

An aerial photograph showing a multi-lane highway bridge that has been severely damaged. Large sections of the bridge deck are missing, leaving gaps over the water. Two cars are visible on the remaining sections of the bridge. The water is a deep blue-green color.

Recovering But Not Recovered: Gulf Coast Businesses Three Years Later

A Gulf Coast Economic Renewal Series White Paper

Michael A. Turner, Alyssa Stewart Lee, Patrick Walker, Katrina Dusek

August 29th, 2008

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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, Jennifer Barrett of Acxiom Corporation, Donna Smith of Experian, Dan Meder of Experian, 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, Landon R. Williams of The Louisiana Disaster Recovery Foundation, K.C. Burton, the former CEO of The Louisiana Disaster Recovery Foundation and currently with The Annie E. Casey Foundation, and Amy Liu and Bruce Katz of the Brookings Institution Metropolitan Policy Program.

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 sufficiently to become vested in it. Specifically, we thank The Louisiana Disaster Recovery Foundation, the Ewing Marion Kauffman Foundation, the Foundation for the Mid South, and Brookings Institution Metropolitan Policy Program

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Executive Summary

The 2008 PERC survey of small businesses in the New Orleans and the Biloxi-Gulf Port metropolitan statistical areas (MSAs) is a follow-up to the 2007 small business survey and provides further insight as to the progress of recovery from the hurricanes of 2005. As with the 2007 survey, this year's survey asked small business owners and operators about the changing state of their business since the 2005 hurricanes, and since August of 2007. In this way, we were able to gauge recovery on two time scales: recovery since August of 2005 and recovery since August of 2007.

We asked about chief challenges, effects on markets, and questions regarding access to insurance and credit in order to identify policy concerns. The 2008 survey has allowed for further interpretation of progress, and more importantly has identified recovery disparity among ethnic groups within the region.

All 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 three years.



I. Key Findings

» Sales performance has improved or stayed constant for the majority of small businesses since 2007, but has not yet reached pre-Katrina levels.

» Thirty percent of surveyed small business owners reported that sales had increased since August of 2007. Hispanic-owned businesses had the most growth over the past year, with 38% of Hispanic business owners reporting an increase in sales. Thirty percent of both white and black owned businesses reported an increase.

» Forty-five percent of all surveyed small business owners reported that sales had decreased since 2007. No large disparity in the share of businesses with decreasing sales is seen among the ethnic groups.

» Sales performance in relation to pre-Katrina levels continues to inch forward with some variation.

» Fifty-five percent of black business owners reported an increase or similar sales compared to 2005, with 30% reporting that sales were less than half of pre-Katrina levels. Fifty-nine percent of Hispanic-owned businesses reported an increase or similar sales compared to 2005, with 15% reporting that sales were less than half of pre-Katrina levels. Among white business owners, 59% reported a increase or similar sales compared to 2005, with 22% reporting that sales were less than half of pre-Katrina levels.

» The key challenges to small business owners center on the fundamentals of labor, capital and demand.

» The proportion of small business owners who reported that the hurricane season of 2005 was a major or the only cause for business challenges has dropped by 13% between 2007 and 2008. Challenges are increasingly being attributed to other factors.

» Access to affordable credit has surprisingly showed little change between 2007 and 2008, despite the significant macro-economic challenges faced nationwide. Access to affordable credit remained the least difficult overall of all identified challenges for small business owners, though this varied among ethnic groups.

» **The perceived magnitude of some challenges associated with small business recovery has declined significantly.**

» Satisfaction with the Small Business Administration has increased since 2007. On every point of comparison, the overall satisfaction with SBA loans increased or stayed the same. Ratings of “favorable” increased, while ratings of “unfavorable” decreased.

» Insurance claims are being settled at a high rate and satisfaction with insurance claims has increased since 2007. As with the increased SBA satisfaction, the overall opinion of insurers’ responses to the hurricane increased on every point of comparison. Ratings of “positive” increased, while ratings of “negative” decreased from 2007 to 2008.

» Of the 83% of small business owners that were insured, 38.6% filed no claim. Of those who carried insurance, 61.5% filed a claim. Of those who filed a claim, 88% received some compensation (47% of those who filed received full compensation). Only 9.8% had their claim rejected and received no insurance money, and nearly 2% of claims were still awaiting a decision.

» **Nonprofits and charities continue to be viewed as the organizations that have had the most positive impact in recovery.**

» When asked to identify an agency or institution that had a positive impact on respondents’ businesses, the majority of small business owners answered “none”. Thirteen percent said that a non-profit or charity had a positive impact. Eight percent identified FEMA, and less identified other government entities.

» **There remain disparities in business recovery by the ethnicity of owner or operator**

» In access to affordable credit, black business owners reported more challenges. On a scale of 1 to 10, black business owners ranked access to affordable credit

as a 5.0, Hispanic business owners gave it a rank of 4.4, and white business owners ranked it a 3.9. There is a large disparity between the ease of obtaining affordable credit for white business owners and the ease of affordable credit for black business owners. Additionally, 39% of black business owners said that affordable credit was a challenge to their business, as compared to 29% of Asian business owners, 25% of white business owners and 24% of Hispanic business owners.

» Black business closure appears to have been higher overall. Black business owners and operators had the highest rate of disconnection (a phone number that

is disconnected or no longer associated with the business) among the ethnicities surveyed. The rates of disconnection since 2005 are virtually equal in 2007 and 2008, with nearly 1 in 4 black owned businesses having disconnected phone numbers. This is 30% higher than the disconnection rate for Hispanic owned businesses, 35% higher than Asian owned businesses, and 52% higher than the disconnection rate for white owned businesses.



II. Detailed Findings

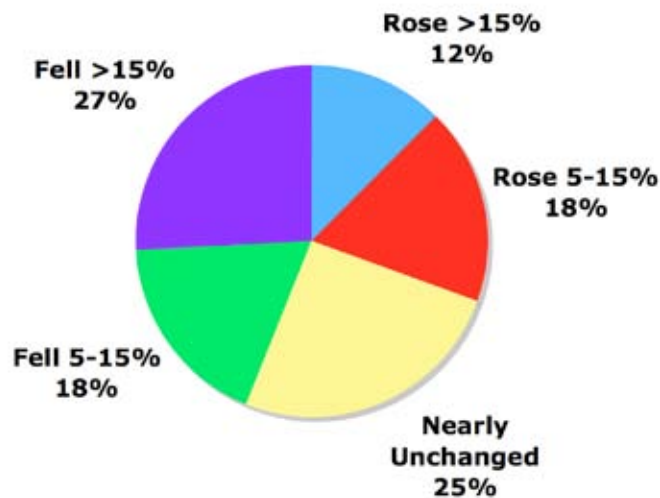
Impact on Sales

A clear indication of how recovery is progressing is change in business sales over the last year, Figure 1 shows this, specifically, how sales have changed between August 2007 and August 2008. As the hurricane season of 2005 and the aftermath of the storms do not exist in isolation, it is important to note that recovery is a function not only of the level of devastation in the area, but also of larger influences, such as the health of the national and regional economies.

This data indicates the majority of businesses have experienced an increase or no change in sales over the past year. At the same time, 45% of all surveyed small business owners have experienced a negative change in sales over the past year. This change indicates a duality to small business recovery. For some, business is rebounding, while for a broad number of businesses, it indicates stagnation or a decline. While we do not know what factors contributed to these changes, some may be changing levels of business assistance as well as changes in non-hurricane related factors.

Twenty-five percent of respondents experienced virtually no change, while 30% have experienced a positive change in sales. When compared across ethnicity (see Figure 2) this ratio is largely unchanged, indicating 44%, 41%, and 43% negative change, respectively. These results provide insight into the overall vulnerability of small businesses in the area. It may be the case, for instance, that the current distribution of assistance (or recovery) is pretty evenly impacting businesses (at least across ethnicity of the business operator). The main issue at this point may

FIGURE 1:
Change in Sales
between August 2007
and 2008



be the level of assistance and recovery. Though it is important to emphasize again that this is a survey of the surviving businesses, and there is plenty of reason to believe that minority operated businesses (particularly black operated businesses) were disproportionately negatively impacted by the hurricanes of 2005. This is clear from Figure 5 and likely from the higher phone disconnects rates witnessed for black operated businesses in this survey and last year's survey (see figure 14).

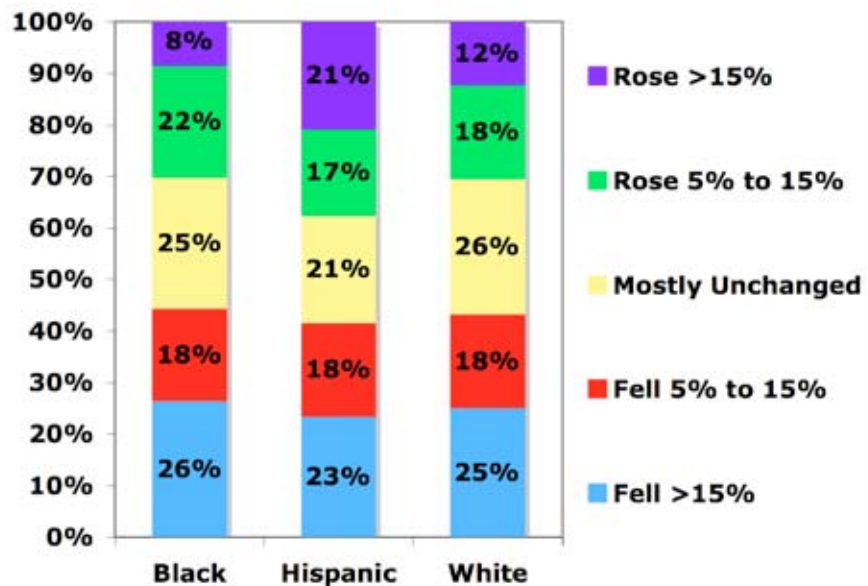


Three years removed from Hurricane Katrina, changes in the fortunes of businesses in the region must be seen as a product of the greater economic picture, and not exclusively the result of the 2005 hurricanes. We will later discuss small business owners' assessment as to the factors influencing the challenges their businesses face.

veyed report much higher sales (>15%) at a greater frequency than white or black owned businesses. This trend requires further exploration and analysis to determine the cause of increased sales. Whereas Figure 2 shows that a negative change in sales was consistently reported across ethnicity, the positive changes in sales are inconsistent. Other factors may be important drivers of the health and recovery of sales, such as categorical type of business that may, in turn, be correlated with owner/operator ethnicity.

