Report Highlights

Department of Economic Development
Economic Recovery Post Hurricanes Katrina and Rita

September 2006

Louisiana Legislative Auditor

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Legislative Auditor

After hurricanes Katrina and Rita, the Governor designated the Department of Economic Development (DED) as the official agency to connect Louisiana businesses with the resources they need to recover and to foster growth across all industries. State law provides that DED shall be responsible for fostering the growth of industry and other commercial enterprises in Louisiana that will contribute to the overall improvement of the economy of the state.

Audit Results

How Has DED Responded to Economic Development Needs in the State Post Hurricanes Katrina and Rita?

⇒ **A Comprehensive Plan Detailing Long-Term Strategies for the State's Economic Recovery Would Be Beneficial for Louisiana.** Although officials informed us they have the necessary information to compile a comprehensive plan, they have not completed a single plan that addresses the state's long-term needs after the hurricanes. Without such a plan, DED cannot ensure that the necessary funding will be obtained and spent where it is most needed.

⇒ **At Least $354.5 Million Has Been or Will Be Made Available for the State's Economic Recovery Efforts.** In the first phase of the bridge loan program, DED used $10 million from the Governor's Rapid Response Fund to guarantee loans. In the second phase, the Division of Administration (DOA) used $30 million in Community Development Block Grant (CDBG) funds to guarantee loans. DED plans to participate in a third phase of the program, which will use a portion of $350 million in CDBG funds. In addition, a portion of this funding will be used to reimburse the $40 million used to guarantee loans in the first two phases of the bridge loan program. Also, the Economic Development Administration (EDA) awarded DED $4 million to fund recovery initiatives. DED plans to receive another $500,000 grant from the EDA.

⇒ **DED Has Identified Disaster-Impacted Businesses and Provided Advisory Assistance.** DED identified and assisted disaster-impacted businesses through business counseling centers, small business development centers, a call center, and its website. However, the department may not have recorded data relating to all disaster-impacted businesses it made contact with. Also, DED may not have coordinated with other state agencies that could have assisted in the identification of impacted businesses and their needs.

⇒ **DED Developed the Bridge Loan Program in Response to the Small Business Administration's (SBA) Slow Allocation of Loans.** As of March 28, 2006, the SBA had disbursed $59,481 in Katrina-related business disaster loans and $4,527 in Rita-related business disaster loans. As of June 21, 2006, the SBA had only slightly improved the number of loans disbursed to businesses. According to DED officials, the department developed the bridge loan program in response to the SBA's slow allocation of loans.

⇒ **DED Has Promoted Louisiana to Out-of-State Businesses.** According to DED officials, one of the most important issues in disaster recovery is improving the state's image to national audiences. The department promoted the state through a national ad campaign, its website, and print ads in national publications.

HOW HAS DED RESPONDED TO ECONOMIC DEVELOPMENT NEEDS IN THE STATE POST HURRICANES KATRINA AND RITA?

A Comprehensive Plan Detailing Long-Term Strategies for the State's Economic Recovery Would be Beneficial for Louisiana

⇒ While DED responded to many of the short-term recovery needs in the months following the hurricanes, a comprehensive plan detailing the long-term strategies for the state's economic recovery has not been completed. Without such a plan, DED will not be able to ensure that necessary funding is obtained and spent where it is most needed.

⇒ According to DED officials, the department has the information it needs to develop a comprehensive plan. However, they have not compiled this information into a single comprehensive plan. DED officials informed us that they intend to develop a single document detailing the department's long-term strategies for recovery.

⇒ Timely planning is needed to maximize funding opportunities and effective spending for the state. New York economic development officials told DED one lesson they learned after 9-11 is that timely design and planning is crucial for success.

⇒ According to three economic development officials, Louisiana needs a timely, long-term recovery plan that outlines all of its recovery needs and strategies to obtain additional federal recovery funds.

RECOMMENDATIONS

✓ DED should continue to coordinate with the Louisiana Recovery Authority (LRA) to establish a comprehensive, long-term plan that outlines the state's post-hurricane economic development needs, strategies to meet those needs, and the entities responsible.

✓ DED should continue to work with the LRA to ensure that this plan requires coordination among entities critical to the state's economic development recovery efforts.

