Recovery, Renewal, and Resiliency: Gulf Coast Small Businesses Two Years Later

Michael Turner, Ph.D.
Robin Varghese, Ph.D.
Patrick Walker, M.A.

August 2007

Recovery, Renewal, & Resiliency: Gulf Coast Small Businesses Two Years Later

A Gulf Coast Economic Renewal Series Report by:

The Political & Economic Research Council (PERC)

Principal Authors:

Michael A. Turner, Ph.D
PERC
turner@infopolicy.org

Robin Varghese, Ph.D.
PERC
Varghese@infopolicy.org

Patrick Walker, M.A.
PERC
walker@infopolicy.org

Table of Contents

Key Findings

The PERC survey of small businesses in the New Orleans and the Biloxi-Gulf Port metropolitan service areas (MSAs) asked small business owners about the state of the business immediately following Katrina and in the time period since. We asked about chief challenges, effects on their market, and questions regarding access to insurance and credit in order to identify policy concerns. We examined the findings for evidence of disparate impact by socio-demographic segment to assess whether there were any community specific concerns that needed to be taken into account.

The responses were combined with commercial credit and socio-demographic data. In combination, they provide some measure of the breadth and depth of recovery in those areas over the past two-years. The results also yield insights into the efficacy of existing recovery policy, and identify policy shortcomings and unmet needs.

Our key findings are:

Recovery is evident within the small business community…

- Nearly 1 in 4 small business owners in those areas directly affected by hurricanes Katrina and Rita are doing better today than they were two years ago in terms of sales revenues. A solid 1 in 5 respondents indicated that current revenues were between 100% and 200% of their pre-Katrina levels, while 3% of all respondents indicated that their current sales were more than double their pre-storm level. A further 1 in 6 respondents (17%) reported current revenues on par with earnings two years ago.

- Further evidence of recovery is found in the hiring plans of small business owners. While more than 2 in 3 respondents (64%) indicated that their staff levels would remain unchanged, another 1 in 3 (32%) reported an intention to increase staff levels in the coming year. Just 4% of small business owners reported an intention to reduce staff levels in the coming twelve months.

- The nearly universal positive opinions on near-term and long-term business prospects also could be interpreted as evidence of recovery. Nearly 2 in 3 respondents believed their short-term business prospects were either “Good” or “Very Good,” while more than 2 in 3 respondents perceived their long-term business prospects to be promising.

..but it is not being enjoyed equally by all groups:

- African-American owned businesses recovered by far the worst in terms of sales, with 78% reporting lower revenue than before the hurricane. By contrast, just 60% of Caucasian-owned small businesses reported lower revenues today than pre-Katrina.

- ♦ An astounding 60% of Hispanic-owned businesses reported earning the same or more revenue today than prior to the 2005 hurricanes. More than 1 in 4 Hispanic (28%) business owners reported current revenues between 100% and 200% of their pre-Katrina levels, while 3% reported earning more than double their pre-storm revenues.

- ♦ Furthermore, African-American business owners express greater concern about the state of demand than either Caucasian or Latino business owners.

- ♦ African Americans also reported a much harder time getting affordable credit than Caucasians or Hispanics, with 40% reporting they had trouble, compared to 28% for Hispanics and 25% for Caucasians.

- ♦ Diminished demand and difficulties accessing credit likely led to a higher exit rate of African American-owned small businesses than for other groups. Evidence from our analysis of telephone disconnect rates suggests that the exit rate for African American-owned businesses was 28% higher than for Hispanic-owned businesses, and nearly 110% higher than for Caucasian-owned businesses.

Small Business Administration: High Loan Approval Rates but Low Approval Rating

- ♦ Small businesses in the regions we surveyed had a higher Small Business Administration loan approval rate than the general pool of applicants for disaster loans in the wake of hurricanes Katrina and Rita: 56.7% vs. 28%.

- ♦ Applicants nonetheless had a largely negative opinion of the SBA, with 46.6% holding some unfavorable opinion of the agency vs. 30% holding a favorable opinion.

Access to Credit a Challenge as Small Business Owners Turn to Private Credit:

- ♦ Overall, access to credit remains a significant problem for a significant number of small businesses. Access to affordable credit was seen as a major challenge by more than 1 in 4 (27%) respondents.

- ♦ Most respondents (66%) used business credit cards for business credit, but nearly half (48%) used personal credit cards for business reasons. Nearly 1 in 4 had become more reliant on the personal credit cards to cover business expenses. 27% of respondents had business loans, though a smaller share of minority respondents had business loans.

Dramatic Shift In Attitudes Towards Insurance Providers:

- 86% of small business owners who filed insurance claims received either full or partial settlements, and the vast majority (65%) were satisfied or neutral towards their insurer's response to Katrina.

- Respondents were, however, largely negative overall towards insurance companies, with only 4% expressing a positive opinion. Respondents ranked insurance as their greatest challenge and in interviews, cited sudden and dramatic rate hikes and the difficulty of finding an insurer for a largely hostile attitude towards insurance companies.

Opinion of Public Institutions less Positive than of Private Charities:

- In general, government institutions received little by way of confidence that they had had a positive impact. This outlook covered not only the SBA, but also the military, and state and local agencies. Charities, especially local charities and faith groups, by contrast, did elicit a substantially more favorable opinion.

Introduction

Just weeks after Hurricane Katrina had ravaged large swaths of the Gulf Coast, during his first official press conference following the event, President George W. Bush remarked:

> "The engine that drives growth and job creation in America is the private sector and the private sector will be the engine that drives the recovery of the Gulf Coast. So I've outlined a set of policies to attract private investment to the affected areas, to encourage small- business development and to help workers in need get back on their feet."[1]

The primary objective of this research is to provide a first cut at assessing how well the private sector engine is operating two years later in those areas in the Gulf Coast most directly affected by Hurricanes Katrina and Rita.

Of particular interest is the state of small businesses in these areas. In view of the fact that the parts of the Gulf Coast that bore the brunt of the 2005 hurricanes were particularly reliant upon small businesses, regional recovery critically hinges upon the ability of small business owners to rebuild and restore their revenues.

Toward that end, the Political & Economic Research Council (PERC) in this report analyze the following business recovery indicators and other factors that play a prominent role in the ability of small businesses to recover and grow in the aftermath of a natural disaster:

- Pre-hurricane vs. current revenue levels;
- Pre-hurricane vs. current debt levels;
- Intentions of small business owners to expand or contract operations;
- Availability and impact of SBA loans;
- Availability and impact of credit and other capital for small business owners;
- Credit usages patterns of small business owners; and,
- Commercial insurance settlements and premiums.

There is ample historical precedent that neither the pain and suffering associated with natural disasters, nor the benefits of renewal and recovery, are experienced equally by all groups within an affected community. In that natural disasters have disparate impacts, it should be a primary objective of public policy to offset them. In this report, as a second research objective, PERC analyzes the following distributive consequences of natural disasters and economic recovery and renewal:

---

[1] "Transcript: Bush touts Miers, addresses hurricane recovery--
Remarks range from gas prices to Patriot Act." Tuesday, October 4, 2005. Downloaded from: http://www.cnn.com/2005/POLITICS/10/04/bush.transcript/

- Impact of hurricanes on small business owners and operations by ethnicity;
- Access to SBA loans, grants, credit and other recovery resources by ethnicity;
- Perceptions of small business owners concerning challenges by ethnicity;
- Differences among small business owners of credit usage patterns by ethnicity; and,
- Insurance claim settlement rates and average amount of settlement by ethnicity.

To accomplish this analysis, PERC utilized several large datasets containing detailed financial and credit information on nearly 800,000 small businesses in FEMA declared disaster areas on the Gulf Coast. The two primary datasets used were derived from Experian Corporation's National Business Database, and their Business Owners Link (BOLs ©) database. Data from Experian's BOLs database was then appended with socio-demographic information by Acxiom Corporation. Experian's databases are updated monthly, and capture vast quantities of credit activity by businesses of every size and type. These databases contains far more detailed information about credit activity—positive and negative—than a conventional commercial file from other data aggregators and are, therefore, ideal for this type of analysis.

While large datasets and secondary information gleaned from other reports are necessary to fully gauge the economic well-being of small businesses in areas directly affected by Hurricanes Katrina and Rita, analysts at PERC strongly believe that these data—despite their breadth and rigor—would be incomplete without direct input from the foot soldiers in the trenches—the small business owners. In the end, one of the strengths of this report is its ability to connect impersonal numbers with the perceptions, beliefs, and interpretations of the actual state of economic and social recovery of a large and diverse sample of small business owners. The feedback of these "foot soldiers" enriched the analysis by adding context and meaning to findings that would otherwise have remained anomalous and inexplicable.

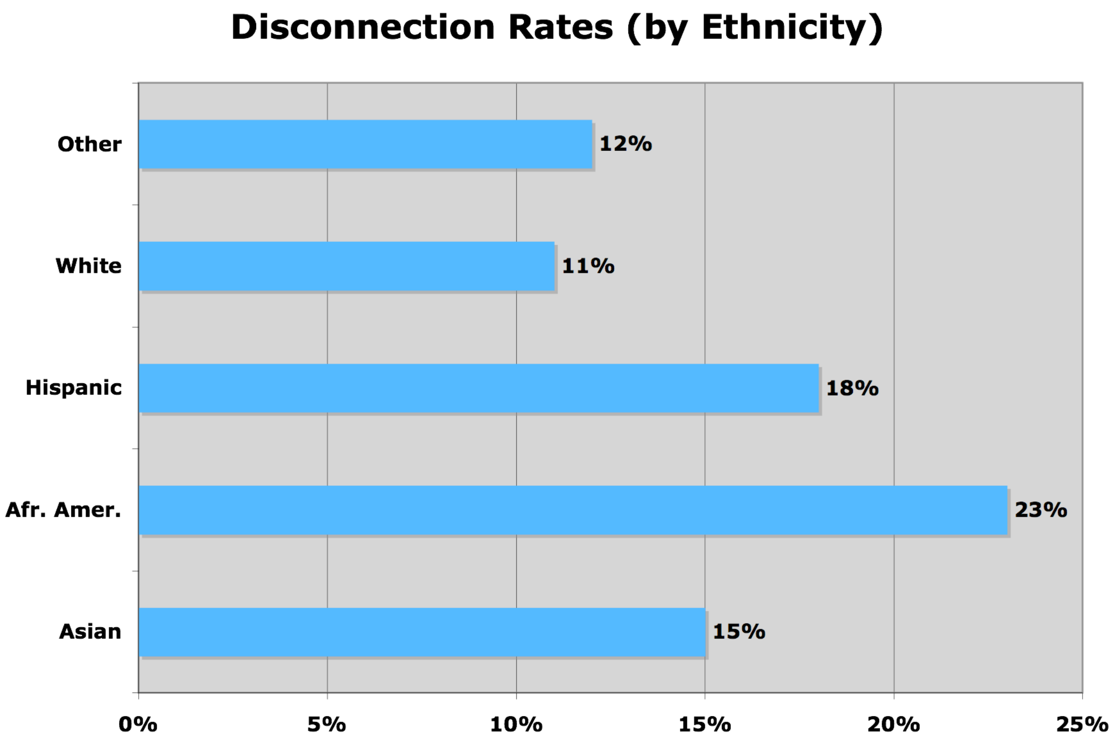
Methodology

The small business surveys were primarily designed to gather previously uncollected information on the impact of Hurricanes Katrina and Rita on small businesses. The inclusion and wording of some of the questions were guided by questions found in other, sometimes national, surveys to allow for some basic comparisons and benchmarking.

To facilitate higher survey completion rates, the surveys were designed to take about 7 to 9 minutes. The surveys were conducted by telephone and carried out directly by PERC. The surveying was carried out between August 7th and August 17th, 2007. Using files from Experian's Business Owner Link Database for the affected areas of the Gulf Coast, we took the subset of files for 10 counties we believed to be the hardest hit by the 2005 hurricanes. The counties chosen were geographically close to the Gulf and the path of the hurricanes and included Hancock, Harrison, and Pearl River counties in Mississippi and Orleans, St. Bernard, Plaquemines, St. Tammany, Washington, Jefferson, and Cameron parishes in Louisiana. We then took the subset of businesses in these counties and parishes that had a business phone number listed (36% did not have phone numbers listed). This left us with a list of 12,260 businesses which was randomly ordered, of which 9,390 were actual called. Of this, 1,144 of the numbers were disconnected and 1,032 surveys were completed. The remaining calls resulting in owner/operators not wanting to participate, no answer, voicemail, callbacks requested, or owner/operator not available.

The Experian Business Owner Link, from which the survey call list was generated, contains information on millions of small businesses (businesses with fewer than 20 employees). The information includes number of employees, sales, and SIC codes, among other factors. Importantly, the name and address of the owner or principal (for small businesses that are incorporated, LLCs, or LLPs) are included. This feature allowed us to append the Business owner Link files with socio-demographic information from the Acxiom Corporation, such as age, ethnicity, gender, and income.

When we compared the ethnicity of the business owners/operators from the list generated from the Business Owner Link Database to estimates generated by the Census Bureau in a 2002 survey of business owners for the region, we found a different proportion of African American-headed businesses between the two. The Census Bureau estimated the proportion at 13.3% (for the counties used in this study for which the Census Bureau reported data). For the list of 12,260 businesses from which we called, only 7.6% of the owner/operators were listed as African American. And among those who completed the survey, 6% were listed as African American. The business phone disconnect rate was significantly greater for African American and Hispanic headed small businesses than for those headed by Caucasian owner/operators as the following chart demonstrates.



Survey Respondents by Ethnicity

Asian	Af. Am.	Hispanic	Other	White
1.7%	6.0%	3.0%	8.6%	80.7%

Survey Respondents by SIC (see *Appendix B* for further SIC information)

Misc.	Agr.	Mining	Const.	Mfg.	Utilities &Trans	Wholesale Trd	Retail Trd	RE, FinSrv, Insr.	Services
2%	4%	0%	9%	5%	5%	4%	22%	9%	41%

We did not account for any of discrepancies we encountered, by re-weighting the data, for example, since we were not sure whether we were under- or over-sampling any particular group, or whether there had been changes since 2002, the date of the most recent Census Bureau data, and more particularly after Katrina and Rita. This hypothesis is particularly possible given that according to the 2002 figures, Orleans Parish had the greatest number and highest concentration of African American-owned/operated businesses in the area we examined. As Orleans Parish suffered so greatly from Katrina, we cannot rule out the possibility that African American owned/operated businesses were disproportionately impacted and suffered relatively greater business closures.

