

CASE STUDIES IN SMALL BUSINESS FINANCE Following a Disaster



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

The Power of Knowledge and Leadership

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INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL (IEDC)

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Introduction

In the wake of a disaster, small businesses often are more financially vulnerable than large businesses. Large businesses are more likely to have resources, as well as business continuity plans, to draw from to continue operations and remain viable. By contrast, small businesses typically lack such resources.

Small businesses are the backbone of local economies, providing essential goods and services such as groceries, fuel, child care and healthcare. It is important, therefore, that economic development organizations plan to provide additional assistance to small businesses following a disaster—particularly to address capital and technical assistance needs.

A December 2012 survey of 600 small business owners demonstrated that many, if not most, small businesses are unprepared for the financial challenges that follow a natural disaster.¹ Roughly three-quarters of survey respondents indicated that their business did not have a recovery plan. Moreover, almost 85 percent of these business owners indicated that they also lacked insurance that would cover a natural disaster's impact.

IEDC has created this issue brief to illustrate strategies that economic developers and communities have used to help small businesses recover financially after a disaster. The strategies showcased in this briefing demonstrate how organizations can replicate similar programs in disaster-impacted communities and regions.

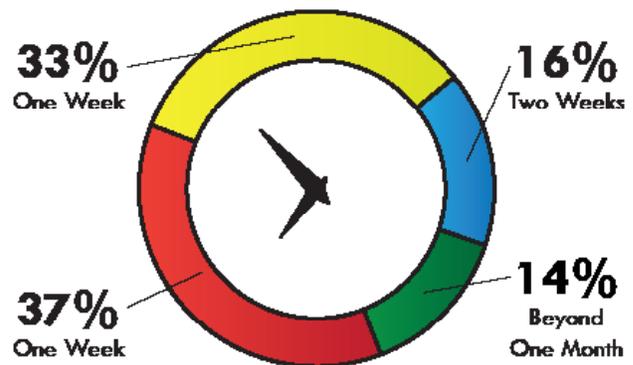
The longer a small business is out of operation, the less likely it is to reopen. This briefing highlights how strategically developed programs can help small businesses return to operations more swiftly. In the

following six case studies, public, private, and a mix of public and private funds all are used to aid businesses.

US SMALL BUSINESSES + DISASTER PREPARATION

- **74%** don't have a disaster plan
- **84%** don't have disaster insurance
- **71%** lack back-up power generators

NATURAL DISASTER RECOVERY TIME



RECENT COSTLY US DISASTERS

THE US EXPERIENCED 25 MAJOR NATURAL DISASTERS IN 2011 AND 2012, EACH OF WHICH ACCOUNTED FOR MORE THAN ONE BILLION DOLLARS IN DAMAGE.²

VERMONT FARM FUND

// THE CENTER FOR AN AGRICULTURAL ECONOMY
// VERMONT

Vermont is home to 7,000 farms and a strong community of farm businesses.³ In January 2011, Pete Johnson of Pete's Greens' barn burned to the ground. The community sprang into action, with individuals and organizations donating money to help Pete rebuild his barn. Afterward, Johnson partnered with the Center for an Agricultural Economy (CAE) to create the Vermont Farm Fund, a revolving loan fund, with the contributions he had received.

The farm fund would prove useful after Hurricane Irene swept across the Connecticut River Valley of Vermont in August 2011. Rain totals of 4 to 8 inches in some places contributed to flooding across central and southern Vermont.⁴

At that time, the Vermont Farm Fund had been created, but had not yet launched a loan application process. Following Hurricane Irene, the staff expedited the process to provide emergency loans to disaster-impacted farms. Additionally, the fund opened for donations from individuals and organizations to increase its balance. One local foundation, the Waterwheel Foundation in Burlington, Vt., donated \$50,000 to the fund.

In less than three weeks, the first interest-free emergency loans were provided. Many of the farmers who received the loans were vegetable farmers whose season had just ended. The farmers received a repayment grace period of up to one year (due to the crop cycles and ability to repay), with the loan to be repaid in two years. Loans were available to farmers throughout Vermont who could show proof of over \$20,000 in annual gross sales (no hobby farmers) and who had suffered an

agricultural loss due to weather-related disaster or fire.