At Least $354.5 Million Has Been or Will Be Made Available for the State's Economic Recovery Efforts

⇒ From October 2005 through June 2006, DED and DOA have participated in the bridge loan program. In the first phase of the bridge loan program, DED used $10 million from the Governor's Rapid Response Fund to guarantee loans to 370 small businesses. In the second phase, DOA used $30 million in previously obligated CDBG funds to guarantee loans to 314 small businesses.

⇒ DOA expects to receive an additional amount of approximately $350 million in CDBG funds for economic development and workforce training initiatives. The U.S. Department of Housing and Urban Development (HUD) approved DOA's action plan that authorizes $100 million of the $350 million to fund a third phase of the bridge loan program. However, the state's Joint Legislative Committee on the Budget (JLCB), the state legislature, and HUD have to approve an amendment to the DOA's action plan before these funds can be used to guarantee loans.

⇒ Once DOA's recommendations are approved, part of the $100 million will be used to replenish $10 million used from the Rapid Response Fund and $30 million from previously obligated CDBG funds in the first two phases of the program. According to DED officials, about $55 million will be used to guarantee loans in a third phase of the bridge loan program.

⇒ As of June 15, 2006, the LRA Board of Directors had given initial approval for the following recommendations for the use of the $350 million in CDBG funds. Approximately $18 million of the $350 million will be used for administrative costs. These administrative costs are not included in the following LRA recommendations:

- $95 million for short- and medium-term bridge loans
- $95 million for a long-term loan guarantee program
- $38 million for a small firm recovery loan and grant program

- $9.5 million for technical assistance to small firms
- $28 million to the Louisiana tourism and marketing program
- $38 million for a sector-based workforce training program
- $28.5 million for a higher education recovery and rebuilding program

⇒ As of June 30, 2006, DED has spent $1.2 million of the total $4 million in EDA grant funds it was awarded on an advertising campaign and business counseling centers. DED has obligated another $2.2 million of the grant for economic recovery initiatives. In addition, DED anticipates receiving another $500,000 grant from the EDA, upon approval from the JLCB.

DED Has Identified Disaster-Impacted Businesses and Provided Advisory Assistance

⇒ One of the immediate needs DED recognized was identifying disaster-impacted businesses in need of assistance. DED identified them through six new business counseling centers (BCCs) funded with the EDA grant, small business development centers (SBDCs), a call center, and its website. It also purchased software to track these businesses.

⇒ DED spent approximately $790,000 of the EDA grant to fund six business counseling centers. As of January 31, 2006, the six BCCs had served approximately 2,603 individuals representing businesses. The BCCs offer in-depth, one-on-one business counseling sessions, provide business assessments, and link businesses to available resources. DED was able to identify and track disaster-impacted businesses through the BCCs, using a software package called Sage.

⇒ DED also identified businesses through its 13 SBDCs, which provided on-going technical assistance to businesses. The LSU SBDC served 203 hurricane-impacted clients from September 1, 2005, through March 20, 2006.

⇒ DED participated in a call center from September 28, 2005, through November 18, 2005, that was established to offer immediate disaster-recovery assistance to callers. DED used the Sage database at the call center to record businesses' data.

⇒ DED also used a new website called *AccessLouisiana* to capture businesses' information. The department compiled the data it obtained from its website into the Sage database.

⇒ While DED is using Sage and other tools to identify disaster-impacted businesses and their needs, it may not have recorded data relating to all businesses it made contact with.

⇒ According to DED officials, the department works closely with the Department of Environmental Quality and the Department of Labor. However, DED is not coordinating with these agencies to ensure it has identified all disaster-impacted businesses.

⇒ According to Department of Revenue officials, their department could provide data to DED relating to disaster-impacted businesses using basic data from tax returns. In addition, the Department of Culture, Recreation and Tourism collects monthly tourism and cultural economy data, which may be useful in identifying impacted businesses and their needs.

RECOMMENDATIONS

✓ DED should ensure that data are recorded for all affected businesses it makes contact with. By doing so, DED will ensure the most comprehensive list of affected businesses is developed and maintained.