The State of Gulf Coast Small Businesses

A study released in March of 2007 by the Louisiana Recovery Authority (LRA) assessed the impact of Hurricanes Katrina and Rita on business in Louisiana. This study, which relied upon data from the Quarterly Census of Wages and Employment (QCEW) from the state of Louisiana, in tandem with telephone survey data, suggested a relatively modest impact for the state, although the impact was much more pronounced for those parishes most directly affected by the 2005 hurricanes.[2] Further, the LRA report argued that in just two quarters after the 2005 hurricanes, the total number of firms in Louisiana appeared to be growing.[3]

Dek and Bilbo released a follow up report in August 2007 that included two additional quarters of QCEW data.[4] The updated LRA report indicated that the state of Louisiana as a whole had just 0.9%, or 892, fewer employers at the close of 2006 than during the second quarter of 2005—the baseline year for their analysis. And while the five parishes that comprise the southeast region of Louisiana were still down 9.3%, or 2,591 employers, the net gain of 5.7%, or 1,364 employers, for the region during the fourth quarter of 2006 was seen as "concrete evidence of the recovery."[5]

While the number of firms reporting non-zero wage and employment to the Louisiana Department of Labor is one metric of economic recovery, it is, at best, a crude and incomplete one. First and foremost, such data indicate little about the vitality and robustness of business. Relative performance measures, such as current sales volumes or current profit margins vs. pre-hurricane sales volumes and profit margins, are necessary to round out the picture. Exclusive reliance upon data regarding the number of employers may ignore the fact that current sales volumes for a majority of regional businesses are less than half of pre-Katrina levels. Similarly, simple aggregate employer data is incapable of measuring business performance and cannot detect the fact that a majority of businesses that were affected by the 2005 hurricanes may be operating without profits. Thus, a situation could exist whereby a large majority of firms in the Gulf Coast that were negatively affected by the 2005 hurricanes are underperforming in terms of revenue, with many on the brink of insolvency, while the simple measure of number of employers indicates "strong evidence of economic recovery."

---

[2] Terrell, Dek and Ryan Bilbo. "A Report on the Impacts of Hurricanes Katrina and Rita on Louisiana Businesses: 2005Q2—2006Q2." Prepared for the Louisiana Recovery Authority, Louisiana Economic Development, and the Louisiana Department of Labor. March 2007. Report was downloaded from: http://www.lra.louisiana.gov/assets/LouisianaBusinessRecoveryReport030807final.pdf

[3] Louisiana firms are required by law to file quarterly wage and employment data to the Louisiana Department of Labor for purposes of determining unemployment insurance taxes. Dek and Bilbo considered this to be the most comprehensive and accurate data set for purposes of assessing the impacts of hurricanes Katrina and Rita on Louisiana businesses.

[4] Terrell, Dek and Ryan Bilbo. "A Report on the Impacts of Hurricanes Katrina and Rita on Louisiana Businesses: 2005Q2—2006Q4." Prepared for the Louisiana Recovery Authority, Louisiana Economic Development, and the Louisiana Department of Labor. August 17, 2007. Report was downloaded from: http://www.bus.lsu.edu/centers/ded/PPRL%20report_2006Q2_FINAL.pdf

[5] Ibid. Pg. ii.

Data on the quantity of firms alone may also create a misleading picture of the depth and breadth of recovery among businesses that were negatively affected by the 2005 hurricanes. Total employer figures reveal little about the present financial disposition of Gulf Coast businesses.

Other sources of information can fill in the gaps to present a more comprehensive picture. Data on credit activities is one. Rich commercial credit file data, such as that contained in Experian's Business Owner Link (BOLs) database and the National Business Database (NBD), provide a detailed and comprehensive view of the financial health of individual firms. For example, use of commercial credit file data enables analyses of total outstanding debt by firm, firm type, MSA, parish, and myriad other segments such as firm size and age of firm.

Commercial credit file analysis also allows for comparison of pre- and post-hurricane debt levels. This provides another level of understanding about the depth and breadth of regional economic recovery. While the number of employers in affected areas may be growing, this may also be related to the fact that a large majority of small business owners have been forced to take on considerable debt as a direct result of the hurricane merely to keep their doors open.

Analysis of firm-level debt payment patterns—whether or not there are discernable trends in delinquencies and defaults pre- and post-hurricanes—lends further clarity to an assessment of the overall extent of economic recovery. For example, average days beyond trade ("DBT" is a standard measure of delinquency in a commercial credit file) may have increased by 50% in the immediate post-hurricane time period. Trends in average DBT are highly revealing when considering the financial well-being of a firm or the depth and breadth of recovery when considered on higher levels of aggregation.

Finally, evidence of recovery may vary considerably by obvious characteristics—such as type of business (e.g demolition vs. retail), size of firm and age of firm—but also by less obvious dimensions such as age, income, ethnicity and gender of the business owner. Analysis of firm-exit and entry, SBA loan approvals, receipt of grants and aid, sales volumes and profit margins along socio-demographic contours provides yet another dimension to recovery that is critically missing in more simplified analyses. While the overall number of employers in hurricane-ravaged areas may be increasing—taken by some as prima facie evidence of robust recovery—disparities among sub-populations in access to capital or other resources vital to recovery raise serious questions about the nature of the recovery and the efficacy of core recovery programs.

Owing to the deficiencies identified by Dek and Bilbo, and the fact that figures on the number of reporting firms provide an incomplete picture as only one metric of economic recovery, PERC opted to use for their analysis commercial credit file data from Experian Corporation, in combination with a separate database on small business owners also maintained by Experian that was appended with socio-demographic data by Acxiom

Corporation as well as telephone survey data gathered between August 7th and August 17th, 2007.[6]

Unlike the Louisiana QCEW data, which is updated quarterly, the Experian databases are updated monthly. The Experian databases not only reflect newly registered companies (some of which may not appear for 6 months or more in the QCEW database) but also contain up-to-date information regarding bankruptcies and closings. The Experian National Business Database provides credit information on approximately 800,000 small businesses in the FEMA-declared disaster areas following the 2005 Gulf Coast hurricanes (Katrina, Rita, Wilma).

The Experian Business Owners Link (BOLs) database contains credit and some socio-demographic information on approximately 300,000 small business owners in Gulf Coast FEMA declared disaster areas. The BOLs data were appended with socio-demographic information—age, income range, ethnicity, gender and other factors. Together with the NBD and survey results, the BOL data provide the foundational data for the analysis.

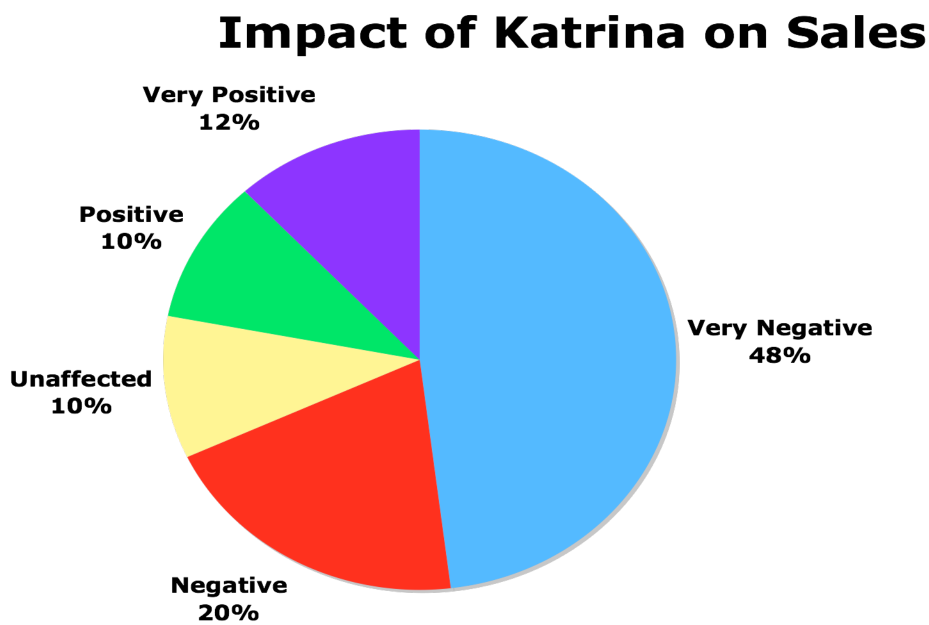
Initial and Enduring Effects of the 2005 Hurricanes on Small Business

Responses from Impact Section of Survey

Predictably, the majority of Gulf Coast small business owners indicate their businesses have been harmed by the 2005 hurricanes. As seen in Figure 1 below, nearly half (48%) of all respondents to the survey of small business owners in areas affected indicated that the hurricanes have had a very negative impact on their sales. Almost 1 in 5 (20%) responded that the hurricanes have had a negative impact on sales. Just 1 in 10 (10%) responded that their revenues have been unaffected, and a little over 1 in 5 (22%) reported that the hurricanes have had a net positive impact on their sales revenues.

> "The community at large needs to understand that more than money, we need new brainpower and leadership." – Small Business Owner

[6] The authors cited three features of the QCEW that would generate misleading results regarding the number of firms listed as operational in Louisiana. The first and most significant problem with QCEW data is that firms are only deleted from the database after seven consecutive quarters of non-reporting. Under these circumstances, use of this data prior to two years after any exogenous shock—such as a hurricane or series of hurricanes—is of questionable value, as the data will not reflect sudden and dramatic changes in a timely manner. Second, there are further inaccuracies inherent in the QCEW data concerning reporting inactive firms as active. And third, the inclusion of wage and employment estimations for non-reporting firms by the Louisiana Department of Labor further distorts the data.



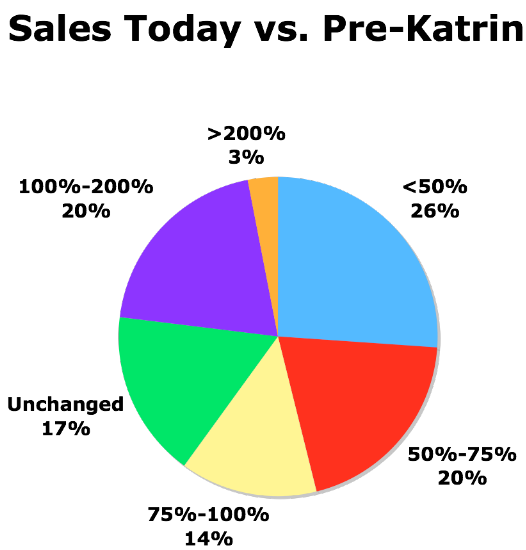
Source: PERC survey of Gulf Coast small business owners August 2007.

More than 2 out of 3 small business owners (68%) in areas affected by the 2005 hurricanes have reported revenue losses as a direct result of storms, and evidence strongly suggests that most of these firms are still struggling two years later. Figure 2 below shows that as of mid-August 2007, more than 1 in 4 (26%) small business owners who were still in business were bringing in less than half of their pre-Katrina total revenues. Another 1 in 5 (20%) respondents reported earnings between 50-75% of their pre-Katrina levels, while nearly 1 in 7 (14%) small business owners reported earnings between 75% and 100% of the pre-hurricane levels. Only 1 in 6 respondents (17%) indicated that their current earnings were on par with their pre-Katrina revenues.

While nearly 1 in 4 small businesses (23%) reported increased revenues since the 2005 hurricanes, this should not be viewed as proof positive of recovery. In the aftermath of any disaster, there will be a surge in demand for certain goods and services—construction, for instance. And while this spike in demand will bolster regional measures of economic growth, the sources of this growth are time-limited. That is, once the reconstruction phase is completed, demand for these goods and services is likely to taper and eventually return to its pre-disaster state.

Evidence of this short-term recovery is found in an examination of the types of firms that are prospering post-Katrina and those that are struggling. In the survey data we see that the largest net beneficiaries tend to be firms associated with demolition and construction, while the services sector, especially businesses associated with conventions and tourism—sectors that once formed the backbone of the economy for Orleans Parish—continue to languish.

Further evidence of this trend comes from examining patterns of entry and exit. When considering the survey data in combination with the Experian BOLs data, we see that the majority of firms that have exited since Hurricanes Katrina and Rita were service providers that were mostly geared toward the local market. Entry has overwhelmingly focused upon demolition and construction. This is not a formula for sustainable growth.



Source: PERC survey of Gulf Coast small business owners August 2007.

Considering the fact that nearly 2 in 3 small businesses in areas directly affected by the hurricanes are earning less revenue two years later, the depth and vibrancy of any apparent recovery is dubious. Furthermore, those who argued that small business will be the engine of economic renewal must now face the reality that the engine is badly sputtering and needs to be immediately serviced.[7]

Further, these findings challenge the somewhat sanguine conclusions drawn from the Dek and Bilbo study recently released by the Louisiana Recovery Authority.[8] The authors of that study interpret "strong evidence of recovery" from an analysis of Louisiana Department of Revenue tax data.[9]

What is abundantly evident from the results of the survey is that many businesses with non-zero wages and employees are struggling. Absent some fundamental changes in the business environment—either a sustained growth in demand from a steadily increasing population, or increased access to capital, grants or other

---

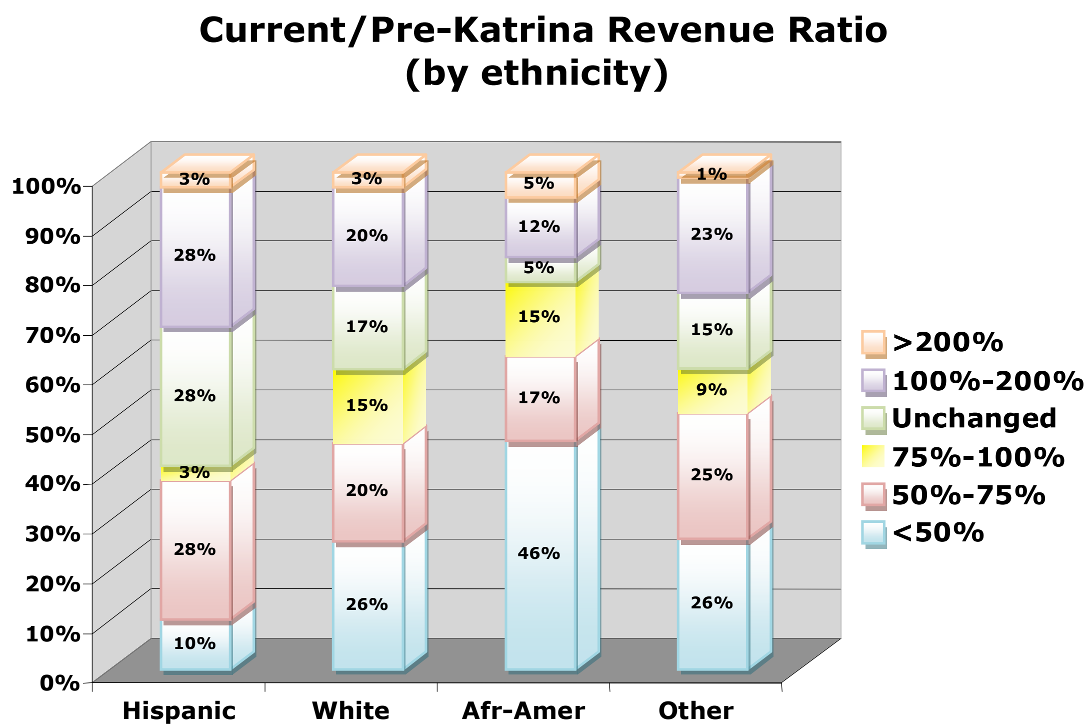
7 "FEMA, Small Business Administration Work Together to Award Hurricane Katrina Contracts to Small and Minority Owned Businesses." November 3, 2005. Downloaded at: http://www.fema.gov/news/newsrelease.fema?id=20280

8 Dek and Bilbo. August 17, 2007.

9 Ibid. Pg. ii.

assistance for businesses that will remain after reconstruction—the chances of survival for a large number of small businesses is questionable.

