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Report to the Committee on Small Business and Entrepreneurship, U.S. Senate

July 2010

# HURRICANES KATRINA AND RITA

# Federally Funded Programs Have Helped to Address the Needs of Gulf Coast Small Businesses, but Agency Data on Subcontracting Are Incomplete

GAO

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GAO-10-723

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# Highlights

Highlights of GAO-10-723, a report to the Committee on Small Business and Entrepreneurship, U.S. Senate

## Why GAO Did This Study

Hurricanes Katrina and Rita wreaked havoc on small businesses in the Gulf Coast, and much federal assistance has been provided to help these businesses. GAO was asked to describe (1) the amount of assistance provided to Gulf Coast small businesses through the Small Business Administration's (SBA) disaster and Gulf Opportunity (GO) loans, state-administered business assistance programs funded by the Department of Housing and Urban Development's (HUD) Community Development Block Grants (CDBG), and the Economic Development Administration's (EDA) Revolving Loan Fund (RLF) program; (2) the extent to which Gulf Coast small businesses received federal contract funds; and (3) the current state of and improvements in the region's economy. GAO analyzed data on SBA and EDA loans and states' use of supplemental CDBG appropriations, data on prime and subcontracts awarded for hurricane recovery activities, and economic indicators both before and after the hurricanes.

## What GAO Recommends

GAO recommends that the Secretary of Defense should take steps to ensure that contracting officials with the Corps and other DOD departments consistently comply with requirements to monitor the extent to which contractors are meeting subcontracting plan goals. DOD did not concur with the implication that its contracting personnel do not enforce requirements.

View GAO-10-723 or key components.
For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

## What GAO Found

Several federal programs provided assistance to Gulf Coast small businesses after the 2005 hurricanes; however, despite this assistance, some small businesses still face recovery challenges. Of the programs we reviewed, SBA provided the greatest amount of assistance to small businesses. SBA approved about $1.4 billion in loans through its Disaster Loan and GO Loan programs to assist with the repair or replacement of damaged property and to address economic losses suffered after the hurricanes. In addition, Louisiana expended about $179 million and Mississippi targeted $3 million in CDBG disaster relief funds for small business assistance grant, loan, and other programs to further assist businesses that in some or all cases, may not have been eligible for SBA loans. EDA did not receive supplemental appropriations after the hurricanes, but Gulf Coast small businesses did receive about $36 million in loans from EDA's RLF grantees, which provide gap financing to small businesses to start or expand their business. Even with federal assistance, however, some small business owners with whom GAO met have encountered recovery challenges. For example, a few of these small business owners told GAO that they had problems applying for SBA loans because the hurricanes destroyed needed financial records. Other owners face higher expenses, especially the cost of commercial insurance and added debt from these loan programs, which has made recovering difficult.

Gulf Coast small businesses received almost $2.9 billion in federal contracts awarded in response to the hurricanes. The *Federal Acquisition Regulation* requires that agency contracting officials monitor prime contractors' performance under subcontracting plans. However, the U.S. Army Corps of Engineers (Corps) and the rest of the Department of Defense (DOD)—two of four agencies that awarded the most in federal contracts for hurricane recovery—could not demonstrate that they were consistently monitoring subcontracting accomplishment data for 13 of the 43 construction contracts for which subcontracting plans were required. Without such monitoring, the Corps and the rest of DOD are limited in their ability to determine the extent to which contractors are following their subcontracting plans.

Indicators—including population estimates, number of small businesses, unemployment rates, and housing prices—suggest that the hurricanes' effects on local economies varied across the Gulf Coast. From 2005 to 2006, some heavily damaged areas experienced steep declines in population and number of small businesses, while less-damaged areas experienced steady increases in these indicators. Since that time, the population and number of small businesses in heavily damaged areas have increased, but they both still remain below prehurricane levels. House prices have shown some steady increases from 2005 to 2008 in heavily damaged metropolitan areas. The impact of the recent oil spill in the Gulf of Mexico on small businesses is uncertain.

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## Figures

## Abbreviations

| | |
|---|---|
| CDBG | Community Development Block Grant |
| Corps | U.S. Army Corps of Engineers |
| DCMS | Disaster Credit Management System |
| DHS | Department of Homeland Security |
| DOD | Department of Defense |
| EDA | Economic Development Administration |
| eSRS | Electronic Subcontracting Reporting System |
| FAR | Federal Acquisition Regulation |
| FPDS-NG | Federal Procurement Data System—Next Generation |
| GO | Gulf Opportunity Pilot Loan Program |
| GSA | General Services Administration |
| HUBZone | Historically Underutilized Business Zone |
| HUD | Department of Housing and Urban Development |
| LAS | Loan Accounting System |
| MSA | Metropolitan Statistical Area |
| NOAA | National Oceanic and Atmospheric Administration |
| RLF | Revolving Loan Fund |
| SBA | Small Business Administration |
| SBDC | Small Business Development Center |

United States Government Accountability Office
Washington, DC 20548

July 29, 2010

The Honorable Mary L. Landrieu
Chair
The Honorable Olympia J. Snowe
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate

Within a 2-month period in 2005, Hurricanes Katrina and Rita struck the Gulf Coast, causing billions of dollars in damage and displacing millions of individuals. Louisiana and Mississippi were the two states most affected, but these hurricanes also caused damage in Alabama, Florida, and Texas. The size and scope of the devastation presented the nation with unprecedented recovery and rebuilding challenges. Small businesses in the region were adversely impacted by the hurricanes and faced many barriers to recovery. Some businesses were completely destroyed, while many others suffered an almost complete loss of inventory, equipment, and records. Additionally, many business owners who employed local residents lost employees when they fled the hurricanes, and businesses that did reopen after the hurricanes faced a smaller customer base because of reduced population levels. The federal government has provided billions of dollars in the form of grants, loans, and contracts to assist in the recovery of the region and its economy. A portion of these funds has been utilized to assist small businesses in rebuilding and reestablishing themselves in a changed marketplace.

Nearly 5 years have passed since the hurricanes, and small businesses in the area are still recovering from the damages they suffered. As part of this committee's efforts to monitor small business recovery in the Gulf Coast, you asked us to provide information on assistance small businesses in the Gulf Coast received from programs administered by the Small Business Administration (SBA), Department of Housing and Urban Development (HUD), and Economic Development Administration (EDA); on federal contract funds received by small businesses; and on the small business economy in the Gulf Coast region. More specifically, this report describes (1) the amount of assistance small businesses in the Gulf Coast received through SBA's Disaster and Gulf Opportunity (GO) Pilot Loan programs, state-administered business assistance programs funded by HUD's Community Development Block Grants (CDBG), and EDA's Revolving Loan Fund (RLF) Program; the benefits and challenges experienced by participants in these programs; and the performance of loans extended to small businesses using assistance from these programs; (2) the extent to which Gulf Coast small businesses received federal contract funds for recovery efforts; and (3) the current state of and improvements in the region's economy, with a focus on the small business economy.

Our work focused on small business recovery efforts in four states impacted by Hurricanes Katrina or Rita: Alabama, Louisiana, Mississippi, and Texas. To address our first objective, we obtained data extracts from SBA's Disaster Credit Management System (DCMS) and Loan Accounting System and computed descriptive statistics on the number, dollar amount, and performance of disaster and GO loans provided to small businesses, and we interviewed SBA officials knowledgeable about these data. We also performed various tests of the information in the data extracts we obtained to ensure the completeness of the data and concluded that SBA's data were sufficiently reliable for the purposes of our report. To describe the amount of assistance Gulf Coast small businesses received through state-administered business assistance programs that utilized CDBG disaster relief funds, we reviewed *Federal Register* notices and interviewed officials from HUD to obtain information on CDBG disaster recovery supplemental appropriations Congress enacted following Hurricanes Katrina and Rita. We also obtained information from state agencies in Alabama, Louisiana, Mississippi, and Texas and interviewed state officials regarding their use of these funds to assist small businesses in recovering from the hurricanes. We determined that information provided by the states was sufficiently reliable for the purposes of our report. To describe the amount of assistance small businesses received through EDA's RLF Program, we analyzed semiannual reports on loans made by EDA's RLF grantees in the four states within the scope of our review and interviewed EDA officials who oversee RLF grantees in these states. These data are self-reported by RLF grantees; therefore, in this report we attribute these findings to the RLF grantees. Furthermore, we contacted selected RLF grantees in the areas most impacted by the hurricanes to determine the extent to which loans that they made following the hurricanes were utilized by small businesses for hurricane recovery efforts. We also interviewed officials at Small Business Development Centers (SBDC) and chambers of commerce in areas heavily impacted by the hurricanes in each state to discuss the assistance each provided to small businesses after the hurricanes. Finally, to obtain the perspectives of small business owners regarding the benefits and challenges they experienced in participating in these programs, we conducted focus groups of small business owners in New Orleans, Louisiana, and Gulfport, Mississippi.

To address our second objective, we obtained data from the Federal Procurement Data System-Next Generation (FPDS-NG), the governmentwide database of contracting activity, to determine the extent to which federal agencies contracted directly with small businesses in Gulf Coast states. Using FPDS-NG data, we identified the top four agencies that awarded the greatest amount of Katrina- and Rita-related contract dollars between fiscal years 2005 and 2009. These agencies were the U.S. Army Corps of Engineers (Corps); Department of Homeland Security (DHS); Department of Defense, excluding the Corps (DOD); and the General Services Administration (GSA).[1] Although we could not independently verify the reliability of these data, we reviewed system documentation, conducted electronic data testing for inconsistency errors and completeness, and compared it with supporting documentation when available. On the basis of these efforts, we determined the data on the amount of federal contract dollars received directly for Hurricanes Katrina and Rita recovery efforts to be sufficiently reliable for the purposes of this report.[2] We also identified all Corps, DHS, DOD, and GSA construction-related contracts awarded between fiscal years 2005 and 2009 for Katrina- and Rita-related recovery efforts that, according to FPDS-NG, had a subcontracting plan.[3] For contracts that had subcontracting plans, we asked the agencies for documentation of prime contractors' subcontracting award reports in the Electronic Subcontracting Reporting System (eSRS), a governmentwide database for capturing this information, or for copies of the paper subcontracting accomplishment reports. These plans include information on, among other things, goals for the use of small businesses, expressed as a percentage of the total planned subcontracting dollars.[4] In addition, we interviewed officials from each of the four agencies to gather additional information relating to subcontracting award reports.

[1]Throughout this report, unless otherwise noted, we use the acronym DOD to refer to the Department of Defense, excluding the Corps. We are reporting on the Corps and the rest of DOD separately because at least three supplemental appropriations measures for DOD activities relating to Hurricane Katrina relief specifically directed certain funds to the Corps for its disaster relief activities. (Pub. L. No. 109-62, 119 Stat. 1990 (2005); Pub. L. No. 109-148, 119 Stat. 2680 (2005); and Pub. L. No. 109-234, 120 Stat. 418 (2006).)

[2]FPDS-NG is the only governmentwide system for obtaining information on how federal contract funds are being spent.

[3]When a prime contract includes a subcontracting plan, the agency awarding the contract indicates this in FPDS-NG.

[4]These and other aspects of small business subcontracting plan requirements are set forth at FAR Subpart 19.7.

To address our third objective, we identified the counties most impacted by the hurricanes in each of the four states and also identified various economic indicators that provide a proxy for the state of the small business economy. These indicators include the population, unemployment rate, number of small business establishments, and housing price index. We collected and analyzed data for each indicator, including population estimates from 2000 to 2008, unemployment rates from 2000 to 2009, number of small business establishments from 2000 to 2007, and housing price index estimates from 2000 to 2009. We used these data to identify trends more likely associated with the hurricanes than other economic events within the areas most heavily impacted. In doing so, we also analyzed and compared trends at the state level with trends in the counties most heavily impacted by the hurricanes, where comparable data were available. We determined that the economic indicator data we used were of sufficient reliability for the purposes of our report. To describe the potential impact of the recent Gulf Coast oil spill on the small business economy in the Gulf Coast region, we obtained and analyzed information on the size of the fishing and travel industries; new SBA economic injury disaster loans approved as a result of the oil spill; as well as existing SBA disaster loans in declared areas and the number of deferments SBA has granted on those loans. In addition, we met with Gulf Coast small business owners impacted by the oil spill. We also interviewed organizations assisting these small businesses and organizations studying the economic impacts of the oil spill. Finally, we reviewed assessments by other organizations regarding the posthurricane economic recovery in the Gulf Coast region. Appendix II contains a summary of these organizations' findings.

We conducted this performance audit from September 2009 to July 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See appendix I for more detailed information on the scope and methodology of this report.

# Background

## SBA Disaster Assistance

The Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974 (Stafford Act) sets forth requirements for the federal response to presidentially declared disasters.[5] A presidential disaster declaration puts into motion long-term federal recovery programs, including SBA's Disaster Loan Program. While SBA is known primarily for its financial support of small businesses, the agency also plays a critical role in assisting the victims of natural and other declared disasters. SBA's Disaster Loan Program is the primary federal program for funding long-range recovery for private-sector, nonfarm disaster victims and is the only form of SBA assistance not limited to small businesses. For an SBA disaster loan to be approved, a disaster victim must demonstrate an ability to repay the loan and must provide collateral for loans over a certain value.[6] The Small Business Act authorizes SBA to make available the following two types of disaster loans to small businesses:[7]

- *Physical disaster loans:* These loans are for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. They are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. These loans are intended to repair or replace the disaster victims' damaged property to its predisaster condition. Almost any business concern or charitable or other nonprofit entity whose property is damaged in a declared disaster area is eligible to apply for a physical disaster loan; however, small businesses in agriculture-related industries—also known as agricultural enterprises—are not eligible.[8]

- *Economic injury disaster loans:* These loans provide small businesses that are not able to obtain credit elsewhere with necessary working capital

[5] 42 U.S.C. §§ 5121-5207.

[6] In general, SBA will not require a borrower to pledge collateral to secure a disaster home loan or a physical disaster business loan of $10,000 or less, or an economic injury disaster loan of $5,000 or less. 13 C.F.R. § 123.11.

[7] 15 U.S.C. § 636(b).

[8] An agricultural enterprise is a business primarily engaged in the production of food and fiber, ranching and raising livestock, aquaculture, and all other farming and agriculture-related industries. 13 C.F.R. § 123.201(a). Additional eligibility restrictions can be found at 13 C.F.R. §§ 123.101, 123.201.

until normal operations resume after a disaster declaration.[9] They cover operating expenses the business could have paid had the disaster not occurred. The Small Business Act restricts economic injury disaster loans to small businesses. Agricultural enterprises are also not eligible for economic injury disaster loans.[10]

Table 1 provides a description of the characteristics of each of these loans.

**Table 1: Characteristics of SBA's Business Disaster Loans**

| Type of loan | Funds use | Eligibility | Lending limit[a] | Interest rate[b] | Loan term |
|---|---|---|---|---|---|
| Physical disaster loans | Repair or replace disaster-damaged property owned by the business, including real estate, inventories, supplies, machinery, and equipment. | Businesses of all sizes and private, nonprofit organizations such as charities, churches, and private universities. | $2 million aggregate for the repair or replacement of real estate, inventories, machinery, equipment, and all other physical losses. | Varies, but generally for those who cannot obtain credit elsewhere, interest is capped at 4 percent; for those who can obtain credit elsewhere, interest is capped at 4.5 and 6 percent, respectively, for nonprofits and businesses. | Up to 30 years if no credit available elsewhere. For businesses with credit available elsewhere, maximum loan term is 3 years. |
| Economic injury disaster loans | Working capital loans to help meet ordinary and necessary financial obligations that cannot be met as a direct result of the disaster. | Small businesses, small agricultural cooperatives, and most private, nonprofit organizations of all sizes. | $2 million aggregate for alleviating economic injury caused by the disaster. | Capped at 4 percent. | Not more than 30 years. |

Source: GAO analysis of SBA documents.

[a]The $2 million limit for business loans applies to the combination of physical and economic injury loans, and it applies to all disaster loans to a business and its affiliates for each disaster.

[b]Interest rates are periodically adjusted and vary for each disaster.

[9]Credit elsewhere is when SBA believes the business has the availability of credit from nonfederal sources on reasonable terms and conditions because of its cash flow and disposable assets. 13 C.F.R. §§ 123.104, 123.300.

[10]Certain small nurseries affected by a drought designated by the Secretary of Agriculture, small agricultural cooperatives, and producer cooperatives are eligible for economic injury disaster loans. 13 C.F.R. § 123.300(c).

SBA procedures generally require small businesses to submit an application for a physical disaster loan no later than 60 days following the disaster declaration and no later than 9 months after this date for an economic injury disaster loan.[11] SBA may authorize an extension of the filing period.[12] SBA procedures also generally require small businesses to arrange for and obtain all loan funds within 6 months from the date of the loan authorization and agreement.

Due to the overwhelming need for moderate-sized small business loans in severely distressed Gulf Coast communities following Hurricanes Katrina and Rita, SBA implemented the GO Loan Pilot in November 2005 specifically to encourage lenders to lend in these communities and to assist small businesses that could not obtain credit elsewhere with working capital and other general-purpose business loans.[13] The pilot program was originally intended to last less than 1 year; however, because of the continuing and substantial needs of small businesses in the area, SBA has extended the program until September 30, 2010. As part of the program, SBA may provide an 85 percent guaranty to qualified lending partners, such as banks, that agree to make expedited loans available under SBA's 7(a) Loan Program of up to $150,000 to small businesses located in communities affected by the disasters.[14] Small businesses apply directly to qualified lenders under the program, who evaluate their creditworthiness and determine whether they require an SBA guaranty to make the loan. SBA agrees to make a decision on whether to apply a

[11]SBA publishes notice of a disaster declaration in the *Federal Register*, which generally includes the application deadline and the location for filing a loan application. 13 C.F.R. § 123.3(b).

[12]Following Hurricanes Katrina and Rita, SBA extended the application filing deadline for physical disaster loans and economic injury disaster loans, which varied by disaster and state. For example, in Louisiana, SBA extended the filing deadline for physical disaster loans until April 10, 2006, and the deadline for economic injury disaster loans until June 28, 2006.

[13]Eligibility for the GO Loan Pilot is limited to small businesses located in, locating to, or relocating in the parishes/counties that have been presidentially declared as disaster areas resulting from Hurricanes Katrina or Rita, plus any parishes/counties contiguous to those parishes/counties.

[14]The 7(a) Loan Program is intended to serve small business borrowers who could not otherwise obtain credit under suitable terms and conditions from the private sector without an SBA guaranty. With the exception of loans pursuant to section 506 of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009), under the program, SBA provides guaranties of up to 85 percent on loans up to $150,000 made by participating lenders.

guaranty to a loan within 24 hours. While SBA prescribes the maximum interest rate lenders can charge, the lender and borrower negotiate the actual rate. Lenders can charge a maximum interest rate of 6.5 percentage points over the prime rate for loans of $50,000 or less and a maximum rate of 4.5 percentage points over the prime rate for loans over $50,000.

## HUD's CDBG Disaster Recovery

HUD's CDBG Program, created in 1974, is the most widely available source of federal assistance to state and local governments for neighborhood revitalization, housing rehabilitation activities, and economic development.[15] Eligible activities include housing assistance, historic preservation, real property acquisitions, mitigation, demolition, and economic development. Because of the funding mechanism that the CDBG Program already has in place to provide federal funds to states and localities, the program is widely viewed as a convenient tool for disbursing large amounts of federal funds to address emergency situations. Over the past two decades, CDBG has repeatedly been adapted as a vehicle to respond to federal disasters, such as floods, hurricanes, and terrorist attacks. When the CDBG Program is used to provide disaster relief funds, many of the statutory and regulatory provisions governing the use of CDBG funds may be waived or modified, thereby providing states with even greater flexibility and discretion.

Following Hurricanes Katrina and Rita, Congress enacted three supplemental appropriations between December 2005 and November 2007, under which a total of $19.5 billion was made available in CDBG disaster relief funds to Alabama, Louisiana, Mississippi, and Texas.[16] Louisiana received the largest amount of these funds—$13.4 billion (69

[15]Activities funded with CDBG must address at least one of the following three objectives: (1) principally benefit low- and moderate-income persons, (2) aid in eliminating or preventing slums or blight, or (3) meet principally urgent community development needs.