✓ DED should determine what types of data other state agencies are collecting and coordinate with those agencies to identify and track disaster-impacted businesses in need of assistance. By doing so, DED will ensure the most comprehensive list of affected businesses is developed and maintained.

DED Developed the Bridge Loan Program in Response to the SBA's Slow Allocation of Loans

⇒ According to DED officials, the SBA loan application process is slow and requires a lot of data that were lost in the hurricanes. The SBA rejected loan applications instead of coordinating with the Internal Revenue Service (IRS) to obtain required data that were lost in the hurricanes. As a result, many loan applicants withdrew their SBA applications and sought other forms of assistance.

- ⇒ As of March 28, 2006, 23.8% of the 29,166 applicants who applied for Katrina-related business disaster loans withdrew their applications. In addition, 42.5% of all business loan applications were declined by the SBA. The SBA approved $869,943 in Katrina-related business disaster loans but had only disbursed $59,481 to small businesses as of March 28, 2006.
- ⇒ As of March 28, 2006, approximately 18% of Rita-related business loan applicants withdrew their applications. The SBA rejected 52.1% of the business disaster loan applications. The SBA approved $47,896 for Rita-related business disaster loans but had only disbursed $4,527 to small businesses as of March 28, 2006.
- ⇒ As of June 21, 2006, the SBA had only slightly improved the number of loans it disbursed to businesses. For example, the SBA disbursed $149,461 for 5,387 Katrina-related loans and $10,323 for 409 Rita-related loans.
- ⇒ DED guaranteed 370 bridge loans to business owners in 13 eligible parishes in the first phase of the program, using $10 million from the Governor's Rapid Response Fund. DED and DOA guaranteed 314 loans in 37 eligible parishes in the second phase using $30 million in previously obligated CDBG funds. In a third phase of the program, DED and DOA plan to provide longer-term capital assistance to businesses.

DED Has Promoted Louisiana to Out-of-State Businesses

- ⇒ According to DED and regional economic development officials, the national perception of the state is negative after the hurricanes. Many out-of-state businesses believe the entire state was destroyed by the hurricanes and are reluctant to locate in Louisiana.
- ⇒ To get the message out that Louisiana is open for business, DED used $1 million in EDA grant money and $1 million from its own budget to promote the BCCs, launch a three-month media campaign to get investors to the state, and advertise tax incentives. DED also purchased print ads in national publications.
- ⇒ In addition, DED used approximately $2,000 of its EDA grant funds to purchase Fortune 500 lists for use in marketing new tax incentives passed as a result of hurricanes Katrina and Rita.
- ⇒ DED also used approximately $132,000 of its EDA grant funds to purchase print ads in *The Wall Street Journal*, *The New York Times*, and *USA Today*.

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Department of Economic Development
Economic Recovery Post
Hurricanes Katrina and Rita

Louisiana
Legislative
Auditor

Performance Audit

Issued September 6, 2006

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September 6, 2006

The Honorable Donald E. Hines,
President of the Senate
The Honorable Joe R. Salter,
Speaker of the House of Representatives

Dear Senator Hines and Representative Salter:

This report provides the results of our performance audit on the status of efforts by the Department of Economic Development to promote economic recovery in the state post hurricanes Katrina and Rita. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

The report contains our conclusions and recommendations. Appendix B contains the response from the Department of Economic Development. I hope this report will benefit you in your legislative decision-making process.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

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EXECUTIVE SUMMARY

State law provides that the Department of Economic Development (DED) shall be responsible for fostering the growth of industry and other commercial enterprises in Louisiana that will contribute to the overall improvement of the economy of the state. The focus of this performance audit is to determine how DED has responded to economic development needs in the state post hurricanes Katrina and Rita. Our results are summarized below.

Performance Audit Results

- **A Comprehensive Plan Detailing Long-Term Strategies for the State's Economic Recovery Would Be Beneficial for Louisiana.** DED addressed many of the state's economic recovery needs after hurricanes Katrina and Rita. For example, staff identified disaster-impacted businesses and provided advisory assistance to them. Although officials informed us that they have the necessary information to compile a comprehensive plan, they have not completed a plan that addresses the state's long-term needs after the hurricanes. Without such a plan, DED cannot ensure that the necessary funding will be obtained and spent where it is most needed. (See pages 11-13.)