Another way to understand the extent of recovery and renewal among small businesses in areas directly affected by either Katrina or Rita is to compare the performance of existing small businesses by different groups. One measure of this would be the ratio of current revenues to pre-hurricane revenues. Figure 3 on the following page graphically shows the results of this perspective. The most prominent finding here is the dramatic differences in revenue ratios by ethnicity.



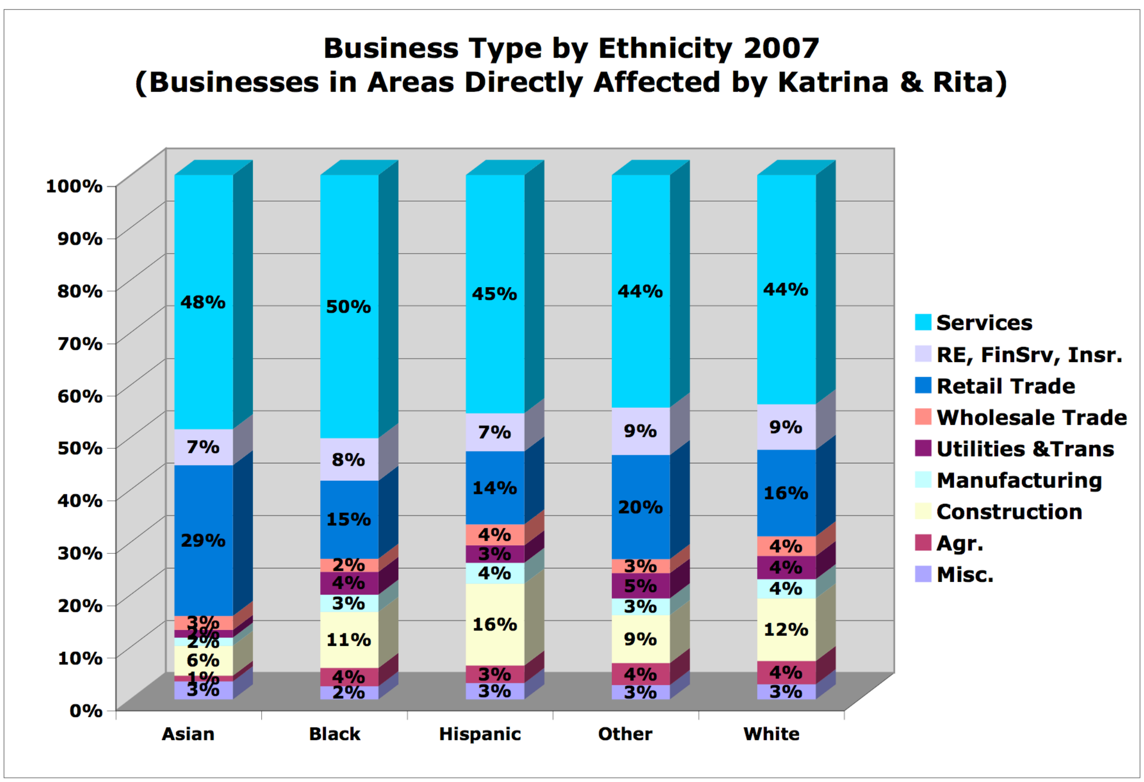
Source: PERC survey of Gulf Coast small business owners August 2007.

Nearly 8 in 10 African American respondents (78%) reported earning less revenue today than just prior to the 2005 hurricanes. This is 22% higher than the number of Caucasian-owned businesses and 48% higher than the number of Hispanic-owned businesses. This disparity is unlikely explained by a single variable. More probably, a combination of factors is responsible. The fact that African American-owned small businesses were some of the hardest hit by Katrina and Rita and the majority of these were exclusively oriented toward serving the needs of a population that has significantly dwindled mitigate against immediate revenue restoration.

The same ratios bear out on the other end of the revenue continuum—firms that are earning more today than they were prior to the 2005 hurricanes. Hispanic-owned businesses seem to be faring the best, as nearly 1 in 3 are earning more revenue in August 2007 than they were in August 2005. Earnings were higher than pre-Katrina levels for about 1 in 4 (23%) of Caucasian-owned businesses, and for 1 in 6 (17%) of African American-owned small businesses.

The relative success of Hispanic-owned small businesses may be due, in part, to the significant role played by construction within the Hispanic small business community. As depicted below in Figure 5, construction accounts for 16% of all Hispanic-owned businesses in those areas examined in this report. This figure is 25% higher than for Caucasian-owned businesses, and 31% higher than for African American-owned businesses in those regions most affected by hurricanes Katrina and Rita.

We also know from our analysis of the relative performance of different types of firms that the services sector accounts for a large share—ranging from 40% to 50%--of the weakest performers and the strongest performers. Thus, the relatively larger share of service firms among African American-owned small businesses may account for the fact that nearly 8 in 10 currently earn less revenue than they did prior to Katrina.



Source: PERC survey of Gulf Coast small business owners August 2007.

Responses from Prospects Section of Survey

Small business owners as a group tend to be generally optimistic. According to a recent American Express survey, 87% of respondents identified with a positive outlook for their business.[10] Given the risks inherent with starting and running a small business, optimism is part of the job description. Such optimism was also evident among the small business owners responding to the Gulf Coast small business survey as depicted in Figure 4 below.

When asked their opinion about the short-term prospects for their businesses, 1 in 4 (25%) respondents indicated optimism. An additional 1 in 3 respondents (36%) considered their near-term business prospects to be good. In all, more than 8 in 10 small business owners (82%) in areas directly affected by the 2005 hurricanes believed that their near-term business opportunities would improve or stay the same. Slightly less than 1 in 5 (18%) of respondents perceived their near-term business prospects to be bad or very bad.

Source: PERC survey of Gulf Coast small business owners August 2007.

[10] "Small Business Optimism Is On An Upswing, According to the OPEN from American Express Small Business Monitor." 24 May 2007. Downloaded from: http://home3.americanexpress.com/corp/pc/2007/monitor_print.asp

Another survey finding indicated that optimism among Gulf Coast small business owners has increased as the time horizon has broadened. As shown in Figure 6 below, two-thirds of all respondents (65%) considered their long-term business prospects as good or very good. This is particularly surprising in view of the fact that during the summer of 2007 the national news media has been broadcasting endless stories about the sub-prime mortgage market meltdown spreading across other sectors and leading to a recession.[11] It is further inconsistent with jittery stock markets and the recent central bank interventions and interest rate reductions linked to recessionary fears.[12]

Source: PERC survey of Gulf Coast small business owners August 2007.

Interestingly, however, the optimism among Gulf Coast small business owners is consistent with a recent surge in consumer confidence, as measured by the Conference Board's monthly Consumer Confidence Index (CCI).[13] There are good reasons to believe that the CCI is about to take a nose-dive, however. While the August 2007 CCI results weren't available when this report went to press, the Consumer Comfort Index, a comparable measure of consumer sentiment about the economy, took its sharpest weekly drop (9%) in over 21 years during the second week of August 2007.[14] The CCI is expected to follow suit.

---

[11] Blake, Rob K. "Subprime Mortgage Meltdown Goes Global—Dow Plummets," The Mortgage Insider's Mortgage University. Downloaded from: http://themortgageinsider.net/subprime-mortgage-meltdown-goes-global-dow-plummets/

[12] Torres, Craig. "Market turbulence has made Fed reconsider its priorities," 20 August 2007. Bloomberg News, as reported in the Fort Worth Star-Telegram. Downloaded from: http://www.star-telegram.com/business/story/207553.html

[13] Franco, Lynn. "The Conference Board Consumer Confidence Index Climbs to a Six Year High." 31 July 2007. Downloaded from: http://www.conference-board.org/economics/consumerConfidence.cfm

[14] Nutting, Rex. "Sharpest Drop in Consumer Comfort in 21 Years," Dow Jones MarketWatch. 21 August, 2007. Downloaded from: http://www.marketwatch.com/news/story/sharpest-drop-consumer-comfort-more/story.aspx?guid=%7B04349797%2DF378%2D48B4%2D926E%2DD1227331A912%7D&siteid=rss

If it does, then this puts the optimism—both near- and long-term—of Gulf Coast small business owners completely at odds with local economic metrics, national economic performance indices, and the prevailing attitudes of pundits, experts, and the general population. However, it is consistent with findings of an April 2007 survey of small business owners conducted by the National Small Business Association. The analysis indicated that although 43% of respondents felt that the overall economy was worse today than it was five years ago, more than 8 in 10 respondents (81%) were optimistic about their own businesses chances in the coming 12 months.[15]

Responses from Challenges Section of Survey

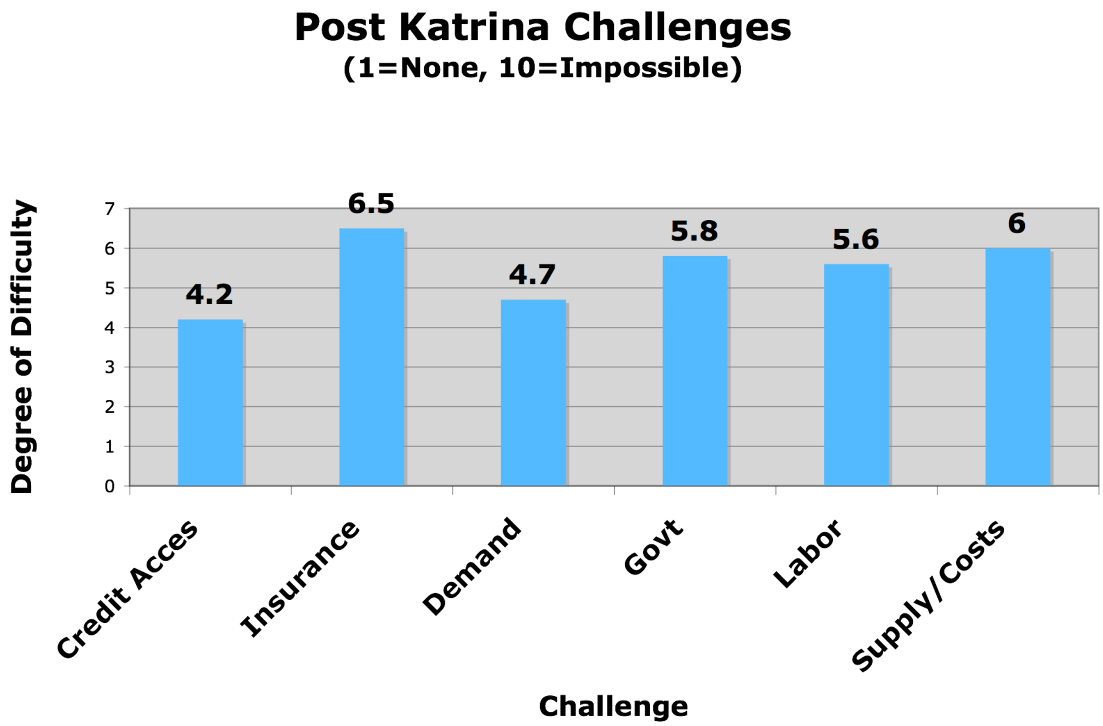
As would be expected in the wake of a major natural disaster, small business owners must confront a host of challenges beyond those that they face in ordinary times. By comparing responses of small business owners to recent national surveys, it is possible to identify those problems that were exacerbated by the hurricanes and those which seem to be unique to areas affected by exogenous shocks such as Hurricanes Katrina and Rita.

According to the NSBA national survey of small business owners, the top three challenges confronting small business owners are uncertainty about the economy (41%), the rising cost of health care insurance (39%), and lack of access to credit (31%).[16] In contrast, owners of small businesses in areas directly affected by Hurricanes Katrina and Rita seem relatively unconcerned with the bigger picture and are much more attuned to the state of the local economy.

> “If they really want to do good, they need to get us low interest loans...we don't want a free hand out"– Small Business Owner

[15] “National Survey: Small Businesses Uneasy About Economy—Cost of Health Care and Lack of Access to Credit Are Greatest Concerns.” PR Newswire. 24 April, 2007. Downloaded from: http://sev.prnewswire.com/health-care-hospitals/20070424/DCTU04324042007-1.html

[16] Ibid. Pg. 1.