[16]Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Pub. L. No. 109-148, 119 Stat. 2680, 2779-2780 (2005); Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, Pub. L. No. 109-234, 120 Stat. 418, 472 (2006); and Department of Defense Appropriations, Pub. L. No. 110-116, 121 Stat. 1295, 1343 (2007). HUD was responsible for allocating the funds from the first two supplemental appropriations among the states in accordance with legal requirements. A third supplemental appropriation passed on November 13, 2007, and provided an additional $3 billion exclusively for Louisiana. These supplemental appropriations also included funds for Florida as a result of Hurricanes Katrina and Wilma. However, Florida is outside the scope of our review, therefore, those amounts are not included in our total.

percent)—and Mississippi received about $5.5 billion (about 28 percent).[17] Alabama and Texas received a combined $599 million—about 3 percent of the total. (See table 2.)

**Table 2: Amount of CDBG Disaster Relief Funds Provided for Hurricanes Katrina and Rita, by Selected States**

| | Alabama | Louisiana | Mississippi | Texas | Total |
|---|---|---|---|---|---|
| 1st supplemental CDBG appropriation | $74,388,000 | $6,210,000,000 | $5,058,185,000 | $74,523,000 | **$11,417,096,000** |
| 2nd supplemental CDBG appropriation | 21,225,574 | 4,200,000,000 | 423,036,059 | 428,671,849 | **5,072,933,482** |
| 3rd supplemental CDBG appropriation | - | 3,000,000,000 | - | - | **3,000,000,000** |
| **Total** | **$95,613,574** | **$13,410,000,000** | **$5,481,221,059** | **$503,194,849** | **$19,490,029,482** |
| **Percentage of total** | **0.5%** | **68.8%** | **28.1%** | **2.6%** | |

Sources: GAO analysis of *Federal Register* notices, including 71 Fed. Reg. 7666 (Feb. 13, 2006); 71 Fed. Reg. 63337 (Oct. 30, 2006); 72 Fed. Reg. 70472 (Dec. 11, 2007); and 73 Fed. Reg. 46312 (Aug. 8, 2008).

Note: The third appropriation, an allocation of $3 billion to the State of Louisiana, was solely for the purpose of covering costs associated with the state's Road Home Program.

Once HUD allocated CDBG disaster relief funds to the affected states, state-level development agencies were responsible for the administration and management of the funds. States are traditionally afforded broad discretion regarding how they decide to allocate CDBG funds to specific projects and programs. In the aftermath of the hurricanes, Congress provided additional flexibility to the states in their use of CDBG disaster relief funds. For example, lawmakers permitted HUD to waive certain regulations and statutes that would otherwise have been applicable, including, among other things, income targeting provisions and public service expenditure caps.[18] Specifically, HUD was allowed to waive the threshold outlined in statute that 70 percent of total funds must be allocated to activities that primarily benefit low- and moderate-income persons.[19] Instead, only 50 percent of the total funds had to be targeted on this basis, unless the Secretary of HUD found a compelling need to waive the targeting provision altogether. Specific language in the supplemental appropriations acts required states to develop and submit action plans to HUD detailing the proposed use of all funds. Upon submission, HUD

[17]For more information on how Louisiana and Mississippi allocated their CDBG disaster relief funds, see GAO, *Gulf Coast Disaster Recovery: Community Development Block Grant Program Guidance to States Needs to Be Improved*, GAO-09-541 (Washington, D.C.: June 19, 2009).

[18]Pub. L. No. 109-148, 119 Stat. at 2780; and Pub. L. No. 109-234, 120 Stat. at 472-73.

[19]42 U.S.C. § 5304(b)(3).

reviewed the action plans for acceptance. These action plans served as state proposals for how states would use their share of CDBG disaster relief funds and included descriptions of eligibility criteria and how the funds would be used to address both urgent needs and long-term recovery and infrastructure restoration. For example, states can use CDBG disaster relief funds to help businesses retain or create jobs in disaster-impacted areas as an eligible economic development activity.

Following Hurricanes Katrina and Rita, Louisiana and Mississippi implemented small business assistance programs using CDBG disaster relief funds. Louisiana implemented the following three programs:

- *Bridge Loan Program:* This program provided temporary working capital loans to businesses located in specified areas affected by the hurricanes. The loans generally had 6-month terms, but extensions were granted to some borrowers. They also contained an interest-free period of 180 days under certain circumstances. No new loans were originated after March 2006, as the state implemented the Business Recovery Grant and Loan Program.

- *Business Recovery Grant and Loan Program:* This program, launched in January 2007, targets assistance to small firms that are deemed to have a chance to survive, contribute to the economy, and maintain and create jobs. Small businesses receive low-cost loans on flexible terms, small grants to reimburse businesses for tangible losses, and technical assistance. Program eligibility has changed over time. For example, when the program was originally structured, only businesses with fewer than 25 employees were eligible; however, according to state officials, the need for these grants and loans was too great, and they increased the employee limit to businesses with fewer than 100 employees. Additionally, state officials told us that they changed the eligibility requirements to allow start-up companies to participate in the program. They explained that this change was made to ensure that entrepreneurial opportunities were encouraged in the state. Small businesses may use grant and loan funds for business operating costs, such as leases; insurance; or debt payment on new equipment, utilities, or inventory. When the program was initially implemented, the interest rate for loans was 0 percent for the term of the loan. Since then, the interest rate has been revised and is 0 percent for the first 2 years of the loan and 4 percent for the remainder of the loan term. Loan terms range from 5 to 7 years.

- *Technical Assistance Program:* Louisiana developed this program to help small businesses adjust to the posthurricane business environment.

Through the program, small businesses, including nonprofits, that have been adversely impacted by the hurricanes can receive technical assistance in areas such as business management, strategic planning, accounting, insurance, marketing, and legal matters. Additionally, entrepreneurs or individuals seeking to start a new firm in the impacted area are eligible for the program. State officials told us that the program was designed to complement the Business Recovery Grant and Loan Program, and that it provides assistance to small businesses that received grants or loans to help ensure that the funds are utilized effectively by small businesses.

In 2009, Mississippi implemented one program specifically for small businesses, the Hancock County Job Generation Fund Program, with CDBG disaster relief funds. The program grew out of a grassroots effort by the Hancock County Chamber of Commerce to address the extraordinary needs of small businesses in Hancock County that sustained the most powerful forces of Hurricane Katrina and suffered unprecedented destruction. The program offers loans at a 2 percent interest rate to small businesses that were located in Hancock County 6 months prior to Hurricane Katrina and are committed to remaining there for at least 5 years. Unlike SBA disaster loans or loans made through Louisiana's Business Recovery Grant and Loan Program, loans made through the Job Generation Fund Program can be converted into forgivable loans if the loan recipient meets certain requirements. For example, a small business owner who purchases and rehabilitates a building in the county to meet current area building codes (if necessary) and maintains business operations in that building for a minimum of 5 years is eligible for a portion of the loan to be forgivable.

## EDA Disaster Assistance

EDA was established in 1965 within the Department of Commerce to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the United States.[20] According to EDA, its statutory mandate, as applied to postdisaster

[20] Public Works and Economic Development Act of 1965, as amended (42 U.S.C. § 3121 et seq.). Upon receipt of an application for investment assistance, EDA measures project eligibility on the basis of (1) an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1 percentage point higher than the national average unemployment rate; (2) per capita income that is, for the most recent period for which data are available, 80 percent or less of the national average per capita income; or (3) a special need circumstance, such as a natural disaster or military base closure, as defined in 13 C.F.R. § 300.3.

assistance, is to help formulate and implement economic recovery strategies to restore, replace, and expand economic activity in disaster-impacted regions and prioritize projects that will diversify the economic base and lead to a stronger, more globally competitive and disaster-resilient regional economy. In the past, Congress enacted supplemental appropriations for EDA to use in response to natural disasters. For example, following Hurricane Andrew in 1992, Congress appropriated approximately $75 million to EDA under the Supplemental Appropriations, Transfers, and Rescissions Act, 1992.[21] In addition, EDA received an initial supplemental appropriation of $100 million for use in regions covered by a major disaster declaration under the Stafford Act, as a result of recent natural disasters, under the Military Construction, Veterans' Affairs, and Related Agencies Appropriations Act, 2008.[22] Congress enacted a second supplemental appropriation for EDA in the amount of $400 million as part of the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009.[23]

EDA did not receive a supplemental appropriation for postdisaster recovery assistance following Hurricanes Katrina and Rita. However, the agency used its existing programs, including the RLF Program, to assist with small business recovery efforts in the Gulf Coast region. Under the RLF Program, EDA awards grants on a competitive basis to eligible applicants to establish revolving loan funds. RLF grantees provide loans to small businesses or businesses that cannot otherwise borrow capital from private lending institutions.[24] When making loans, RLF grantees must partner with private lending institutions to leverage additional capital for

[21]Pub. L. No. 102-368, 106 Stat. 1117 (1992).

[22]Pub. L. No. 110-252, 122 Stat. 2323 (2008).

[23]Pub. L. No. 110-329, 122 Stat. 3574 (2008).

[24]States, cities, or other political subdivisions of a state, District Organizations, Indian Tribes, public or private nonprofit organizations, and institutions of higher education may apply for RLF grants. An application for an RLF grant must include or incorporate by reference (if so-approved by EDA) a comprehensive economic development strategy. In addition, grantees must manage RLFs in accordance with an RLF Plan (described in 13 C.F.R. § 307.9) that sets out the RLF's financing strategy, policy, and portfolio standards. Under the RLF program, EDA does not distinguish between loans made to small businesses and loans made to other businesses. However, EDA officials told us that nearly 100 percent of RLF business lending is to businesses with 500 employees or fewer. Therefore, for our purposes throughout this report, we are assuming that RLF loans were provided to small businesses.

borrowers.[25] Consistent with EDA's mission to attract private capital investment, RLF grantees generate additional investments for small businesses and entrepreneurial ventures to diversify the regional economy. As borrowers repay loans, RLF grantees use a portion of the interest earned to pay administrative expenses and add the remaining principal and interest repayments to the fund's capital base to make additional loans. Following the hurricanes, EDA recapitalized four of its RLF grantees in Louisiana for a total of $2 million to make loans to businesses affected by the disasters.[26]

## Contracting by Federal Agencies Following Disasters

In addition to the federal assistance programs that we have previously discussed, many federal agencies carry out emergency response activities through contracts with private businesses, including those for debris removal, reconstruction, and the provision of supplies. Federal agencies' contracts with private businesses, whether made in the normal course of agency operations or specifically related to a natural disaster declaration, in most cases, are subject to certain goals to increase participation by various types of small businesses. The Small Business Act requires that the President set a governmentwide goal each fiscal year for small business participation for the total value of all prime contracts awarded directly by an agency.[27] Additionally, the Small Business Act sets annual prime contract dollar goals for participation by five specific types of small businesses: small businesses, small disadvantaged businesses, businesses

[25]RLF loans must be used to leverage private investment of at least 2 dollars for every 1 dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF's operation. Private investment may include capital invested by the borrower or others, financing from private entities, or the nonguaranteed portion and 90 percent of the guaranteed portions of SBA 7(a) loans and 504 debenture loans. 13 C.F.R. § 307.15(d). According to an EDA official, when working with private lenders, RLF grantees assume the majority of financial risk because should the borrower default on the loan, private lenders recoup their investments first, after which grantees are allowed to recover their investment amount.

[26]Recapitalization grants are the investments of additional grant funds to increase the capital base of an RLF. 13 C.F.R. § 307.8.

[27]15 U.S.C. § 644(g). Under this provision, the President must annually establish governmentwide goals for, among other things, procurement contracts awarded to small business concerns. The governmentwide goal for participation by small business concerns must not be less than 23 percent of the total value of all prime contracts awarded for each fiscal year. As stipulated in the Small Business Act, procurement goals are established as a percentage of the total value of all contracts directly awarded by the federal government in a fiscal year.

owned by women, businesses owned by service-disabled veterans, and businesses located in historically underutilized business zones (HUBZone).[28] The Stafford Act also requires federal agencies to give contracting preferences, to the extent feasible and practicable, to organizations, firms, and individuals residing in or doing business primarily in the area affected by a major disaster or emergency.[29]

The *Federal Acquisition Regulation* (FAR) implements many federal procurement statutes and provides executive agencies with uniform policies and procedures for acquisition. For example, the FAR generally requires that executive agencies report information about procurements directly to FPDS-NG, a governmentwide contracting database that collects, processes, and disseminates official statistical data on all federal contracting activities that are greater than the micro-purchase threshold (generally $3,000).[30] This system automatically obtains from other systems or online resources additional information that is important to the procurement, such as the contractor's location.

The FAR also requires agencies to measure small business participation in their acquisition programs. A small business may participate via prime contracts—which are contracts awarded directly by a federal agency—or

[28]15 U.S.C. § 644(g). The Small Business Act defines these businesses as follows: (1) Small businesses are those that are independently owned and operated and are not dominant in their field of operations. (2) Small disadvantaged businesses must be owned and controlled by socially and economically disadvantaged individuals—such as African Americans, Hispanic Americans, Asian Pacific Americans, Subcontinent Asian Americans, or Native Americans. These owners must have at least a 51 percent stake in the business. (3) Women-owned small businesses must have at least 51 percent female ownership. For publicly owned businesses, one or more women must hold at least 51 percent of the stock and control both management and daily business operations. (4) Service-disabled veteran-owned small businesses must be owned—also at least 51 percent—by one or more veterans with a service-related disability. In addition, the management and daily operations of the business must be controlled by one or more veterans with a service-related disability. (5) HUBZone small businesses must have their principal offices physically located in these historically underutilized business zones, which are economically distressed metropolitan or nonmetropolitan areas—that is, areas with low-income levels or high unemployment rates—and must employ some staff who live in these zones. The small business regulations implementing the Small Business Act further define these businesses. 13 C.F.R. §§ 121.401–121.413.

[29]42 U.S.C. § 5150.

[30]FAR 4.603(b). In 2006, the FPDS-NG reporting threshold was raised from $2,500 to $3,000. 71 Fed. Reg. 57364 (Sept. 28, 2006). In 2008, the reporting threshold for FPDS-NG was set at the micro-purchase threshold for most types of contract awards. 73 Fed. Reg. 21773 (Apr. 22, 2008) (interim); and 74 Fed. Reg. 2712 (Jan. 15, 2009) (final).

through subcontracts.[31] Any business receiving a contract directly from a federal executive agency for more than the simplified acquisition threshold[32] must agree in the contract that small businesses will be given the “maximum practicable opportunity” to participate in the contract “consistent with its efficient performance.”[33] Additionally, for acquisitions (or modifications to contracts) that (1) are individually expected to exceed $550,000 ($1 million for construction contracts) and (2) have subcontracting possibilities, the solicitation shall require the apparently successful offeror in a negotiated acquisition to negotiate a subcontracting plan that is acceptable to the contracting officer, and each invitation for bid shall require the bidder selected for award to submit a subcontracting plan to be eligible for award.[34] The subcontracting plan must include certain information, such as a description of the types of work the prime contractor believes it is likely to award to subcontractors, as well as goals, expressed as a percentage of total planned subcontracting dollars, for the use of small businesses.[35] Generally, contracts that offer subcontracting possibilities and are expected to exceed the monetary thresholds that we have previously mentioned are to include certain clauses.[36] These clauses require that for contracts that have individual subcontracting plans, prime contractors generally must semiannually and at project completion report on their progress toward reaching the goals in their subcontracting plans. Generally, contractors that have individual subcontracting plans are required to report on their subcontracting goals and accomplishments twice a year to the federal government through eSRS, which is a governmentwide database for capturing this information. Furthermore, the

[31]FAR 44.101 defines a subcontractor as “any supplier, distributor, vendor, or firm that furnishes supplies or services to or for a prime contractor or another subcontractor.”

[32]FAR 2.101 defines “simplified acquisition threshold” to mean $100,000, except when the acquisition of supplies or services is used to support a contingency operation or facilitate against nuclear, biological, chemical, or radiological attack. In those instances, the term means $250,000 for contracts to be awarded and performed inside the United States and $1 million for contracts to be awarded and performed outside of the United States.

[33]FAR 19.702, 2.101.

[34]The dollar threshold was changed to $550,000 on September 28, 2006. 71 Fed. Reg. 57363 (Sept. 28, 2006).

[35]These and other aspects of the small business subcontracting plan requirement are set forth at FAR Subpart 19.7.

[36]Contracts that are below the simplified acquisition threshold, are personal services contracts, are to be performed entirely outside of the United States, are set aside, or are to be accomplished under the 8(a) program do not require this clause.

agencies' administrative contracting officers are responsible for monitoring the prime contractors' activities and evaluating and documenting contractor performance under any subcontracting plan included in the contract. The contracting officer is tasked with acknowledging receipt of the reports submitted to eSRS.[37]

## Federally Funded Programs Have Helped to Address Different Needs of Small Businesses, but Some Small Businesses Still Face Challenges, and the Performance of Federally Funded Loans Has Varied

Federal funds were used for a number of different small business assistance programs following Hurricanes Katrina and Rita. While the SBA Disaster Loan Program is the primary federal program for funding long-range recovery for the private sector, two states—Louisiana and Mississippi—also developed small business assistance programs using CDBG disaster relief funds that Congress provided in response to the hurricanes. Additionally, although EDA did not receive supplemental disaster appropriations, the agency provided funds to Gulf Coast small businesses for new business start-ups and business expansion through its Revolving Loan Fund Program. However, despite the assistance provided, some small businesses have struggled with recovering from the hurricanes, and loan performance has varied for the various federally funded loan programs.

### SBA Provided Gulf Coast Small Businesses with Assistance to Repair Disaster-Damaged Property and Address Economic Losses

SBA provided about $1.4 billion in loans to Gulf Coast businesses of all sizes following Hurricanes Katrina and Rita through its Disaster Loan and GO Loan programs to assist with the repair or replacement of disaster-damaged property, mitigate economic losses that small businesses incurred as a result of the hurricanes, and provide working capital loans to businesses in severely distressed areas. The Disaster Loan Program accounted for about $1.2 billion of the $1.4 billion SBA provided in loans to Gulf Coast businesses. As table 3 shows, SBA approved over 13,400 disaster loans for businesses of all sizes affected by the hurricanes from fiscal years 2005 through 2009, and more than 10,700 of these loans were identified as having assisted small businesses (economic injury disaster loans, and physical and economic injury disaster loans). Also, an

[37]On July 16, 2010, the FAR was updated to include additional guidance on eSRS, including reporting time frames for subcontracting accomplishment reports and clarification of when a contracting officer shall reject a report as not adequately completed. 75 Fed. Reg. 34260 (June 16, 2010); 73 Fed. Reg. 21779 (Apr. 22, 2008).

unidentifiable number of small businesses received physical disaster loans. SBA approved about 96 percent of these loans in fiscal year 2006.

**Table 3: SBA Disaster Loans Approved for Businesses, Hurricanes Katrina and Rita, Fiscal Years 2005-2009**

Dollars in millions

| | All businesses | | Small businesses | |
|---|---|---|---|---|
| **Disaster loan type** | **Number** | **Amount** | **Number** | **Amount** |
| Physical[a] | 2,743 | $347.5 | [b] | [b] |
| Economic injury | 2,491 | 147.9 | 2,491 | $147.9 |
| Physical and economic injury[c] | 8,219 | 747.7 | 8,219 | 747.7 |
| **Total[d]** | **13,453** | **$1,243.1** | **10,710** | **$895.6** |

Source: GAO analysis of SBA data.

[a]Businesses of all sizes are eligible for physical disaster loans, but SBA does not maintain data in DCMS on business size for these types of loans.

[b]Data are unavailable.

[c]This category refers to loans that include both a physical and economic injury disaster loan component. Borrowers receiving both of these loans were identified as small businesses because only small businesses are eligible for economic injury loans.

[d]Totals for small businesses may exceed the totals shown because we could not determine the amount and number of physical disaster loans approved specifically for small businesses. These totals exclude 5,921 approved disaster loans, valued at about $686 million, that were later canceled. According to SBA operating procedures, reasons for cancellations include, among others, the verbal or written request of the borrower, the borrower failing to complete and return all loan closing documents by the deadline, and the borrower not satisfying all terms and conditions of the loan agreement.