- **At Least $354.5 Million Has Been or Will Be Made Available for the State's Economic Recovery Efforts.** DED and the Division of Administration (DOA) participated in the initial phases of the bridge loan program. In the first phase of the bridge loan program, DED used $10 million from the Governor's Rapid Response Fund to guarantee loans to businesses post Katrina and Rita. In the second phase, DOA used $30 million in Community Development Block Grant (CDBG) funds to guarantee loans. DED plans to participate in a third phase of the program, which will use a portion of $350 million in CDBG funds. These funds will also be used for other economic development initiatives. Also, the Economic Development Administration (EDA) awarded DED a total of $4 million to fund recovery initiatives. (See pages 13-16.)

- **DED Has Identified Disaster-Impacted Businesses and Provided Advisory Assistance**. DED identified and assisted disaster-impacted businesses through business counseling centers, small business development centers, a call center, and its website. However, the department may not have recorded data relating to all disaster-impacted businesses it made contact with. Also, DED may not have coordinated with other agencies that could have assisted in the identification of impacted businesses and their needs. (See pages 16-19.)

- **DED Developed the Bridge Loan Program in Response to the Small Business Administration's (SBA) Slow Allocation of Loans.** As of March 28, 2006, the SBA had disbursed $59,481 in Katrina-related business disaster loans and $4,527 in Rita-related business disaster loans. As of June 21, 2006, the SBA had improved the number of loans disbursed to businesses. However, according to DED officials, the department developed the bridge loan program in response to the SBA's slow allocation of loans. (See pages 19-22.)

- **DED Has Promoted Louisiana to Out-of-State Businesses.** According to DED officials, one of the most important issues in disaster recovery is improving the state's image to national audiences. The department promoted the state through a national ad campaign, its website, and print ads in national publications. (See page 23.)

DISCUSSION OF ECONOMIC DEVELOPMENT TERMS

Bridge Loan Program. The bridge loan program is a short-term loan program developed by the Department of Economic Development (DED). It provides temporary working capital, or a "bridge," to viable small businesses until they receive a Small Business Administration (SBA) disaster loan(s) or insurance proceeds. (See more about the SBA below.)

Business Counseling Centers (BCCs). BCCs offer sustainable business planning assistance and disaster-recovery information to small business owners. They are funded by local technical assistance providers in conjunction with the Economic Development Administration (EDA) of the U.S. Department of Commerce through DED. (See more about the EDA below.)

Community Development Block Grant Program (CDBG). The CDBG program provides annual grants on a formula basis to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities primarily for low- and moderate-income populations. The **CDBG Disaster Recovery Assistance Program** provides flexible grants to help states recover from federally declared disasters, especially in low-income areas. The CDBG program is administered by the U.S. Department of Housing and Urban Development.

Department of Housing and Urban Development (HUD). HUD's mission is to increase home ownership, support community development and increase access to affordable housing free from discrimination. HUD administers the CDBG program.

Economic Development Administration (EDA). The EDA helps communities to address problems associated with long-term economic distress and to recover from the economic impacts of sudden and severe natural disasters. Established under the U.S. Department of Commerce, its mission is to lead the federal economic development agenda by promoting innovation and competitiveness and preparing American regions for growth and success in the worldwide economy.

Small Business Administration (SBA). The SBA offers various loans to businesses, including disaster-recovery loans to individuals and businesses in times of disaster. Its mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from national disasters.

Small Business Development Centers (SBDCs). SBDCs provide technical assistance to businesses, such as assisting them with writing business plans. They are funded primarily with SBA and DED funds but also receive funding through other sources, such as grants.

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INTRODUCTION

Audit Initiation and Objectives

On August 29, 2005, and on September 24, 2005, hurricanes Katrina and Rita devastated south Louisiana, destroying about 217,000 homes and 18,000 businesses and inflicting about $25 billion in insured losses.

The Louisiana Department of Economic Development (DED) has a critical role in helping to rebuild the state's workforce and economy. The Governor announced to state business leaders on September 29, 2005, that the economy and the workforce are critical parts of the state's recovery efforts. Accordingly, the Governor designated DED as the official economic development agency to connect Louisiana businesses with the resources they need to recover and to foster growth across all industries.