Figure 2 indicates that the share of businesses which have reported significant increases in sales vary by ethnicity. The Hispanic-owned businesses sur-

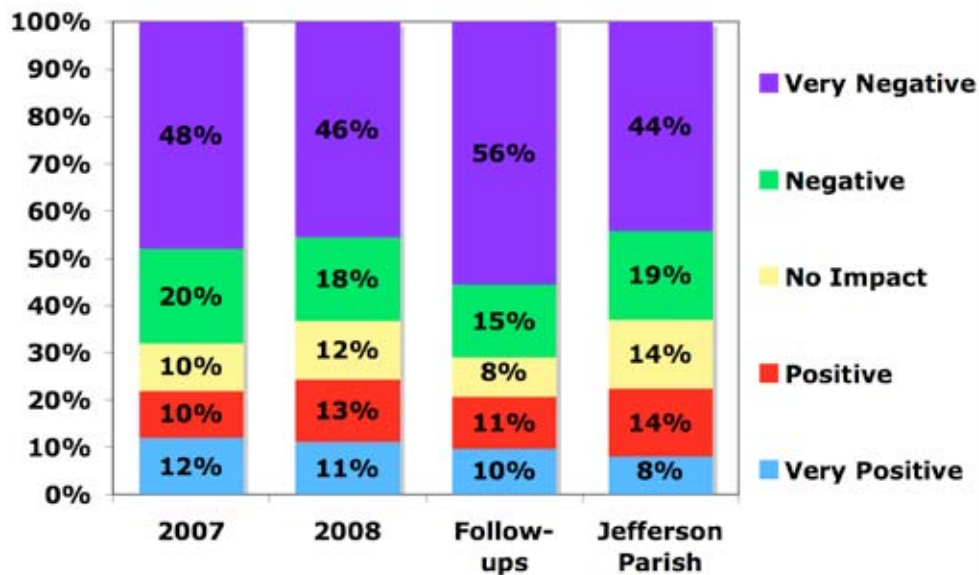
FIGURE 2:
Change in Sales
between August 2007
and 2008: Black,
Hispanic and White
Business Owners



Of the Hispanic-owned businesses, the majority that have seen a rise in business have seen a significant rise (>15%). The ratio of modest increase (5% to 15%) to significant increase (>15%) is not consistent across the racial data. Black-owned business experienced a higher rate of moderate increase, with a lesser rate of significant increase, as did white-owned businesses, when compared to the Hispanic-owned businesses that participated in the 2008 survey. Further investigation into this anomaly is required to establish causes of very high sales increases among some Hispanic-owned small businesses.

The impact of the hurricanes on the small business owners in the 2007 and 2008 samples reveals a slight improvement overall in the degree to which the respondents' businesses were impacted by the 2005 Hurricanes. The question did not specify a time frame, such as sales over a year, instead it was designed to gauge whether a business was impacted and the severity of the impact. There are two major differences with the methodology of this year's survey. First, since we designed the survey to be a follow-up to the 2007 survey we intentionally called back all of those businesses that completed the 2007 survey. We call this group of 299 respondents the "follow-ups". Second, we added businesses located in Jefferson Parish to those that were surveyed.

FIGURE 3: Impact of 2005 Hurricanes on Sales



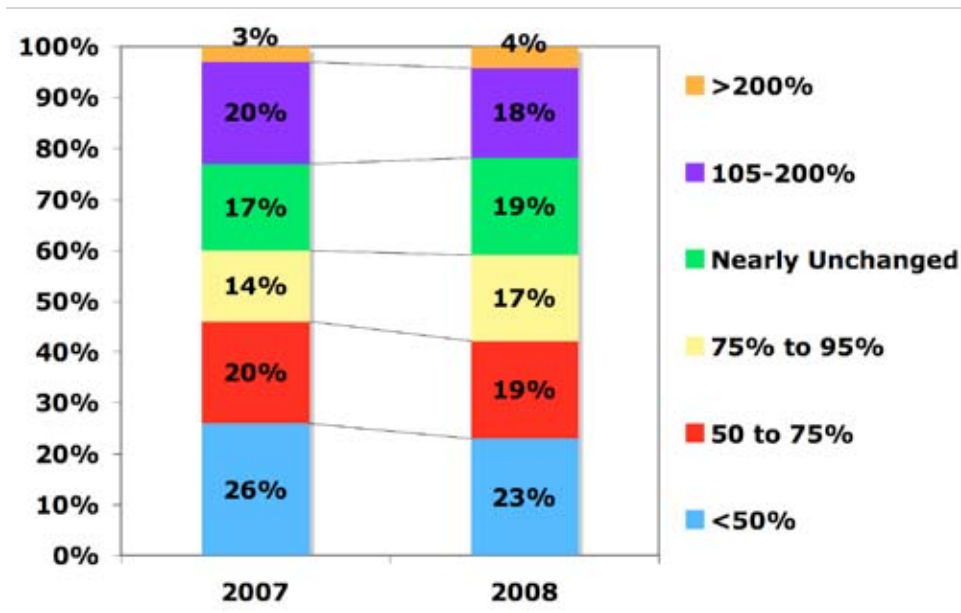
The first interesting finding is that those that the follow-ups were, on average, slightly harder hit than the average 2007 respondent. This is somewhat counter-intuitive. One might expect businesses that were hardest hit to have a lower rate of survivability. Thus, the expectation is that responded in 2008 were not the most negatively impacted. The difference is not due to memory since the figures shown above for the follow-ups are those that were given in 2007.

The second interesting finding is that little disparity exists among Jefferson Parish responses as compared to all responses in 2008.

The majority of small business owners/operators indicated in both the 2007 and 2008 surveys that sales were impacted negatively relative to pre-hurricane levels. However, the proportion indicating that sales were down more than a quarter declined from 46% to 42%. The changes among the same sample of follow-up businesses mirror the above shown changes, with the proportion indicating sales down more than a quarter from pre-hurricane levels fell from 45% to 42%.

While this change is positive, it is nonetheless the case that the majority of respondents for both years report sales being below pre-hurricane levels. In fact, nearly three times as many respondents reported sales being down compared to those reporting a positive change in sales.

FIGURE 4: August 2007 and 2008 Sales Relative to Pre-Katrina

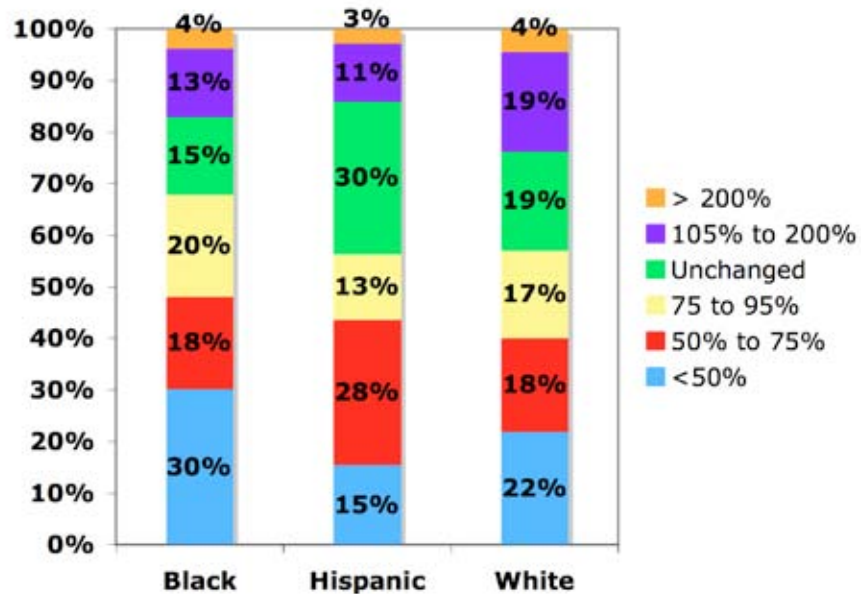


¹The unchanged category in the 2007 survey was 100%, for the 2008 category the category was changed to between 95% and 105%. The top increase category and the bottom two decrease category remained the same.

It is important to note however, that decreasing revenues does not necessarily indicate that businesses are unprofitable. This data shows the pre-Katrina scenario as compared to sales in 2007 and 2008. In 2007, 60% of surveyed businesses reported sales at less than 100% of pre-Katrina. This number is virtually unchanged in 2008, with 59% of businesses reporting sales at less than pre-Katrina levels. While these businesses indicate decreasing revenue, the data presented above is not an indication of businesses with profit-margins in the red.