As table 4 shows, approved SBA disaster loans identified as going to small businesses totaled over $578 million for small businesses in Louisiana and more than $197 million for small businesses in Mississippi.

**Table 4: SBA Disaster Loans Approved for Small Businesses in Gulf Coast States, Hurricanes Katrina and Rita, Fiscal Years 2005-2009**

Dollars in millions

| | Alabama | | Louisiana | | Mississippi | | Texas | |
|---|---|---|---|---|---|---|---|---|
| **Disaster loan type** | **Number** | **Amount** | **Number** | **Amount** | **Number** | **Amount** | **Number** | **Amount** |
| Physical[a] | [b] | [b] | [b] | [b] | [b] | [b] | [b] | [b] |
| Economic injury | 94 | $7.4 | 1,718 | $103.0 | 382 | $20.1 | 297 | $17.4 |
| Physical/Economic injury[c] | 229 | 32.4 | 5,237 | 475.5 | 1,980 | 177.2 | 773 | 62.7 |
| **Total[d]** | **323** | **$39.8** | **6,955** | **$578.5** | **2,362** | **$197.3** | **1,070** | **$80.1** |

Source: GAO analysis of SBA data.

[a]Businesses of all sizes are eligible for physical disaster loans, but SBA does not maintain data in DCMS on business size for these types of loans.

[b]Data are unavailable.

[c]This category refers to loans that include both a physical and economic injury disaster loan component. Borrowers receiving both of these loans were identified as small businesses because only small businesses are eligible for economic injury loans.

[d]Totals for small businesses may exceed the totals shown in this table because we could not determine the amount and number of physical disaster loans approved specifically for small businesses.

In focus groups that we conducted, several small business owners told us about the benefits associated with receiving SBA disaster loans. For example, one small business owner who operates three grocery stores in New Orleans that sustained severe wind and water damage in Hurricane Katrina noted that the SBA physical and economic injury loans she received gave her a little flexibility in paying her vendors because the vendors were more confident knowing that federal funds were involved and were willing to wait on payments until she received the loan funds. Another small business owner, who operates a Mardi Gras supply store in New Orleans, lost over $1 million in inventory as a result of Hurricane Katrina. She also received both an SBA physical loan and an economic injury loan and said that when she received the loan funds, she was able to pay off her bank line of credit, which prior to receiving the funds, she had not been able to do in 3 years. Another small business owner in New Orleans explained that the SBA physical disaster loan she received allowed her to purchase equipment, and that without the loan her business would be closed today. She added that the loan also made her more aware of the resources that are provided through the local SBDC. Finally, a New Orleans small business owner who operates an automobile service center explained that her center was flooded by 10 feet of water when the levees broke, which destroyed all of the equipment. She said that the SBA physical and economic injury loans she received were the only way she was able to get the business restarted.

SBA also approved about 1,600 GO loans for small businesses in the Gulf Coast states, totaling about $116 million from fiscal years 2005 through 2009 (table 5).

**Table 5: Number and Amount of Approved GO Loans for Small Businesses in Gulf Coast States, Fiscal Years 2005-2009**

Dollars in millions

| | Approved GO loans | |
|---|---|---|
| **State** | **Number** | **Amount** |
| Alabama | 85 | $4.7 |
| Louisiana | 598 | 54.7 |
| Mississippi | 802 | 49.8 |
| Texas | 88 | 6.9 |
| **Total**[a] | **1,573** | **$116.1** |

Source: GAO analysis of SBA data.

[a]These totals exclude 221 approved GO loans, valued at $17.6 million that were later canceled. According to SBA operating procedures, reasons for cancellations include, among others, the lender or the applicant indicating that the applicant does not intend to utilize the proceeds or there has been an adverse change.

SBA awarded Mississippi small businesses the greatest number of these loans, but Louisiana small businesses received the greatest amount of funds. According to officials from three local SBA district offices, the GO Loan Program has been popular with lenders and has helped with recovery efforts, as well as offsetting some of the effects of the tightening of the credit markets. Additionally, one local SBDC director stated that he believes the GO Loan Program should be considered a best practice in helping small businesses recover from disasters. Others with whom we spoke also expressed positive views of the program, including lender support for the program and the stability the program helped provide to the region.

## Louisiana and Mississippi Used CDBG Disaster Relief Funds to Implement State-Run Programs to Further Assist Gulf Coast Small Businesses

As of December 31, 2009, Louisiana had used about $179 million in CDBG disaster relief funds for three programs to specifically assist small business recovery efforts. Mississippi had developed one program specifically to assist small businesses to which it targeted $3 million in CDBG disaster relief funds; however, as of April 2010, the state was in the process of developing program details and no funds had been spent. The three programs that Louisiana developed are discussed in the following text.

- *Bridge Loan Program:* Louisiana used about $5.7 million in CDBG disaster relief funds to provide about 800 small businesses with temporary working capital loans.[38] State officials told us that money was not disbursed for this program after March 2006, and that remaining funds were transferred to the Business Recovery Grant and Loan Program.

- *Business Recovery Grant and Loan Program:* As of December 31, 2009, Louisiana had used about $164 million in CDBG disaster relief funds and provided over 4,500 Louisiana small businesses grant and loan assistance.[39] Under this program, the state has assisted small businesses that applied for conventional or SBA loans but either had not received them or still needed additional assistance. Additionally, state program officials told us that the program helped to provide assistance to certain businesses that were not eligible for SBA disaster loans. For example, a state official explained that some fishermen's boats were completely destroyed during the hurricanes, and that the fishermen did not have the collateral needed to obtain SBA disaster loans. However, because collateral was not needed for this program, these fishermen were eligible. In fact, over 25 percent of the small businesses that are participating in this program is in the fishing industry.

- *Technical Assistance Program:* As of December 31, 2009, Louisiana had used almost $8.9 million in CDBG disaster relief funds to assist about 3,800 small businesses with adjusting to the posthurricane business environment. Over 2,200 of these small businesses were entrepreneurs or start-up companies looking to open businesses in the areas impacted by the hurricanes.

During focus groups that we conducted, Louisiana small business owners also told us about the benefits associated with assistance provided through these programs. For example, one small business owner who operates two retail shoe and accessory stores located in New Orleans explained that her participation in the Business Recovery Grant and Loan Program allowed her to pay down lines of credit that had higher interest rates. Another small business owner who owns a tourist-related gift shop in New Orleans explained that as a result of her small business recovery loan, she was able to purchase merchandise in time for the National Football League Super Bowl in 2010, which helped to boost her sales. She

[38]According to Louisiana state program officials, the total number of businesses that received loans may be overstated because some businesses received more than one loan.

[39]Included in this amount were grant assistance of about $67.7 million and loan assistance of about $82 million, according to Louisiana state program officials.

stated that without the $80,000 loan she received from the program, she would not have been able to stay in business. Another small business owner who operates a bridal shop stated that the assistance she received from the Business Recovery Grant and Loan Program allowed her, among other things, to pay 3 months of operating expenses and reduce the debt owed to some of her manufacturers, which allowed her to buy new product. Finally, one small business owner who prior to Hurricane Katrina was a self-employed consultant to minority business owners stated that the Technical Assistance Program had been extremely helpful. She explained that many small businesses had utilized this program, and that for many of her previous non-English-speaking clients, the program provided the only technical assistance they received after the hurricanes.

According to SBA data we reviewed, the agency determined that 76 small businesses approved for loans under Louisiana's Business Recovery Grant and Loan Program received duplicate benefits under SBA's Disaster Loan Program. The Stafford Act prohibits disaster victims from receiving duplicate federal benefits for the same loss.[40] SBA and the State of Louisiana developed a process to identify approved Business Recovery Grant and Loan Program applicants who might receive duplicate benefits. A senior-level Louisiana state official told us that having an SBA disaster loan did not necessarily disqualify a small business from the state's program; rather, the state looked specifically at how the business intended to use the funds and compared that with how the small business used the SBA loan funds. If the intended use of the funds was not the same, then a small business could still receive assistance under both programs. The 76 small businesses determined to have received duplicate benefits for the same loss were required to pay off or pay down their SBA disaster loans with the funds they received under the Business Recovery Grant and Loan Program. These businesses returned about $1.3 million to SBA.

As of April 2010, 42 small businesses located in Hancock County, Mississippi, were approved for loans under the Hancock County Job Generation Fund Program. The state targeted $3 million in CDBG disaster relief funds for this program. However, according to a program official, no loans had been closed because they were working with HUD on remaining program compliance issues. State officials told us that the towns in

[40] 42 U.S.C. § 5155. The receipt of partial benefits does not preclude additional federal assistance for any part of a loss or need for which benefits have not been provided. 42 U.S.C. § 5155(b)(3).

Hancock County are based around a small business community, and that the bulk of the businesses were located in Hurricane Katrina's surge area; therefore, there has been a need to provide additional working capital to these businesses until infrastructure repair in the area is complete. During focus groups that we conducted, one Mississippi small business owner who owns a brewery stated that he expects that the funds for which he has been approved will allow him to hire four or five additional employees. He added that he believes that the program is well focused and has the potential for doing a lot of good for the county.

Alabama, Louisiana, and Mississippi also utilized CDBG disaster relief funds for other efforts that benefited small businesses following the hurricanes. For example, while Alabama did not develop programs specifically for small business recovery, state officials noted that small businesses did benefit from the contracts that the state issued for the infrastructure programs funded with CDBG disaster relief funds because the state utilized mostly small and local businesses for such projects. In addition, a senior-level HUD official told us that Louisiana utilized $200 million to subsidize state energy rates, which prevented a large rate increase after the hurricanes and benefited all state residents, including small business owners. Furthermore, Mississippi state officials told us that they used $30 million in CDBG disaster relief funds to subsidize the state's commercial insurance wind pool between fiscal years 2007 and 2008, which directly benefited small businesses. According to state officials, this subsidy lowered insurance premiums for small businesses, which in turn had increased significantly following the hurricanes. Additionally, state officials noted that the state's use of CDBG disaster relief funds to repair bridges, roads, and other public infrastructure was critical for small business recovery because this work allowed people to move back to the coastal area, which in turn helped small businesses rebuild their customer base.

## EDA RLF Grantees Have Provided Gulf Coast Small Businesses with Loans to Start New Businesses or Expand Existing Businesses

EDA RLF grantees made approximately $36 million in below-market-rate loans to Gulf Coast small businesses following the hurricanes, primarily for new business start-ups, existing business expansion, and job retention. According to RLF grantee reports we reviewed, these investments generated approximately $196 million in private investment. Table 6 shows the amount EDA invested across the four states in the Gulf Coast region, as well as the total amount of private investments.

**Table 6: Total Amount of RLF and Private Investment, by Selected States**

| Financing, by source | Alabama | Louisiana | Mississippi[a] | Texas | Total |
|---|---|---|---|---|---|
| RLF investment | $5,845,752 | $8,933,500 | $10,529,867 | $11,086,482 | **$36,395,601** |
| Private investment | 62,635,470 | 11,016,627 | 49,235,276 | 73,222,743 | **196,110,116** |
| **Total** | **$68,481,222** | **$19,950,127** | **$59,765,143** | **$84,309,225** | **$232,505,717** |

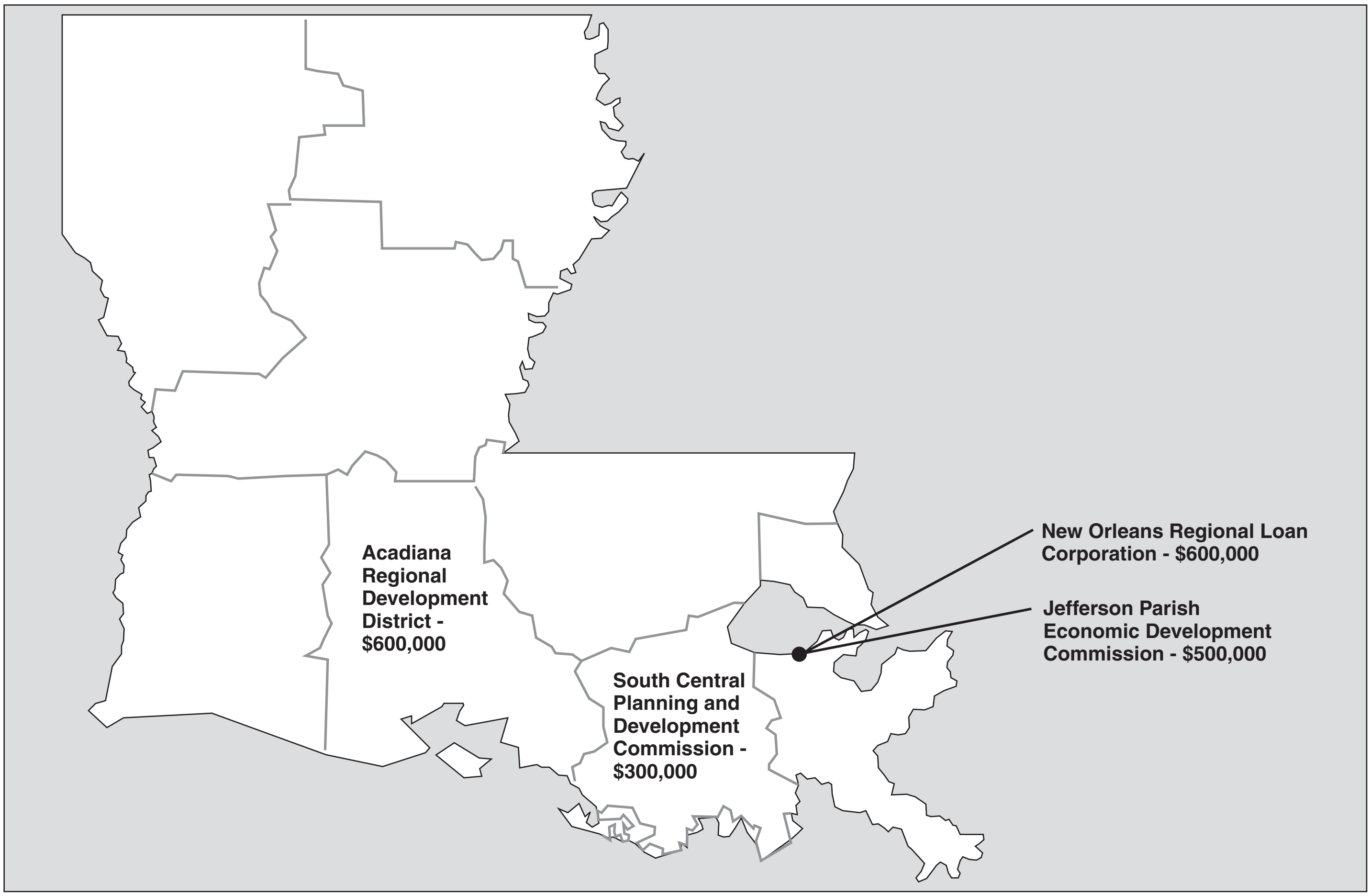
Source: GAO analysis of EDA's RLF grantee data.

Note: The totals only include investments closed after September 1, 2005.

[a]One RLF grantee's semiannual report was missing data on the amount of financing provided by the RLF; therefore, the total amount of RLF Investment listed for Mississippi may be understated.

As we have previously noted, EDA awarded $2 million in program funds to recapitalize—or provide additional funding to—four RLF grantees in Louisiana specifically to assist small businesses impacted by the hurricanes (see fig. 1).

Figure 1: Additional Funding Provided to Louisiana's RLF Grantees for Disaster Recovery Purposes




Sources: GAO analysis of EDA data; MapInfo (map).

For example, the New Orleans Regional Loan Corporation, an RLF grantee, received $600,000 in additional program funds and made loans to seven small business owners for disaster recovery purposes. One small business owner who operated a restaurant received a loan of $75,000 to help cover uninsured expenses, including new equipment and clean-up costs. In addition, an operator of a service station that sustained flood damage received a loan of $250,000 to purchase new gasoline pumps. Another RLF grantee, the Jefferson Parish Economic Development Commission, received $500,000 in additional program funds; officials told us that they made loans to three small business owners impacted by the hurricanes, including a $340,000 loan to a printing company to purchase new equipment. Finally, the Acadiana Regional Development District used their recapitalization amount of $600,000 to make loans to 14 small businesses.

Although EDA did not recapitalize RLF grantees in Alabama, Mississippi, and Texas, RLF grantees in heavily impacted areas of these states told us that they provided other forms of assistance to small businesses for disaster recovery efforts. For example, in Gulfport, Mississippi, an RLF grantee official reported they offered borrowers 2-month loan payment deferments. Similarly, in Beaumont, Texas, an RLF grantee offered 3-month payment deferrals after the hurricanes, but loan borrowers' accounts continued to accrue interest, and principal was not waived.

## Despite Federal Assistance, Small Business Owners Reported Several Challenges to Recovery Efforts

Despite the assistance that federal and state-run programs have provided to small businesses, some small business owners in focus groups that we conducted and others with whom we spoke cited challenges with participating in some of these programs, particularly the SBA Disaster Loan Program.

- *Timeliness of assistance received:* Several small businesses commented that they did not receive assistance in a timely manner, particularly under SBA's Disaster Loan Program. One Mississippi small business owner of a storage facility told us it took him 9 months to receive funding from his SBA physical and economic injury disaster loans, during which he had to operate off of $50,000 of his savings and take outside employment to support himself. A wholesale trade small business owner in New Orleans told us that she applied for an SBA disaster loan in the middle of September 2005, received approval in August 2006, and received the final portion of the loan in December 2007. She added that during that period, she invested all income into the business and paid herself a minimum salary. Additionally, SBDC representatives and representatives of local chambers of commerce with whom we spoke stated that the length of time it took to receive SBA Disaster Loans caused difficulties for small businesses trying to sustain in the immediate aftermath of the hurricanes.

  In July 2006, we reported that SBA faced an unprecedented demand for disaster loans while also confronting a significant backlog of applications; as a result, hundreds of thousands of loans were not disbursed in a timely way.[41] We also concluded that SBA had not fully planned for the implementation of its new disaster loan processing system—DCMS—which restricted the number of staff that could access the system and process the large volume of applications. Since then, SBA has taken several steps to reform its Disaster Loan Program, including creating an online loan application, increasing the capacity of DCMS, and developing a Disaster Recovery Plan.[42]

- *Application process and requirements:* Two Mississippi small business owners with whom we spoke discussed that they had difficult experiences in applying for SBA disaster loans. They both stated that they had problems with the SBA adjustment process, and that the damage to both of their properties was severely undervalued. Both also said that they had to work with several different SBA case managers throughout the application process, which contributed to their difficult experience because the new case manager was not familiar with actions that had previously occurred on their applications. Another small business owner in New Orleans explained that he needed a lot of financial records to apply for a SBA disaster loan, which presented problems. He said that all of his records sat in over 7 feet of water for 12 weeks and were completely destroyed. Local SBDC officials and officials from chambers of commerce also told us that in some instances, small business owners found the application process so complicated that they decided not to complete it, and that, in some cases, the business owners did not have the proper educational background to complete the application.

  Local SBDC officials and officials from state and federal development agencies explained that some small business owners faced difficulty in meeting some of the loan program underwriting requirements for collateral. For example, some small businesses affected by Hurricanes Katrina and Rita were completely destroyed, and all that remained after the storm was the concrete slab on which their business had been located; many of these business owners also lost their homes. In these instances,

[41]GAO, *Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance*, GAO-06-860 (Washington, D.C.: July 28, 2006); and *Small Business Administration: Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, GAO-09-755 (Washington, D.C.: July 29, 2009).

[42]For more information on SBA actions to reform the Disaster Loan Program, see GAO, *Small Business Administration: Continued Attention Needed to Address Reforms to the Disaster Loan Program*, GAO-10-735T (Washington, D.C.: May 19, 2010).

some small business owners were unable to meet the collateral requirements for loans.

