

**COLORADO LOANS FOR
INCREASING MAINSTREET
BUSINESS ECONOMIC
RECOVERY (CLIMBER)
SMALL BUSINESS LOAN
PROGRAM
SEMI-ANNUAL
IMPLEMENTATION REPORT**

May 31, 2022

Colorado State Treasurer Dave Young
Board Chair, CLIMBER Oversight Board
Colorado Department of the Treasury
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May 31, 2022
Joint Budget Committee
200 East 14th Avenue, Floor 3
Denver, CO 80203

Dear Members of the Joint Budget Committee:

On behalf of the CLIMBER Oversight Board, I'm pleased to provide the Board's semi-annual report for the CLIMBER Small Business Loan Program. The CLIMBER Program was created in 2020 under § 24-36-201, C.R.S. following the passage of HB20-1413, the CLIMBER Act.

The CLIMBER Act conveys the urgency felt by the General Assembly, the Governor, and myself around providing much needed operating capital to small businesses across the state. Accordingly, the Board, the Colorado Housing and Finance Authority (CHFA), the Minority Business Office of Colorado (MBO), and the Colorado Office of Economic Development and International Trade (OEDIT) have worked diligently since the launch of the Program in June 2021. Since the last report at the end of November 2021, the Board has met five times. This report chronicles the effort since the last report and the progress of the CLIMBER Program.

Please feel free to contact me if you have any questions about the report or the CLIMBER Program.

Sincerely,



David L. Young
State Treasurer

CC: Members of the 74th General Assembly
Members of the CLIMBER Oversight Board

CLIMBER OVERSIGHT BOARD

The Oversight board was created to establish and oversee the terms and conditions by which the Treasurer may provide first loss capital to the CLIMBER loan Program.

The Oversight board consists of five members:

State Treasurer Dave Young, Chair

Akasha Absher

Peter Calamari

Doug Price

Antonio Soto

James Eke
Director, CLIMBER Loan Program
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EXECUTIVE SUMMARY

In June 2020, the Colorado General Assembly passed and the Governor signed House Bill 20-1413, the CLIMBER Act. The legislation charged the State Treasurer and the Program's Oversight Board, in partnership with OEDIT, with establishing a small business loan program to provide below-market interest rate capital to Colorado small businesses to preserve jobs, aid the state's economic recovery, and help small businesses continue operations. Under § 24-36-205(2), C.R.S., the State Treasurer selected CHFA to be the CLIMBER program manager and consulted with the MBO to develop an outreach strategy addressing the underserved businesses throughout the state.

Since our last report, the Program has continued the operational phase of deploying funds to small businesses. Information on these loans is described in detail later in this report. These lenders have been developed by the CLIMBER Program staff and through CHFA's relationship with them as program manager. The Program will continue developing the lender network offering CLIMBER loans, with the goal that businesses could use a local lender within their communities across the state.

Over the past 18 months in particular, small businesses have been understandably risk averse, preferring to use cash savings to continue operations rather than creating new debt that is not forgivable. Businesses have pursued grants or forgivable loan programs upon the exhaustion of their cash reserve balances. With interest rates and inflationary pressures on the rise, and as grants and forgivable loan programs have ended, the Board believes that CLIMBER is now poised in an excellent position for businesses needing below market rate loans for operating capital.

In order to provide businesses greater opportunity to access the CLIMBER Program, Program staff worked with the General Assembly to modify parts of the original legislation. Amendments to some CLIMBER statutory qualification requirements will allow more businesses to access the programs' capital. Greater detail is discussed later in this report. These changes will allow more small businesses to meet the minimum qualification to apply for the Program.

The narrative below addresses the reporting requirements for the CLIMBER Program as defined by statute in addition to expanding upon the specific points listed above.