FIGURE 5:
Change in Sales from pre-Katrina to August 2008: Black, Hispanic and White Business Owners



When the overall change in sales from the pre-Katrina period to August of 2008 is analyzed, it is seen that the greatest positive change in sales (>200% of pre-Katrina levels) is equal across ethnicity. Of the businesses that experienced sales at 105% to 200% of pre-Katrina levels, white-owned businesses showed the largest positive change, followed by black and Hispanic-owned businesses.

This data, accompanied by Figure 2, shows great recovery of Hispanic owned/operated businesses in the last year, but only slight improvement from pre-Katrina sales levels. Overall, white-owned businesses show the largest positive change in sales, while both black and Hispanic-owned businesses show smaller positive change.

In terms of negative change of sales, black owned/operated businesses again fare the least positively, with 68% of surveyed black-owned businesses indicating less sales in August or 2008 than pre-Katrina. Compared with last year’s survey, however, black operated businesses are faring much better. In August 2007, 78% of black operated businesses indicated that their sales were below pre-Katrina levels with 46% reporting that they were less than half of pre-Katrina levels. But since little growth in sales were witnessed between 2007 and 2008 and little differences across ethnic groups the large decline in black operated businesses reporting such a fall in sales could be potentially be driven by some of the hardest hit businesses exiting the market. This would be consistent with the higher disconnect rates found among the black operated businesses called.

Fifty-six percent of Hispanic and 57% of white-owned businesses reported sales at a lower rate than pre-Katrina, indicating a lesser vulnerability than black operated businesses, but still emphasizing slow and incomplete recovery.



Business Prospects

The survey results from 2007 and 2008 indicate similar expected short-term prospects for small business owners in the impacted region. No large differences exist between the two survey years, though those indicating somewhat or very good near-term prospects declined from 61% to 57%. Instead, the information that this data provides reveals that small business operators tend to be optimistic, despite the fact that most did not describe rising sales over the last year, most this year and last were optimistic.

FIGURE 6:
Near-Term
Prospects for the
Business

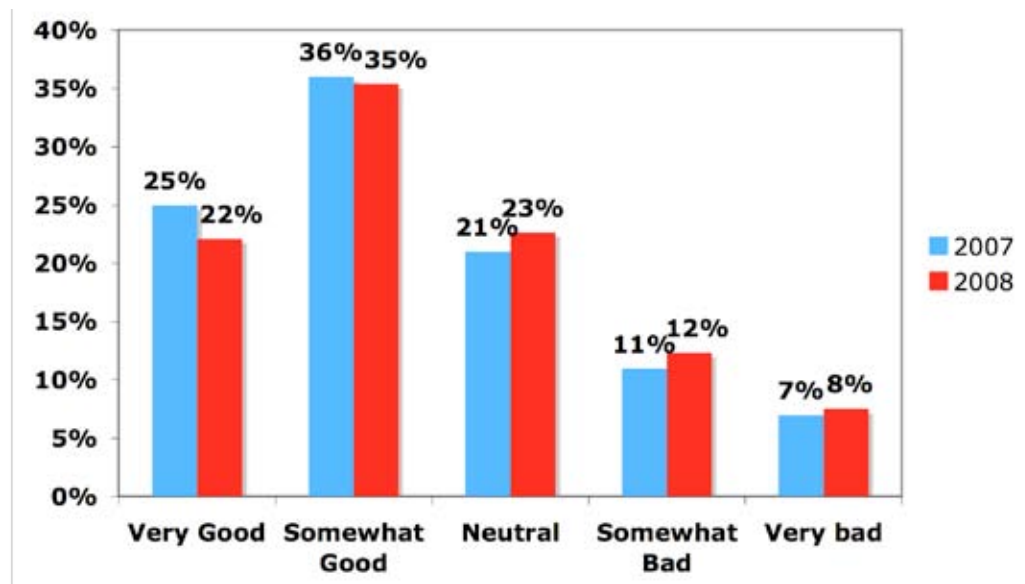
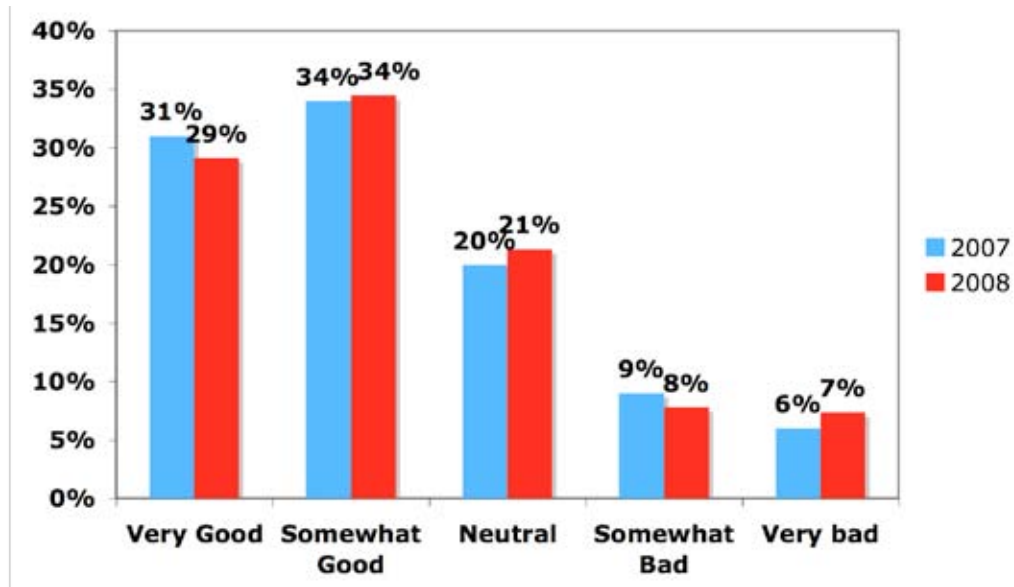


FIGURE 7: Long-Term Prospects for the Business



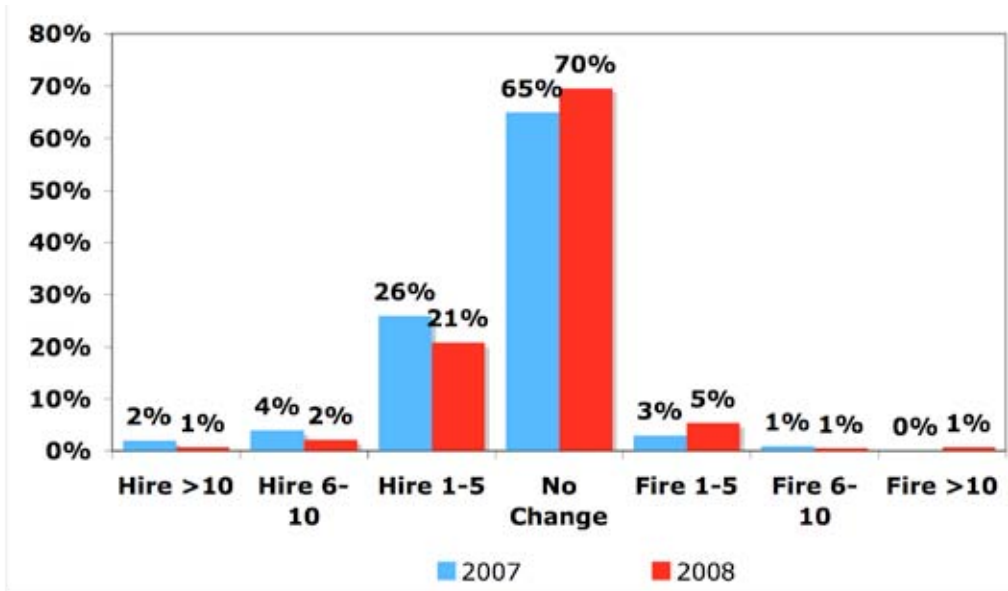
Small business owners have an even more optimistic vision for the long-term prospects of their businesses. The results from 2007 and 2008 are, again, little different.

It is difficult to unpack the generally optimistic outlook of small business owners. As this survey question was broad and opinion based, it is difficult to ascertain actual small business health or future prospects based on the responses. Though, attitude and expectation surveys do maintain important roles in providing leading indicators of economic activity, such the Index of Consumer Sentiment and the Index of Consumer Expectations. Importantly, it is usually the changes, not the actual levels of the responses, that are meaningful. While the changes were very small, there was a slight movement towards diminished optimism, particularly for the near-term prospects.

In the next figure, prospects are translated in to a more tangible and specific expectation, the expected increase or decrease the number of employees over the next year.



FIGURE 8: Plans to Hire/Fire Employees, 2008 Survey



The majority of small business operators indicated that they expected to make few changes in their numbers of employees. Importantly, however, the share expecting to expand fell from 32% in 2007 to 24% in 2008. The share expecting to contract rose from 4% to 7%.



TABLE 1: Near-Term Prospects and Plans to Hire/Fire Employees

Near-Term Prospects	Hire	Fire	Hire/Fire
Very Good	79	1	79.0
Somewhat Good	115	18	6.4
Neutral	42	17	2.5
Somewhat Bad	18	22	0.8
Very bad	5	14	0.4

As shown in Table 1, those businesses operators that were more optimistic regarding the near-term prospects were more likely to expect that their business would be increasing the number of employees over the next year.