A majority of the loans were for \$5,000 or \$10,000. An advisory committee of six members from all across the state reviewed the applications and quickly make decisions. The applications were emailed to the advisory board who reviewed them and voted by email. Several loan applications were received immediately after the storm, with others continuing to trickle in through January 2012.

As of November 2013, 98 percent of the loans had been repaid, with none in collection. The Vermont Farm Fund is now able to provide innovation loans to help farmers and food producers with the costs of starting up a business. The fund benefits from the state's farm community culture, with farmers wanting to repay quickly so that fellow farmers can receive an emergency loan when needed.

BUSINESS FLOOD RECOVERY FUND

// Northland Foundation // Minnesota

On June 19-20, 2012, northeastern Minnesota experienced the worst flooding in recent history. Just over 10 inches of rain was recorded over a two-day period. The St. Louis River at Scanlon was recorded at a record 11 feet, with the river crest at 16.62 feet, spilling for days into the surrounding communities.⁵ Because most of the region was not in a flood-prone area, many businesses did not have the appropriate insurance. Over 100 businesses were impacted by the flood.

The Northland Foundation is a regional community foundation serving seven counties in northeastern Minnesota. Certified as a Community Development Financial Institution, the Northland Foundation

provides business loans and financing to new and established businesses in the region.

The day after the flooding, Northland Foundation leaders came together and decided to use their knowledge of economic development and grant-making to assist small businesses. Through outreach to regional and state partners, the Northland Foundation established the Business Flood Recovery Fund with help from the McKnight Foundation, Great River Energy, Blandin Foundation and AgStar Financial Services, as well as the state of Minnesota and individual donors. Within six weeks of launching the fund, the Northland Foundation had raised \$364,010, exceeding its goal of \$300,000. Word about the Business Flood Recovery Fund was spread through economic development and business organizations, local newspapers, television stations and government entities.

The recovery funds were allotted as grants to businesses concentrated in four counties plus the surrounding rural areas. Some of the funding also allowed grants in Douglas County, Wisconsin. Recovery grants for flood-impacted businesses

were available primarily for up to \$5,000, to be used for replacing or reconditioning tangible assets (e.g., machinery and equipment, business supplies, inventory, furniture, and site or building repairs). With funding from the state, the foundation was able to provide some \$10,000 grants to the hardest-hit businesses.

The application was kept simple. To be eligible, the business must be located within the geographic boundaries; remain open in impacted area; demonstrated need for support; no receive similar funding elsewhere; and that the business be registered with the state. The three-page application asked for basic business information; description of damage (both physical and financial); projected use of funding; and a budget or the actual cost, with receipts for reimbursement or a quote.

The fund was managed by three Northland Foundation staff members who were experienced in reviewing applications and administering grants. They met weekly to review the grant applications, with the first grant awarded July 1, 2012, and the last grant awarded in December 2012.



THE TORNADO BUSINESS RELIEF FUND

// GREATER OKLAHOMA CITY CHAMBER
// OKLAHOMA

On May 21, 2013, an EF-5 tornado touched down in Newcastle, Okla., and traveled through Moore, Okla., ending 4.8 miles east of Moore. Fourteen miles long and approximately 1.1 miles wide, the tornado was on the ground for approximately 40 minutes.⁶ In the path were approximately 300 businesses. Another 2,100 businesses within one mile of the tornado's path were impacted by road closures, electricity loss and customer loss.

Immediately following the tornado, the Greater Oklahoma City Chamber created a webpage for impacted businesses to post their needs, for items such as furniture, space and equipment. Local businesses that were not impacted could post what they had available to lend or give to an impacted business. The website was unmonitored. The Greater Oklahoma City Back to Business Initiative was eventually formalized, with forms for businesses to complete and a business resource specialist to match businesses in need with those that had something to offer.

Because the tornado crossed city lines, the regional Greater Oklahoma City Chamber worked with local partners – the Moore Chamber of Commerce, the South OKC Chamber of Commerce, and the Norman Chamber of Commerce – to establish the Tornado Business Relief Fund. The local partners reached out to the Communities Foundation of Oklahoma to create the fund. With vast experience and resources available, the foundation established the fund within days of the tornado.