MARKET CONDITIONS & EXPECTATIONS

Federal Programs

Programs at the federal level, designed to alleviate the impact of the pandemic, slowed initial borrower and lender interest in CLIMBER. Businesses were able to focus on either forgivable loans like the Paycheck Protection Program (PPP) or federal grants to help with capital needs. Many of these federal programs use the same lender groups as CLIMBER to deploy the funds to underserved businesses and communities. Lenders prioritized disbursement of federal dollars first because of the nature of the federal program and the impact to the lender's balance sheet.

Lender Workload Limitations

Lender workloads, loan sizes, and staff bandwidth issues were also an issue. Once the CLIMBER marketing campaign began, lenders became inundated with requests for loans and questions about the Program. However, many businesses did not research or understand loan sizing or qualification requirements. This led to a number of lenders taking a pause from initiating CLIMBER loans.

Market Conditions

Rising interest rates, in addition to current inflationary pressures and market volatility that are now being experienced, are now placing significant pressure on businesses to obtain and secure fixed-rate financings. Businesses over the past two quarters have started to turn to credit lines more to cover operational costs than what was experienced at the onset of the pandemic. This can be seen in a significant uptick in lender application requests and loan demand from businesses to secure fixed rate loans.

The combination of federal pandemic loan and grant programs being exhausted, the current challenging market conditions, positions CLIMBER to be a highly sought after loan product. The staff's continued efforts to add lenders to the pool and marketing efforts should make CLIMBER successful through the term of the Program.

LEGISLATIVE CHANGES TO CLIMBER

Since launching CLIMBER, Program staff have analyzed Program results by looking at loan placements and rejections. This data, as well as feedback from lenders and businesses alike, has provided ideas on improving the Program. The data suggested that the original legislation was too limiting; as written, it prevented a number of businesses the opportunity to even meet minimum qualifications to apply for a CLIMBER loan.

Modifications were suggested to increase participation while keeping the statute's intent in mind. The goal is to help a business overcome economic obstacles and grow in the community, thus helping Colorado business and community to recover from the effects of the pandemic. The Board has confidence that expanding the program guidelines and requirements will allow more businesses the ability to qualify for CLIMBER, while still maintaining the Program financial integrity.

The biggest impacts to businesses from the legislative changes have to do with the extension of the Program through fiscal year 2024; reducing the minimum employee and loan amounts; lengthening the maturity of the loans; reducing the business consecutive year cash flow requirement and timeframe outlined from the original legislation. These modifications and changes as outlined not only improve CLIMBER, but also make the Program more appealing to businesses as a source of funds.

HOUSE BILL 22-1328

House Bill 22-1328: The Modify Main Street Business Recovery Loan Program was introduced in the 2022 Regular Session on March 28, 2022. As of the writing of this report, the legislation is awaiting the Governor's signature.

The legislation:

- Extends the period through which the Program can issue capital for the loan Program through fiscal year 2023-24;
- Increases the amount of capital that can be issued in the last three fiscal years without increasing the total amount that can be issued for the life of the Program;
- Lowers the minimum amount of a loan from \$30,000 to \$10,000;
- Lengthens the maximum initial maturity of a loan from five years to ten years;
- Changes the requirements for an eligible borrower to require one year of positive cash flow instead of two;
- Lowers the number of required employees to one employee instead of a minimum of five employees;
- Clarifies the benchmarks that apply to the Program for making loans to businesses owned by socially and economically disadvantaged individuals;
- Extends the time for the Program to issue tax credits through state fiscal year 2022-23;
- Allows tax credits issued in fiscal years 2021-22 and 2022-23 to be claimed on a schedule beginning in a taxable year that begins on or after January 1, 2023; and
- Removes a requirement that if additional state or federal money is appropriated or allocated to the Program, the value of the tax credits authorized by the Program must be reduced by the same amount.