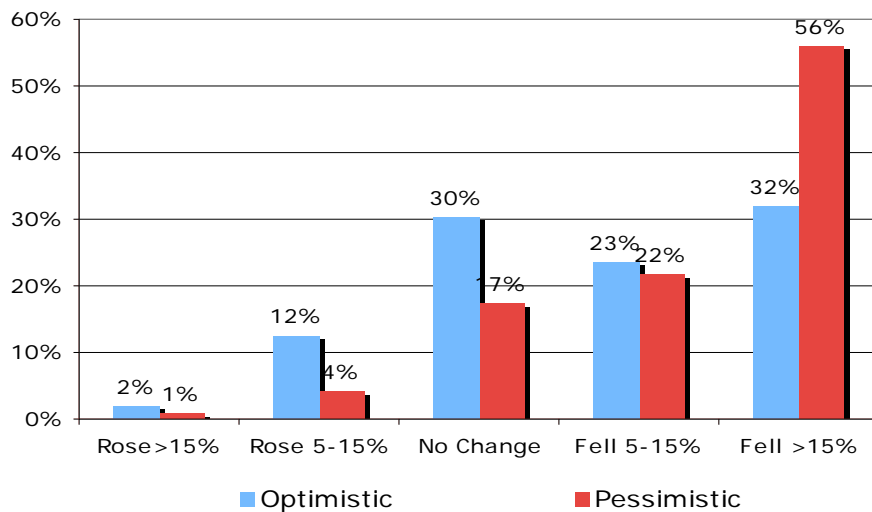


FIGURE 9: Level of Optimism in 2007 Compared with Change in Sales between 2007 and 2008 (among those surveyed in 2007 and re-surveyed in 2008)

Figure 9 shows the relationship between levels of optimism in 2007 and the change in sales reported for the following year, between August 2007 and August 2008.

The optimists (those indicating somewhat good or very good near-term prospects) were more likely to have had their businesses experience sales rises than the pessimists (those indicating somewhat bad or very bad near-term prospects). And those with large declines (> 15%) in sales over the year were much more likely to have been pessimistic about the near-term prospects at the beginning of the period.

Near-term prospects (level of optimism) do appear to be somewhat related to actual business outcomes. While the relationship is not nearly one of perfect foresight, it does suggest that the little changed and perhaps slightly worsening near-term prospects found in this year's survey should not be dismissed as unrelated to what may actually occur. This is especially true since the base is one in which more respondents indicated that their sales had declined than those that indicated their sales rose during the past year. It would be unfortunate if that is what could be expected over the next year.



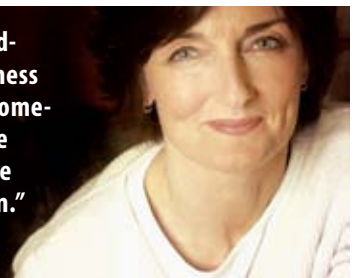
Challenges to Small Business Owners

The post-hurricane challenges identified by small business owners reveal information about the vulnerability of small businesses and local infrastructure. The systems upon which small business owners rely for success were damaged and changed as a result of the hurricane.

Understanding how the loss of infrastructure and/or loss of the reliability of services damages small business health provides insight as to determining vulnerability.

"If we don't get affordable insurance (business and homeowners), someone needs to turn the light off if they're the last one leaving town."

– Small Business Owner



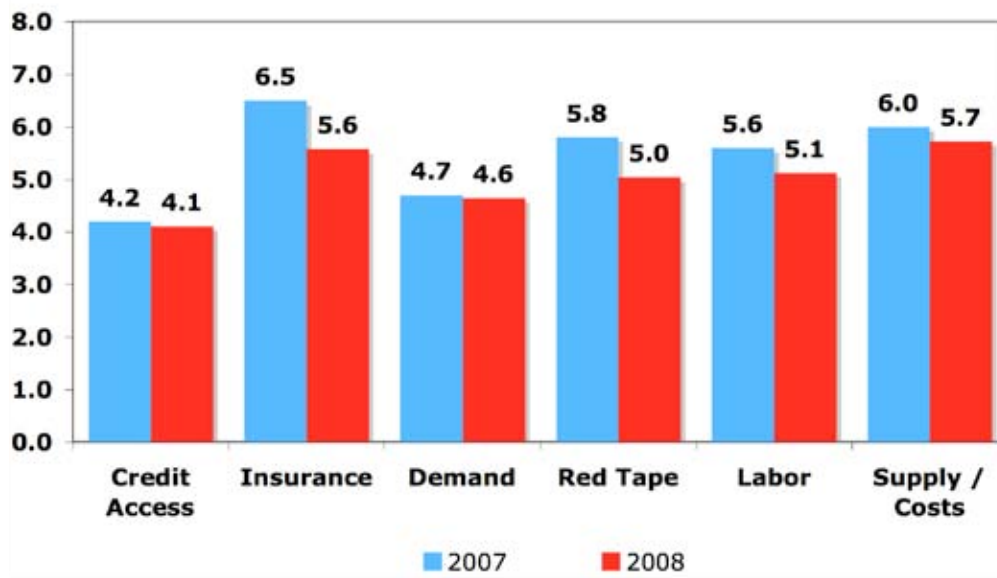
Survey participants were asked to rate a series of challenges on a scale of one to ten, with ten representing a very difficult challenge, and one representing the relative ease of overcoming the obstacle. The challenge of collecting insurance settlements and obtaining and paying for coverage was a major obstacle for small business operators in both the 2007 and 2008 surveys. Related challenges, such as bureaucracy or “red tape” were also identified as a difficult obstacle.



The only challenges which scored less than 5.0 on the ten point scale were access to credit, and demand for business. In order to further understand this result, it is important to note how some of these challenges can be closely inter-connected. The issue of “red tape” corresponds closely to experiences with obtaining loans to rebuild small businesses. It therefore becomes difficult to extract individual challenges from the greater spectrum of challenges facing small businesses. Of all the challenges addressed, access to credit was seen as the easiest obstacle while insurance was seen as the most difficult. Other difficult challenges included supply and costs.

Figure 10 shows significant changes in assessments of challenges from 2007 and 2008 in some key areas. The declining difficulty of obtaining insurance and obtaining insurance settlements is notable. A large drop is also seen in the challenges from dealing with red tape.

FIGURE 10: Post Hurricane Challenges (1=None, 10=Impossible)



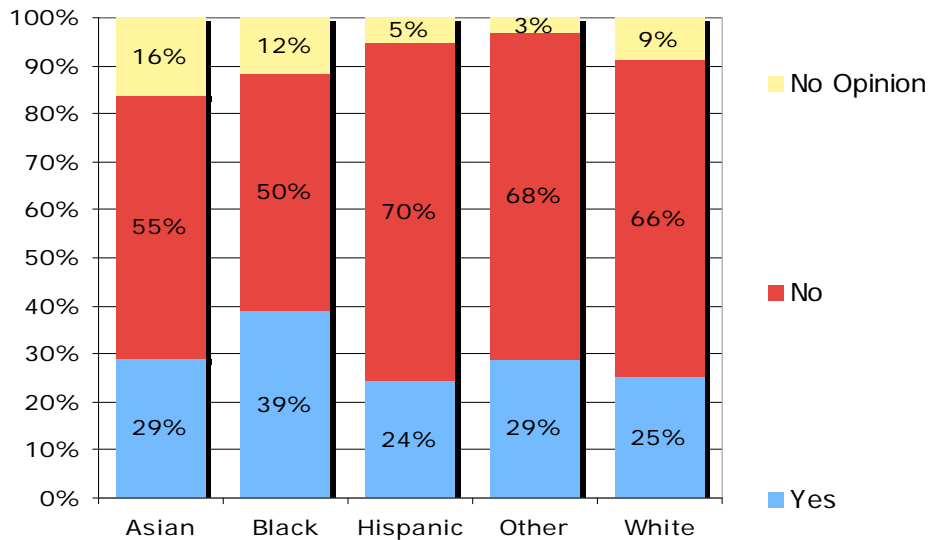
Comparing the results of 2007 and 2008 shows a change in perception of the difficulties facing the small businesses. Survey participants in 2008 consistently indicated that each of the listed topics were less of a challenge than the 2007 participants had stated.

Minority business owners overwhelmingly reported the above challenges as more difficult for their enterprises. Opinions of the availability of qualified labor and the difficulties with insurance are comparable among all three ethnicities in this analysis. Hispanic owned businesses reported insurance, red tape, and labor as the most difficult challenges.

The greatest ethnic disparity existed for Hispanic-owned businesses in the area of supply and costs, and black business operators in the areas of credit access and customer demand.

Among the greatest challenges for black business owners are insurance, demand, and red tape. Access to credit is a much greater challenge for black-owned businesses than it is for their Hispanic and white counterparts. Credit access was as difficult for black-operated businesses as red tape was for white owned businesses. This illuminates a credit-disparity among the surveyed ethnicities.

FIGURE 11: Challenges by Ethnicity, 2008



The survey instrument asked small business owners to report whether affordable access to credit was a major challenge to their business. Figure 12 presents the results of this question.

Overall, small business owners did not judge access to credit as a major challenge to their business, especially when compared to other challenges. Of the seven challenges presented to participants, access to credit ranked as the easiest obstacle. The survey produced similar results in 2007 and 2008, with an equal 27% reporting that access to credit is a major challenge, and 68% and 64%, respectively reporting that it is not a major challenge. When this result is analyzed by ethnicity however, a different story emerges.



FIGURE 12: Is Access to Affordable Credit a Major Challenge?