In addition to the program-related challenges previously listed, many small business owners told us in focus groups that we conducted and others with whom we met reported more general challenges that have hindered small business recovery efforts, including an increased debt load; difficulties in receiving commercial insurance payouts, reduced insurance availability, and increased insurance costs; and difficulty in accessing capital.

- *Increased debt load:* Several small business owners with whom we spoke stated that the federal assistance loans have increased their debt burden and are creating significant challenges for recovery. For example, one New Orleans small business owner explained that the business she operates has five times the level of debt it had before Hurricane Katrina. She stated that although her sales are back to pre-Katrina levels, because of the added debt, the company needs higher sales now to remain as profitable as it was prior to the hurricane. Another small business owner who operates two retail stores that were destroyed during Hurricane Katrina explained that his business was debt free prior to the hurricane. He now has an SBA physical disaster loan, GO loan, and a loan from the Louisiana Business Recovery Grant and Loan Program. His current employee level is significantly lower than the pre-Katrina level, and because of the large amount of debt he is carrying, he told us that he is unable to hire any additional employees. Others with whom we spoke also discussed the difficulties being faced by small business owners because of the debt resulting from federal assistance loans. For example, a local planning and development district official stated that many small business owners were afraid to expand because they did not want to take on the additional debt needed to do so. A representative from a local chamber of commerce also told us that the heavy debt affects small businesses' access to capital and businesses' viability.

- *Commercial insurance:* Small business owners and other local officials told us that many small business owners faced difficulties in receiving insurance payouts for damages suffered, and that this situation has stymied recovery efforts by stalling businesses from reopening. One small business owner in New Orleans told us that he has been in court proceedings with his insurance company for over 3 years working to settle claims. He explained that had he received insurance payouts earlier, he would have been able to reopen his business sooner and create jobs to help stimulate the local economy. Additionally, a restaurant owner in New

Orleans told us that it took 16 months to receive a payout from his insurance company, and that he had to hire an attorney and sue the insurance company to get the payout. Another small business owner stated that although her business was well insured, she did not receive payment until November 2009.

Several small business owners in Louisiana and Mississippi also stated that the cost to insure their businesses has significantly increased since the storms. Two small business owners told us that their commercial insurance rates at least doubled after the hurricanes. A small business owner in Mississippi who operates a retail store out of her home stated that her insurance costs (for her home and business) increased by 400 percent after Hurricane Katrina, and that the building being insured was significantly smaller than the one she owned prior to the hurricane. She explained that the cost of insurance was so high that it was difficult to make a profit without significantly raising prices. Another business owner stated that the wind and hail insurance on her wholesale trade company for durable goods increased from about $2,600 to $14,000 a year. Additionally, a local chamber of commerce official told us that increased insurance premiums remain a major reason why some small businesses have not been able to reopen, and a local planning and development district official told us that some small businesses in the area had closed because the increased cost of insurance had made it unaffordable to stay in business.

Some small business owners also mentioned that the availability of insurance was significantly reduced after the hurricanes. For example, one small business owner who operates three grocery stores in New Orleans told us that there were certain types of insurance that she can no longer purchase, such as spoilage and excess flood coverage. Another New Orleans small business owner told us that since the hurricanes, there were very few insurance companies from which to choose to purchase insurance policies. Additionally, local SBA district office officials, a local chamber of commerce official, and a local business research foundation told us that the availability of insurance had significantly decreased, particularly for businesses located in coastal areas.

- *Difficulty in accessing capital:* SBA district and branch office officials and officials from several local chambers of commerce also mentioned that small business owners have had difficulty in accessing capital for business loans due to the current economic environment. Some stated that lenders' reluctance to provide small business capital was prohibiting recovery efforts, and that the elimination of credit lines for small businesses has had a dramatic impact on business growth. Additionally, a local SBDC Director told us that accessing additional capital had proven even more difficult for small business owners with SBA disaster loans.

## Performance of Federal and State-Run Business-Assistance Loans Varied

Overall, we found that the performance of the loans small businesses received for the various federal assistance programs we reviewed varied. For example, about 70 percent of the 10,710 disaster loans that the agency approved for small businesses in the Gulf Coast region was current, and about 15 percent was paid in full.[43] In addition, the default rate for disaster loans made to small businesses was 9.4 percent, and 2.8 percent of loans was either past due or delinquent. For GO loans, about 54 percent of the 1,573 loans SBA approved for small businesses was current, and about 17 percent was paid in full.[44] The default rate for GO loans was 6 percent, and about 13.4 percent was in delinquent status.[45] Loans provided to small businesses through the Louisiana Business Recovery Grant and Loan Program experienced a default rate of about 4.1 percent and a delinquency rate of about 8.5 percent as of fiscal year 2009.[46] Finally, 1 of the 27 loans made by RLF grantees in Louisiana using additional program funds targeted for disaster recovery was delinquent and 3 had defaulted. In summary, the percentages of loans categorized as in default or delinquent were about 12 percent for SBA disaster loans, 19 percent for SBA GO loans, about 12 percent for Louisiana small business loans, and about 15 percent for the small number of EDA RLF loans made specifically for disaster recovery purposes. Differences in the characteristics of the various loan programs we reviewed—such as year of origination, interest rates, loan terms, types of small business served, and the use of loan

[43]Loan performance data for SBA disaster loans are as of March 8, 2010.

[44]Loan performance data for GO loans are as of March 30, 2010.

[45]We defined the default rate as those loans that SBA had charged off or liquidated. The remaining approximately 2.2 and 9.8 percent, respectively, of disaster and GO loans were either committed or deferred by SBA. Totals do not add to 100 percent because of rounding. According to SBA, a committed loan is a loan that is approved on SBA's books but has not yet been disbursed, and deferred refers to a loan in deferment status. An SBA official explained that SBA disaster loans generally come with a standard deferment—that is, the first payment is not due until several months after the note date.

[46]The delinquency rate refers to loans that are between 30 and 120 days past due. The default rate calculated by the Louisiana Economic Development refers to any loan that a loan intermediary has written off, that has been transferred to the State Attorney General's office for collection, or that is more than 120 days past due.

funds—are among the variables that could have an impact on loan performance.

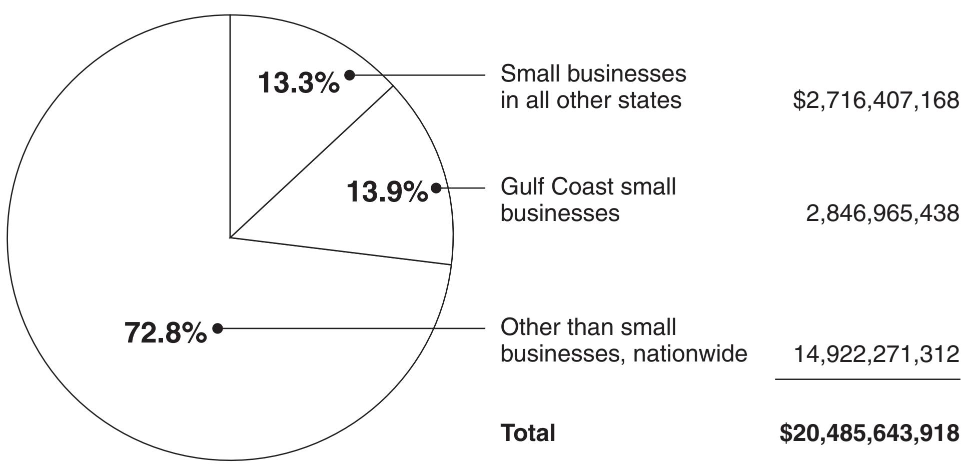
## Gulf Coast Small Businesses Directly Received Billions of Federal Contracting Dollars, but Reporting of Subcontracting Dollars Awarded Remains Incomplete

Gulf Coast small businesses directly received almost $2.9 billion in total federal contract funds awarded for Hurricanes Katrina- and Rita-related recovery projects between fiscal years 2005 and 2009. However, we found that the Corps and DOD could not demonstrate that they were consistently monitoring subcontracting accomplishment information as required for 13 of the 43 construction contracts awarded directly to large businesses for Katrina- and Rita-related recovery efforts during that time. Without monitoring, the Corps and DOD are limited in their ability to determine the extent to which their prime contractors are following their subcontracting plans.

### Federal Agencies Awarded a Significant Amount of Contract Dollars Directly to Small Businesses in Gulf Coast and Other States

Federal agencies directly awarded a total of $20.5 billion nationwide in contracts between August 2005 and September 2009 for recovery efforts related to Hurricanes Katrina and Rita. Of this $20.5 billion, small businesses located in Gulf Coast states received almost $2.9 billion (13.9 percent), and small businesses in the rest of the United States received about $2.7 billion (see fig. 2).

**Figure 2: Total Amount of Federal Contract Dollars Provided for Hurricanes Katrina- and Rita-Related Recovery Efforts, Fiscal Years 2005-2009**

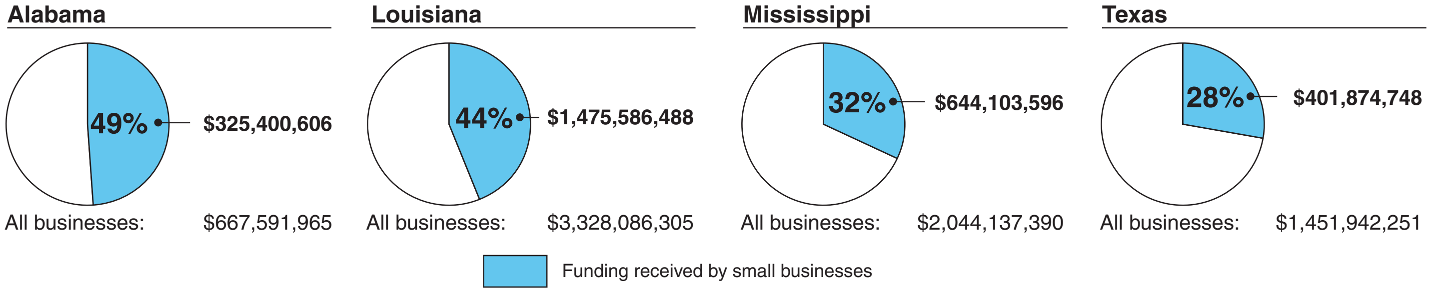



Source: GAO analysis of FPDS-NG data.

Note: The dollars reported in this figure are obligations. The data are as of January 15, 2010.

Among the four Gulf Coast states in our review, Louisiana small businesses directly received the greatest amount of federal contract funds, about $1.5 billion. However, Alabama small businesses saw the largest proportion (49 percent) of total prime contract dollars awarded within a particular state (see fig. 3).

**Figure 3: Contract Dollars Awarded Directly to Gulf Coast Small Businesses and Businesses of All Sizes in States Primarily Affected by Hurricanes Katrina and Rita, Fiscal Years 2005-2009**




Source: GAO analysis of FPDS-NG data.

Note: The dollars reported in this figure are obligations. The data are as of January 15, 2010.

The amount of federal contract funds directly awarded to specific types of small businesses for Hurricanes Katrina- and Rita-related recovery efforts varied (see fig. 4).

- *Small disadvantaged businesses:* Of the almost $2.9 billion in contracting dollars that went directly to small businesses in the Gulf Coast, about $839.5 million (almost 30 percent) was awarded to small disadvantaged businesses. Louisiana small disadvantaged businesses received the greatest amount of the prime contract funds awarded to disadvantaged businesses in Gulf Coast states (over $456 million).

- *HUBZones:* Gulf Coast small businesses located in HUBZones directly received a total of about $598 million in federal contract funds (21 percent of federal contract funds directly awarded to Gulf Coast small businesses). Of the contract funds directly awarded to small businesses in HUBZones, Louisiana small businesses received the greatest amount (over $335 million).

- *Women-owned small businesses:* About $382 million in federal contract funds were directly awarded to women-owned small businesses in the Gulf Coast (about 13 percent of all federal contract funds directly awarded to Gulf Coast small businesses for Katrina- and Rita-related recovery efforts). Women-owned small businesses in Louisiana were directly awarded the greatest amount of the federal contracts (approximately $184 million).

- *Veteran-owned small businesses:* Gulf Coast small businesses owned by veterans were directly awarded about $289 million in federal contract funds (about 10 percent of all the Katrina- and Rita-related federal contracts directly awarded to Gulf Coast small businesses). Veteran-owned Louisiana small businesses were directly awarded about $205 million of the $289 million, the most in the Gulf Coast states.

Contracting dollars awarded directly to businesses can be counted in more than one category, so the dollars awarded to various types of small businesses are not mutually exclusive.

**Figure 4: Contract Dollars Awarded Directly to Various Types of Small Businesses for Hurricanes Katrina- and Rita-Related Recovery Efforts, Fiscal Years 2005-2009**

Dollars in millions

| | Total awarded to small businesses | Dollars and percentages of small business totals awarded to different types of small businesses: Disadvantaged | | HUBZone | | Women-owned | | Veteran-owned | |
|---|---|---|---|---|---|---|---|---|---|
| Alabama | $325.4 | 24% | $78.9 | 24% | $78.9 | 11% | $36.0 | 3% | $9.1 |
| Louisiana | 1,475.6 | 31% | 456.3 | 23% | 335.0 | 12% | 184.4 | 14% | 204.9 |
| Mississippi | 644.1 | 33% | 209.4 | 23% | 147.0 | 19% | 120.4 | 7% | 46.1 |
| Texas | 401.9 | 24% | 94.8 | 9% | 36.9 | 10% | 41.4 | 7% | 28.5 |
| **Total (Gulf Coast)** | **$2,847.0** | 29% | **$839.5** | 21% | **$597.9** | 13% | **$382.2** | 10% | **$288.6** |

Source: GAO analysis of FPDS-NG data.

Note: Percentages cannot be totaled across columns because under SBA guidelines, contracting dollars awarded to businesses can be counted in more than one category. For example, a small disadvantaged business owned by a woman can be counted as both disadvantaged and women-owned. The dollars reported in this figure are obligations. The data are as of January 15, 2010.

## Corps of Engineers and DOD Could Not Demonstrate Consistent Monitoring of Subcontracting Information for Selected Contracts

The Corps and DOD could not demonstrate that they were consistently monitoring subcontracting accomplishment information as required. As we have previously discussed, subcontracting plans are generally required for construction contracts (or modifications to contracts) that are expected to exceed $1 million and that have subcontracting possibilities. The FAR states that subcontracting plans must include assurances that prime contractors will report on their progress toward reaching their subcontracting goals.[47] Generally, contracts that offer subcontracting possibilities and are expected to exceed the monetary thresholds above are to include certain clauses. In general, these clauses require contractors to submit these reports semiannually and at project completion. The Corps

[47] FAR Subpart 19.704 (a)(10)(iii).

and DOD use these reports to monitor contractor performance under subcontracting plans.

We reviewed the 57 construction contracts that the Corps, DHS, DOD, and GSA awarded directly to large businesses between fiscal years 2005 and 2009, and that were listed in FPDS-NG as having subcontracting plans. The Corps awarded 29 of these contracts but was unable to provide subcontracting accomplishment report information for 11 contracts. DOD awarded 14 of the contracts and was unable to provide subcontracting accomplishment information for 2 contracts (see table 7). Without these reports, either in eSRS or paper form, contracting officials lack a key tool used to monitor contractors' performance under subcontracting plans.

**Table 7: Status of Subcontracting Accomplishment Information for Hurricanes Katrina- and Rita-Related Construction Contracts Having Subcontracting Plans**

| Agency | Number of construction contracts listed in FPDS-NG as having subcontracting plans | Number of construction contracts for which agencies were unable to demonstrate compliance with requirements for monitoring subcontracting accomplishment information | Percentage unable to demonstrate compliance |
|---|---|---|---|
| DHS | 5 | 0 | 0% |
| GSA | 9 | 0 | 0 |
| DOD | 14 | 2 | 14 |
| Corps | 29 | 11 | 38 |
| **Total** | **57** | **13** | **23%** |

Source: GAO analysis of agency contracting data.

Note: Two additional construction contracts were listed in FPDS-NG as having subcontracting plans; however, these contracts were miscoded and did not require subcontracting plans and, thus, were eliminated from the universe of contracts we reviewed. Additionally, two contracts were eliminated from the universe of contracts we reviewed because Corps officials told us that they did not contain subcontracting plans because limited or no subcontracting possibilities existed for those contracts.

As of 2005, all contractors with subcontracting reporting requirements related to contracts with civilian agencies were generally required to submit, with some exceptions, summary subcontract reports into eSRS, a Web-based govermentwide subcontracting system that allows contractors to submit and agency officials to review subcontracting accomplishment reports electronically rather than using paper forms. DOD implemented eSRS incrementally and, as of 2009, began primarily relying on eSRS for subcontract reporting.[48] The development of eSRS was intended to create more visibility and transparency into the process of gathering information on federal subcontracting accomplishments.

In addition to requirements for contractors to submit subcontracting accomplishment information, the FAR requires that agency contracting officers review subcontracting plans for adequacy and take action to enforce the terms of the contract if notified that the contractor is failing to meet its commitments under their subcontracting plan.[49] Agency administrative contracting officials are required to provide information to the contracting officer on the extent to which the contractor is meeting subcontracting plan goals and to notify the contracting officer if the contractor is failing to comply in good faith with the subcontracting plan.[50] In determining whether a contractor failed to make a good-faith effort to comply with its subcontracting plan, a contracting officer must look to the totality of the contractor's actions, consistent with the information and assurances provided in its plan. When considered in the context of the contractor's total effort in accordance with its plan, failure to submit contracting accomplishment reports may be considered an indicator of a failure to make a good-faith effort.[51] These requirements were in place prior to the 2005 hurricanes and have continued in the eSRS environment. New requirements were added to the FAR in April 2008 that additionally require that contracting officers acknowledge receipt of or reject the subcontracting accomplishment reports submitted by contractors in eSRS.[52] In addition, GSA, DOD, and the Corps have agency guidance that spells out the contract administration duties necessary to monitor contractor compliance with subcontracting plan reporting requirements. Without subcontracting accomplishment information, contracting officials at the Corps and DOD lack a key tool used to monitor contractor performance under subcontracting plans. In the absence of these reports, the Corps and DOD could not demonstrate that they were consistently monitoring contractor performance under the plans.

[48]For certain types of contracts and agreements, DOD still does not use eSRS. According to DOD guidance, this is primarily because eSRS does not support submitting reports on these certain contracts, agreements, and orders.

[49]FAR Subpart 19.705-4 and 19.705-6.

[50]FAR Subpart 19.706.

[51]FAR Subpart 19.705-7.

[52]See footnote 37 of this report.

As we have previously noted, the Corps did not provide subcontracting accomplishment report information for 11 of these contracts and was unable to provide a reason for why subcontracting information was unavailable for these contracts. DOD did not provide us with subcontracting information on 2 of the 14 construction contracts that we reviewed, and DOD officials told us that after searching retained records, it could not find any paper or electronic subcontracting accomplishment reports. Without monitoring, the Corps and DOD are limited in their ability to determine the extent to which their prime contractors are following their subcontracting plans.

## Economic Conditions Have Varied Across the Gulf Coast Region Following Hurricanes Katrina and Rita and Appear to Be Related in Part to the Level of Damage Sustained in Different Areas

Indicators of economic conditions in the Gulf Coast—including population estimates, the number of small businesses, unemployment rates, and housing prices—suggest that the effects of Hurricanes Katrina and Rita on local economies have varied across the region.[53] Some areas experienced decreases in the number of small businesses and population and increases in unemployment after the hurricanes. While some areas experienced economic decline immediately after the storms, the whole Gulf Coast region eventually began to experience economic growth (as measured by these four indicators) until the national economy went into a recession in late 2007. The impact on small businesses from the April 20, 2010, explosion of the Deepwater Horizon oil rig is still uncertain.