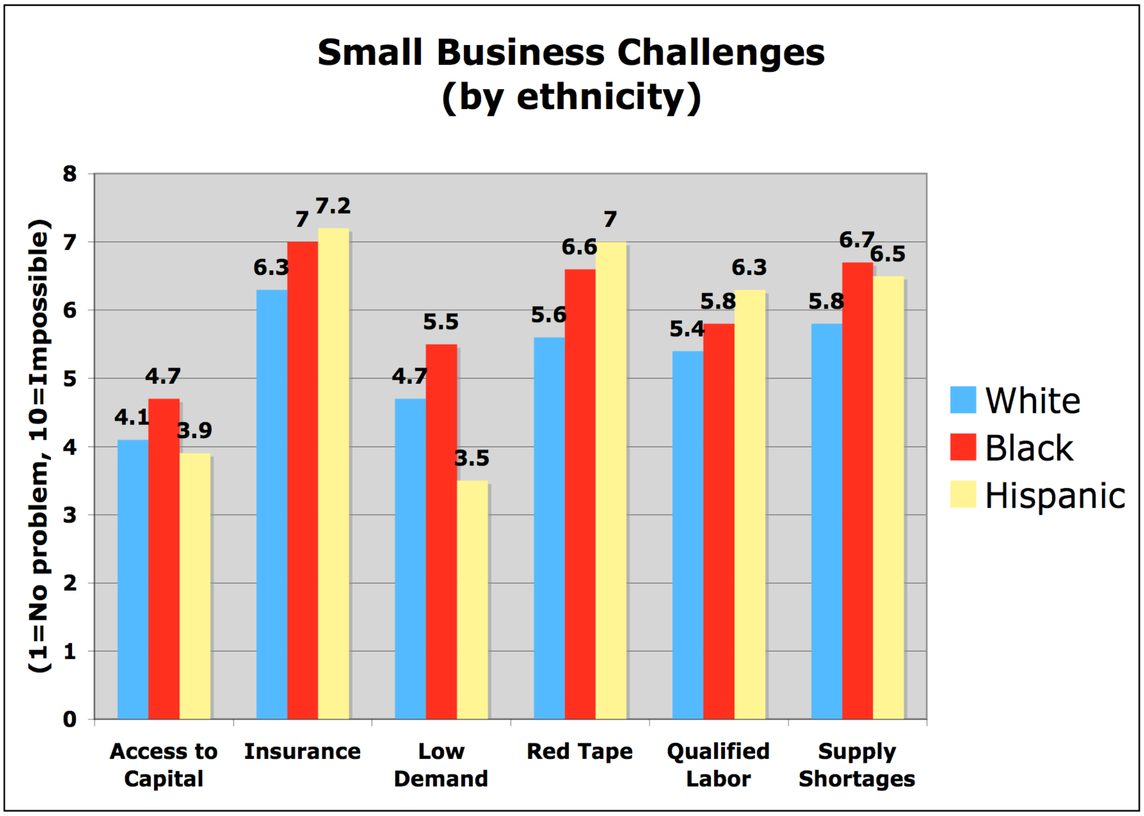
Source: PERC survey of Gulf Coast small business owners August 2007.

Insurance is the Greatest Challenge: Figure 7 above graphically depicts the greatest concerns voiced by respondents to the survey of small business owners directly affected by Hurricanes Katrina and Rita. Asked to rate a series of challenges on a scale of 1 through 10, with 1 being "not at all a challenge" and 10 being "an extremely difficult-to-impossible challenge," by a margin of nearly 10%, survey respondents ranked the cost of insurance (business and health) and difficulties receiving payments for claims as the single greatest challenge confronting them in the wake of the 2005 hurricanes with an average score of 6.5 (significant challenge). This is consistent with other national surveys of small business owners—such as one conducted by the National Federation of Independent Businesses and Wells Fargo—that found small business owners ranked health insurance, liability insurance, and workers comp as their three biggest challenges.[17]

While rising insurance premiums have been top-mind issues for small business owners for the past several years, it is clear from the comments of owners still operating in areas directly affected by the 2005 hurricanes that insurance-related issues are unlikely to be unseated as their top concerns any time soon.

---

17 Simpson, Andrew G. "Big Problems for Small Businesses," *Insurance Journal,* 7 June 2004. Downloaded from: http://www.insurancejournal.com/magazines/east/2004/06/07/editorsnote/43083.htm



Source: PERC survey of Gulf Coast small business owners August 2007.

Different Perceptions of Small Business Challenges

While insurance ranks as the most significant challenge for all small business owners regardless of ethnicity, there are appreciable differences among the major ethnic groups tracked in the survey. Caucasian small business owners provided an average response of 6.3 on insurance issues, while both Hispanic and African American small business owners ranked insurance at 7.2 (14% greater) and 7 (11% greater) respectively. While it is important not to read too much into these differences, their existence and magnitude warrant further consideration. For instance, as predominantly African American neighborhoods in Orleans and St. Bernard parishes were ravaged by Katrina and subsequently depopulated, African American-owned small business owners in those areas may perceive lack of demand as a greater challenge than Hispanic business owners operating in growing Hispanic communities in the same parishes.

In addition to insurance-related concerns, Gulf Coast small business owners operating in areas that were directly affected by the 2005 hurricanes ranked three challenges—supply shortages, labor shortages, and government red tape—as serious, each receiving a score of nearly 6 out of 10.

Supply shortages and increased operating costs: Many small business owners described difficulties they were experiencing simply procuring supplies necessary for them to operate their business—even two years after the event. The predictable result of supply shortages was an increase in price for those products and services in high demand. Factor price increases, in turn, led to increased production costs. Similarly, operating costs were another big issue for small business owners who participated to the survey. Respondents cited significant increases in utility rates (gas and electric) and high rent for available and functional commercial space, which was a premium in certain areas after the 2005 hurricanes.

Dramatic differences exist among different groups of business owners as to the severity of problems related to supply shortages and increased operating costs. While Caucasian business owners view the problem as somewhat serious (average ranking of 5.8), African American business owners rank this problem 16% more significant on average (average ranking of 6.7), and Hispanic business owners 12% more significant (average ranking of 6.5).

Lack of qualified available labor: Lack of qualified available labor registered as a serious concern among Gulf Coast small business owners operating in areas directly affected by Hurricanes Katrina and Rita. This issue registered as most significant for Hispanic-owned business (average ranking of 6.3), 17% higher than for Caucasian-owned businesses (average ranking of 5.4), and 9% greater than African American-owned businesses (average ranking of 5.8).

Bureaucracy & Red Tape: Interestingly, a 2005 HP/Harris Interactive national survey of small business owners found that concerns about government bureaucracy were ranked 9th on a list of challenges, with only 15% of respondents reporting "complying with government regulations" as one of the top three biggest challenges a small business faces.[18] The variance in the results between the PERC survey and those in the HP/Harris Interactive survey are likely explained by the increased frequency with which Gulf Coast small business owners have had to confront various governmental organizations in the aftermath of the 2005 hurricanes.

In this category of challenges too there are marked differences in the perceived severity. While Caucasian small business owners ranked dealing with government bureaucracy and red tape as a moderately difficult challenge (average ranking of 5.6), African American small business owners' average ranking was 18% higher (average ranking of 6.6), and Hispanic owners' ranking was a full 25% higher (average ranking of 7). Respondents to the survey noted lack of bilingual government employees, and difficulty accessing Spanish language government documents.

Lack of Demand: It is interesting to note the substantial variance in average rankings by hurricane-affected Hispanic and African American small business owners on the magnitude of the challenge presented by diminished demand. Hispanic respondents to the

---

[18] Harris Interactive, "Survey Among Small Business Owners," 19 April 2005.
Downloaded from: http://www.hp.com/hpinfo/newsroom/press_kits/2005/sbizweek/full_survey.pdf

survey consider lack of demand to be a modest challenge (average ranking of 3.5). In stark contrast, the perception of Caucasian and African American small business owners was that diminished demand was a much more serious matter, with average rankings of 34% (average ranking of 4.7) and 57% (average ranking of 5.5) higher respectively.

One probable explanation for this ethnic variance likely has to do with the distribution of business types across the different groups. Data from Experian Corporation's National Business Database indicate that 15% of Hispanic-owned businesses in the areas directly affected by Hurricanes Katrina and Rita are classified as "construction" (NAIC code 23). That is, construction as a ratio to all other business types is larger among the Hispanic population than among other ethnic cohorts.

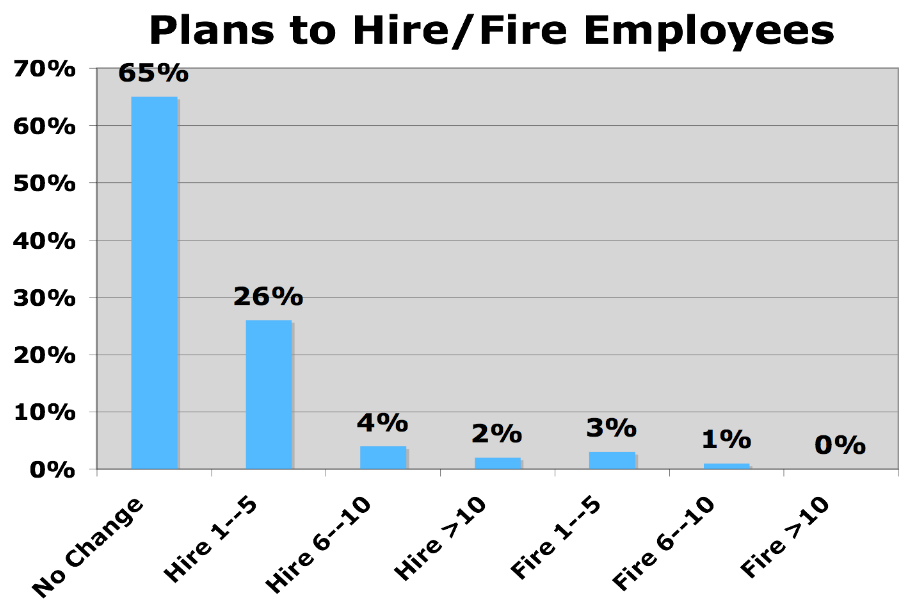
Given the spike in demand for construction services in the aftermath of a natural disaster, and the significance of this industry to the Hispanic population in the affected areas, it is unsurprising both that diminished demand is viewed by Hispanic small business owners as relatively unproblematic and that a substantial portion of Hispanic-owned businesses are outperforming their pre-disaster levels in terms of annual revenues. The downside to the over-reliance on construction, however, may be felt after the affected regions fully complete the reconstruction phase of economic recovery and renewal.

Access to capital: Most significantly, none of the groups of small business owners perceived of access to capital as a significant challenge in the aggregate, although there are large sub-populations within each of these groups that view access to credit as a major challenge (discussed below). Hispanic and Caucasian business owners ranked access to credit as a modest challenge, with average rankings of 3.9 and 4.1 respectively. African American business owners perceived access to credit as a somewhat more difficult challenge, providing an average ranking of 4.7, 20% higher than the average for Hispanic small business owners. This difference is further borne out when small business owners were asked to discuss their perception about access to varying types of business and consumer credit, also discussed in more detail below.

> "What really went right was members of the local churches helping people the very day of the hurricane, and what has gone really wrong is the government's slow movement and lack of assistance" – Small Business Owner

Responses from the Hiring/Firing Section of Survey

Consistent with their optimism, nearly one-third of Gulf Coast small business owners operating in areas directly impacted by the 2005 hurricanes indicated they intend to hire more employees over the coming year. As shown below in Figure 8, while roughly two-thirds of respondents to the survey indicated that their present staffing levels would remain unchanged, and just 4% indicated a need to terminate staff over the coming 12 months.



Source: PERC survey of Gulf Coast small business owners August 2007.

Results from a recent America Express survey are consistent with the results from the PERC survey. According to the Amex survey one out of three (33%) businesses report plans to hire full and/or part-time staff, on par with the 39% that reported intentions to hire in Amex's previous report from 2006.[19] Among those responding to the Amex survey, seven out of ten reported needing to hire additional employees to handle their growing business or to help increase business volume (both 72%). Two out of five reportedly will hire because they need seasonal help (42%), while one in three say they will hire because they have a new business venture (35%) or have finally found the right candidate for the position (30%). The PERC survey did not probe reasons for hiring, but will do so in future analyses. The Amex results are presented as suggestive, and to serve as a baseline for future comparative analysis.

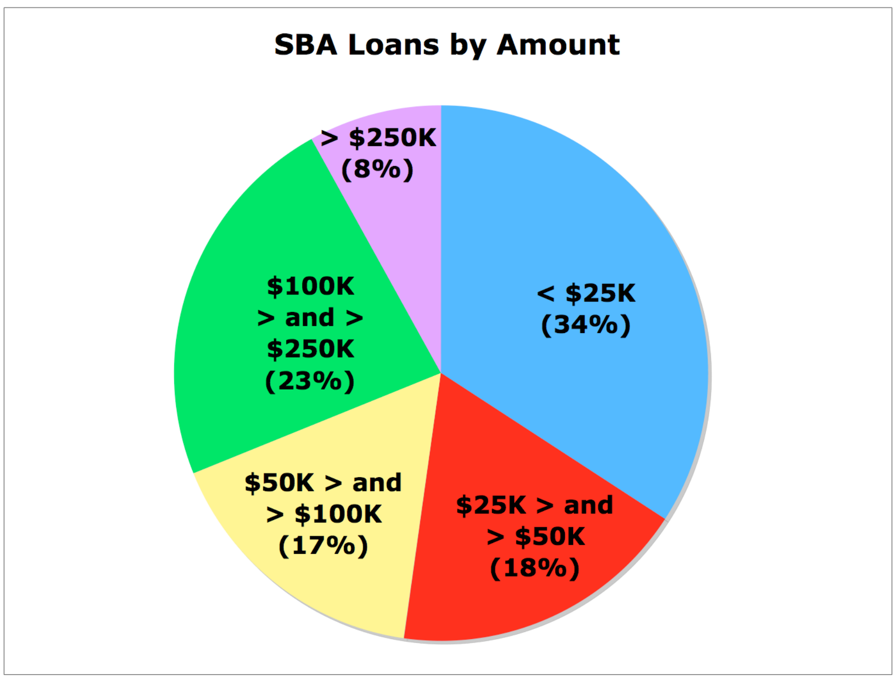
[19] "Small Business Optimism Is On An Upswing, According to the OPEN from American Express Small Business Monitor." 24 May 2007. Downloaded from: http://home3.americanexpress.com/corp/pc/2007/monitor_print.asp

The Role of Government Loans & Grants in Renewal

The Small Business Administration (SBA) has been the federal government's main arm tasked with assisting small business recovery in the affected states. To date, the SBA has issued nearly $7 billion in low-interest disaster loans to 120,000 small businesses and homeowners in the affected areas.[20] The SBA received more than 422,000 applications in Gulf Coast states following Hurricane Katrina. (Approximately 75,000 of these loans were reported to have been issued within the first 6 months following Katrina.[21])

The twin problems of backlogs and increased denial rates by the SBA to clear the backlogs have been documented and investigated by Congressional committees. (Some 95,000 loans appear to have been denied without proper reasons.[22])

Of the 898 respondents who answered the question related to applying for a Small Business Administration loan, one third (298) indicated that they had applied. The majority of applications, as shown in Figure 9 were for $50,000 or less; 31% of loans were for $100,000 or more.