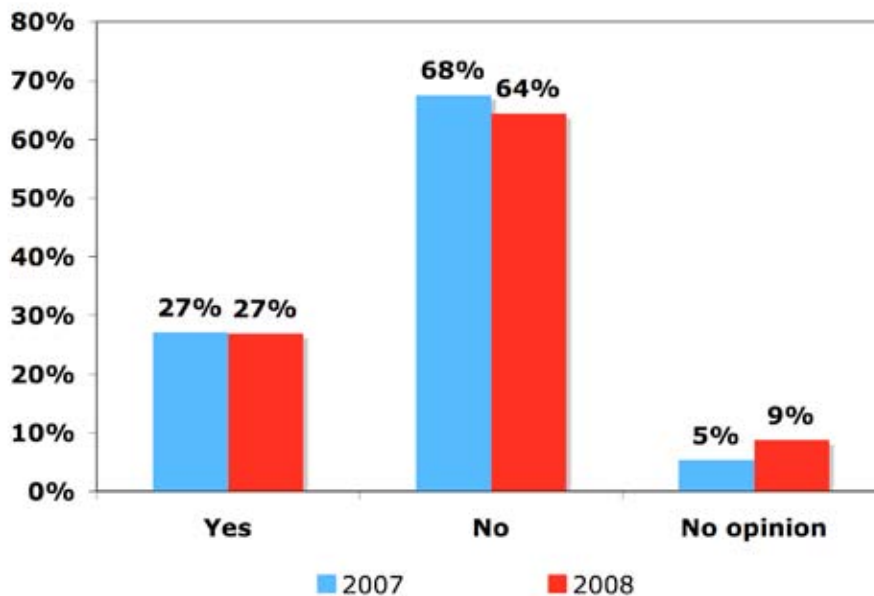


FIGURE 13: Difficulty of Access to Affordable Credit by Ethnicity, 2008

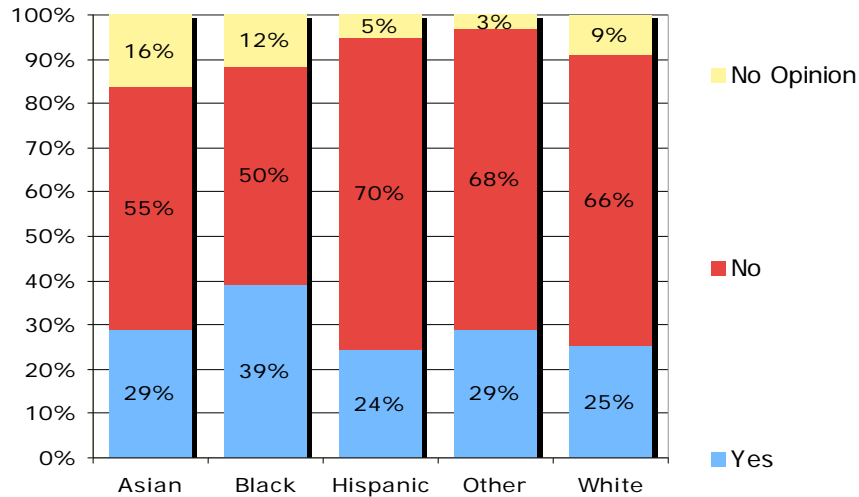


Figure 13 breaks affordable access to credit down by ethnicity, and further supports existence of credit disparity among different races. An answer of “Yes” indicates that the respondent felt access to affordable credit was a challenge to his or her business. Black-owned/operated businesses clearly experienced the most difficulties in gaining access to affordable credit, as indicated by 39% of black respondents. Hispanics and whites equally identified access to credit as difficult at rates of 24% and 25%, respectively. Whites, Hispanics, and “Other” ethnicities also answered “No”, that access to credit was not a challenge at similar rates.

The disparity of black business owners as compared to owners of other ethnicities is more telling when compared to rates of disconnect and decreases in sales. As was seen earlier, blacks are experiencing the slowest recovery of sales to pre-Katrina levels, potentially inhibited by their lack of access to affordable credit. In an analysis of rates of disconnects of black-owned businesses, it is also seen that black-owned businesses have disconnected phones at the greatest rate of occurrence among all ethnicities in the sample.

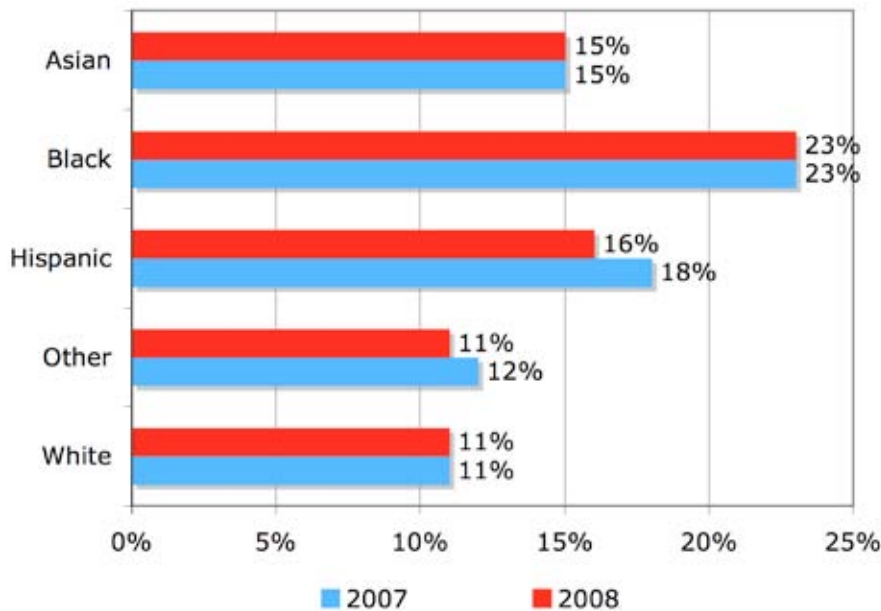


FIGURE 14: Disconnection Rates by Ethnicity²

The overall rates of disconnection (numbers in the data records that were no longer in service, or no longer was associated with the small business in question) were nearly identical from 2007 to 2008. When these results are analyzed by race, however it can be seen that black-owned small businesses were disconnected at the highest rates in both 2007 and 2008, followed by Hispanic, Asian, other, and white.

However, as noted previously, of the businesses that responded to the survey (and thus were not disconnected) Hispanic-owned/operated businesses reported the greatest increase in sales. This shows that the Hispanic businesses

that survived fared better in terms of growth in sales than other races, however, many of the Hispanic businesses that existed prior to the hurricane (or last year) are unaccounted for in this survey, due to business exits, likely proxied by disconnected business phone lines.

Black-owned businesses had the highest disconnection rate. Of the businesses that have survived thus far, black-owned businesses show the slowest rate of recovery, as indicated by their negative change in sales relative to pre-Katrina levels. Additionally, if the rate of disconnection is used to determine the rate of businesses failure, it is also seen that black businesses in the hurricane

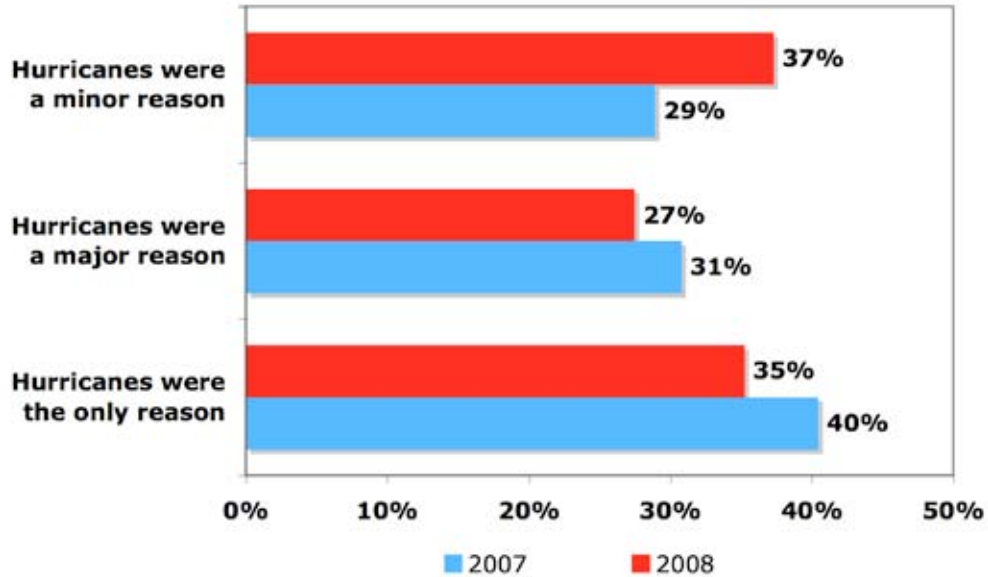
²To make as comparable as possible, the rates are for only the counties and parishes used in the 2007 survey, that is all those in 2008 but Jefferson Parish.

impacted areas likely failed at a greater rate than businesses owned by other ethnicities. Of course, a major driver of such a disparity may be the location of the black-owned/operated businesses. That is, they may have disproportionately been located in the areas that had the most severe flooding and damage. Not unrelated to this topic is the finding that black business owners assess access to affordable credit as a challenge at a higher rate than other ethnicities in this study.

Figure 15 examines the changing perception of the source of the challenges that small businesses in the region face.

From 2007 to 2008, participants increasingly describe the hurricanes as a minor reason for the challenges that small businesses face. In each category of analysis, participants indicated that the hurricanes were less of the reason for challenges in 2008 than in 2007, although 62% and 71%, respectively, still identify the hurricanes as a major or the only reason for the challenges their business currently faces. As time passes, the effects of the hurricane on the present situation diminish, and the evolving challenges are attributed to other factors.

FIGURE 15: Reasons for the Challenges



“The hardest thing I’ve dealt with is to find out all of the resources available. I know there are a lot more resources available to some people but you’ve got to read between the lines.”