### The Gulf Coast Region Experienced Shifts in Population Levels and Number of Small Businesses

Louisiana and Mississippi, the two states most affected by Hurricanes Katrina and Rita, experienced varying shifts in population and number of small businesses at the state level. For example, in Mississippi, the population decreased 1 year after the hurricanes (see table 8). However, by 2007, the statewide population increased to more than 2.9 million, higher than pre-Katrina levels. In Louisiana, the population declined by more than 250,000 in the year following the hurricanes; the statewide population has since increased but has not achieved prehurricane levels. Additionally, in Louisiana and Mississippi, the total number of small business establishments declined in the year following the hurricanes but

[53]Data on the number of small businesses come from the U.S. Census Bureau's County Business Patterns database. We defined small businesses as nongovernment establishments with 50 or fewer employees. At the time of our review, 2007 data were the most recent data available.

exceeded prehurricane levels by 2007. For example, in Louisiana, the total number of small businesses with 50 or fewer employees decreased from about 97,200 in 2005 to over 96,100 in 2006 (about 1 percent) but then increased to about 98,900 in 2007. Unlike Louisiana and Mississippi, Alabama and Texas experienced steady statewide growth in population and the number of small businesses following the hurricanes.

**Table 8: Population and Businesses with 50 or Fewer Employees by Selected States, 2004-2008**

| State | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Population** | | | | | |
| Alabama | 4,506,574 | 4,537,299 | 4,587,564 | 4,626,595 | 4,661,900 |
| Louisiana | 4,487,830 | 4,495,627 | 4,243,634 | 4,373,310 | 4,410,796 |
| Mississippi | 2,884,596 | 2,898,209 | 2,896,713 | 2,921,030 | 4,938,618 |
| Texas | 22,424,884 | 22,811,128 | 23,367,534 | 23,843,432 | 24,326,974 |
| **Number of businesses with 50 or fewer employees** | | | | | |
| Alabama | 95,267 | 96,364 | 97,671 | 99,830 | [a] |
| Louisiana | 97,390 | 97,173 | 96,143 | 98,905 | [a] |
| Mississippi | 57,578 | 57,606 | 57,491 | 58,886 | [a] |
| Texas | 463,092 | 469,224 | 479,035 | 490,718 | [a] |

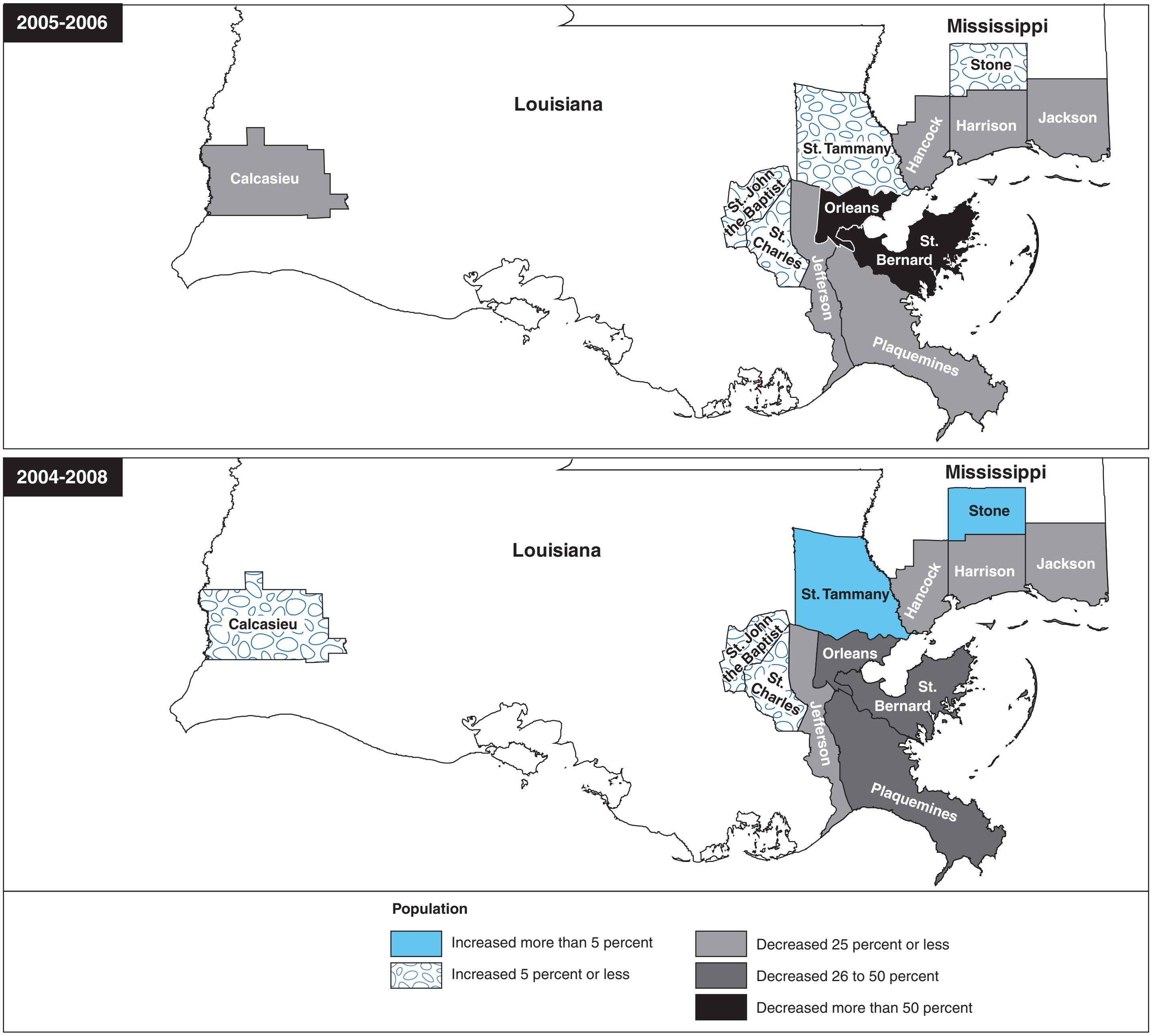
Source: U.S. Census Bureau.

[a]Data are unavailable.

At the county and parish level, population shifts remained uneven among the affected areas within states in the Gulf Coast.[54] Specifically, between 2005 and 2006, counties more heavily impacted by the hurricanes experienced sharp decreases in population and in the number of small businesses, while adjacent counties with less damage experienced steady growth (see figs. 5 and 6).

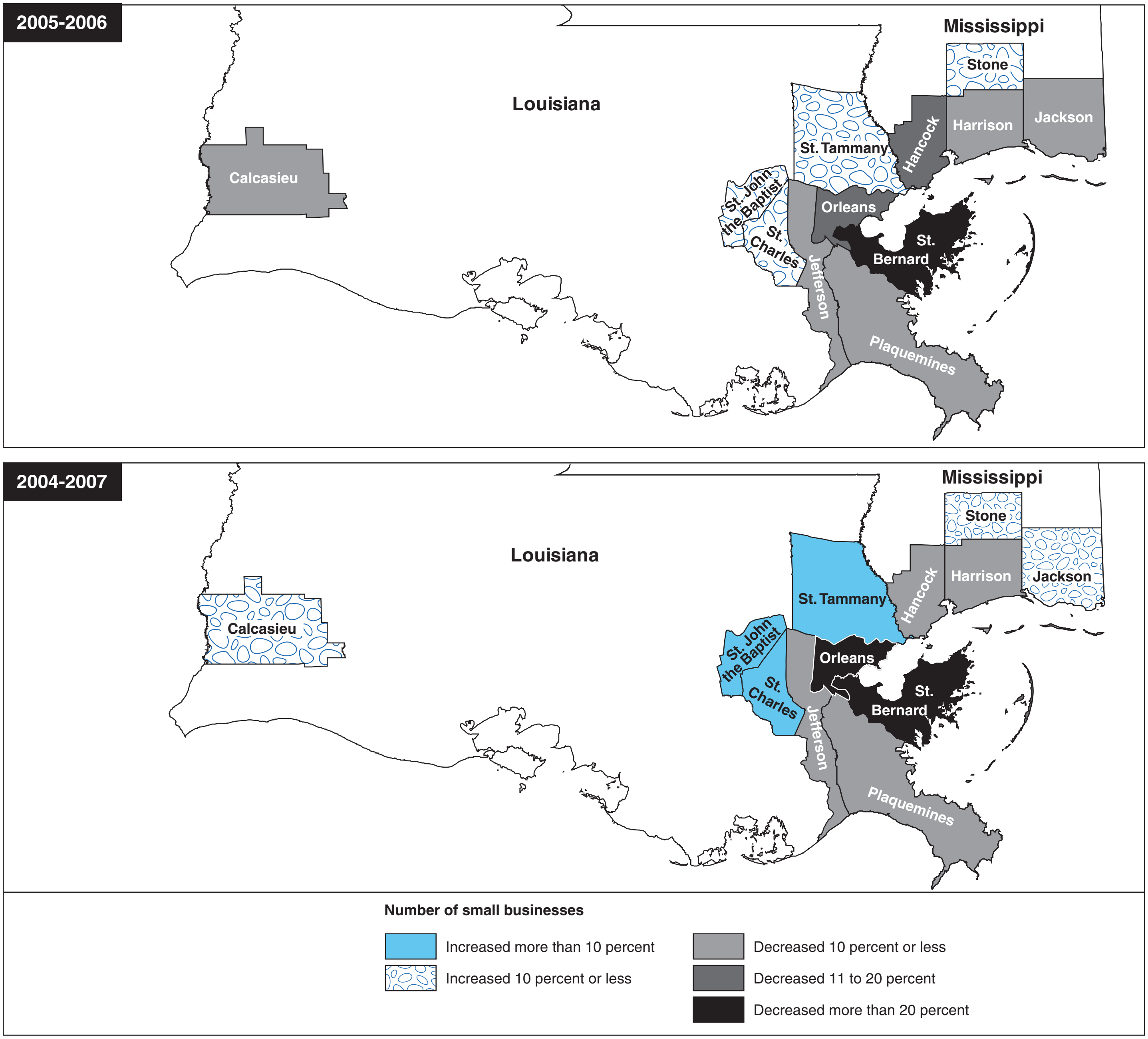
[54]In Louisiana, counties are recognized as parishes.

**Figure 5: Changes in Population, Louisiana and Mississippi, 2004-2008**




Sources: GAO analysis of U.S. Census Bureau data; MapInfo (map).

**Figure 6: Changes in Number of Small Businesses, Louisiana and Mississippi, 2004-2007**




Sources: GAO analysis of U.S. Census Bureau data; MapInfo (map).

- In St. Bernard and Orleans Parishes in Louisiana—two of the most heavily damaged parishes—from 2005 to 2006 the populations decreased by approximately 79 percent and approximately 54 percent, respectively, and the numbers of small businesses declined by 40 percent and 18 percent, respectively. As of 2008, the populations in St. Bernard and Orleans Parishes had increased slightly but were still 42 percent and 32 percent below pre-Katrina population levels, respectively. Conversely, between 2005 and 2006, St. Charles and St. John the Baptist Parishes in Louisiana—parishes that were less damaged by the hurricanes—increased in population by 3 percent and 5 percent, respectively, and the numbers of small businesses also increased by 4 percent and 6 percent, respectively.

- In Hancock County, Mississippi—where the eye of Hurricane Katrina made landfall—the population declined by 16 percent, and the number of small businesses declined by 14 percent from 2005 to 2006. Concurrently, the population in Stone County, Mississippi, which is located just north of Hancock County, increased by approximately 5 percent, while the number of small businesses increased less than 1 percent.

- In Mobile County, Alabama, and Harris County, Texas—two counties that sustained less damage as a result of the hurricanes—the populations increased by about 1 percent and about 3 percent, respectively, and the numbers of small businesses increased by less than 1 percent and about 2 percent, respectively, from 2005 to 2006.

At the focus groups we conducted, small business owners in New Orleans, Louisiana, and Gulfport, Mississippi, told us that populations and tourist levels were lower than what they were prior to Hurricane Katrina, resulting in a smaller customer base that has had a negative impact on new small businesses relocating to the areas. For example, a small business owner of a brewery in Gulfport, Mississippi, told us that prior to Hurricanes Katrina and Rita, 80 percent of his customer base stemmed from the Mississippi Gulf Coast. However, after the hurricanes, he lost most of his customer base and has had to develop a new business strategy focusing on out-of-state sales to remain operational. Additionally, a small business owner who owns a restaurant located in the French Quarter in New Orleans told us that the lower levels of tourists since the hurricanes have caused him to find innovative ways to market the restaurant to expand the customer base. Others with whom we spoke, including SBA officials and representatives of local chambers of commerce, believed that the lower population levels have created recovery challenges for small businesses operating in these areas. For example, officials from one local SBA district office said that small businesses in the coastal counties along the Gulf Coast region still face tough economic conditions because of the extended period after the hurricanes during which businesses operated with a significantly reduced customer base.

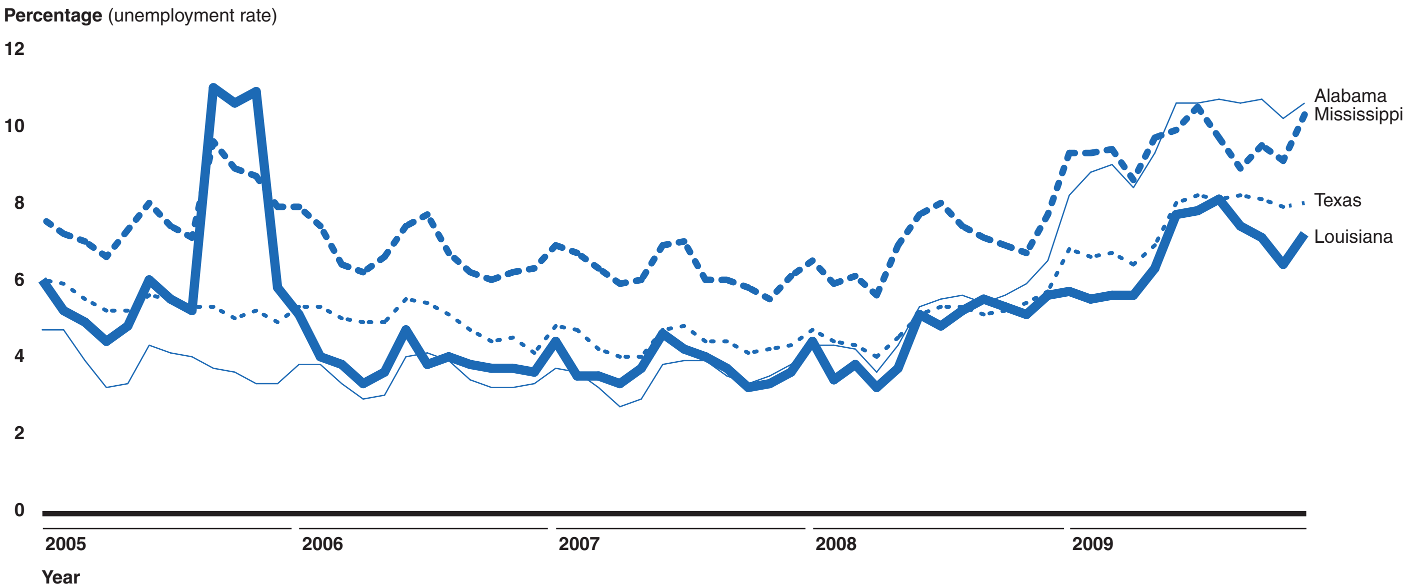
## Increases in Unemployment in Some States May Be Correlated with Changes in the Labor Market Immediately Following the Hurricanes, While More Recent Increases Could Be Associated with Broader National Economic Conditions

Although unemployment rates in Louisiana and Mississippi increased immediately following Hurricanes Katrina and Rita, it appears that the impact of the hurricanes on unemployment rates was temporary.[55] For example, unemployment rates at the state level in Louisiana and Mississippi increased in the 2 months following the hurricanes from 5 percent to 11 percent and from 7 percent to 9 percent, respectively; however, by January 2006, the unemployment rates in both states returned to about the pre-Katrina levels.[56] In comparison, between August 2005 and January 2006, the unemployment rate in Alabama declined slightly and remained about the same in Texas. Between January 2008 and December 2009, unemployment rates in all four states generally increased, which state officials attributed to current economic conditions in the nation more broadly (see fig. 7).

[55]The unemployment rate measures the number of unemployed persons as a percentage of the size of labor force.

[56]Between August 2005 and January 2006, the unemployment rate in Mississippi increased about 1 percent.

Figure 7: Unemployment Rates by Selected States, 2005-2009



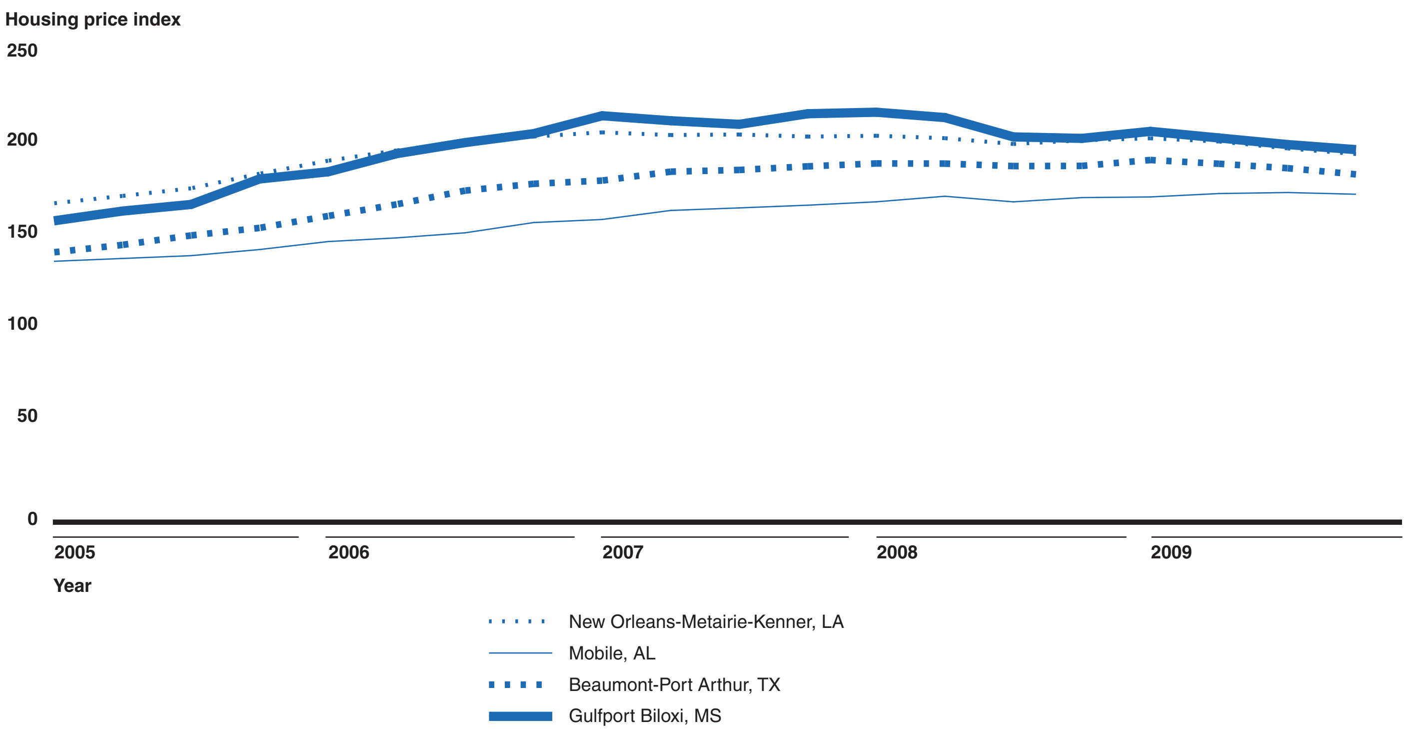

Source: GAO analysis of U.S. Bureau of Labor Statistics data.

Additionally, as we have previously discussed, residents relocated out of some states, such as Louisiana and Mississippi, as a result of the hurricanes. This population migration decreased the size of labor force, which may have increased the unemployment rate even as the number of unemployed persons did not change. Therefore, the increase in the unemployment rate could have been the result of a decrease in the labor force, an increase in the number of unemployed persons, or both.