---

[20] Kent Hoover, "SBA worker cites pressure to cancel disaster loans." Biz Journal. August 6, 2007, www.bizjournals.com/extraedge/washingtonbureau/archive/2007/08/06/bureau2.html

[21] Six Months After Katrina, SBA Approves A Record $5.4 Billion in Disaster Loans http://www.smallbusinessnotes.com/fedgovernment/sba/sbanews/sbanews030106.html

[22] Keith Girard, "SBA Attempts to Right Katrina Loan Snafu." All Business. August 14 2007. www.allbusiness.com/government/4362429-1.html.

SBA figures indicate a national average disaster loan approval rate of 28%. Whereas 56.7% of our survey respondents who applied for an SBA loan were approved, 37.8% were rejected, and the remaining 5.5% were pending. Of those who are waiting for a decision, some 71% have waited for 6 months or more, and 43% have waited more than 1 year, according to their responses.

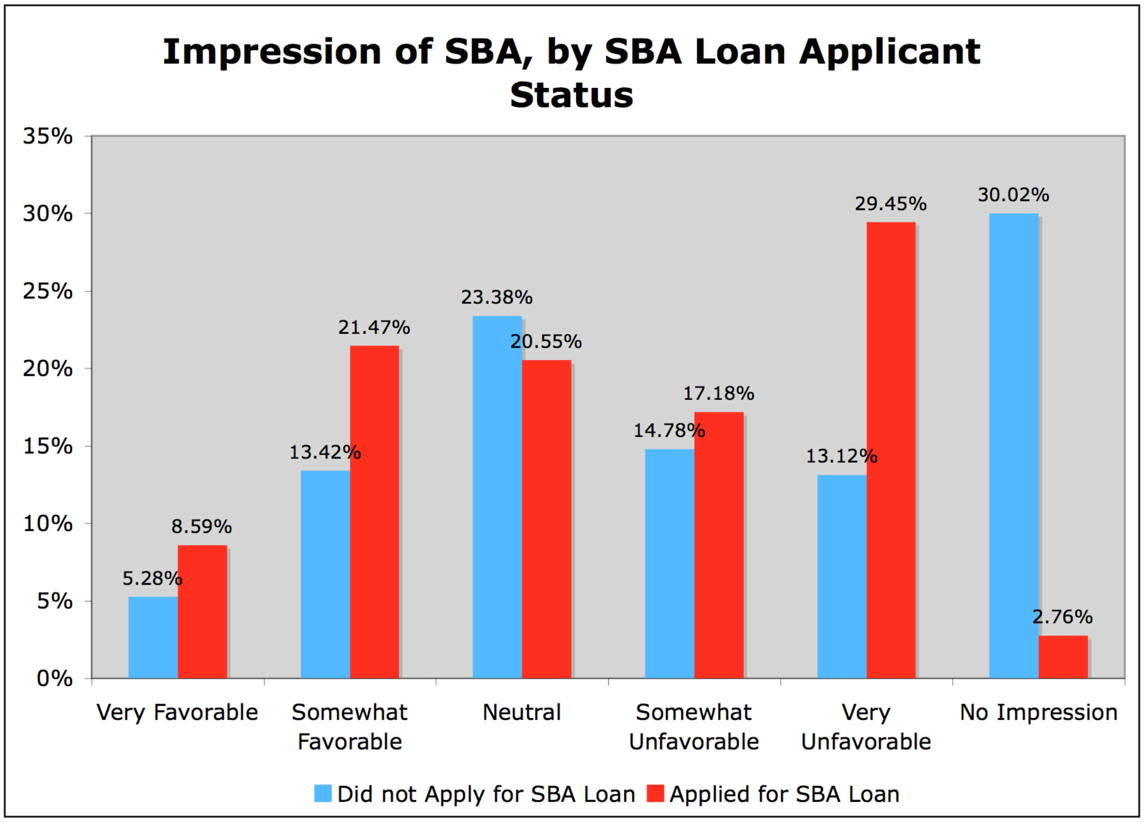
The higher approval rates for owners included in the survey sample may be largely accounted for by the fact that they are located in the hardest hit areas. As such, they may have applied earlier, increasing chances of approval. Also likely is that the fact that the respondents are included in the Business Owner Link database. These businesses are more likely to meet loan criteria owing to well-documented credit and leasing relations. Finally, many of those who were rejected may no longer be in business, and as a result would not be included in the BOL database.

> "Everything I've done with the SBA, I've had to do three times! People don't realize what the average person is going through" – Small Business Owner

Of those who had been rejected by the SBA, only one-third were denied a loan because of low credit scores, insufficient assets, or excessive existing debt. Another reason for denial included insufficient documentation, often lost in the storm. Other applicants received no reason for the rejection.

Small business owner attitudes towards the SBA and public relief agencies have been mixed, as Figure 10 shows. When asked about their impression of the SBA, 22% of respondents selected either "very favorable" or "somewhat favorable," another 22% selected "neutral," and 34% selected either "very unfavorable" or "somewhat unfavorable." The remainder had "no opinion."

The responses, when limited to those firms that applied for SBA loans skewed both more positively and more negatively. Of those respondents who had applied for an SBA loan, 30% regarded the agency "very favorable" or "somewhat favorable," while 46.6% held a "very unfavorable" or "somewhat unfavorable" opinion of it Although it should be mentioned that a greater share of those who had applied for an SBA stated they are more likely to apply for an SBA loan in the future than respondents who did not apply. But also telling, a greater share of those who had applied for an SBA stated they also *less* likely to apply for an SBA loan in the future than respondents who did not apply. This discrepancy is accounted for by the fact that far fewer respondents stated that they were neither less nor more likely to apply for a loan.



Respondents were asked which institution from among a list (government and non-profit) had the most *positive* impact on their business. Non-profit charities received higher approval ratings than any government agency, by as much as 2 to 1. In the aggregate, government agencies (whether state, local or federal) received a positive response from only 37% of respondents. Of course, charities are not charged by, or accountable to the public for disaster recovery assistance, whereas government is held directly responsible.

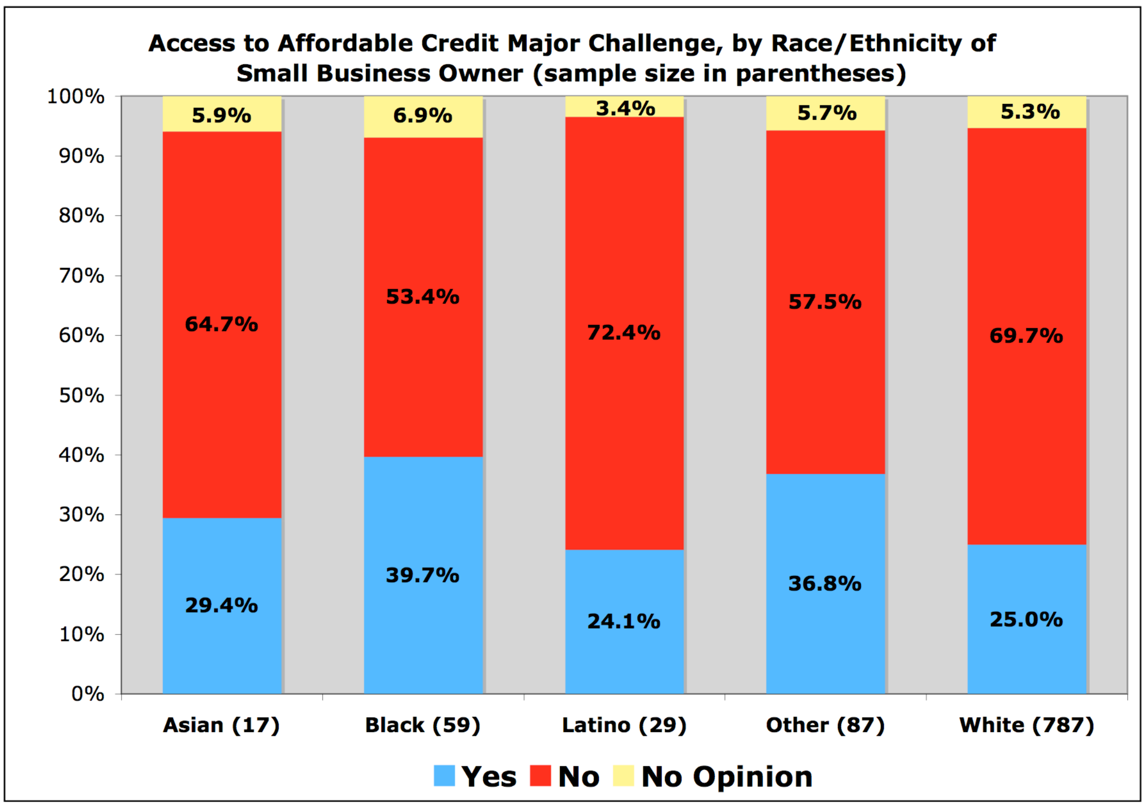
"The time and bureaucracy was horrible. We had to keep giving the same info over and over again. At the same time, we did get the loan, and it was crucial." – Small Business Owner

Faith in public institutions has been one casualty of the disasters, from the first day onward. These attitudes are thus not really surprising. What is surprising is that nearly two years following the disaster, public agencies have yet to effectively respond, at least if the responses of the targeted communities are any indication.

The Role of Private Source Credit in Small Business Renewal

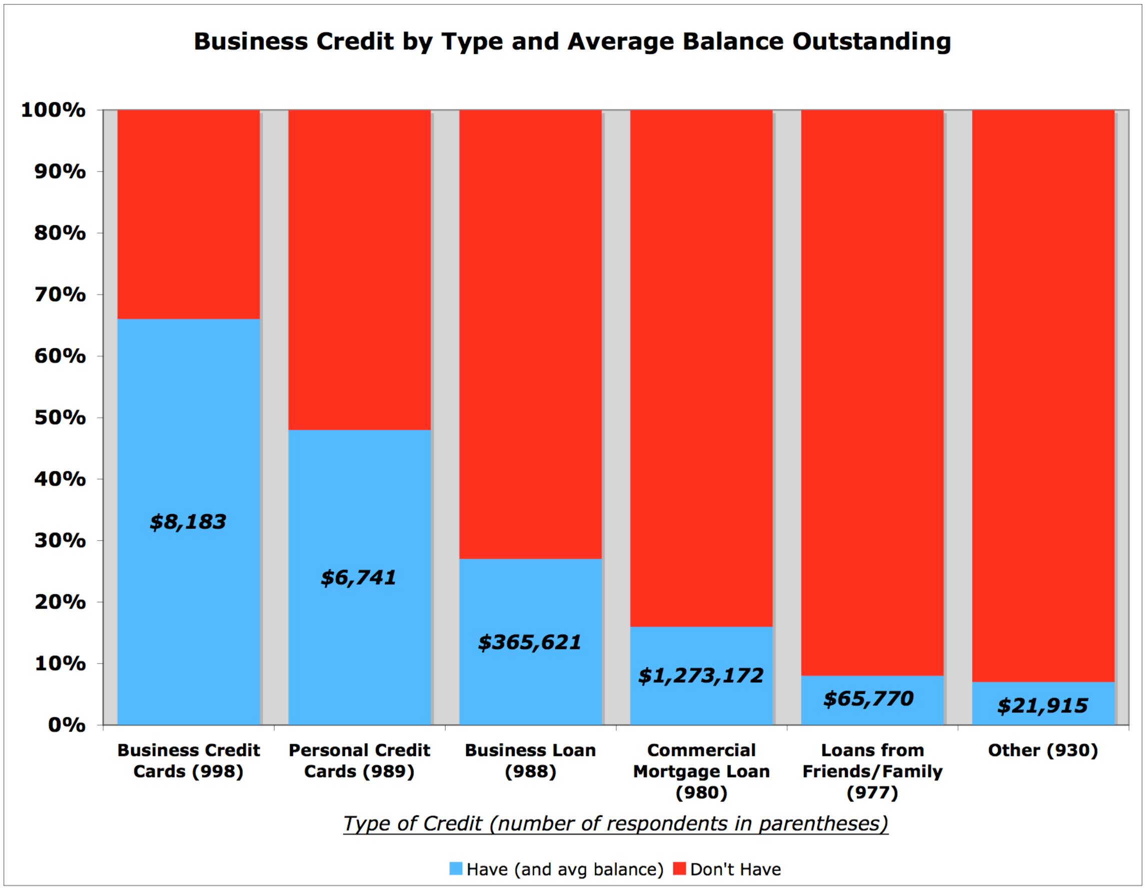
We asked respondents about their access to and use of credit. Credit serves a clear and obvious set of important functions in business, primarily in investment, assistance with cash flow in the wake of shocks and revenue cycles, and, notably in disaster stricken areas, reconstruction. Of 1004 respondents, 27% reported that access to sources affordable credit "is a major challenge," 68% reported that it is not, and the remainder reported having "no opinion" on the matter.

Perhaps more telling is the breakdown of these by race/ethnicity. Figure 11 shows responses by ethnicity/race of the business owner. A greater share of African American business owners than Caucasian business owners report access to affordable credit is a significant problem.



T-tests of mean differences reveal that this difference is significant despite the smaller sample size of African American respondents.[23]

[23] The t-value of the difference is 2.34.