– Small Business Owner



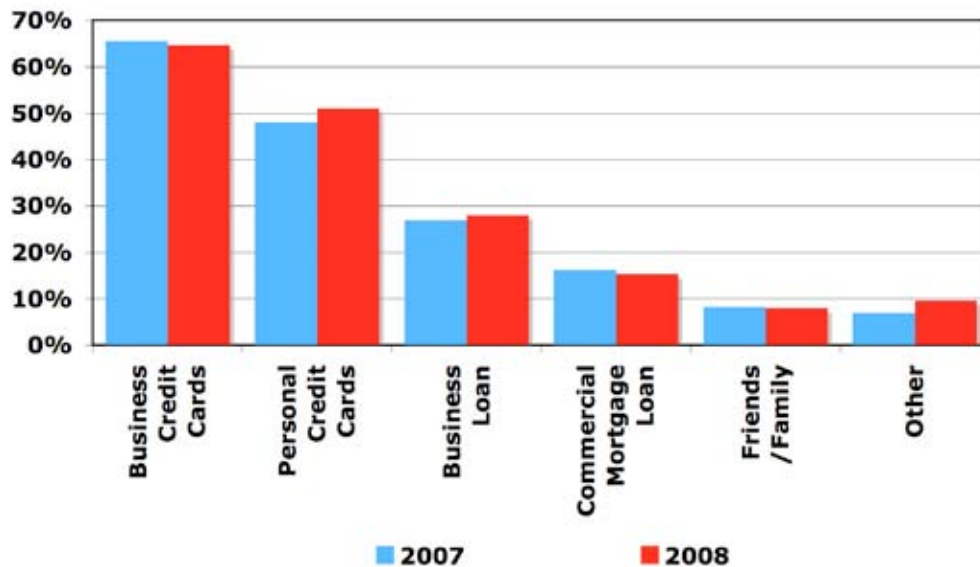
It is important to note however, that this survey instrument only examined the perceptions of those businesses that are still in existence. Of the many businesses that closed doors in the aftermath of the 2005 hurricanes, the hurricanes were undoubtedly a major reason for the failure of business. Also, as time

passes and those businesses that were most impacted by the storms fail, it is not unreasonable to expect surviving businesses to report the effects of the hurricanes at a lesser rate.

A related series of questions asked survey participants about the types of credit they have accessed since the hurricanes of 2005.

The information below provides a picture of the types of loans that small businesses relied upon in the aftermath of the hurricanes of 2005, up until the present. From 2007 to 2008, most small businesses indicated that they used business credit cards to support business operations. A large percent also indicated that they used personal credit cards for business purposes. Less than 20% of respondents

FIGURE 16: Business Credit by Type

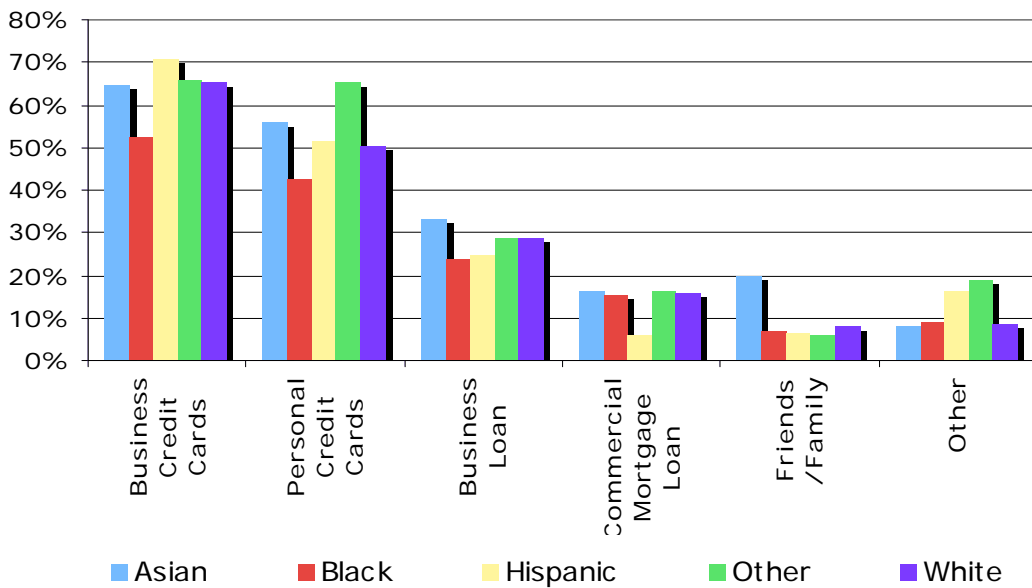


in 2007 and 2008 reported that they used a business loan to support operations. Fewer used commercial loans and loans from friends and family. The distribution of credit sources remains similar in both survey years. Interesting to note is the slight decrease in business credit card credit, commercial loan credit, and family/friend credit and the slight increase in personal credit card and business loan use in 2008.

Figure 17 breaks down the use of credit by race. All ethnicities consistently accessed credit cards at a higher rate than other forms of credit. Business loans and commercial loans were accessed at a much less frequent rate.

The previous discussion has illuminated the struggle of black-owned businesses to access credit. This credit disparity is again revealed through this analysis. Blacks consistently accessed credit at a lower rate than other ethnicities included in the study.

FIGURE 17: Use of Credit by Form, 2008



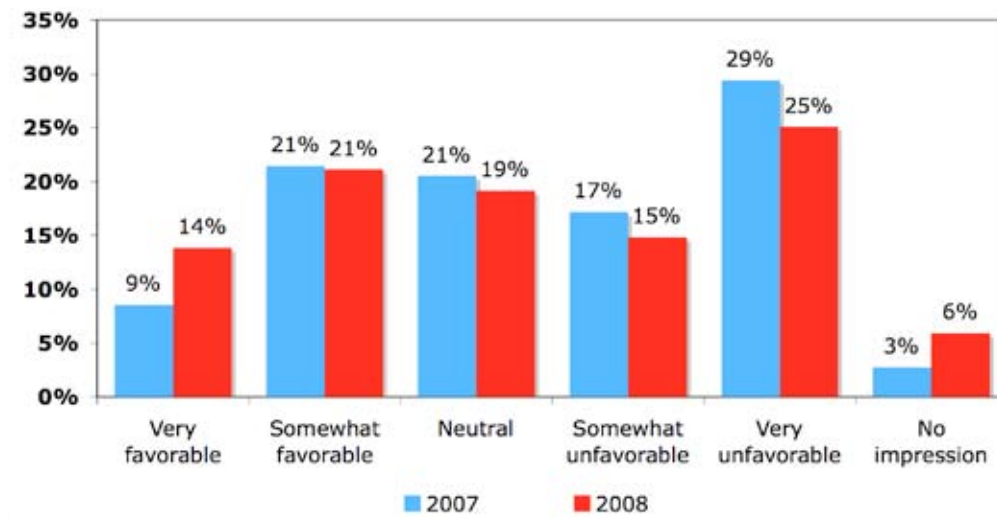
Notable changes from last year's survey are that business and personal credit card usage has declined among black business owners/operators but business loan and commercial mortgage loan usage has risen among this year's respondents.



Small Business Administration

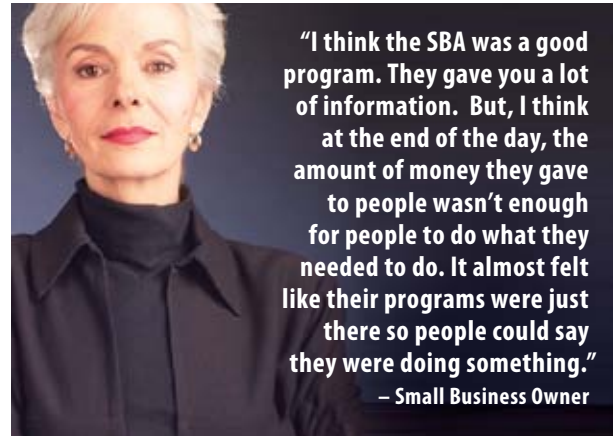
Although the challenge of obtaining credit was not identified by all survey participants as one of the greater challenges, the overall individual experiences with Small Business Administration loans were not positive. In 2007, 46% of participants had an unfavorable opinion of the SBA. By 2008, only 40% identified the experience as unfavorable.

FIGURE 18: Impression of SBA by those that applied for an SBA Loan



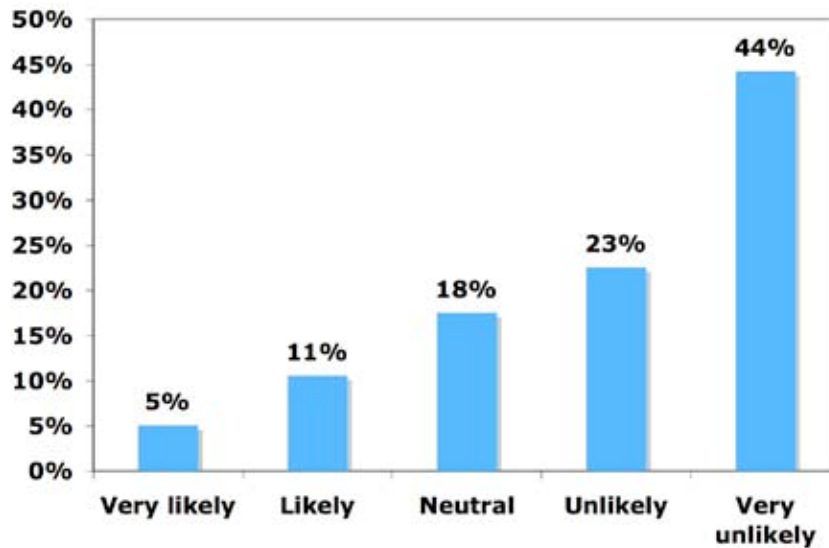
Some possible reasons for this may be that some SBA dealings may have ended positively for applicants and the passing of time may have healed some negative perceptions.