CLIMBER PROGRAM RESULTS

As of the last quarter report from CHFA (03/31/2022) – Loan Program results are as follows:

Participation Lending Program

CLIMBER participation loans allows for up to 80% of eligible loans made by lenders to increase business liquidity and enable lenders to extend working capital loans and lines of credit to more eligible borrowers that would otherwise not be possible.

Direct Lending Capital Program

Lenders borrowing funds using the Direct Lending Capital (DLC) method allows lenders to participate in the CLIMBER Direct Lending Capital Program. DLC is a process by which the CLIMBER Program provides up to 100% of the funds to the lenders needed to originate loans that can be deployed out as loans by the Community Development Financial Institutions (CDFIs). By directly funding loans, this helps address lack of capital or liquidity issues of the lenders to make new loans for the program.

Credit Enhancement Tool

Provides lenders 15-20% credit enhancement in the form of a loss reserve or cash collateral for CLIMBER loans enrolled by lenders across the state. Therefore, the State's contribution leverages at least 1:4 total CLIMBER loan capital. Loans are enrolled into the program by lenders, then they receive a deposit equal to 15% (if loan loss reserve) or 20% (if cash collateral). This tool does not use outside investments from fund contributors.

TABLE A: DLC Loans Deployed to Lenders

Capital provided to Community Development Financial Institutions (CDFIs)	
Enhancements & CLIMBER Fees	\$184,974
Direct Lending Capital (DLC)	\$5,000,000
Total Capital Provided to CDFIs:	\$5,184,974

CLIMBER PROGRAM RESULTS CONTINUED



AVERAGE LOAN SIZE: \$252,165

TABLE B: Registered loans with CHFA

* Reporting requirements outlined by statute

** Borrower interest rates on loans comply with the requirements of section 24-36-205 (4)(b)(v)

Borrower	City	County*	ZIP	CLIMBER Program	Business Description*	Term in Months	Interest Rate**	Loan Amount*
Southwest Appliance Inc.	Durango	La Plata	81301	CLIMBER - CCR	Appliance store	12	2.45%	199,000
Wilson Rea Beckel & Associates	Pagosa Springs	Archuleta	81147	CLIMBER - CCR	CPA	36	2.60%	75,000
San Juan Water Works	Durango	La Plata	81303	CLIMBER - CCR	Water supply and irrigation systems	12	2.45%	40,000
Conley Waste Management/Saguache Trash Service Inc.	Saguache	Saguache	81149	CLIMBER - DLC	Garbage Service	60	3.90%	94,481
Fort Collins Habitat for Humanity, Inc.	Fort Collins	Larimer	80537	CLIMBER - DLC	Affordable Housing	24	3.00%	500,000
Rocky Mountain Innovation Initiative, Inc. dba Innosphere Ventures	Fort Collins	Larimer	80524	CLIMBER - DLC	Technology Incubator	24	3.45%	225,000
Second Chance Center Inc.	Aurora	Arapahoe	80011	CLIMBER - DLC	Social support service provider	24	3.45%	136,000
CASA of the Seventh Judicial District Inc. dba Youth and Family Advocacy	Montrose	Montrose	81402	CLIMBER - DLC	Family Advocacy	24	3.00%	500,000
Archway Housing & Services, Inc.	Denver	Jefferson	80215	CLIMBER - DLC	Affordable Housing Provider	24	3.00%	500,000
Total								2,269,481