The focus of this performance audit is to identify the efforts by DED to address economic development needs in Louisiana. Specifically, we reviewed the progress DED has made toward economic recovery since the disasters for the period August 29, 2005, through March 31, 2006. We have provided updates as of June/July 2006, where applicable. Appendix A contains our audit scope and methodology.

Our audit objective was to answer the following question:

How has DED responded to economic development needs in the state post hurricanes Katrina and Rita?

Overview of Department of Economic Development

Purpose and Statutory Authority: State law provides that DED shall be responsible for fostering the growth of industry and other commercial enterprises in Louisiana that will contribute to the overall improvement of the economy of the state. The department is also required to perform the following activities to optimize conditions for new and expanding industrial and commercial enterprises in Louisiana:

- Promote the advantages of Louisiana to out-of-state business and industry
- Facilitate the expansion of existing enterprises
- Coordinate plans and programs with other state agencies and units of local government

According to DED, its mission is to provide excellence in leadership, policy, and programs to create a business climate enabling public-private linkages which result in capital investment, a diversified economic base, and quality job opportunities for all Louisiana citizens.

Agency Structure and Expenditures: DED has approximately 100 authorized positions within its three programs. The Executive and Administrative Program has 31 of these positions, the Business Development has 56, and the Business Incentives Program has 13. According to a DED official, because of a hiring freeze implemented after the hurricanes, the department is not currently staffed at its full capacity. As of June 30, 2006, the department had 80 full-time staff.

To operate its programs, the department spent $61.5 million in fiscal year 2004 and $67.7 million in fiscal year 2005. Exhibit 1 below details the amounts expended for fiscal years 2004 through 2006. According to department documents, the significant increase in expenditures was caused by several factors, including a federal hurricane recovery appropriation.

Exhibit 1
Summary of DED's Actual Expenditures and Staffing and Existing Operating Budget
Fiscal Years 2004 Through 2006

Expenditure Type	**Actual Expenditures**		**Existing Operating Budget***
	2004	**2005**	**2006**
Salaries and benefits	$6,540,825	$6,588,167	$7,637,444
Travel	398,148	473,608	638,332
Operating services	403,890	522,058	567,785
Supplies	152,091	136,941	139,038
Professional services	2,213,923	2,329,770	6,208,180
Other charges	50,691,549	56,350,754	72,402,667
Capital outlay	225,127	311,496	10,321
Interagency transfers	864,115	984,643	931,380
Total Expenditures	**$61,489,668**	**$67,697,437**	****$88,535,147**
Authorized Positions	**101**	**100**	**100**

*As of December 31, 2005.
**This figure does not reflect a reduction of DED's budget by $3.6 million for fiscal year 2006, as Act 67 of the 2005 First Extraordinary Session requires. In addition this figure does not reflect $553,712 in unsettled claims to be restored to DED's budget, subsequent to December 31, 2005.
Source: Prepared by legislative auditor's staff using financial data from DOA's Integrated Statewide Information System (ISIS) and for staffing, the Office of Planning and Budget's Executive Budgets for fiscal years 2005 and 2006 and the 2005 General Appropriations Act.

Louisiana Recovery Authority's (LRA) Role in Economic Recovery: The Governor first established the LRA by executive order in October 2005 and the legislature established it as a state agency within the Office of the Governor in the 2006 First Extraordinary Session. According to the LRA, its mission is to work with the Governor to plan for the state's future by coordinating across jurisdictions, supporting community recovery and resurgence, and ensuring integrity and effectiveness. The authority is to collaborate with local, state, and federal agencies to address short-term recovery needs while simultaneously guiding the long-term planning process. According to state law and LRA members, the LRA is advisory in nature.

The LRA is composed of 13 taskforces and recovery teams, including economic development and workforce training, that make policy and funding recommendations to the 33-member LRA Board. The Board is responsible for providing leadership and oversight for LRA activities. The economic development and workforce training taskforce coordinates with the secretaries of DED, the Department of Labor, and the Department of Revenue.

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HOW HAS DED RESPONDED TO ECONOMIC DEVELOPMENT NEEDS IN THE STATE POST HURRICANES KATRINA AND RITA?