## Housing Prices in Selected Heavily Damaged Areas Have Shown Some Steady Increases

From 2005 to 2008, the Federal Housing Finance Agency's housing price index—a nationally recognized housing price index—increased in four metropolitan statistical areas (MSA) heavily damaged by the hurricanes.[57] Since the housing price index is a broad measure of the movement of single-family house prices, the increase suggests that average housing prices increased across the areas immediately following the hurricanes. Housing prices are generally determined by the supply and demand of housing units. To the extent that the hurricanes' effect on the stock of housing units and population varied among counties and parishes within the MSAs, housing prices could also behave differently (see fig. 8).

**Figure 8: Housing Price Index by MSA, 2005-2009**




Source: GAO analysis of Federal Housing Finance Agency's Quarterly Housing Price Index.

[57] According to the U.S. Census Bureau, MSAs are geographic entities defined by the Office of Management and Budget for use by federal statistical agencies in collecting, tabulating, and publishing federal statistics. A metropolitan area contains a core urban population of 50,000 or more.

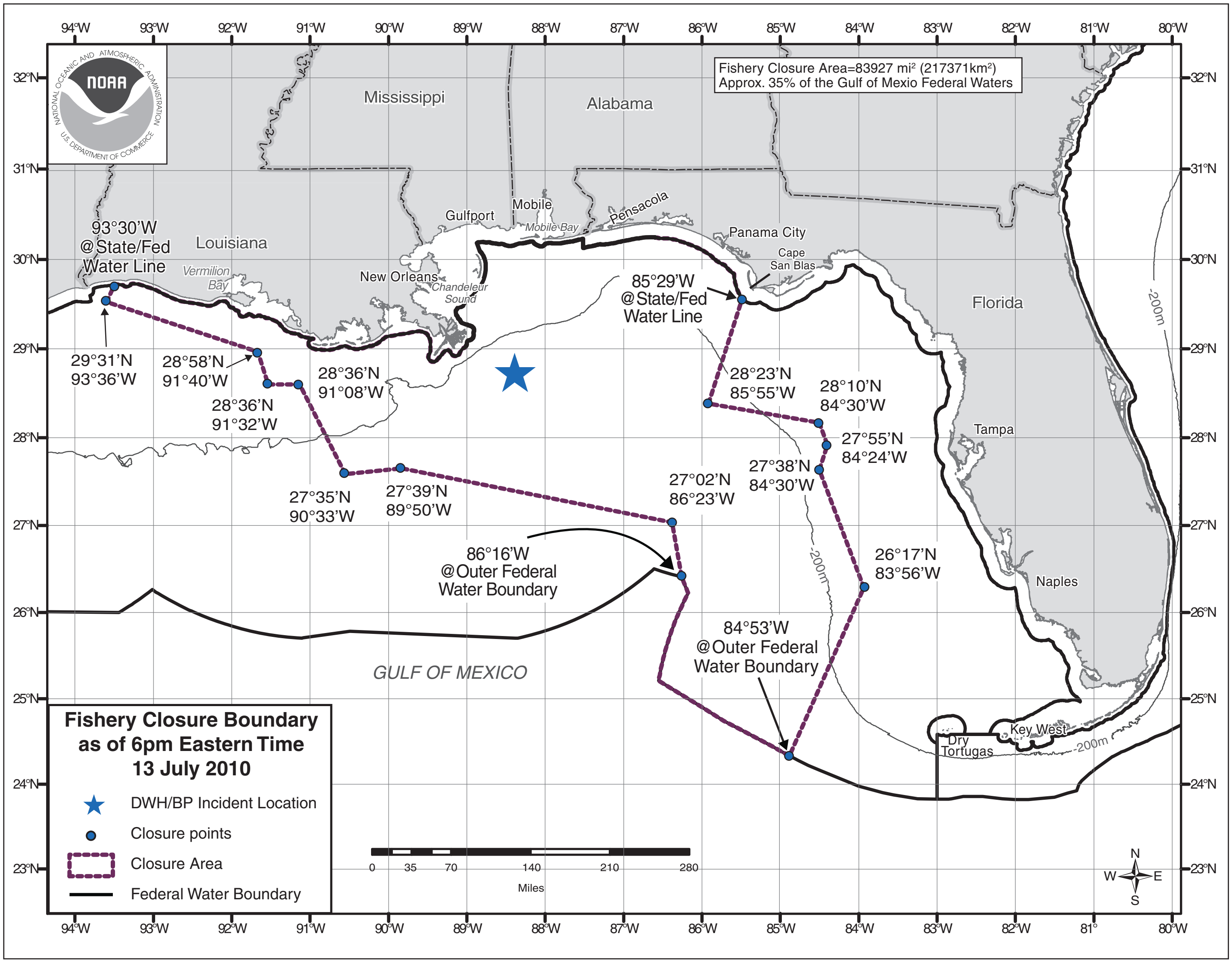
For example, in the New Orleans-Metairie-Kenner MSA in Louisiana, the housing price index increased by approximately 22 percent between the fourth quarters of 2004 and 2006. One local SBDC director who lost her house as a result of Hurricane Katrina stated that these price increases prohibited her from rebuilding in Orleans Parish because property was too expensive immediately following the hurricane. Therefore, she had to relocate to a neighboring parish. Similarly, the price index increased by 31 percent during this time in the Gulfport-Biloxi MSA in Mississippi. In the Mobile MSA in Alabama, housing prices increased by approximately 24 percent between 2004 and 2006, while the Beaumont-Port Arthur MSA in Texas experienced a smaller increase of 13 percent during this time. Since 2007, housing prices varied in the four areas affected by the hurricanes and have started to decrease in some metropolitan areas, such as Gulfport-Biloxi, Mississippi, and New Orleans-Metairie-Kenner, Louisiana. However, the decrease in housing prices may be due to factors affecting the national housing market, such as the overall decline in housing prices. The housing price index data are limited in that they only show the average housing prices at the MSA level, which may not reflect the housing prices in the smaller constituent counties and parishes within them. As a result, averaging the housing prices across the counties within an MSA could obscure the varying movement of housing prices in counties and parishes within the MSAs.

## Impact of Deepwater Horizon Oil Spill on Gulf Coast Economy Is Uncertain

Representatives of state and local organizations and organizations that assist small businesses, as well as small business owners with whom we met, expressed uncertainty regarding the impact on the small business economy that will result from the recent oil spill in the Gulf of Mexico. On April 20, 2010, the Deepwater Horizon oil rig exploded off the coast of Louisiana; the resulting oil spill has led to the closure of waters to commercial and recreational fishing and has threatened the shoreline across the Gulf Coast region. Two industry sectors that have been and will likely continue to be heavily impacted are commercial and recreational fishing and travel. As of July 13, 2010, almost 84,000 square miles of federal waters in the Gulf of Mexico, which represents about 35 percent of these waters, were closed to commercial and recreational fishing as a result of the oil spill (see fig. 9).[58]

[58]States have jurisdiction in marine waters from the shore to 3 miles offshore in the Atlantic Ocean and Gulf of Mexico, except Florida's West Coast and Texas, whose jurisdictions extend to 9 miles offshore. Federal waters begin where state jurisdictions end and extend to 200 miles offshore. See Congressional Research Service, *Offshore Oil and Gas Development: Legal Framework* (Washington, D.C.: 2010).

Figure 9: Federal Fishery Closure Boundaries as of July 13, 2010




Source: NOAA.

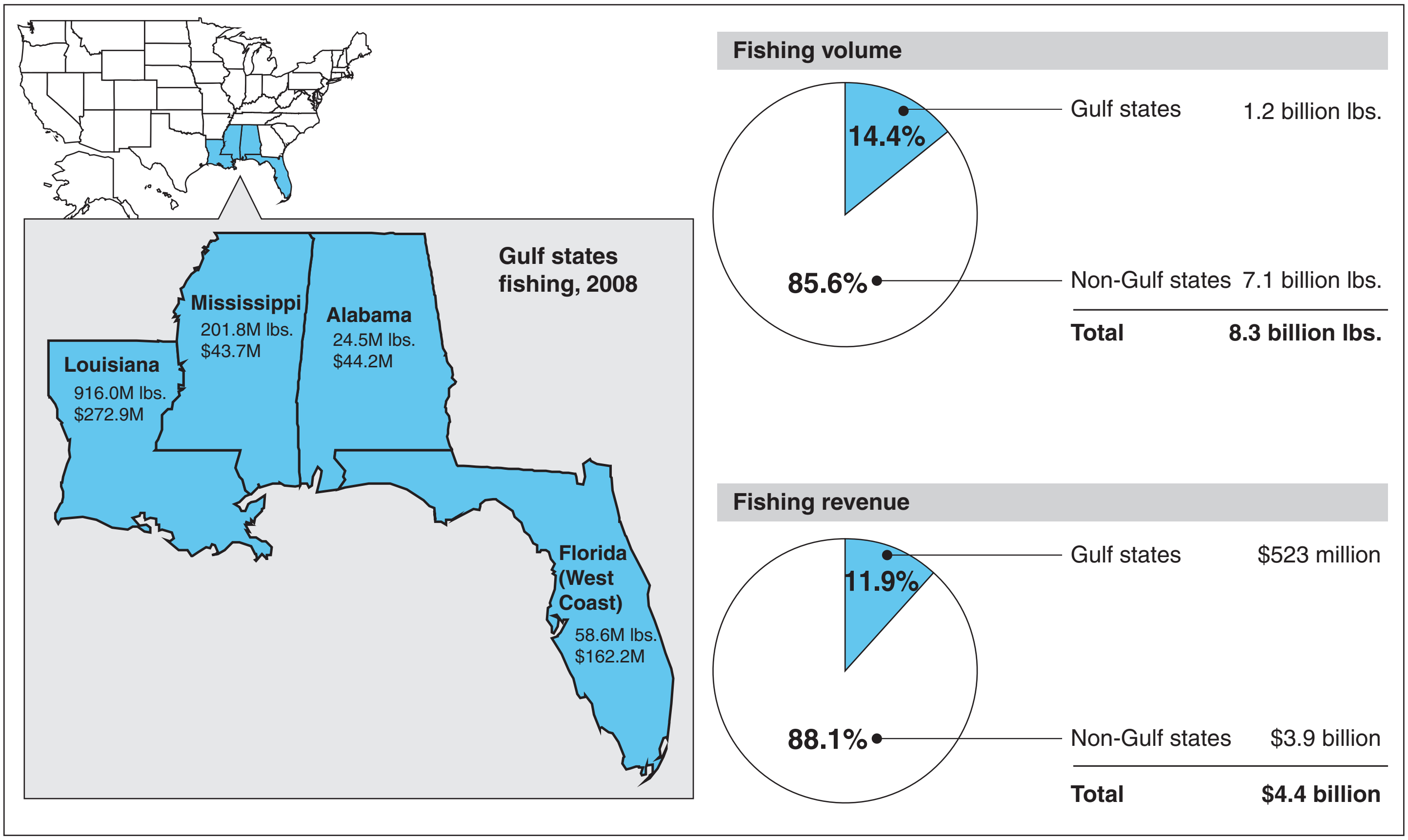
Alabama, Florida, Louisiana, and Mississippi have also closed state waters to commercial and recreational fishing as a result of the oil spill. For example, about 4,300 square miles of state waters in Louisiana were closed to commercial and recreational fishing as of July 13, 2010. In Florida, approximately 23 miles of coastal state waters offshore of Escambia County were closed to the harvest of saltwater fish, crabs, and shrimp effective June 14, 2010.[59]

According to the National Oceanic and Atmospheric Administration (NOAA), in 2008 commercial fishermen in Alabama, Florida (West Coast), Louisiana, and Mississippi harvested approximately 1.2 billion pounds of finfish and shellfish that generated about $523 million in total revenue, which represented 14.4 percent of the U.S. domestic landings of finfish and shellfish (in pounds) and 11.9 percent of the domestic landings revenue generated (see fig. 10).[60] Louisiana led all four states in pounds harvested and revenue generated; nationally, Louisiana was second in pounds harvested and fourth in revenue generated. Additionally, Louisiana led all four states in landings of shrimp, followed by Alabama, Florida (West Coast), and Mississippi.

[59]This closure does not prohibit recreational catch-and-release fishing as long as saltwater fish are not harvested or possessed in the closed area.

[60]Data are based on the following report: National Marine Fisheries Service, Office of Science and Technology, National Oceanic and Atmospheric Administration, *Fisheries of the United States, 2008* (July 2009). The report states that the data are preliminary. In addition to domestic landings of finfish and shellfish, the United States also imports a significant amount of edible fishery products. For example, according to *Fisheries of the United States*, in 2008, 5.2 billion pounds of edible fishery products valued at about $14.2 billion were imported into the United States.

Figure 10: U.S. Commercial Landings of Finfish and Shellfish, 2008




Sources: GAO analysis of NOAA data; MapInfo (map).

In addition to commercial fishing, recreational fishing is also a significant activity in the Gulf Coast. According to NOAA, in 2008 nearly 3.2 million Gulf Coast residents participated in marine recreational fishing. All participants, including visitors, took 25 million trips and caught nearly 194 million fish, representing almost 30 percent and about 42 percent of the national totals, respectively. Over 67 percent of these trips were made in West Florida, followed by 18 percent in Louisiana, almost 7 percent in Alabama, and nearly 4 percent in Mississippi.

Travel is another key industry that has been and will likely continue to be heavily impacted by the oil spill.[61] According to the U.S. Travel Association, in 2008 domestic and international travelers spent more than $94 billion in travel expenditures in Alabama, Florida, Louisiana, and Mississippi (see table 9). In addition, these travel expenditures directly generated more than 1 million jobs in these four states. Table 9 also shows that both Louisiana and Mississippi experienced declines in travel expenditures and associated employment in 2006, following Hurricanes Katrina and Rita. By 2008, Louisiana was approaching its prehurricane level of travel expenditures, and Mississippi had surpassed its prehurricane level, yet neither state had returned to its 2004 level of travel-generated employment.

**Table 9: Travel Expenditures and Travel-Generated Employment, 2004-2008**

| State | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Travel expenditures (domestic and international travelers)** (dollars in millions) | | | | | |
| Alabama | $6,051.2 | $6,639.2 | $6,998.6 | $7,405.2 | $7,723.5 |
| Florida | 61,118.0 | 64,544.3 | 66,165.6 | 68,870.6 | 70,521.6 |
| Louisiana | 9,964.8 | 8,248.8 | 6,718.1 | 9,021.4 | 9,642.7 |
| Mississippi | 5,755.2 | 5,939.9 | 5,633.3 | 6,060.1 | 6,329.3 |
| **Total** | **$82,889.1** | **$85,372.2** | **$85,515.6** | **$91,357.3** | **$94,217.1** |
| **Travel-generated employment** (numbers in thousands) | | | | | |
| Alabama | 73.1 | 75.6 | 76.3 | 77.7 | 79.4 |
| Florida | 749.4 | 742.6 | 743.0 | 759.5 | 757.1 |
| Louisiana | 121.2 | 111.1 | 90.6 | 104.3 | 105.1 |
| Mississippi | 92.1 | 89.0 | 79.5 | 85.0 | 86.5 |
| **Total** | **1,035.8** | **1,018.3** | **989.3** | **1,026.5** | **1,028.1** |

Source: U.S. Travel Association.

An October 2009 U.S. Travel Association report on the economic impact of travel on Louisiana parishes also showed that in 2008 five parishes (Caddo, East Baton Rouge, Jefferson, Lafayette, and Orleans) accounted for about 67 percent (over $6 billion) of the travel expenditures (domestic travelers only) and 71 percent (more than 72,000 persons) of the travel-generated employment in the state.[62] Orleans Parish, which constitutes the

[61]The U.S. Travel Association defines travel as activities associated with all overnight trips away from home in paid accommodations and day or overnight trips to places 50 miles or more, one way, from the traveler's origin.

[62]U.S. Travel Association, *The Economic Impact of Travel on Louisiana Parishes 2008* (Washington, D.C.: October 2009). According to this report, in 2008 travelers (domestic only) spent about $9.3 billion in travel expenditures in Louisiana, which directly generated 101,700 jobs.

City of New Orleans, generated about 37 percent (about $3.5 billion) of the state total for travel expenditures in 2008 and 46 percent (roughly 47,000 persons) of travel-generated employment.

Accommodation and food services constitute one component of the travel industry. According to the U.S. Census Bureau, in 2007 there were about 55,800 accommodation and food services establishments across the four Gulf Coast states that employed about 1.2 million persons.[63] Of the about 55,800 accommodation and food services establishments, about 14,200 (about 25 percent) were located in SBA's current disaster declaration area for the oil spill in Alabama, Florida, Louisiana, and Mississippi.[64] These establishments employed over 290,000 persons. In most of these counties and parishes, the number of establishments and employees in 2007 exceeded pre-Hurricanes Katrina and Rita levels. However, in Orleans Parish, Louisiana, the number of accommodation and food services establishments declined from about 1,250 in 2004 to about 960 in 2006 and then grew to about 1,050 in 2007. The number of persons employed in the industry in the parish was about 37,000 in 2004 and approximately 19,100 in 2006. While industry employment grew to about 24,200 in 2007, it still remained significantly below its prehurricane level. In Harrison County, Mississippi, in 2004 there were about 450 accommodation and food services establishments, which dropped to about 350 in 2006 after the hurricanes and, as of 2007, remained at about 350. As of 2007, employment levels in Harrison County also had not rebounded to prehurricane levels.

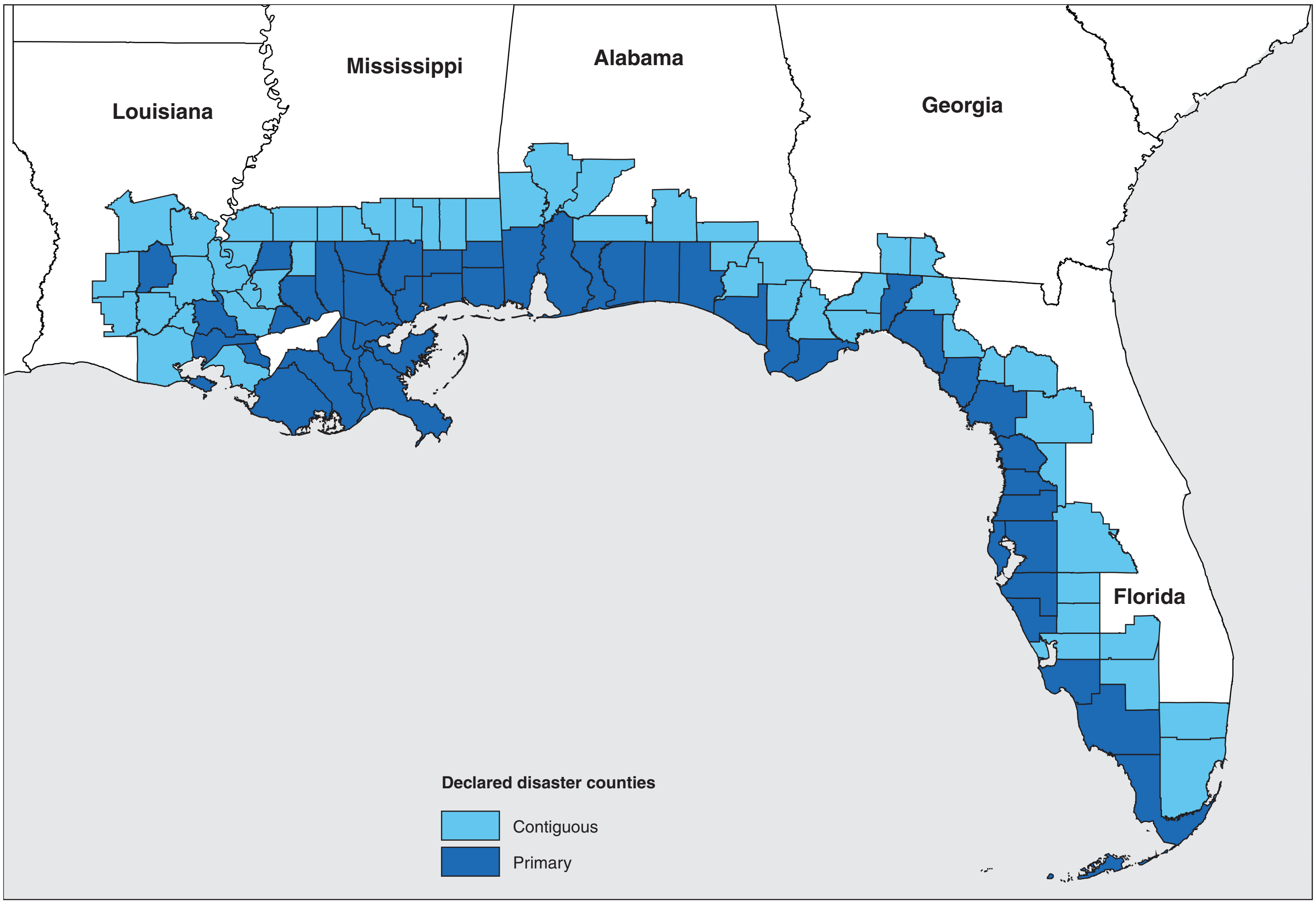
In response to the oil spill, SBA has offered economic injury assistance to small businesses in counties and parishes in Alabama, Florida, Louisiana, and Mississippi included in SBA's disaster declarations (see fig. 11).[65]

[63]Data are not available on the number of these establishments that are small businesses.

