunity to testify this morning and share Colorado Lending Source's experience with energy loans in the 504 program and the impact these businesses have in Colorado. Thank you for your time and I look forward to answering any questions you have.