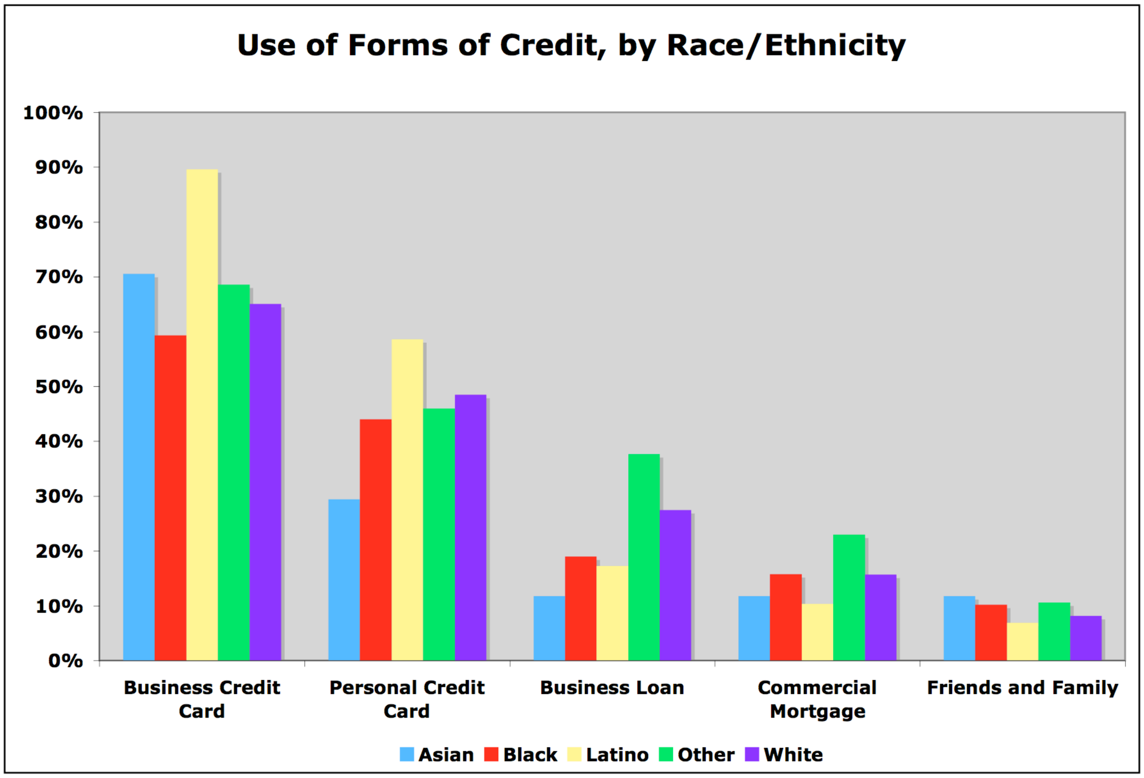


As shown in Figure 12 above, the most common form of credit available and used by nearly two-thirds of respondents was a business credit card. Half of all respondents also used their personal credit cards for accessing credit for the business. Both of these carried comparable levels of debt, approximately $8,200 and $6,750 respectively. In all likelihood, these forms of credit are used for smaller purchases and costs. Of note is the fact that substantial loans were also obtained from social networks, friends and family, averaging $65,770.

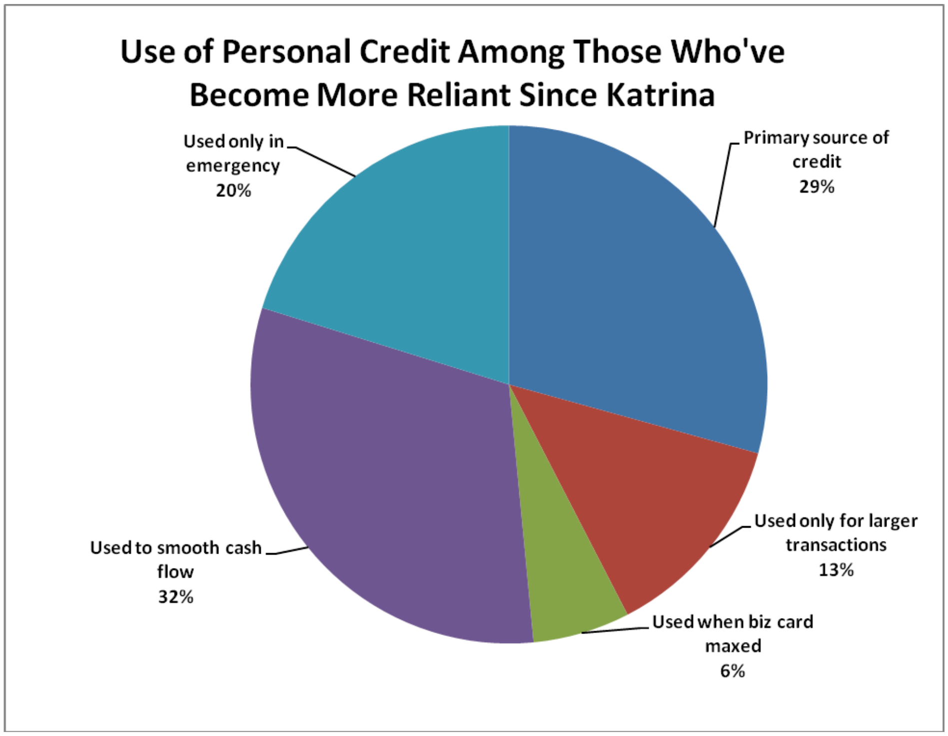
Overall, there is little difference in the likelihood of respondents viewing access to credit as a problem and their actual use of credit instruments. For example, 36% of those who regard access to affordable credit a problem have business credit cards; similarly 33% of those who do not regard access to affordable credit a problem also have a business credit card. (The differences are not significant.)

The one notable exception can be found among those who carry commercial mortgage loans. Those who reported access to affordable credit a problem are more likely to carry a commercial mortgage than those who do not find access to credit a problem. Of course, the reason may be that given the indebtedness that results from a mortgage, lenders are less likely to extend more credit based on the borrower's credit capacity. This result may have little to do with Katrina. Only further surveys over time can reveal if these differences result from the disaster.

The following Figure 13, breaks down use of forms of credit by race/ethnicity.



We asked respondents whether they had become more reliant on personal credit cards to cover business expenses. Nearly one-quarter, or 23% of 506 respondents, stated that they had become more reliant. Eighty-three who answered "yes" explained how they had become more reliant, and how they primarily used their personal credit cards. Figure 14 reports the responses.



A plurality of respondents (31%) indicate they use their personal credit cards to smooth cash flow for their businesses, while an additional 29% use it as their primary source of credit. In the absence of data prior to Katrina, it's difficult to tell whether this is a marked shift.

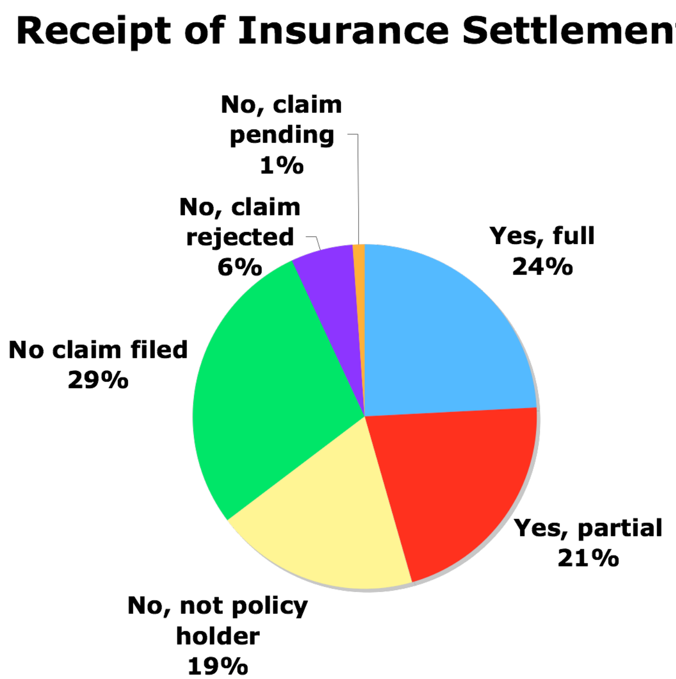
Here, NBD and BOL data will serve to assess whether there have been significant shifts since the disaster. Actual usage is in one sense a better indicator than self-reported usage. In another sense, only self-reports can identify whether these uses of a personal credit cards are for business reasons or for personal reasons.

"If they don't find a way to lower insurance costs our economy is going to be devastated" – Small Business Owner

The Role of Insurance

The relationship between Gulf Coast small business owners and commercial insurers hinges upon two interactions—claims settlements and adjustments to insurance rates. In the area of claims settlements, commercial insurers' underwriting policies in the affected areas of the Gulf Coast seemed to have fared well, at least according to the respondents to the survey.

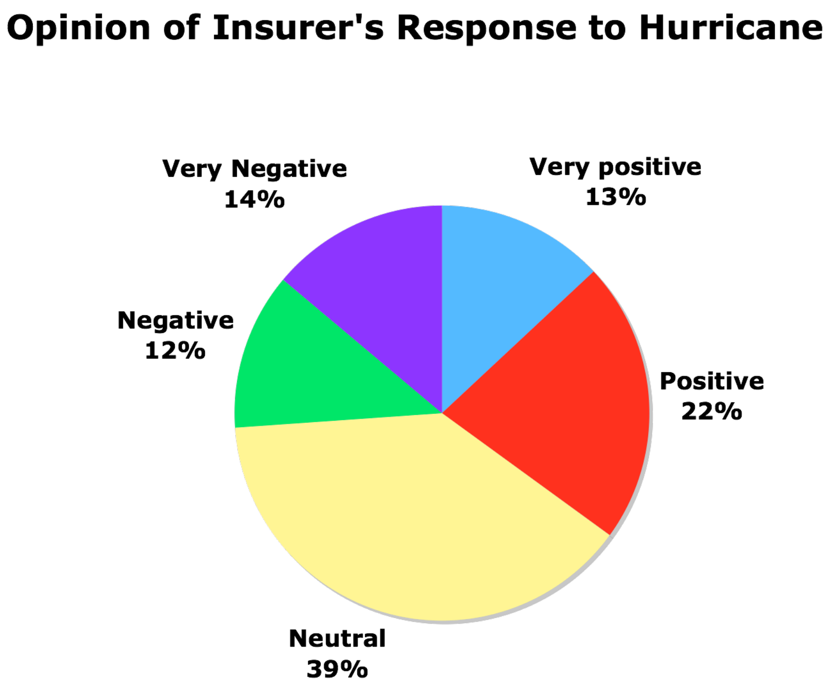
As shown in Figure 15 below, among those who filed a claim, 86% received either a full or partial settlement. In fact, nearly half (46%) of those filing for a claim received a full settlement, while 40% received a partial settlement. In contrast, slightly over 1 in 10 respondents (12%) who filed a claim with their commercial insurer were rejected. Finally, just 1% of small business owners who filed a claim with their insurer after Hurricane Katrina or Rita were still waiting for a settlement decision.



Source: PERC survey of Gulf Coast small business owners August 2007.

On average, small business owner respondents who received only a partial settlement were paid $289,427 by their insurer. Interestingly, those respondents who indicated receiving a full settlement from their commercial insurer were paid an average settlement of $135,158. In this case, it seems that many small business owners who filed for larger settlements did not receive the full amount, but were compensated. This drove the average for partial settlements up above the mean for full settlements. Finally, those with claims still pending have been waiting, on average, for approximately 1.8 years.[24]

Fewer than 1 in 5 respondents were uninsured. This figure was, in all probability, much higher prior to Katrina and Rita. Presumably, a large number of uninsured small business owners were unable to absorb the financial blows dealt by the hurricanes and simply closed up shop. Those surviving businesses that either did not file a claim (29%) or did not carry insurance likely did not suffer extensive damage to their operations.



Source: PERC survey of Gulf Coast small business owners August 2007.

Considering that nearly 9 in 10 small business owners who filed a claim with their commercial insurer received a settlement, a generally positive opinion toward their insurer's response to the 2005 hurricanes might be expected. Surprisingly, the opinion of the vast majority (65%) was either negative or neutral. Only 1 in four respondents (25%) reported a positive or very positive opinion about how their commercial insurer responded to Hurricanes Katrina and Rita.

Given that insurance was ranked by all groups as the single most difficult post-hurricane challenge they confronted, analysis of differences in settlement and rejection rates among varying groups of business owners may be linked to the extent to which each group continues to perceive of insurance as a challenge.

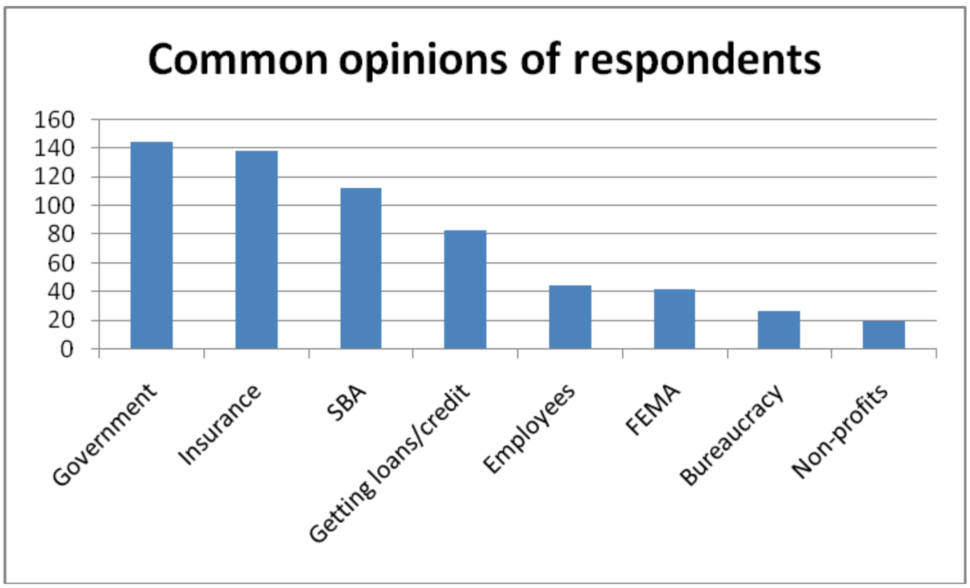
---

[24] The sample size for pending claims is not statistically significant, and therefore the average time that claims have been pending may vary dramatically from the results found in our survey.

General Observations From Small Business Owners

The survey instrument also included a section for respondents to express any concerns they felt the survey did not adequately address. A majority of respondents (615 out of 1032) chose to comment, sometimes extensively. In fact, a problem for our surveyors was not that it was difficult to find subjects willing to share their thoughts but rather that respondents sometimes didn't want to stop talking.