CLIMBER PROGRAM RESULTS CONTINUED



56%

PERCENTAGE FROM
UNDERREPRESENTED
COMMUNITIES

TABLE C: Borrower Demographics

* Reporting requirements outlined by statute

Borrower	Minority Owned*	Woman Owned*	Veteran Owned*	LMI Area*	Rural *	Distressed Area*	Underserved Area*	NMTC	Enterprise Zone	Opportunity Zone
Southwest Appliance Inc.	No	No	No	No	No	No	No	No	Yes	No
Wilson Rea Beckel & Associates	No	No	Yes	No	No	No	No	No	Yes	No
San Juan Water Works	No	No	No	No	No	No	No	No	Yes	No
Conley Waste Management/ Saguache Trash Service Inc.	Yes	No	No	Yes	Yes	Yes	Yes	No	Yes	No
Fort Collins Habitat for Humanity, Inc.	No	No	No	No	No	No	No	No	No	No
Rocky Mountain Innovation Initiative, Inc. dba Innosphere Ventures	No	No	No	No	No	No	No	Yes	Yes	No
Second Chance Center Inc.	No	No	No	Yes	No	No	No	Yes	No	No
CASA of the Seventh Judicial District Inc. dba Youth and Family Advocacy	No	No	No	Yes	No	No	No	Yes	Yes	No
Archway Housing & Services, Inc.	No	No	No	Yes	No	No	No	Yes	Yes	No

CLIMBER PROGRAM RESULTS CONTINUED



AVERAGE NUMBER OF EMPLOYEES: 16

TABLE D: General Business Information

* Reporting requirements outlined by statute

Borrower	Under \$1M in Annual Revenue*	Annual Revenue*	Average Salary	Current FTEs*	Created FTEs
Southwest Appliance Inc.	No	5,812,001	62,333	15	0
Wilson Rea Beckel & Associates	Yes	906,319	32,472	7	0
San Juan Water Works	Yes	918,902	27,000	13	0
Conley Waste Management/Saguache Trash Service Inc.	Yes	568,591	10,000	3	1
Fort Collins Habitat for Humanity, Inc.	No	4,046,720	14,400	22	0
Rocky Mountain Innovation Initiative, Inc. dba Innosphere Ventures	Yes	706,859	75,000	12	0
Second Chance Center Inc.	No	3,712,070	41,442	41	0
CASA of the Seventh Judicial District Inc. dba Youth and Family Advocacy	No	1,179,065	35,600	9	2
Archway Housing & Services, Inc.	No	4,292,327	36,213	23	0

CLIMBER PROGRAM RESULTS CONTINUED

TABLE E: CLIMBER Loan Defaults

* Reporting requirements outlined by statute

Borrower	City	County*	ZIP	CLIMBER Program	Business Description*	Term in Months	Interest Rate*	Loan Amount*
N/A								

TABLE F: Tranche #1 Sale Summary

* Reporting requirements outlined by statute

Sources	December 2020 Close	January 2021 Close	March 2021 Close	May 2021 Close	Total
Tax Credits	\$ 8,500,000	\$ 5,600,000	\$ 11,450,000	\$ 14,450,000	\$ 40,000,000
x Pricing	\$ 0.7700	\$ 0.7700	\$ 0.7236	\$ 0.7575	\$ 0.7522
Gross Proceeds from Insurco	<u>\$ 6,545,000</u>	<u>\$ 4,312,000</u>	<u>\$ 8,285,000</u>	<u>\$ 10,945,875</u>	<u>\$ 30,087,875</u>
Total Sources (Gross Proceeds)	\$ 6,545,000	\$ 4,312,000	\$ 8,285,000	\$ 10,945,875	\$ 30,087,875
Total Fees and Closing Costs	<u>\$ 221,850</u>	<u>\$ 171,660</u>	<u>\$ 279,760</u>	<u>\$ 318,730</u>	<u>\$ 992,000</u>
Net to State	\$ 6,323,150	\$ 4,140,340	\$ 8,005,240	\$ 10,627,145	\$ 29,095,875
Cumulative Net to State	\$ 6,323,150	\$ 10,463,490	\$ 18,468,730	\$ 29,095,875	\$ 29,095,875
XIRR	5.00%	5.07%	5.37%	5.20%	
Average Life	5.37 Years	5.29 Years	6.20 Years	5.49 Years	
Spread Over 5 Yr Treasury	464 bps	458 bps	488 bps	471 bps	
	Annual Max Credit Usage Beginning January 1, 2025				\$ 20,000,000