[64]These numbers do not include accommodation and food services establishments located in the three additional Florida primary counties for which SBA issued a disaster declaration on July 22, 2010.

[65]SBA makes an economic injury declaration in reliance on a state certification that at least five small business concerns in a disaster area have suffered substantial economic injury as a result of the disaster and are in need of financial assistance that is not otherwise available on reasonable terms. The state certification must be signed by the governor; among other things, must specify the county or counties or other political subdivisions in which the disaster occurred, and must be delivered to the SBA office in accordance with 13 C.F.R. § 123.3(a)(5).

**Figure 11: Counties/Parishes Included in SBA Economic Injury Disaster Declaration for the Deepwater Horizon Oil Spill**




Sources: GAO analysis of SBA data; MapInfo (map).

Note: Contiguous counties or other political subdivisions are those land areas that abut the land area of the declared disaster area without geographic separation other than by a minor body of water, not to exceed 1 mile between the land areas of such counties. 13 C.F.R. § 123.4.

Those eligible for this assistance include small businesses engaged in shrimping, crabbing, and oyster fishing in the waters closed as a result of the spill;[66] small businesses dependent on the catching or sale of shrimp,

[66] Individual employees or crew members are not considered to be small businesses and are not eligible for this assistance.

crabs, and oysters; suppliers of fishing gear and fuel; docks, boatyards, processors, wholesalers, shippers, retailers, and other small businesses dependent on revenue from fishing; recreational and sports fishing small businesses; and coastal small businesses. In addition, small businesses in areas included in the declaration that are currently repaying an existing SBA disaster loan can request a deferment. Also, homeowners who have existing SBA disaster home loans can request a deferment if their business or employment has been impacted by the oil spill. As table 10 shows, SBA had approved 181 economic injury disaster loans totaling $15.2 million as of July 22, 2010.

**Table 10: SBA Statistics on Economic Assistance Provided Following the Deepwater Horizon Oil Spill**

Dollars in thousands

| State | Number of approved economic injury disaster loans | Amount of approved economic injury disaster loans | Number of SBA disaster loan deferments granted | Cumulative loan balance deferred |
|---|---|---|---|---|
| Alabama | 29 | $2,957.2 | 66 | $12,663.5 |
| Florida | 33 | 3,567.1 | 61 | 8,810.6 |
| Louisiana | 105 | 7,386.4 | 467 | 50,413.0 |
| Mississippi | 14 | 1,354.1 | 113 | 14,981.3 |
| **Total** | **181** | **$15,264.8** | **707** | **$86,868.4** |

Source: GAO analysis of SBA data.

Note: SBA data are as of July 22, 2010.

SBA also has granted deferments to 707 businesses and homeowners with existing disaster loan balances totaling about $86.9 million.[67] According to SBA officials, the agency tailors loan deferments on the basis of the need of the borrower and can defer payments on loans up to 12 months. However, interest on the loan continues to accrue during the deferment period. Finally, SBA had opened about 30 business recovery centers throughout the affected areas to provide information, answer questions, and assist with the loan application process.[68]

[67]The number of deferments granted includes existing SBA disaster loans only. SBA's Loan Accounting System does not capture data on the number of deferments granted for existing GO loans, 7(a) loans, and 504 loans.

[68]Business recovery center locations are as of June 17, 2010.

A number of businesses in the areas impacted by the oil spill had existing SBA disaster loans related to Hurricanes Katrina and Rita. For example, more than 9,300 businesses in Alabama, Louisiana, and Mississippi that were located in SBA's current disaster declaration area for the oil spill had existing disaster loan balances totaling about $918 million for damages or losses incurred following these hurricanes.[69] In addition, over 600 businesses in Alabama, Florida, Louisiana, and Mississippi that were located in SBA's current disaster declaration area for the oil spill had existing GO loan balances totaling $38 million.[70]

Small business owners with whom we met in Louisiana and Mississippi also expressed uncertainty regarding the impact of the spill on their businesses, including the following examples:

- In Louisiana, the owner of a charter boat business told us that he began to experience cancellations of scheduled charters 1 week following the oil spill; he subsequently canceled all scheduled charters from May to September because of the uncertainty regarding which areas of the Gulf Coast would be closed to recreational fishing due to the oil. He added that May to July represents the busy season for the charter boat business in the region. To mitigate the economic losses he has incurred, he signed up for the Vessels of Opportunity Program implemented by BP to provide local boat operators with an opportunity to assist with response activities, including transporting supplies, assisting wildlife rescue, and deploying containment and sorbent booms. The owner indicated that the program provides him with the opportunity to generate a comparable income while waters remain closed to recreational fishing, but he expressed uncertainty about how long the BP Vessels of Opportunity Program would use his services and about when he might resume normal business operations.

- In Mississippi, the owner of a seafood restaurant told us that she had already started to see the impacts of the oil spill on her business. She explained that it was difficult to obtain fresh oysters, and that the price of fresh shrimp had increased in recent months. She noted that the restaurant

[69]Disaster loan balances are as of March 8, 2010. Data on existing disaster loans do not include existing loans for businesses located in the seven additional counties for which SBA issued a disaster declaration on July 22, 2010.

[70]GO loan balances are as of March 30, 2010. Data on existing GO loans do not include existing loans for small businesses located in the seven additional counties for which SBA issued a disaster declaration on July 22, 2010.

was currently absorbing the increased costs and not passing them on to its customers. She added there was a negative perception regarding eating seafood from the Gulf Coast, which also had negatively impacted her business. She further explained that her restaurant currently operates out of a temporary location because Hurricane Katrina had completely destroyed their former coastal location, including infrastructure provided by local government. She planned to start rebuilding at a new coastal site in 2010 now that the infrastructure has been restored along the coastal areas, but she noted that the oil spill has added to the uncertainty of returning the restaurant to a coastal site.

- In Louisiana, a co-owner of a family-owned oyster processing business told us that the business had to completely shut down operations in mid-June. She explained that the business purchased oysters from commercial fishermen and oyster farmers and pasteurized the oysters for sale to restaurants. She added that the business also owned their oyster boats. She noted that the closure of waters off the Gulf Coast to commercial fishing following the oil spill significantly impacted the amount of oysters that their business could purchase. She stated that the three oyster boats the business owned now participate in the Vessels of Opportunity Program that we have previously described, but she stated that her family-owned oyster processing business had high fixed costs. She also expressed uncertainty about the long-term viability of the business, which has been in her family for four generations.

Representatives of state and local organizations and organizations that assist small businesses also expressed uncertainty regarding the impact on the small business economy that will result from the oil spill. For example, significant uncertainty exists surrounding the long-term environmental impact of the oil spill on the marine environment in the Gulf of Mexico and how it will impact the fishing industry. In addition, researchers at the Louisiana State University's Agricultural Center stated that it is too early to provide estimates of the economic losses expected to be incurred as a result of the oil spill. They explained that numerous factors must be considered, including, among others, the volume of the spill and duration of the leak, the extent of the geographic spread, the intersection of commercial and recreation fishing areas in relation to the spill, and species-specific and season-specific variables related to reproduction and harvest.

Additionally, much uncertainty exists regarding how businesses that are indirectly impacted by the spill will be compensated for potential losses. For example, in addition to commercial fishermen who are directly impacted by the spill, there are many other fishing industry participants—such as seafood processors; packing plants; and brokers, as well as trucking and air freight companies—that all may be impacted by the closure of commercial fishing waters. Other businesses in the areas also could be adversely impacted by the oil spill because they could experience a decline in revenue as a result of reduced number of tourists (e.g., restaurants) or a decline in the need for their services as a result of the oil spill (e.g., childcare services). Small business owners and others with whom we met also stated that uncertainty exists about which types of businesses will be compensated through the Gulf Coast Claims Facility, which will draw on a portion of the $20 billion escrow fund created by BP. While the process and eligibility are being determined for claims, much uncertainty exists for the small businesses that may be indirectly impacted by the oil spill. For example, as publicly stated by the Administrator of the Gulf Coast Claims Facility, there may be questions concerning whether small businesses that experience a decline in tourism revenues resulting from public perception of the oil spill, but that have not actually experienced any physical damage, are eligible for compensation through the Claims Facility. According to SBA officials, small business eligibility for an economic injury disaster loan as a result of the oil spill is established by a physical presence in the declared disaster area (primary and contiguous counties) and a connection between the oil spill and reduction in working capital. SBA officials noted that both direct impact and indirect impact could be eligible. For example, the direct impact could be to a sport fishing charter operation that is unable to book clients due to the fishing grounds being closed. In addition, an indirect impact could be to the hotel/motel that has reduced occupancy because charter fishing clients are not coming to the area and to restaurants whose business is slow because charter fishing clients are not eating out during their normal stays in the area. Restaurants may also incur additional costs to purchase seafood that is being shipped into the area as a result of local fishing grounds being closed because of the oil spill. Therefore, eligibility requirements for compensation from the Claims Facility and economic injury disaster loans from SBA may differ, thus adding another element to the uncertainties faced by small businesses, as well as federal and state entities providing assistance to such businesses.

## Conclusions

Nearly 5 years after the hurricanes, many Gulf Coast small businesses are still recovering, and federal programs have provided various amounts of assistance. Despite the resources provided, many small businesses in the Gulf Coast states still face barriers to recovery, including increased operating expenses and a greater debt burden, including the increased debt associated with disaster assistance loans. In addition, economic conditions vary throughout the region. For example, many of the heavily damaged areas saw substantial losses in population and in the number of businesses after the hurricanes, while less damaged areas saw an increase in the population and business levels. The current national economy also has most likely had an effect on small business recovery efforts, which can make the rebuilding process for small businesses even more challenging.

In addition to assistance from federal programs, federal contracting opportunities have provided a mechanism to assist with small business recovery efforts. The FAR implements the Small Business Act requirement that small businesses be given the opportunity to participate in certain federal contract awards. Gulf Coast small businesses were awarded almost $3 billion in prime contracts for hurricane recovery efforts. However, the Army Corps of Engineers and DOD could not demonstrate that they were consistently monitoring subcontracting accomplishment information as required. In particular, the Corps was unable to provide subcontracting accomplishment information for 11 of their 29 construction contracts we reviewed. Accomplishment reports are submitted by contractors and reviewed by agency contracting officials to monitor contractor performance, and they contain information on the extent to which small business subcontracts have been awarded. Without subcontracting accomplishment information, either in eSRS or paper form, contracting officials at the Corps and DOD lack a key tool used to monitor contractors' performance under subcontracting plans. Without a consistent process for making sure that subcontracting accomplishment reports are submitted, maintained, and reviewed, the Corps and DOD are limited in their ability to determine whether contractors are following their subcontracting plans.

## Recommendation for Executive Action

For contracts awarded by the Corps and other DOD departments, the Secretary of Defense should take steps to ensure that contracting officials consistently comply with requirements to monitor the extent to which contractors are meeting subcontracting plan goals, including requirements for contractors with subcontracting plans to submit subcontracting accomplishment reports. Once these reports are submitted, contracting officials should maintain and regularly review them to determine whether contractors are following their subcontracting plans. To ensure consistent compliance, DOD and the Corps small business offices should monitor such actions by contracting officials, as deemed appropriate.

## Agency Comments and Our Evaluation

On June 14, 2010, we provided a draft of this report to the Department of Commerce, the Department of Defense, the Department of Homeland Security, the Department of Housing and Urban Development, the General Services Administration, and the Small Business Administration for review and comment. We also provided relevant sections of this report to state officials in Louisiana and Mississippi. DHS, HUD, and GSA did not provide comments. Commerce and SBA provided us with technical comments by e-mail, which we have incorporated into the report as appropriate. DOD provided us with comments, which we have reprinted in appendix III.

The Acting Director of the DOD Office of Small Business Programs stated that DOD nonconcurred with the implication that DOD contracting personnel do not enforce requirements. In our draft report, we concluded that DOD was unable to demonstrate that it was monitoring subcontracting accomplishment information because it was unable to provide us with documentation of subcontracting accomplishment reports for 26 of the 31 Corps contracts selected for our review. We recommended in this report that at a minimum, contracting officials should enforce requirements for contractors with subcontracting plans to submit subcontracting accomplishment reports. We also stated in our recommendation that once reports are submitted, contracting officials should regularly review them to determine whether contractors are complying with their subcontracting plan goals. DOD explained that the 31 construction contracts that GAO selected for review were awarded by the U.S. Army Corps of Engineer's Galveston and New Orleans District Contracting Offices. DOD further explained that the individual responding to our original request for subcontracting information for these 31 contracts indicated that subcontracting accomplishment reports were not available in eSRS for 26 of the contract files. We made our original request for this information in March 2010. However, DOD noted in its comment letter that this individual did not consult the contracting offices to obtain paper copies of these reports from the contract files. In its comment letter, DOD also apologized for the delay in providing this documentation to GAO. DOD added that following a subsequent GAO request in May 2010 and investigation by the Corps National Contracting Organization, the Corps identified that 24 of the 26 contract files contained a subcontracting plan and subcontracting accomplishment report. DOD noted that 2 of the contracts did not include a subcontracting plan because limited or no subcontracting possibilities existed due to the exigent circumstances of

Hurricane Katrina. Based on the existence of this documentation, DOD concluded that the Corps's Galveston and New Orleans Districts did monitor small business subcontracting plans and accomplishments.

Shortly after we received DOD's comments on our draft report, the official from DOD's Office of Small Business Programs responsible for following up with us on matters in its comment letter provided GAO with copies of the subcontracting accomplishment reports for 13 Corps contracts. We made revisions in our report to acknowledge the receipt of these additional subcontracting accomplishment reports. On July 22, 2010, we spoke with this official from DOD's Office of Small Business Programs to discuss the 11 remaining accomplishment reports that we had not received from the Corps. The official told us that the accomplishment reports we received on July 19, 2010, represent the full extent of what DOD and the Corps are able to provide to GAO. In addition, DOD did not provide us with the subcontracting accomplishment reports for the 2 contracts included in our review for other DOD agencies and did not address these 2 contracts in its written response. DOD's inability to provide us subcontracting accomplishment reports for 13 of the 43 contracts included in our review raises concerns with DOD's process to consistently collect, maintain, and review such information. Therefore, we revised our report to recommend that the Secretary of Defense should take steps to ensure that contracting officials consistently comply with requirements to monitor the extent to which contractors are meeting subcontracting plan goals, including requirements for contractors with subcontracting plans to submit subcontracting accomplishment reports. Once these reports are submitted, contracting officials should maintain and regularly review them to determine whether contractors are following their subcontracting plans. To ensure consistent compliance, DOD and the Corps small business offices should monitor such actions by contracting officials, as deemed appropriate.

DOD also indicated in its written comments that eSRS was fully implemented by the Corps in 2009. This system replaces paper contract files for subcontracting accomplishment repots. DOD added that it plans to conduct small business training regarding small business subcontracting plans and evaluation of small business subcontracting plans within the next several months. We believe that this training, along with full implementation of eSRS by the Corps will assist the Corps in ensuring that contracting officials are complying with requirements to monitor subcontracting accomplishment information in the future.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested congressional committees, the Secretary of the Department of Commerce, the Secretary of the Department of Defense, the Secretary of the Department of Housing and Urban Development, the Secretary of the Department of Homeland Security, the Administrator of the General Services Administration, the Administrator of the Small Business Administration, and other interested parties. This report will also be available at no charge on GAO's Web site at http://www.gao.gov.

Please contact me at (202) 512-8678 or shearw@gao.gov if you or members of your staffs have any questions about this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. See appendix IV for key contributors to this report.

William B. Shear

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Director, Financial Markets
and Community Investment

# Appendix I: Objectives, Scope, and Methodology

Our objectives were to describe (1) the amount of assistance provided to Gulf Coast small businesses as a result of Hurricanes Katrina and Rita through the Small Business Administration's (SBA) Disaster and Gulf Opportunity (GO) Pilot Loan programs, state-administered business assistance programs funded by the Department of Housing and Urban Development (HUD) Community Development Block Grants (CDBG), and the Economic Development Administration's (EDA) Revolving Loan Fund (RLF) Program; the benefits and challenges experienced by participants in these programs; and the performance of loans extended to small businesses using assistance from these programs; (2) the extent to which Gulf Coast small businesses received federal contract funds for recovery efforts; and (3) the current state of and improvements in the region's economy since the hurricanes, with a focus on the small business economy. Our work focused on small business recovery efforts in four states impacted by Hurricanes Katrina or Rita: Alabama, Louisiana, Mississippi, and Texas.[1]

To address our first objective, we obtained and analyzed data extracts from SBA's Disaster Credit Management System (DCMS) and Loan Accounting System (LAS). The data contained in the DCMS data extract were as of March 8, 2010, and the data in the LAS extract were as of March 30, 2010. We used the data extracts to compute descriptive statistics on the number and dollar amount of disaster loans and GO loans SBA approved for businesses affected by the hurricanes. We could not determine the total number and dollar amount of disaster loans that SBA approved for small businesses because DCMS does not capture this information for physical disaster loans, which businesses of all sizes are eligible to receive. We also used the data extracts to compute descriptive statistics on the performance of these loans, including the percentages of loans paid in full, loans that were current, loans that were delinquent, and loans that defaulted (which we defined as loans that were either charged off or liquidated). We assessed the reliability of the DCMS and LAS data by reviewing information about the data, including recent GAO assessments, interviewed SBA officials knowledgeable about these data, and also by conducting various tests of the information in the data extracts to ensure the completeness of the data. We concluded that SBA's data were sufficiently reliable for the purposes of our report. To determine how SBA

[1]Alabama, Mississippi, and Louisiana received a major disaster declaration following Hurricane Katrina. Louisiana and Texas received a major disaster declaration following Hurricane Rita.

identified duplicate benefits received by small businesses that also participated in state-administered business assistance programs funded by CDBG supplemental appropriations, we reviewed relevant SBA Office of Inspector General reports, SBA's standard operating procedures on duplication of benefits, statutory requirements, and information provided by SBA and the states that administered business assistance programs, and we interviewed SBA officials. Finally, we interviewed key SBA officials—including officials in SBA's Office of Disaster Assistance, Office of Disaster Planning, and Office of Capital Access, as well as officials located in SBA's district and branch offices in the Gulf Coast states—on the role that SBA played in helping small businesses recover from the hurricanes.

To describe the amount of assistance that small businesses received through state-administered business assistance programs funded by HUD CDBG funds, we reviewed *Federal Register* notices and interviewed officials from HUD to obtain information on the CDBG disaster recovery supplemental appropriations Congress enacted following Hurricanes Katrina and Rita. To determine how each state utilized these funds among various hurricane recovery efforts, we interviewed officials from state agencies in Alabama, Louisiana, Mississippi, and Texas responsible for administering the funds. We also obtained information on the amount of the funds allocated and expended on economic development and other programs, including any programs that were targeted for small businesses. To determine the reliability of the data we obtained from states that implemented programs specifically for small businesses, we interviewed knowledgeable state officials to discuss the method by which the data were prepared, as well as the steps the state agencies take to ensure the reliability of their own data. We determined that information provided by the states was sufficiently reliable for the purposes of our report.