These extra comments covered a wide variety of topics, as shown in Figure 16. Government at all levels was most commonly discussed, followed by insurance and the SBA.



Source: PERC survey of Gulf Coast small business owners August 2007.

Most of the comments left by respondents were negative. Less than 10% said anything positive about any level of government. Corruption and incompetency were the most common complaints. "The LRA has been the biggest disappointment," reported one man. "The community at large needs to understand that more than money, we need new brainpower and leadership." State agencies were accused of cronyism and negligence with regards to small businesses. "Without political connections, there is no help from the LRA.... Being a woman, it's really hard," said one owner.

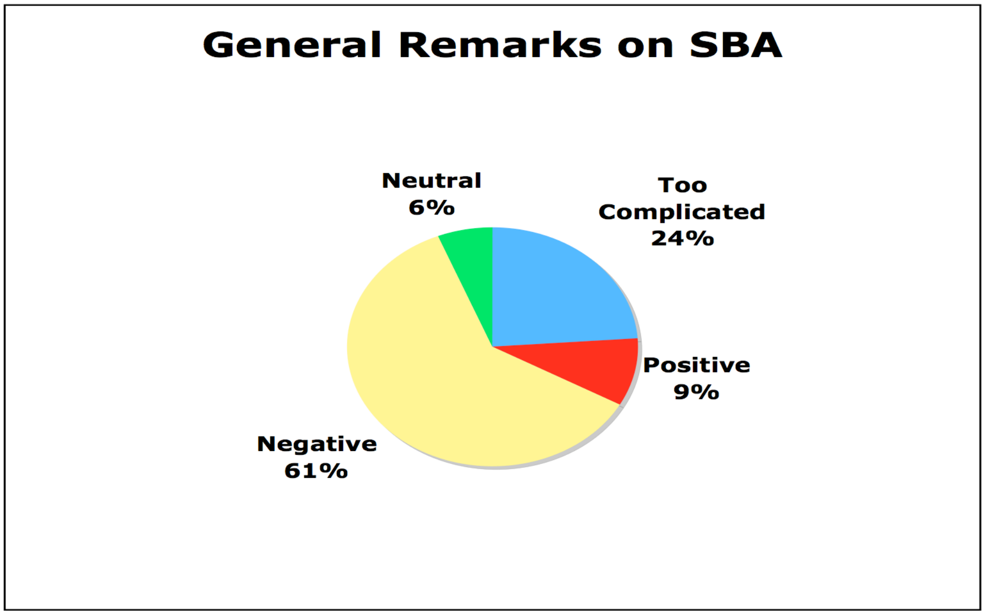
Some respondents were still waiting for their Road Home money after only receiving partial amounts. One man had only received half of a $20,000 grant: "I'm still waiting on the Road Home money. It's cruel to play with our emotions by promising things and not delivering." One man compared the progress of the "Rocky" Road Home to getting blood from a turnip. "We're in survival mode now, worrying about food," remarked another.

Opinions about insurance companies were even gloomier, with only 4% expressing positive opinions. Small business owners are never happy about insurance, but some of the respondents expressed overt hostility towards insurance companies. "Insurance companies are price gouging now just because they can," said one man. "It's a crime." Many were upset about receiving only partial claims. "I have to replace everything so it's like starting again. Insurance companies should be more reasonable," one home business owner said. And the rising cost of insurance was leaving many of the respondents behind. "The insurance companies are cutting back so much coverage, there's no way to get business interruption for storms and floods. Getting new insurance is difficult if you can even get it at all," reported one man.

Respondents had more mixed opinions about some organizations, especially the SBA, where a common complaint (24%) was that the application process for an SBA loan was too complicated. The paperwork discouraged respondents from even trying to get a loan. Many gave up after becoming overwhelmed with paperwork. "I began an SBA loan but didn't finish because of too much red tape. It was easier to just go to the bank and get a loan," said one business owner. The amount of time it took to apply for a loan put off many of the busy small business owners."Everything I've done with the SBA, I've had to do three times! People don't realize what the average person is going through," one loan recipient said. The glut of paperwork and bureaucracy led one owner to conclude that "the SBA is not actually set up for small business success. It seemed to be more in favor of big businesses."

"As far as the business is concerned, FEMA is the only group that really helped" – Small Business Owner

However, many respondents were happy to get a loan, even if only part of it. One respondent seemed to sum up the overall attitude towards the SBA when she said, "The time and bureaucracy was horrible. We had to keep giving the same info over and over again. At the same time, we did get the loan, and it was crucial."



Source: PERC survey of Gulf Coast small business owners August 2007.

The one exception to the negative outlook of respondents was toward non-profits, especially churches. Although the Red Cross and Salvation Army didn't elicit much response, local and national church groups were universally praised. Respondents reported church groups had given sustained support from the day of the hurricane onward. "What really went right," said one respondent, "was members of the local churches helping people the very day of the hurricane, and what has gone really wrong is the government's slow movement and lack of assistance."

Despite the fact that concern for qualified labor wasn't one of the top challenges reported by business owners, 41 respondents reported difficulties in hiring or in finding quality employees. One man reported having advertised in the newspaper for two months, and still had no luck.

The issue of quality employees was also tightly wound with immigration. One owner, complaining that he couldn't find employees to work at his given wage, said, "Immigration is the main issue. We need skilled workers. We need immigrants and they won't let them in." Hispanic workers were credited with helping to save New Orleans. "We couldn't have rebuilt the city without the help from the Latin American work force, whether legal or illegal," said one respondent. Labor force problems were also blamed on illegal immigrants. "The major concern is that illegal people came to work and depleted the work opportunity for regular citizens," said one respondent.

Comments varied widely in their depth, ranging from insults against local and federal government to detailed stories about how businesses and livelihoods suffered and were still suffering as a result of the hurricane. As such, it's difficult to draw any unified picture from such subjective data. However, the sheer number of negative comments and the willingness of respondents to tell their stories indicate strong dissatisfaction among respondents with small business recovery in the aftermath of this disaster.

Conclusions

The severity of the 2005 hurricanes was unprecedented. The damage to communities was extensive. This is especially true of the poorer sections of the New Orleans Metropolitan Statistical Area as well as parts of the Biloxi/Gulfport MSA, especially Hancock County. The businesses that served these communities in turn are probably among the hardest hit.

Still, our survey of small business owners in the areas directly affected by Hurricanes Katrina and Rita paints a nuanced picture. Most respondents reported sales levels below what they witnessed pre-Katrina. This must be the starting point of the evaluation. Overall small business economic activity, measured in terms of the number of firms, is down and has yet to recover. Oddly, this remains the case even though aggregate personal income has recovered to pre-Katrina levels, despite the loss of at least one-fifth of the population. Hardest hit have been African American-owned small businesses, 78% of which report lower sales levels, compared to 60% of all businesses. African American-owned firms are also more likely to be concentrated among the hardest hit sector, the service sector, and also are more concerned about lower demand.

Most small businesses view their prospects positively, 61% expressing optimism about their near prospects and 64% viewing their long-term prospects as positive. Predictably, access to insurance remains the issue of principal concern. Access to credit surprisingly ranked low as a challenge, although most respondents' use of credit was restricted to credit cards, which are largely used to smooth over cash flow problems. It should be noted that a significantly larger share of African American business owners saw access to credit as a challenge than did Caucasian business owners: 39.7% vs. 25%.

Approximately 29% of respondents applied for an SBA loan, that is, sought credit from the federal government following the disaster. More than half (56.7%) of all applicants received a loan. This approval rate stands in stark contrast to the 28% approval rate for all SBA disaster loans nationwide. Nonetheless, the SBA, like other public institutions, has ranked unfavorably among those it interacted with. Respondents seemed to feel that the loan process itself was substantially and unnecessarily complicated. Loss of documentation, other information and assets no doubt made the loan process a more arduous one in the New Orleans MSA. Nonetheless, the poor responsiveness, apparently for reasons of capacity, remains a problem. To the credit of the federal government, authorizing the use of private banks and other sub-contractors to process SBA loans can assist greatly.

Across all socio-demographic segments, access to insurance is seen as the most significant challenge. Approximately 10% of firms that filed claims were rejected; 86% received either a full or partial settlement. While the vast majority of respondents either had a positive or neutral view of their insurer's response, many now express frustration at getting and/or affording insurance. Commercial insurers have pulled out of some markets, and where they remain, rates have increased more than two-fold. In Mississippi, the state has become the insurer of last resort. Louisiana appears poised to follow suit.

The 2005 Gulf Coast hurricanes, and especially Katrina, were devastating in terms of the damage they inflicted. As such they offer some key lessons with regard to post-disaster small business recovery, including:

- **Expand state capacity:** Even if aid is forthcoming, state capacity for the disbursement of aid must be also prioritized. While overhead costs are often targeted to the point where any expansion is a political landmine, the allocation of aid monies may be futile if the capacity to disburse them does not exist.

- **Improve communications channels:** State capacity, perhaps more importantly, also must pay attention to its quality. For example, varying social segments could not access aid because of language issues. While debates over multilingualism will persist, it remains a fact that overall recovery has been hampered because needy populations either could not effectively communicate with public agencies, or were not provided access to crucial official forms in their native tongue. There are externalities or effects on third-parties in these instances.

- **Decouple personal grants from business loans:** In depth discussion with survey respondents suggests the following: government grants must not be tied to the full or partial retirement of government loans. Grants and loans are functionally different, with grants serving as a form of immediate assistance without any requirement that the grant be repaid. By contrast, loans are not a form of charity, but rather are an extension of credit. Tying the receipt of a personal grant to the repayment of a pre-existing business loan forces small business owners to chose between how they earn a living and where they live. Not only is this bad social policy, it is unsound economic policy. Tying the two together reduces the efficacy of the loan and eliminates the benefit of the grant. It merely results in a transfer of funds from one government agency to another, with minimal to no resultant contribution to economic renewal and revitalization.

- **Relax SBA disaster loan eligibility requirements:** Given the positive externalities of economic vitality within communities—employment, stability, staving off depopulation, reduced crime—there are compelling public interest reasons why the eligibility criteria for SBA disaster loans should be relaxed. This is especially the case in the face of a catastrophy like Katrina, whereby assets, business records, personal identification records, and other resources and information typically required for loan approval may be destroyed for large segments of the affected population.

- **Simplify SBA disaster loan application process:** In addition, evidence from our survey strongly suggests that the SBA disaster loan application process should be streamlined and otherwise simplified so as not to deter qualified small business owners who are truly in need. Owing to the vital role they play in their firm's daily operations, small business owners are relatively less able to allocate considerable time to non-operational activities, such as completing onerous loan applications.

Appendices

Appendix A: Survey Instrument

The total sample for the survey included 1,032 small business owners from the hardest-hit counties and parishes in Louisiana and Mississippi: St. Tammany, Washington, Plaquemines, St. Bernard, Jefferson, Orleans, and Cameron Parishes in Louisiana; and Pearl River, Hancock, and Harrison Counties in Mississippi. The survey was conducted by telephone between August 7 and August 17, 2007. The margin of error for the total sample is +/- 3%.

The survey found that 12% of telephone numbers had been disconnected. This was coded as a business no longer existing. Repeated no-answers were not recorded as a business no longer existing, unlike the American Express survey.

Whenever possible, survey questions were intentionally copied from existing national surveys, especially the NFIB, in order to give a benchmark for the questions. The questions were written by PERC and approved with feedback by the Louisiana Disaster Recovery Fund and the Kauffman Foundation.

Questions are as follows:

1. How much were your sales impacted by the 2005 hurricanes?
    1. Very much Negatively
    2. Somewhat Negatively
    3. Unaffected or neutral
    4. Somewhat Positively
    5. Very much Positively

2. How would you compare the level of business activity/sales now compared to 2 years ago?
    1. Less than half of the pre-storm levels
    2. Between 50% and 75% of pre-storm levels
    3. Between 75% and 100% of pre-storm levels
    4. Unchanged
    5. Between 100% and 200% of pre-storm levels
    6. More than 200% of pre-storm levels

3. Did the 2005 hurricanes force you to close your business?
    1. Yes, has closed permanently
    2. Yes, closed temporarily
    3. No, remains open
    4. No, has closed or is closed for other reasons

4. What do you feel are the near-term prospects for your business?
    1. Very Good
    2. Somewhat Good
    3. Neutral, neither good nor bad
    4. Somewhat Bad
    5. Very Bad

5. What do you feel are the longer-term prospects for your business?
    1. Very Good
    2. Somewhat Good
    3. Neutral, or Neither Good nor Bad
    4. Somewhat Bad
    5. Very Bad

6. I am going to read you a list of challenges confronting small business owners in your area. Please rank the difficulty that each of these presents your company on a scale of 1 to 10, with 1 being not difficult at all and 10 being extremely difficult.

A. Access to capital

If answer is above 5, then ask: How much of the difficulty accessing credit do you attribute to the 2005 hurricanes?
1. The hurricanes are the only reason
2. The hurricanes are a major reason, but not the only reason
3. The hurricanes were one of many reasons, but not a major reason

B. Insurance (payouts and new policies)

If answer is above 5, then ask: How much of the increase in insurance rates do you attribute to the 2005 hurricanes?
1. The hurricanes are the only reason
2. The hurricanes are a major reason, but not the only reason
3. The hurricanes were one of many reasons, but not a major reason

C. Lack of market demand/consumers

If answer is above 5, then ask: How much of the decrease in demand do you attribute to the 2005 hurricanes?
1. The hurricanes are the only reason
2. The hurricanes are a major reason, but not the only reason
3. The hurricanes were one of many reasons, but not a major reason

D. Red tape/bureaucracy by government and/or private sector

If answer is above 5, then ask: How much of the increased red tape do you attribute to the 2005 hurricanes?
1. The hurricanes are the only reason
2. The hurricanes are a major reason, but not the only reason
3. The hurricanes were one of many reasons, but not a major reason

E. Difficulty in finding qualified employees

If answer is above 5, then ask: How much of the difficulty finding quality employees do you attribute to the 2005 hurricanes?
1. The hurricanes are the only reason
2. The hurricanes are a major reason, but not the only reason
3. The hurricanes were one of many reasons, but not a major reason

F. Other supply shortages or increased operating costs

If answer is above 5, then ask: How much of the increase in operating costs and supply shortages do you attribute to the 2005 hurricanes?