Not surprisingly, more participants identified their experience with the SBA as favorable in 2008. Many more 2008 small business owners identified the experience as “very favorable”. There is a general trend of higher opinion of experiences with the SBA from 2007 to 2008.



Figures 19 and 20 below depict the likelihood of applying for an SBA loan in the future in the future in general and broken out by whether the business owner/operator had applied for an SBA loan.

FIGURE 19: Likelihood of Applying for an SBA Loan in the Future Based on Past Experiences, 2008



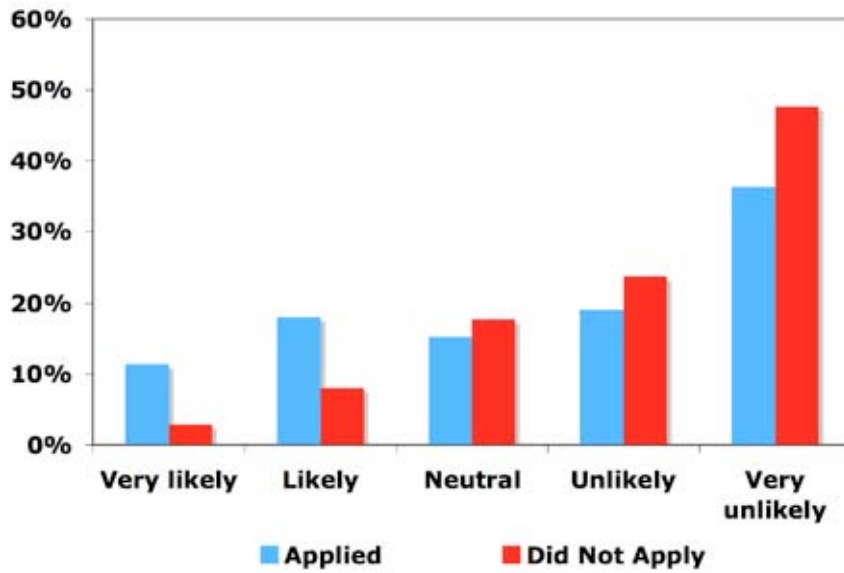


FIGURE 20: Likelihood of Applying for an SBA Loan in the Future Based on Past Experiences, 2008

In 2008, 44% of participants indicated that they would be very unlikely to apply for an SBA loan in the future based on past experiences. A total of 77% of participants responded that they would be disinclined (either “unlikely” or “very unlikely”) to apply for a loan based on past experiences.

Of those who applied for a loan, more were unlikely to apply for a loan in the future than those who indicated they would likely seek this type of loan again. Those who did not apply for SBA loans indicated their disinclination to apply for an SBA loan in the future at a higher rate.





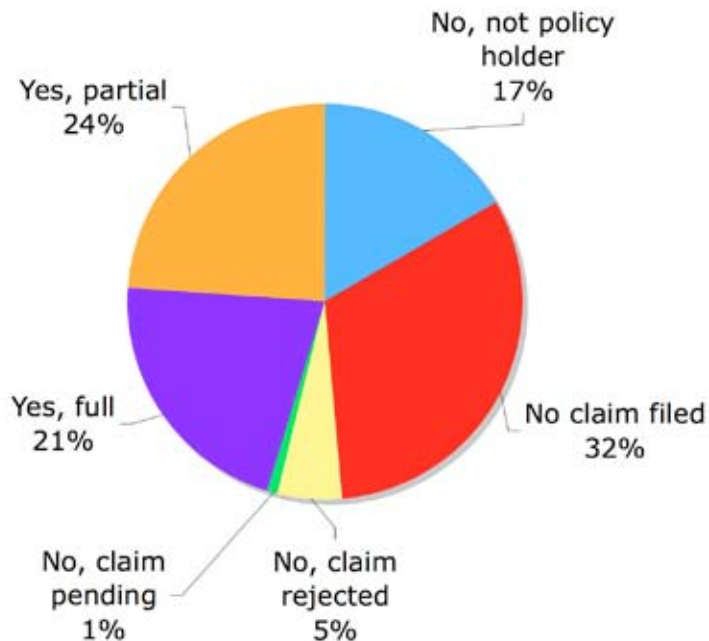
claim and received compensation, 25.3% of whom received full compensation. Only 6.0% had their claim rejected, thus receiving no insurance money, and 1.2% were still awaiting an insurance claim decision as of the time of the 2008 survey.

Insurance

Seventeen percent of small business owners indicated that they were not insured at the time of the hurricanes. Of the 83% of small business owners that were insured, 38.6% filed no claim. Of those who carried insurance in some form, 45% filed a



FIGURE 21:
Receipt of Insurance Settlements



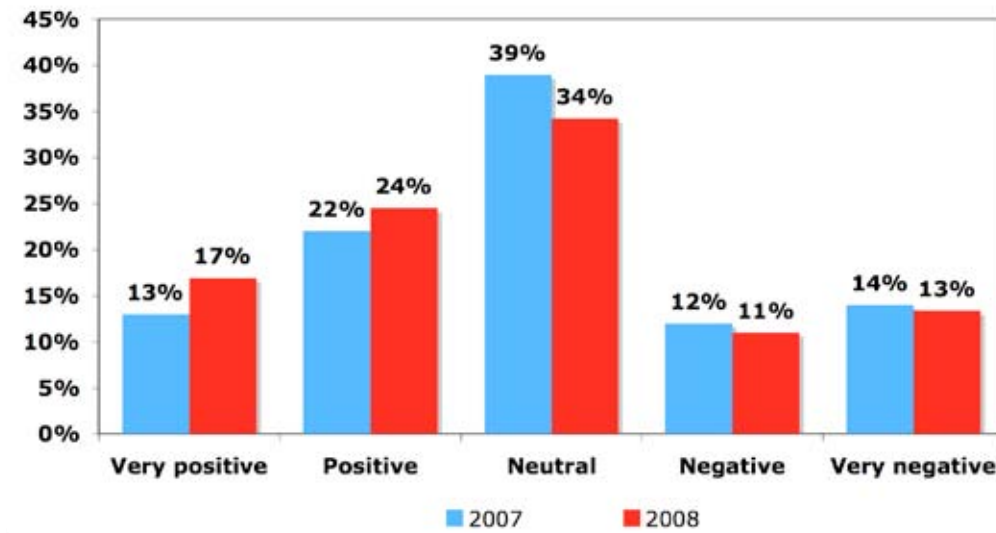


FIGURE 22:
Opinion of Insurer’s
Response to
Hurricane

This graph again shows an increasingly positive opinion in 2008 as compared to 2007. As the number of neutral and negative opinions decreased, the trend toward positive opinion is repeated. The majority of change between the two years is seen in the change of neutral opinion, while the negative and very negative opinions remained almost the same. The greatest positive change is seen at the “very positive” level, which shows an increase of 4% between 2007 and 2008.



Agencies and Institutions roles in Recovery

Each survey participant was asked whether any agency or institution had a positive impact on their small business. Most survey participants identified either one agency or institution, or no agencies or institutions. Some identified more than one agency or institution that had a positive impact on their small business. Overwhelmingly, of the choices available, the respondents indicated that none of these agencies or institutions had a positive impact.

FIGURE 23: Agencies or Institutions that had a positive impact on the Business

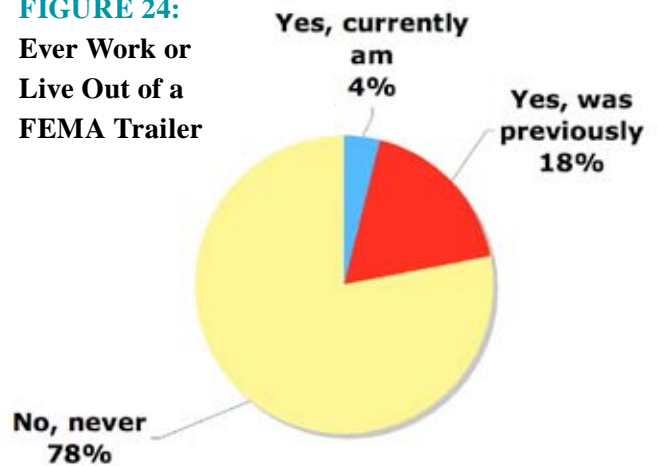
None	47%
No opinion	17%
Nonprofit or charity	13%
FEMA	8%
City/County/Local	7%
State	5%
SBA	5%
Military/DoD	3%

Thirteen percent indicated that a non-profit or charity had a positive impact, and a total of 32% of responses indicated that some government entity had had a positive impact on their small business. The most popular government entity was FEMA.. Respondents were generally discouraged by the response of local and federal government agencies.

The controversy surrounding the Department of Homeland Security’s Federal Emergency Management Agency (FEMA) and its handling of the Hurricane Katrina crisis is a new area briefly explored by the 2008 survey. Very few respondents indicated that FEMA positively impacted their business. This data is further explored in the following figures.