To describe the amount of federal assistance small businesses received through EDA's RLF Program, we interviewed officials at the agency's Atlanta and Austin Regional Offices and obtained the most recent semiannual reports that these offices had received from RLF grantees located in Alabama, Louisiana, Mississippi, and Texas.[2] We used these reports to compute descriptive statistics on the amount of loans RLF grantees made to small businesses and the amount of private investment

[2]The semiannual reports were dated March 31, 2009, or September 30, 2009, and contained information on the total number of loans that each RLF had made since its inception.

associated with these loans as reported by the RLF grantees from September 1, 2005, to the date of the latest data available. These data are self-reported by RLF grantees; therefore, we attribute these findings to the RLF grantees. We also contacted officials from four RLF grantees in Louisiana that received additional capital from EDA following Hurricanes Katrina and Rita to obtain information on the number of loans each RLF grantee made to small businesses specifically for disaster recovery purposes, as well as the performance of these loans. Finally, we interviewed RLF grantee officials in Beaumont, Texas; Gulfport, Mississippi; and Mobile, Alabama, to discuss their efforts to assist small businesses following the hurricanes.

To describe the benefits and challenges faced by small businesses participating in the programs we reviewed, as well as overall recovery challenges, we conducted two focus groups of small business owners in New Orleans, Louisiana, and one focus group in Gulfport, Mississippi. Participants for the focus groups held in New Orleans were recruited by representatives of a local Small Business Development Center.[3] We recruited small business owners for the Gulfport focus group using similar criteria, assisted by the Mississippi SBA District Office and the Hancock County Chamber of Commerce. In New Orleans, we met with 19 small business owners, and we met with 4 small business owners in Gulfport. Nearly all of the small business owners in each group had participated in one of the programs included in our review, although this was not a requirement to participate in the focus groups. The small business owners in each group represented a variety of industries. We analyzed the content of focus group transcripts to identify common themes for benefits and challenges associated with hurricane recovery. While the information from the focus groups is not generalizable to the entire Gulf Coast small business population, it provides valuable context regarding small business owners' perceptions about the benefits and challenges they have experienced. Finally, we also interviewed officials from local small business development centers and chambers of commerce in areas heavily impacted by the hurricanes in each state to discuss their roles and experiences in assisting small businesses with recovery efforts.

[3]For the focus groups, the Small Business Development Center recruited small business owners who had been impacted by the hurricanes and who may have participated in one of the programs included in our review.

To address our second objective, we obtained data from the Federal Procurement Data System-Next Generation (FPDS-NG), the governmentwide database of contracting activity, to determine the extent to which federal agencies contracted directly with small businesses in Gulf Coast states. Using FPDS-NG data, we identified the top four agencies that awarded the greatest amount of Katrina- and Rita-related contracts between October 1, 2004, and September 30, 2009. These agencies were the U.S. Army Corps of Engineers (Corps); Department of Homeland Security (DHS); Department of Defense, excluding the Corps (DOD); and General Services Administration (GSA).[4] We analyzed data that were reported into FPDS-NG as of January 15, 2010. Although we could not independently verify the reliability of these data, we reviewed system documentation, conducted electronic data testing for inconsistency errors and completeness, and compared it with supporting documentation when available. On the basis of these efforts, we determined the data on amounts received directly from federal contracts to be sufficiently reliable for the purposes of this report. We also identified all Corps, DHS, DOD, and GSA construction-related contracts that, according to FPDS-NG, had a subcontracting plan. For these contracts, we asked the agencies for documentation of prime contractors' subcontracting award reports in the Electronic Subcontracting Reporting System (eSRS), a governmentwide database for capturing this information. For contracts that were awarded prior to the agencies' implementation of eSRS, we asked for copies of the paper contract file forms SF-294 or SF-295, which contain the same information as that maintained in eSRS. In instances in which an agency could not provide subcontracting accomplishment reporting information, we contacted agency officials to obtain an explanation for why the information was missing.

To address our third objective, we identified the counties and parishes and metropolitan statistical areas most heavily damaged by Hurricanes Katrina and Rita in each of the four states, using housing unit damage estimates from HUD's *Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma.*[5] We assumed that the areas that suffered the

[4]We report on the Corps and the rest of DOD separately because at least three supplemental appropriations measures for DOD activities relating to Hurricane Katrina relief specifically directed certain funds to the Corps for its disaster relief activities. (Pub. L. No. 109-62, 119 Stat. 1990 (2005); Pub. L. No. 109-148, 119 Stat. 2680 (2005); and Pub. L. No. 109-234, 120 Stat. 418 (2006).)

[5]Department of Housing and Urban Development, *Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma* (Washington, D.C.: 2006).

most housing damage were, most likely, the areas in which small businesses also suffered the most damage. We identified various economic indicators that provide a proxy for the state of the small business economy. These indicators include population, unemployment, number of small business establishments, and the housing price index. We analyzed the U.S. Census Bureau's annual county- and state-level population estimates from 2000 through 2008. In addition, we analyzed the Census Bureau's annual County and State Business Patterns data from 2000 through 2007 and identified small businesses with 50 employees or fewer. We also analyzed the Bureau of Labor Statistics' monthly local area unemployment statistics by county and state from January 2000 through December 2009. Finally, we analyzed the Federal Housing Finance Agency's quarterly house price index based on sales prices and appraisal data from the first quarter of 2000 through the fourth quarter of 2009. We used these data to identify trends most likely associated with the hurricanes, rather than other economic events, within the areas most heavily damaged. We also analyzed and compared trends at the state level with trends in the counties most heavily damaged by the hurricanes, where comparable data were available. We reviewed the relevant data sources to ensure the reliability of the indicators and determined that the data were sufficiently reliable for the purposes of this report. To describe the potential impact of the recent Gulf Coast oil spill on the small business economy in the Gulf Coast region, we obtained and analyzed information on the size of the fishing and travel industries from the National Oceanic and Atmospheric Administration and the U.S. Travel Association, respectively. To identify the counties and parishes impacted by the oil spill, we reviewed SBA's disaster declarations and identified all primary and contiguous counties and parishes listed in the declarations. As a result of the oil spill, SBA declared economic injury disasters in Alabama, Florida, Louisiana, and Mississippi; therefore, our analysis on the potential impact of the oil spill involves only these four states. We also obtained data from SBA on new economic injury disaster loans approved as a result of the oil spill, as well as existing SBA disaster loans in declared areas and the number of deferments SBA has granted on those loans. Additionally, we met with small business owners in Venice, Louisiana, and Bay St. Louis, Mississippi, to discuss the impact of the oil spill on their businesses. Furthermore, we met with other organizations assisting small businesses, including representatives of a local small business development center in Louisiana and a local chamber of commerce in Mississippi, to obtain their views and discuss the assistance they are providing to small businesses. Finally, we met with representatives of a local organization in Louisiana that is studying the economic impacts of the oil spill on the Gulf Coast and with representatives of the Louisiana State University Agriculture Center, which is studying the long-term impact of the oil spill on the fishing industry. We also reviewed assessments by other organizations regarding the posthurricane economic recovery in the Gulf Coast region. Appendix II contains a summary of these organizations' findings.

We conducted this performance audit from September 2009 through July 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Summary of Selected Reports from Research Organizations Studying the Economic Recovery of the Gulf Coast Region Following Hurricanes Katrina and Rita

| Report title | Agency/Organization | Key findings |
|---|---|---|
| *A Report on the Impact of Hurricanes Katrina and Rita on Louisiana Businesses: 2005Q2-2006Q4* | Louisiana State University, E.J. Ourso College of Business, Division of Economic Development (2007) | • Immediately before the hurricanes, the entire state of Louisiana had 97,639 employers. After the hurricanes, the state initially lost 5,192 employers. By the fourth quarter of 2006, Louisiana had 892 fewer employers (0.9 percent) than before the hurricanes, which represents a significant recovery.<br>• From the second quarter of 2005 to the fourth quarter of 2006, Louisiana had an overall business failure rate of 20.9 percent; the Southeast and Southwest regions had failure rates of 28.3 percent and 18.6 percent, respectively.<br>• Small businesses experienced the highest failure rates. During the fourth quarter of 2006, 25.3 percent of employers in the state that had 1 to 5 employees in the second quarter of 2005 failed, while only 16.3 percent of those with more than 50 employees failed during the same period. |
| *The Labor Market Impact of Hurricane Katrina: An Overview* | Department of Labor, Bureau of Labor Statistics (August 2006) | • Approximately 38 percent of business establishments in Louisiana and Mississippi were within a 100-mile corridor of the path of Hurricane Katrina's center.<br>• St. Bernard, Orleans, and Jefferson Parishes had the largest declines in employment between September 2004 and September 2005—38 percent, 27 percent, and 24.5 percent, respectively.<br>• In Mississippi, employment in Jackson, Harrison, and Hancock Counties declined by approximately 9 percent to 14 percent from September 2004 to September 2005.<br>• The unemployment rate for Louisiana rose sharply after Hurricane Katrina, from about 5 percent to 12.1 percent. The rate began falling in December, and in June 2006, it was near its prehurricane level.<br>• The unemployment rate for Mississippi rose from about 6 percent to 10.4 percent after Hurricane Katrina but declined afterward. In June 2006, the unemployment rate was comparable to its prehurricane level. |
| *Economic Development Architecture for New Orleans* | RAND Gulf States Policy Institute (2007) | • Report provides recommendations regarding the most effective organizational and strategic approaches to revitalizing the city's economy. Researchers noted that city officials should build its economic development program in three phases: a design phase, an organizational phase, and an implementation phase.<br>• One recommendation for the design phase included targeting the city's economic development efforts at certain groups of industrial clusters. One of these groups includes the city's small business sector.<br>• The small business sector played a vital role in the city's pre-Katrina economy, supplying about 40 percent of the city's jobs and providing entrepreneurial opportunities for the city's residents, especially its minority residents. However, this sector was devastated by Katrina and will need assistance to get back on its feet. According to the report, the focus should be on the principal problems that small businesses are likely to face (e.g., technical assistance, access to capital, and business incubators to try out new ideas). Each of these issues is a significant institutional challenge. |

| Report title | Agency/Organization | Key findings |
| --- | --- | --- |
| *Commercial Wind Insurance in the Gulf States* | RAND Gulf States Policy Institute (2007) | • Overall, researchers found that after the 2004 and 2005 hurricanes, the cost of wind insurance spiked drastically and coverage became less available in areas most prone to substantial wind risk.<br>• Of those interviewed for the study, it was widely believed that compared with large firms, smaller firms faced more severe price increases and had more difficulty in finding coverage following the 2005 hurricane season. |
| *Recovery After Hurricane Katrina: Employment in the Gulf Coast Area* | Department of Labor, Bureau of Labor Statistics (May 2007) | • In the Gulf Coast, Hurricane Katrina caused the most extensive job losses in two large parishes in Louisiana—Jefferson and Orleans—and in one large county in Mississippi—Harrison.<br>• As of August 2006, the recovery of jobs had been the weakest in Orleans Parish, where employment had recovered to only 63 percent of its pre-Katrina level.<br>• Jefferson Parish rebounded more quickly and had experienced a much stronger recovery. August 2006 employment had recovered to 91 percent of the pre-Katrina level in Jefferson Parish and to 90 percent in Harrison County. |
| *The Gulf Coast: Economic Recovery Two Years after the Hurricanes* | Department of Commerce, Economics and Statistics Administration (December 2007) | • Two years after Hurricanes Katrina and Rita, federal aid continued to flow to the Gulf Coast, and significant economic recovery in Louisiana and Mississippi was evident. However, economic conditions in the New Orleans, Louisiana, and Gulfport-Biloxi, Mississippi, Metropolitan Statistical Areas (MSA) continued to lag behind.<br>• By 2006, the overall population (annual average) in Louisiana and Mississippi had recovered to pre-Katrina levels, but levels in the New Orleans and Gulfport-Biloxi MSAs had not.<br>• Two years after the hurricanes, unemployment rates had fallen to the pre-Katrina levels in most areas of the Gulf Coast. The overall size of the labor force had yet to recover, however, because many people who left the region, especially from the New Orleans and Gulfport-Biloxi MSAs, had not returned. |
| *Post-Katrina Storm Disorder and Recovery in Mississippi More Than 2 Years Later* | University of Southern Mississippi (2007) | • As of October 2007, across the Mississippi Gulf Coast, there were very encouraging signs of recovery, including many repaired and new homes, as well as new developments under way or planned. A number of the destroyed schools had been reopened in repaired or temporary facilities; at least two of the community libraries had been reopened; most businesses that had reopened were doing well; and a number of residents and small businesses had relocated further inland, spreading yet further economic growth.<br>• Obtaining affordable property insurance remained a major barrier to both homeowners and businesses. For example, rates for wind insurance skyrocketed dramatically—about 90 percent for homeowners and about 200 percent for business owners. |
| *Metropolitan Report: Economic Indicators for the New Orleans Area* | University of New Orleans, Division of Business and Economic Research (August 2008) | • Although job growth preceded the population return in the months following Hurricane Katrina, both employment and population were about 87 percent of pre-Katrina levels at the time of the study (August 2008). Population and jobs had been recovering at similar rates.<br>• With Katrina, New Orleans lost about 30 years of population growth. At the time of the study, the population was still recovering, but the rate had slowed from the more rapid rate of return right after the storm. |

| Report title | Agency/Organization | Key findings |
|---|---|---|
| *Recovering but not Recovered: Gulf Coast Businesses Three Years Later* | Political and Economic Research Council (August 2008) | • Study is a survey of small businesses in the New Orleans and Biloxi-Gulfport MSAs on the progress of recovery from the 2005 hurricanes. This study is a follow-up to a survey conducted in 2007.<br>• As of August 2008, sales performance had improved or stayed constant for the majority of small businesses since 2007 but had not yet reached pre-Katrina levels.<br>• The key challenges to small business owners centered on the fundamentals of labor, capital, and demand.<br>• The perceived magnitude of some challenges associated with small business recovery had declined significantly. For example, small business owners' satisfaction with the Small Business Administration has increased since 2007.<br>• There remained disparities in business recovery according to the ethnicity of owner or operator. |
| *Mississippi Gulf Coast Regional Brief* | Gulf Coast Business Council (Second Quarter 2009) | • During the second quarter of 2009, the overall employment level for the Mississippi Gulf Coast stabilized after falling in the last quarter of 2008 and the beginning of the first quarter of 2009. In aggregate, overall jobs located along the Gulf Coast were down 2 percent from June 2008 and 4 percent from June 2005.<br>• Sales tax diversions—the portion of the state sales tax rate that cities receive—received by 6 of the 11 municipalities in the Mississippi Gulf Coast region exceeded pre-Katrina levels. When comparing the aggregate totals collected for all 11 cities on the Mississippi Gulf Coast, total sales tax diversions for the second quarter fell short of 2005 levels for the first time since the third quarter of 2005. |

Source: GAO analysis of the reports shown in this table.

# Appendix III: Comments from the Department of Defense

JUL 16 2010

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-3000

ACQUISITION, TECHNOLOGY AND LOGISTICS

Mr. William B. Shear
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Shear:

This is the Department of Defense response to the GAO draft report, GAO-10-723, "HURRICANES KATRINA AND RITA: Federally Funded Programs Have Helped to Address Needs of Gulf Coast Small Businesses, but Agency Data on Subcontracting Is Incomplete," dated June 14, 2010 (GAO Code 250498). Detailed comments on the report recommendations are enclosed.

Sincerely,

Linda B. Oliver

Linda B. Oliver, Acting Director
DoD Office of Small Business Programs

Enclosure:
As stated

**GAO Draft Report Dated JUNE 14, 2010**
**GAO-10-723 (GAO CODE 250498)**

**"HURRICANES KATRINA AND RITA: FEDERALLY FUNDED PROGRAMS HAVE HELPED TO ADDRESS NEEDS OF GULF COAST SMALL BUSINESSES, BUT AGENCY DATA ON SUBCONTRACTING IS INCOMPLETE"**

**DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS**

**RECOMMENDATION 1**: For contracts awarded by the Army Corps of Engineers and other DOD departments, the GAO recommends that the Secretary of Defense take steps to ensure that contracting officials comply with requirements to monitor the extent to which contractors are meeting subcontracting plan goals. At a minimum, contracting officials should enforce requirements for contractors with subcontracting plans to submit subcontracting accomplishment reports. Once these reports are submitted, contracting officials should regularly review them to determine if contractors are complying with their subcontracting plan goals.

**DOD RESPONSE**: Non-Concur with implication that DoD contracting personnel do not enforce requirements. The U.S. Army Corps of Engineers sample selected for review by the Government Accountability Office (GAO) consisted of 31 construction contracts awarded by the USACE New Orleans District and Galveston District Contracting Offices to large business concerns during 2005 to 2009. The Federal Procurement Data System - Next Generation (FPDS-NG) Contract Action Reports for the 31 construction contracts selected were noted as having subcontracting plans. GAO asked the U.S. Army Corps of Engineers to provide documentation of the subcontracting plans. The individual responding to the audit reviewed the Electronic Subcontracting Reporting System (eSRS) and was unable to find documentation of 26 of the 31 reports filed. Unfortunately, a communication problem occurred and the Contracting Office was not consulted for paper copies of the SF-294 or SF-295 from the contract file.

The original request made by GAO for information/explanation did not reach the New Orleans District Contracting Office or Galveston District Contracting Office and the contract files were identified by the individual responding to the audit as either not found or not containing the subcontracting plan or SF-294 or SF-295. Upon further request by GAO and investigation by the Headquarters, USACE National Contracting Organization, the New Orleans and Galveston District Contracting Offices were contacted and requested to locate the contract files. USACE was able to provide information to GAO that reflects the existence of the contract files. Further review by USACE has identified

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that all but two of the contract files contain a paper copy of the appropriate subcontracting plan and the SF-294 or SF-295. The two contracts that did not include a subcontracting plan were Contract Numbers W912P8-05-C-0055 and W912P8-05-C-0056 due to the fact that limited or no subcontracting possibilities existed. Both contracts were awarded during the immediate aftermath of Hurricane Katrina. At the time of award of these contracts the Greater New Orleans area was still evacuated and local governments prohibited re-entrance into the city, most local small businesses were destroyed or unable to return and reestablish themselves. There was great destruction of personal and corporate property and no quarters existed to billet or feed anyone from outside the local area. Telephone service within the 504 and 985 area codes, Southeast Louisiana, were out during the period making communications extremely difficult. With this in mind, the Contracting Officer acknowledged the impossibility of identifying and developing a subcontracting plan under such austere conditions for these contracts of unusual and compelling urgency.

USACE began deploying eSRS in 2005, however, eSRS was not fully implemented with the USACE National Contracting Organization until 2009. The New Orleans District and Galveston District had not deployed eSRS during the period of 2005 through 2009 and relied on paper copies of subcontracting documentation.

USACE apologizes for the miscommunication and delay in providing documentation requested. In the future all requests for contract documents will be fully coordinated between USACE Small Business and National Contracting Organization. However, the New Orleans District and Galveston District did in fact monitor small business subcontracting plans and accomplishment. Two contracts did not have subcontracting opportunities available due to the exigent circumstances of Hurricane Katrina. Based on the fact of existing support documentation, USACE did include subcontracting plan in its contracts, did receive subcontracting plans under its contracts, and did review the subcontracting plans. USACE respectfully non-concurs with the draft audit findings. We stand ready to work with GAO to make all documents available.

USACE will continue to monitor the implementation of eSRS throughout its National Contracting Organization and the Associate Director, Small Business Programs plans to conduct small business training regarding small business subcontracting plans and evaluation of small business subcontracting plans within the next several months."

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# Appendix IV: GAO Contact and Staff Acknowledgments

## GAO Contact

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## Staff Acknowledgments

In addition to the individual named above, Marshall Hamlett, Assistant Director; Alexandra Martin-Arseneau; Aglae Cantave; William Chatlos; Peter Del Toro; Swetha Doraiswamy; Stephanie Gaines; Christine Houle; Julia Kennon; Terence Lam; Triana McNeil; John Mingus; Marc Molino; Susan Offutt; Linda Rego; Jennifer Schwartz; Alyssa Weir; and William Woods made key contributions to this report.

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