1. The hurricanes are the only reason
2. The hurricanes are a major reason, but not the only reason
3. The hurricanes were one of many reasons, but not a major reason

7. Do you expect your business to change the number of employees over the next year?
   1. No Change
   2. Increase between 1 and 5
   3. Increase between 6 and 10
   4. Increase greater than 10
   5. Decrease between 1 and 5
   6. Decrease between 6 and 10
   7. Decrease greater than 10

8. Have you applied for a loan from the Small Business Administration since the 2005 hurricanes? (Question 8 was changed on the second-to-last day of surveying to 8b)
   1. Yes
   2. No

8b. Have you applied for a loan from the Small Business Administration since the 2005 hurricanes? (Ask how they applied or why they did not)

3. Yes. **(go to question 9)**
4. No. **(go to 13)**
5. Yes. I applied directly with the SBA. **(go to question 9)**
6. Yes. I applied through a Bank. **(go to question 9)**
7. No. Negative past experience with the SBA **(go to 13)**
8. No. Loan application too complex or too demanding **(go to 13)**
9. No. Discouraged by feedback from other small business owners **(go to 13)**
10. No. Didn't need the funds **(go to 13)**
11. No. Other (if reason given put in notes) **(go to 13)**

9. Was your loan request approved?
   1. Yes (**go to question 10**)
   2. No (**go to question 11**)
   3. Pending (**go to question 12**)

10. What amount did you receive from the SBA?
    1. Less than $25,000
    2. $25,000 to $50,000
    3. $50,000 to $100,000
    4. $100,000 to $250,000
    5. More than $250,000

11. What reason were you given for being denied a loan?
    1. Credit score too low
    2. Insufficient assets
    3. Too much existing debt
    4. Other, please specify____________________________

12. How much time has passed since you submitted your SBA loan application for review?
    1. Less than 3 months
    2. Between 3 months and 6 months
    3. Between 6 months and 9 months
    4. Between 9 months and 1 year
    5. More than 1 year

13. What is your current impression of the Small Business Administration?
    1. Very favorable
    2. Somewhat favorable
    3. Neutral, neither favorable nor unfavorable
    4. Somewhat unfavorable
    5. Very unfavorable
    6. No impression

14. Has your opinion of the Small Business Administration changed as a result of your interaction with them after the 2005 hurricanes?
    1. Dramatically improved
    2. Improved
    3. Neutral, neither improved nor declined
    4. Declined
    5. Dramatically declined

15. Based on your past experience, how likely are you to seek an SBA loan in the future?
    1. Very likely
    2. Likely
    3. Neutral, neither likely nor unlikely
    4. Unlikely
    5. Very unlikely

16. In the last three years, what federal, state, or local government agency or other institution has had the most POSITIVE impact on your business? Would you like some examples?
    EXAMPLES:
    1. SBA (Small Business Administration)
    2. EPA (Environmental Protection Agency)
    3. IRS (Internal Revenue Service)
    4. FEMA (Federal Emergency Management Agency)
    5. Military/DoD (Department of Defense)
    6. US Army Corps. of Engineers

7. State elected official (State Senator, State Representative)
8. City/County/Local—Mayor's office, Chamber of Commerce
9. Nonprofit or charitable organization such as the United Way or Red Cross
10. Other, None, All have been negative

17. Do you believe that access to affordable sources of credit is a major challenge for your company?
    1. Yes
    2. No
    3. No opinion

18. Excluding the Small Business Administration, from a list that I will read, what other forms of business credit do you currently have and what is the estimated outstanding balance?
    A. Business credit cards (Yes/No) and Estimated Balance __________
    B. Personal credit cards (Yes/No) and Estimated Balance __________
    C. Business loan from bank/credit union (Yes/No) and Estimated Balance_________
    D. Commercial mortgage loan (Yes/No) and Estimated Balance ______
    E. Friends or family (Yes/No) and Estimated Balance ____________
    F. Other (please specify type of creditor and estimated balance) _____

19. Was your business card credit limit raised or lowered after the 2005 hurricanes?
    1. Yes (**IF YES**, then by how much?_________________)
    2. No

20. Are you more reliant on your personal credit card to cover business expenses now than you were before the hurricanes of 2005?
    1. Yes (**IF YES**, then "How would you describe your reliance upon personal credit cards in relation to your business? Pick one of the following):
        A. It is the primary/only source of credit for my company
        B. I use it for larger transaction only
        C. I use it only when my business card is maxed out
        D. I use it to smooth over cash flow disruptions during lean times
        E. I use it only in the event of an emergency
    2. No

21. Did your business receive any insurance monies as a result of the hurricanes of 2005?
    1. No, we didn't carry any insurance
    2. No, we didn't file a claim
    3. No, we filed a claim(s) and were rejected
    4. No, our claim is still pending (How long has it been pending?_____________)
    5. Yes, we received a full settlement in the amount of ___________________
    6. Yes, we received a partial settlement in the amount of ___________________

22. In general, your opinion of how your businesses' primary insurer responded to the hurricanes of 2005 is:
    1. Very positive
    2. Positive
    3. Neither Positive or Negative
    4. Negative
    5. Very Negative
23. Is there anything else that we have not talked about that you would like us to report regarding the small business environment, loans, grants, and other repercussions of the 2005 hurricane season?

24. One final question: is it alright if one of our agents can call you to confirm your answers?
    1. Yes
    2. No

Appendix B: SIC Codes

SIC CODE	DESCRIPTION
Division A – Agriculture, Forestry, Fishing	
01	Agricultural Production - Crops
02	Agricultural Production - Livestock and animal specialties
07	Agricultural Services
08	Forestry
09	Fishing, Hunting Trapping
Division B – Mining	
10	Metal Mining
12	Coal Mining
13	Oil and Gas Extraction
14	Mining and Quarrying of Nonmetallic Minerals, except fuels
Division C – Construction	
15	Building Construction
16	Heavy Construction other than building construction
17	Construction - special trade contractors
Division D – Manufacturing	
20	Food and Kindred Products
21	Tobacco Products
22	Textile Mill Products
23	Apparel and other finished products made from fabrics
24	Lumber and Wood Products, except furniture
25	Furniture and Fixtures
26	Paper and Allied Products
27	Printing, Publishing, and allied industries
28	Chemicals and allied products
29	Petroleum Refining
30	Rubber and Miscellaneous Plastic Products
31	Leather and Leather Products
32	Stone, Clay, Glass, and Concrete Products
33	Primary Metal Industries
34	Fabricated Metal Products, except machinery
35	Industrial and Commercial Machinery and Computer Equipment
36	Electronic and Other Electrical Equipment and Components, except computer equipment

37	Transportation Equipment
38	Measuring, Analyzing, and Controlling Instruments
39	Miscellaneous Manufacturing Industries

Division E - Transportation, Communication, Electric, Gas, and Sanitary Services

40	Railroad Transportation
41	Local and Suburban Transit and Interurban Highway Passenger Traffic
42	Motor Freight Transportation and Warehousing
43	United States Postal Service
44	Water Transportation
45	Transportation by Air
46	Pipelines, except natural gas
47	Transportation Services
48	Communications
49	Electric, Gas, and Sanitary Services

Division F – Wholesale Trade

50	Wholesale Trade - durable goods
51	Wholesale Trade - nondurable goods

Division G – Retail Trade

52	Building Materials, Hardware, Garden Supply, and Mobile Home Dealers
53	General Merchandise Stores
54	Food Stores
55	Automotive Dealers and Gasoline Service Stations
56	Apparel and Accessory Stores
57	Home Furniture, Furnishings, and Equipment Stores
58	Eating and Drinking Places
59	Miscellaneous Retail

Division H - Finance, Insurance, Real Estate

60	Depository Institutions
61	Nondepository Credit Institutions
62	Security and Commodity Brokers, Dealers, Exchanges, and Services
63	Insurance Carriers
64	Insurance Agents, Brokers, and Service
65	Real Estate
67	Holding and Other Investment Offices

Division I – Services

70	Hotels, Rooming Houses, Camps, and Other Lodging Places
72	Personal Services
73	Business Services
75	Automotive Repair
76	Miscellaneous Repair Services
78	Motion Pictures
79	Amusement and recreation Services
80	Health Services
81	Legal Services
82	Educational Services
83	Social Services
84	Museums, Art Galleries, and Botanical and Zoological Gardens
86	Membership Organizations
87	Engineering, Accounting, Research, Management, and Related Services
88	Private Households
89	Miscellaneous Services

Appendix C: Gulf Coast Economic Renewal Project

The Political & Economic Research Council (PERC), in collaboration with the Brookings Institution Urban Markets Initiative (UMI) and the World Bank, will examine the impact of natural and manmade catastrophes on the financial well-being of affected individuals, small businesses, and their communities in order to assist public and private actors to formulate better economic renewal, financial assistance, disaster risk mitigation, disaster insurance, and community redevelopment.

OBJECTIVES:

- To investigate the financial impact of the 2005 hurricanes (Katrina, Rita, and Wilma) on individuals within varying demographic communities in the Gulf Coast, and Small and Medium Enterprises (SMEs);
- To measure the scope and breadth of economic and social recovery and provide timely actionable intelligence to a range of stakeholders;
- To develop a series of financial vulnerability indices for individuals, communities, and SMEs to examine their financial resilience to natural disasters and the role played by insurance and social safety nets in that regard;
- To develop recommendations on how to reduce the financial vulnerabilities of homeowners, SMEs and communities to future rapid onset natural disasters through a combination of government social safety net policies and insurance products, both from the Federal Emergency Management Agency (FEMA) and the private insurance market;
- To provide a tool in the form of a fungible database that can be used by all parties involved in the recovery and renewal of the Gulf Coast; and,
- To provide policy prescriptions based upon the findings of the ongoing research.

DELIVERABLES & METHODOLOGY:

Deliverables: Quarterly reports detailing key findings on individuals, households, small businesses, and communities (including municipal bonds ratings and insurance) will be generated (8 total quarterly reports). A comprehensive final report will be issued at the end of the two-year project. Finally, a monitoring prototype may be developed for use at the end of the two-year project.

Methodology: This project has two stages: Research & Data Stage (year 1 focus on data collection, assembly of database, interpretation and analysis of data) and the Policy & Applications Stage (development of policy prescriptions and monitoring prototype).

Consumer and commercial credit files provided regularly by TransUnion and Experian respectively, and appended with other public and private information, will provide the underlying data. Acxiom will append the credit file data with socio-demographic information. Standard & Poor's will provide data and expertise regarding bonds ratings.

OUTREACH AND EDUCATION:

The reports will be disseminated widely. PERC, Brookings UMI, and the World Bank—along with project supporters—will host a media briefing on its first reports to raise awareness about the ongoing work. The reports and *some* underlying data will be made available to the wider public. Ongoing education and outreach will follow as needed.

TIME FRAME:

The first comprehensive reports will be ready by the end of Summer 2007, with subsequent reports released each quarter, in all covering a two-year period. The final installment would then be released in Spring 2009. At the conclusion of the project, a final report shall be issued, which will include a prominent insurance component.

FINANCIAL SUPPORTERS (AS OF 29 AUGUST 2007):

The Brookings Institution
The World Bank
Foundation for the Mid South
Ewing Marion Kauffman Foundation
Louisiana Disaster Recovery Foundation

IN-KIND CONTRIBUTORS:

Acxiom Corporation
Experian Corporation
Hispanic Chamber of Commerce Louisiana
Standard & Poor's
Trade Capacity Building Institute (New Orleans)
TransUnion Corporation

ENDORSING ORGANIZATIONS:

Office of U. S. Representative Ed Towns
National Association of Homebuilders (National Office)
National Association of Homebuilders (Louisiana & Mississippi Chapters)
The Brookings Institution (Office of Strobe Talbott, President of Brookings)
Acxiom Corporation
Louisiana Recovery Authority (LRA)
Louisiana Legislative Black Caucus

About PERC

The Political and Economic Research Council is a nonprofit, non-partisan organization devoted to research, public education and outreach on public policy matters. PERC's goal is to educate and engage policy makers, consumers, the financial/economic community and the larger public, in the firm belief that a better informed public makes better decisions. Areas of expertise include information policy, credit access and the global information economy. The Council is funded by both for-profit and not-for-profit organizations that support the Institute's general mission and agenda.

Acknowledgements

The authors of this study wish to thank the following people for their contributions to this study: Marcia Sergent of the Trade Capacity Building Institute and PERC New Orleans, Darlene Kattan of the Hispanic Chamber of Commerce Louisiana, Kenneth Brown of PERC, Pari Sabety formerly of Brookings Urban Markets Initiative (UMI) and now with the State of Ohio, Alyssa Lee of the Brookings Institution UMI, Jennifer Barrett of Acxiom Corporation, Lindsay Clark of Brookings UMI, Brian Nagendra of Brookings UMI, Clark Abrahams of SAS Institute, Sunny Zhang of SAS Institute, I-Sah Hsieh of SAS Institute, Robert Allison of the SAS Institute, Robert Strom of the Ewing Marion Kauffman Foundation, Elizabeth Brister of the Foundation for the Mid South, Christopher Crothers of the Foundation for the Mid South, and Adam Rodman of PERC. We are also grateful to Judy Beale-Thorne for her permission to use images of recovering small businesses in Slidell, Louisiana. One such image appears on the cover. The authors are particularly grateful to Kristin Walker and Harshini Turner for their endless patience during this process.

While the report benefited immensely from the insights and suggestions offered by myriad individuals, the authors are solely responsible for the findings, conclusions, interpretations, and opinions and other content advanced in this study.

Lastly, we are truly grateful to our forward-thinking project financial supporters, who believed in the value of this project to become vested in it despite its evident challenges and ambitious nature. We hope that this prologue whets your appetite, and prepares you for the truly excellent work that shall spring forth.

This study was made possible by:

Ewing Marion KAUFFMAN Foundation

Foundation For The MidSouth

Louisiana Disaster Recovery Foundation

The Brookings Institution

Living Cities

sas

experian

ACXIOM

Hispanic Chamber of Commerce of Louisiana

Asian Chamber of Commerce

The Urban Markets Initiative thanks its founding funder, Living Cities: The National Community Development Initiative. Living Cities is a partnership of leading foundations, financial institutions, nonprofit organizations, and the federal government committed to improving the vitality of cities and urban communities.

POLITICAL & ECONOMIC
RESEARCH COUNCIL
100 Europa Drive
The Europa Center, Suite 403
Chapel Hill, NC 27517
Tel. 919.338.2798
Fax: 212.656.1732
www.infopolicy.org