FIGURE 24: Ever Work or Live Out of a FEMA Trailer

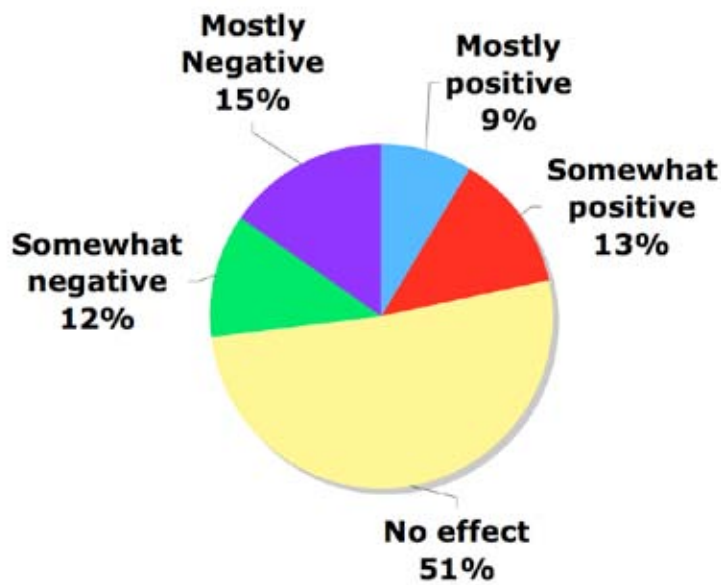


Survey participants were asked if they had ever lived or worked in a FEMA trailer. Affirmative answers were followed up by asking whether or not this had a positive impact on the business. As shown in Figure 24, only 22% of respondents indicated ever having lived in or worked out of a FEMA trailer.

Of the 22% of respondents who experienced living or working in a FEMA trailer, 21% reported a positive experience, while 16% reported a negative experience. Fifty-one percent indicated that the FEMA trailer experience had no effect on their small business.



FIGURE 25: Impact on Business from Living or Working out of a FEMA Trailer





III. Policy recommendations

The 2007 survey of small businesses in the Gulf Coast yielded critical policy recommendations focused on the role of the state and the Small Business Administration (SBA) in reducing economic injury from the 2005 Gulf Coast hurricanes. In order to spur small business recovery, PERC recommended the following:

- » Expand state capacity to disburse aid
- » Improve communications channels between small business owners and the state
- » Decouple personal grants to a business owner from that owner's SBA loans
- » Relax SBA disaster loan eligibility requirements
- » Simplify SBA disaster loan application process

The measurably improved opinion of the SBA among Gulf Coast small business owners, and the reduction in the perceived magnitude of business challenges directly related to governmental red tape reported this year by business owners reflects the fact that several of PERC's policy prescriptions were implemented by the SBA and state lawmakers.

Policy changes at SBA have made improvements to the disaster assistance process including, most notably, an accelerated loan application decision process and improved procedures and tools for loan closing and fund disbursement. Non-profits such as the Good Work and the Collective for Enterprise Development in New Orleans have stepped in to fill the gap to improve communications channels with the state.

Through legislative action, personal grants to a small business owner were decoupled from the repayment of SBA loans taken by a business owner for business recovery. At the same time, leadership change in the governor's office has provided new perspectives on the programs implemented since 2005. The second round of the Small Business Grants and Loans Program of the Louisiana Redevelopment Authority currently underway has relaxed eligibility requirements.

The 2008 survey of small businesses indicated that while full recovery (if measured by pre-Katrina revenues) is far from reality for most small business owners, they are coming to terms with the 2005 hurricane season and are moving forward. To buttress their capacity to remain committed to those communities most negatively affected by the 2005 hurricanes, MAIN at PERC urges continued support of these businesses as outlined below:

- » **Educate small businesses on need for business interruption and continuity plans:** Small businesses are most vulnerable to exogenous forces, yet they are least well equipped to offset those forces. Rather than having savings for a downturn, our survey shows most owners have taken on considerable debt. Rather than providing goods or services statewide, regionally,

nationally, or globally, the vast majority of small businesses focus exclusively on local markets. Tellingly, our survey indicated that 17% of small businesses have no property and casualty insurance on their business. Often cost is a prohibitive barrier. A modified or micro-insurance program could be implemented to address both cost and preparedness. Much like life insurance, a potential micro-insurance product pays a predefined amount upon the occurrence of a triggering event. Public policy should encourage the development of alternative insurance products such as micro-insurance.

» **Allocate funds to support the role of non-profits and charities:** Non-profits and charities have served as critical intermediaries between small businesses and local, state, and federal government agencies during this recovery process. These organizations have developed expertise in processes and issues critical to recovery, while enabling a small business owner to focus on running their business. Therefore, economic development funds should be allocated to support the role of non-profits and charities recognizing their critical role in recovery.

» **Educate small business accountants and owners on existing tax incentives:** The IRS developed specific tax credits to mitigate the damage of the 2005 hurricane season on small businesses. Unlike so many other programs, many of these benefits are easily accessible through the standard reporting processes of a business rather than a separate application. While in theory this makes the aid more accessible to the business owner, there is not yet sufficient data available to evaluate

how effective these tax credits have been for small businesses. Our survey indicates that just 2% of respondents view the IRS as an organization that has had a positive impact on their business. This may be indicative of a lack of attribution of a benefit to the agency, rather than a lack of sufficient knowledge or utilization of the tax credits. Nonetheless, we believe that funds should be allocated to raise awareness of potential tax benefits. This should be done through both the existing non-profit intermediaries as well as directly to business owners and accountants through public service announcements.

» **Economic development agencies should focus on retention:** While much has been made of efforts to attract new investors and new businesses to affected areas of the Gulf Coast region, too little attention has been paid to small business retention. The consequences of this policy oversight has been a continued exodus of small businesses from those areas that were most directly impacted by the 2005 hurricanes. This, in turn, makes community revitalization a more challenging process. Policy makers would do well to recognize that small businesses are an integral part of the economic tapestry of the Gulf Coast, and in fact serve as the engine for economic growth in a majority of the hardest hit areas. Policy that is designed to retain existing businesses would help turn around trends regarding declining revenues, labor and supply shortages, red tape, and other challenges. This, in turn, would yield greater community level stability and improved tax revenues

APPENDIX A: 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 questions for the 2008 survey were very nearly identical to those of our 2007 survey to allow for comparisons, though some new questions were added.

Since this year's survey was aimed at determining how business recovery has been progressing, a question asking how business sales have changed over the last year was added. Also, since we were interested in those businesses that had been in existence for at least a year, we only surveyed (called) such businesses.

Last year's survey had 1,032 completed surveys, this year's has 1,170. In addition, since this year's survey also aimed to be a follow-up, we first called all of those business owner and operators that had completed last year's survey. Of the 1,032 that completed last year's survey, 299 were available and willing to be re-surveyed this year.

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 July 30th and August 13th, 2008. 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 and parishes 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. This differs from last year's survey that did not include Jefferson Parish. We then randomly surveyed the subset of businesses in these counties and parishes that had a business phone number listed and were open at least one year. The calls resulted in owner/operators not wanting to participate, no answer, voicemail, callbacks requested, owner/operator not available, disconnections or completed surveys.

The Experian Business Owner Link, from which the survey call list was generated, contains information on millions of small businesses, defined as businesses with fewer than 25 employees and less than \$10 million in sales. 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.

Survey Respondents by Ethnicity

Asian	Black	Hispanic	Other	White
3%	9%	7%	9%	72%

APPENDIX B: 2008 SURVEY

1. How have sales changed since last year?

1. Have Risen Very Much (> 15%)
2. Have Risen Somewhat (+5% to +15%)
3. Little or No Change
4. Have Fallen Somewhat (-5 % to -15%)
5. Have Fallen Very Much (> -15%)

1A. 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 3 years ago?

1. Less than half of the pre-storm levels
2. Between 50% and 75% of pre-storm levels
3. Between 75% and 95% of pre-storm levels
4. Virtually Unchanged
5. Between 105% 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. Are you now working or out of or living in a FEMA Trailer?

1. Yes, If so (Work, Live, or Both), (IF YES, GO TO #5)
2. No, not currently but this was previously my situation (Work, Live, or Both).
(GO TO QUESTION #5)
3. No, I have never worked out of or lived in a FEMA Trailer. (GO TO QUESTION #6)

5. Has/Did working from a FEMA Trailer had/have a positive or negative effect on the health of your business?

1. Mostly positive
2. Somewhat positive
3. No effect
4. Somewhat negative
5. Mostly negative

6. 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

7. 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

8. 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

9. 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

10. Have you applied for a loan from the Small Business Administration since the 2005 hurricanes?

1. Yes. When applying for an SBA loan, did you deal directly with the SBA or a local bank? _(SBA/Other)__(go to question 11)
2. No (go to question 13)

11. Was your loan request approved?

1. Yes (go to question 12)
2. No (go to question 13)
3. Pending (go to question 14)

12. What amount did you receive from the SBA?

1. Less than \$25,000
2. \$25,000 to \$49,999
3. \$50,000 to \$99,999
4. \$100,000 to \$250,000
5. More than \$250,000

13. 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_____

14. 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

15. 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

16. 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

17. 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

18. 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. None, all have been negative

19. Do you believe that access to affordable sources of credit is a major challenge for your company?

1. Yes
2. No
3. No opinion

20. 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) _____

IF YES on business credit card:

- 21. Was your business card credit limit raised or lowered since the 2005 hurricanes?
 - 1. Yes, Raised (**IF Raised**, then by how much? _____)
 - 2. Yes, Lowered (**IF Lowered**, then by how much? _____)
 - 3. No

IF YES on personal credit card:

22. 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

23. 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 _____

24. 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

25. 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?

26. One final question: is it alright if one of our agents can call you to confirm your answers?

1. Yes
2. No



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