

# Go “green” with special financing incentives

*Have a goal of going green? Small businesses are now eligible for larger loans to make that goal a reality.*

**M**any business owners fear it will cost them too much money to adopt more eco-friendly practices. However, nationally, small businesses spend an average of \$60 billion on energy each year. This equates to large energy bills and possibly an increase in global warming from gas emissions. Small businesses can actually cut up to 30 percent of their energy needs without sacrificing their quality or comfort, resulting in a significant improvement in both their financial bottom line and the quality of our atmosphere. In fact, small businesses can actually improve the performance of their facilities while reducing energy costs. Another benefit . . . eco-friendliness can result in significant federal tax savings.

In addition, more and more consumers are adopting a green lifestyle and are specifically looking for products and manufacturers that fill that niche. According to the Organic Trade Association’s Manufacturer Survey, the organic industry grew by 21 percent to reach \$17.7 billion in consumer sales in 2006. Over the last decade, sales of organic products have increased by an average of 20 percent, and this rate is expected to remain steady. It is important for businesses to recognize this trend as a growing business sector and make the switch to environmentally friendly goods and services.

## **How can I become more energy efficient?**

Many projects will require little or no expense. Some simple energy efficient opportunities include turning off the lights and equipment when not needed, regularly changing or cleaning filters, switching to compact fluorescent light bulbs, using ceiling fans, plugging air leaks with weather stripping, and adjusting the thermostat.

However, there are more significant projects that may require capital. These types of improvements would

include adding energy efficient appliances, replacing transportation fleets with hybrid vehicles, installing energy efficient windows and doors, using wind and solar power, and re-designing buildings to reduce the use of non-renewable resources. Small businesses can take advantage of special financing incentives to make significant capital improvements including extensive plant/office renovations to increase energy efficiency overall.

## **What kind of special financing incentive is available?**

The U.S. Small Business Administration recently amended the Small Business Investment Act, which provides three new energy efficiency goals for its 504 Fixed Asset Financing loan program. The 504 loan program was established over 25 years ago by the U.S. Small Business Administration and is designed to promote economic development by helping small businesses get affordable, long-term, fixed rate financing for capital improvement projects. Recently, the SBA expanded loan eligibility criteria for the 504 loan program to include energy efficiency projects in order to assist small business owners with their goal of going green.

## **How does the 504 loan program work?**

The 504 program works in conjunction with local banks to allow small business owners to receive up to 90 percent financing for the acquisition, construction, improvement, or expansion of commercial property or for acquiring heavy machinery or equipment. The program essentially consists of three key elements: 50 percent of the projects total cost is provided by a lending institution, usually a bank; 40 percent is provided through the 504 loan program; and 10 percent equity is provided by the borrower. (Start-up businesses and single purpose facilities require a slightly higher equity contribution.)



**by Marcia Abner,  
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## **How much can be financed?**

The SBA normally limits the 504 portion of the loan to \$1.5 million, but that amount is increased to \$2 million for those projects that incorporate sustainable design into their facilities. In addition, small businesses generating renewable energy such as solar, biomass, hydropower, ocean thermal, geothermal, and wind are eligible to finance their project with up to \$4 million from the 504 loan program. Keep in mind; qualification for the 504 does not require that the company generate renewable energy as their primary business activity, just as a method of meeting their own energy needs.

## **With the down economy, should I wait to make capital improvements?**

Not at all. There is a lot of talk out there that business lending has frozen. While there has been a decline, business owners don’t need to become discouraged because there are programs available to assist them. In fact, use of the 504 loan program has become increasingly important as a source of long-term financing since traditional sources of money have declined in recent months. The program was actually designed to provide small businesses access to capital that might not otherwise be available through conventional means.

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**While energy improvements are good for a business' long-term bottom line, what will it do in the short term if a lot of cash is put into the project? Won't that put too much strain on cash flow?**

The 504 loan program actually preserves working capital by requiring only a 10 percent down payment . . . slashing the equity contribution to half of what conventional financing requires. Therefore, cash flow is preserved for the daily operation of the business. The added benefit of a 20-year fixed interest rate . . . it helps businesses manage their bottom line.

**Who do I contact about getting 504 financing?**

The SBA authorizes Certified Development Companies (CDC) to administer the 504 loan program throughout the United States. The CDC then partners with your local

lender to offer the 504 financing package. More than 260 CDC's operate the program nationwide, and each state has at least one. Call your local lender and tell them you are interested in the 504 loan program or go to [www.growthcorp.com](http://www.growthcorp.com) for more information.

**Where can I get more information about energy efficiency?**

For an extensive amount of information about energy efficiency go to [www.business.gov](http://www.business.gov). The site identifies projects offering the biggest payback, as well as state programs and financial incentives available to help your business achieve its goals. In addition, they have ideas for becoming more energy efficient, statistics from consumer research studies, money-saving tips, calculators, and additional methods of implementing sustainable business practices.

Overall, the 504 loan program is worth considering for borrowers who need to make any new capital improvements or expand an existing facility. If those plans also include moving toward energy-efficiency,

the program has been tailored to meet those needs as well. In the end, becoming energy efficient can really save businesses some serious green, both now and long-term.

*Marcia Abner is Vice President of Small Business Growth Corporation, a Certified Development Company. Her company focuses exclusively on providing 504 loans and she is an expert in assisting lenders and small businesses with 504 financing. Contact her at 217-787-7557 or read about the program at [www.growthcorp.com](http://www.growthcorp.com).*

### Sources

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