The chambers focused on outreach to local businesses to apply for the grants, speaking with potential funders to donate to the fund, and directing to the fund people and businesses who inquired about helping. The chambers also were able to leverage the foundation to bring in match dollars from corporate programs and family foundations.

The application was kept simple. It could be completed with a pen and did not require any records, but relied on the honor system. The grants were offered at a maximum of \$2,500 and did not interfere with the businesses' activities with insurance and government loans. The foundation reviewed the applications and administered the grants. Membership in one of the chambers of commerce was not required to receive

a grant. Designed as immediate, stop-gap funding, the fund was scheduled to be dismantled six months after the tornado.

EDA REVOLVING LOAN FUND

// GULF COAST ECONOMIC DEVELOPMENT DISTRICT // TEXAS

On September 13, 2008, Hurricane Ike made landfall near Galveston, Texas. The third costliest hurricane in U.S. history, Ike caused \$30 billion in damages. In response to the economic devastation caused by Ike, the U.S. Economic Development Administration (EDA) granted \$10 million in funding to the Gulf Coast Economic Development District (GCEDD) to create a revolving loan fund.

The GCEDD-EDA revolving loan fund (RLF) has



approved over \$1 million in loans to businesses located in the presidentially declared major disaster area. Loans range from \$10,000 to \$150,000 and can be used to purchase assets, including real estate and equipment, as well as for working capital. (At least half of the loan amount must be used for asset purchase.) Recipient businesses must create one job for every \$65,000 in loan funding. Traditional means for obtaining financing must be exhausted first before a business would become eligible to apply for RLF resources.

The advantage of an RLF is that it continues to benefit an area's economic development well past the disaster recovery phase. Additionally, because the loans charge interest – in this case, at least 4 percent – the fund can grow over time. For example, the Lake Agassiz Development Group's RLF, funded by EDA in 2002 following a 1997 natural disaster, continues to provide financing for small businesses in a region of North Dakota more than 15 years after the disaster.

OPERATION DISASTER RESILIENCY

// PENNSYLVANIA SMALL BUSINESS DEVELOPMENT CENTER // PENNSYLVANIA

In February 2013, the U.S. EDA announced an \$879,000 grant to the Pennsylvania Small Business Development Centers (PASBDC) to address business disruption as the result of a disaster. The grant came in response to the 2011 tropical storm season, when Hurricane Irene and Tropical Storm Lee ravaged Central and Northeastern Pennsylvania in August and September. The region received 15 inches of rain in a short period of time, resulting in major flooding, mass evacuations, and damage to local economies due to compromised infrastructure and

business closures.

Traditional federal disaster assistance came through the Federal Emergency Management Agency and through more than \$98 million in disaster business loans from the U.S. Small Business Administration. The disasters also highlighted a need for greater understanding of disaster resiliency; enter Operation Disaster Resiliency.

The PASBDC is a network of 18 college and university-based SBDCs located throughout the Commonwealth and overseen by a state director at the University of Pennsylvania. The network is further plugged into local communities through connections with nearly 100 service providers, including chambers of commerce and local economic development organizations. SBDCs are a critical component of the small business support infrastructure, as they provide consulting, training and technical assistance to entrepreneurs and small business owners in their communities. These consulting services served as the basis for Operation Disaster Resiliency.

“The program is meant to educate small business owners on ways that they can put business disruption and continuity plans in place for the future,” said PASBDC State Director Christian Conroy. “One issue that became very apparent when working with many of the companies impacted by the flooding of 2011 was their lack of a redundant back-up of critical business information and a plan to use technology to continue operations independent of their businesses’ physical location,” he added.

The EDA funding is being used to address two areas: web strategies and business continuity plan development. Small businesses in a 14-county area (those counties included in presidential major disaster declaration areas in 2011) will receive free consulting services to develop web strategies that

will help them be more resilient after a disaster. They also can receive assistance with search engine optimization and e-commerce with the goal of increasing online sales, critical to maintaining income immediately following a disaster. Additionally, consulting services will help them develop continuity plans focused on cloud-based information storage, and communication plans that will minimize disruption to business operations.

The concept of business disaster resiliency is often overlooked even though it can greatly reduce the negative impact on business operations and income following disaster. Working with businesses to develop business continuity plans and fully take advantage of existing technology, such as search engine optimization and cloud-based information storage, will help them sustain a higher level of operation immediately following a disaster, and ultimately recover faster.

SMALL BUSINESS DISASTER RELIEF FUND

// LOUISIANA ASSOCIATION OF BUSINESS AND INDUSTRY

In late August 2005, Hurricane Katrina made landfall in southeastern Louisiana, devastating the region. Estimates showed that, in the aftermath of the storm, over 30 percent of the state's economy was dysfunctional.⁷ A large segment of the population was displaced, many to other states. Because schools were closed for weeks, even those who were able to return to work after the storm often were limited by the lack of childcare options. While the entire business community suffered, small businesses were particularly hard hit.

In order to provide immediate cash for struggling small businesses, the Louisiana Association of Business and Industry (LABI) partnered with the Baton Rouge Area Foundation (BRAf) to create the Small Business Disaster Relief Fund. The fund was intended to provide grants for gap funding, which hurricane-impacted small businesses could use to pay for expenses not covered by insurance.

BRAF had a track record of handling similar funds, and the organization's structure as a 501(c)(3) nonprofit meant that all contributions to it were tax deductible. Meanwhile, LABI was able to design a streamlined application form that could be downloaded and was easy to complete. The partners then established a screening committee – composed of certified public accountants, lawyers and business professionals – to review applications and recommend grant amounts.

The fund received support from a slew of national partners that included the National Association of Manufacturers, the U.S. Chamber of Commerce, the National Small Business Association, and Small Business California. Approximately \$1.7 million in contributions were collected. LABI also partnered with two organizations familiar with economic recovery after a disaster – the Manhattan Chamber of Commerce and the Oklahoma Association of Business and Industry – to promote the fund.

Applicants were screened according to a few basic criteria, including the business's likely viability, its impact on employment and other businesses in the area, and the potential loan's effectiveness at quickly enabling the business to restart operations.

Ultimately, the Small Business Disaster Relief Fund awarded about 500 grants. Most grants fell in the \$2,500 – \$10,000 range, but some were slightly

larger. Before funds were disbursed, LABI staff contacted individual business owners to conduct additional screening. Then, a majority of all grant checks were delivered personally, which gave LABI staff members one last chance to inspect the recipient business.

The fund was successful in helping many small and micro-businesses return to operation, which helped the Gulf Coast economy continue functioning. As one former LABI staff member recalled, “It was a labor of love for all of those who participated in making it a success.”

NOTES

¹ Conducted by Alibaba, Vendio and Auctiva. See: <http://readwrite.com/2013/02/22/the-severe-impact-natural-disasters-can-have-on-small-businesses-infographic#awesm=~og1Tsfk3Cxo8a>

² Weiss, Daniel and Jackie Weidman, *Disastrous Spending: Federal Disaster-Relief Expenditures Rise amid More Extreme Weather*. The Center for American Progress, April, 2013. <http://www.americanprogress.org/issues/green/report/2013/04/29/61633/disastrous-spending-federal-disaster-relief-expenditures-rise-amid-more-extreme-weather/>

³ National Agricultural Statistics Service, U.S. Department of Agriculture (last updated 14 May, 2012). *2011 State Agriculture Overview*. Retrieved from http://www.nass.usda.gov/Statistics_by_State/Ag_Overview/AgOverview_VT.pdf.

⁴ National Weather Service Forecast, Burlington, VT Office, National Oceanic and Atmospheric Office. (n.d.) *Preliminary Hurricane/Tropical Storm Irene Weather Summary for the North Country*. Retrieved from: <http://www.erh.noaa.gov/btv/events/Irene2011/>.

⁵ Minnesota Climatology Working Group. (last updated 15 August, 2012). *Flooding rains in northeast Minnesota: June 19-20, 2012*. Retrieved from http://climate.umn.edu/doc/journal/duluth_flooding_120620.htm

⁶ National Weather Service Weather Forecast Office, N. O. A. (n.d.). *The tornado outbreak of May 20, 2013*. Retrieved from <http://www.srh.noaa.gov/oun/?n=events-20130520>

⁷ Interview with Dan Juneau, President, Louisiana Association of Business and Industry (former) on November 25, 2013.



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