Report Conclusions

DED has identified and addressed some of the state's economic development recovery needs as they have arisen but does not have a plan detailing how it will help the state continue to recover in the long-term. Without an adequate recovery plan, it will be difficult for DED to ensure that recovery funding is obtained and spent where it is most needed. DED and DOA's Office of Community Development (OCD) have used the Governor's Rapid Response Fund and CDBG funds to make loans available for small businesses through the bridge loan program. In addition, DED has used Economic Development Administration (EDA) funds to finance economic recovery initiatives. DED has also supported economic recovery by providing advice to impacted businesses and promoting Louisiana to out-of-state businesses.

A Comprehensive Plan Detailing Long-Term Strategies for the State's Economic Recovery Would Be Beneficial for Louisiana

DED has addressed many economic recovery needs for the state. For example, staff identified disaster-impacted businesses and provided advisory services. In addition, DED provided businesses with monetary assistance through development of a short-term loan program. While DED responded to many of the short-term recovery needs in the months following the hurricanes, a comprehensive plan detailing the long-term strategies for the state's economic recovery has not been completed. Without such a plan, DED will not be able to ensure that necessary funding is obtained and spent where it is most needed.

According to DED officials, as part of its strategy, DED plans to continue implementing its fiscal year 2006-2010 strategic plan and the Louisiana Economic Development Council's (LAEDC) 2006 action plan. However, these plans do not reflect the state's post hurricanes Katrina and Rita economic development needs. According to DED officials, the department has the information it needs to develop a comprehensive plan. However, they have not compiled this information into a comprehensive plan. DED officials informed us they intend to develop a single document detailing its long-term strategies for recovery.

Timely planning is needed to maximize funding opportunities and effective spending for the state. New York economic development officials told DED one lesson they learned after 9-11 is that timely design and planning of an effective recovery program is crucial for success. New York's plans and recovery programs were established four months after the terrorist attacks. According to New York officials, this timeline needed to be shorter for the Gulf region. However, Louisiana does not have a comprehensive recovery plan nearly a year after the disasters.

According to three economic development officials, Louisiana needs a timely, long-term recovery plan that outlines all of its recovery needs and strategies to obtain additional federal recovery funds. Mississippi, another Gulf state greatly affected by Hurricane Katrina, had a comprehensive recovery plan a few months after Hurricane Katrina occurred. In December 2005, the Mississippi Governor's Commission on Recovery, Rebuilding, and Renewal released its report detailing the problems the state faced after Hurricane Katrina and made recommendations in several categories. The Commission also outlined the responsible entities and funding sources for each recommendation.

Recommendation 1: DED should continue to coordinate with the LRA to establish a comprehensive, long-term plan that outlines the state's post-hurricane economic development needs, strategies to meet those needs, and the entities responsible.

Management's Response: DED agrees with this recommendation. DED has been actively involved in the LRA's activities since its inception. DED placed two employees at the LRA full-time. In addition, the DED Secretary is a member of the Recovery Team of the LRA's Economic Development and Workforce Training Taskforce (see Appendix B for management's full response).

Recommendation 2: DED should continue to work with the LRA to ensure that this plan requires coordination among entities critical to the state's economic development recovery efforts.

Management's Response: DED agrees with this recommendation. Although DED is unable to ensure that the LRA includes coordination as a component in the recovery plan, DED has strongly recommended such and DED officials believe that the LRA is strongly committed to the principle that coordination is a key ingredient for success in the statewide recovery efforts (see Appendix B for management's full response).

Management's General Comments Regarding Planning: In the early months after Hurricane Katrina, DED officials met with a contingent from the Lower Manhattan Development Corporation, Empire State Development, and Enterprise Florida in order to learn from their experiences with disaster recovery. As a result, DED developed a recovery plan including both short- and long-term goals based on the New York recovery model. This plan was submitted to the LRA in January, 2006, and it formed the basis of the LRA's current Vision 2020 Revised Action Plan recommendation for economic development recovery. In addition, DED is in the process of updating its five-year strategic plan to reflect post-hurricane recovery needs (see Appendix B for management's full response).

Legislative Auditor's Additional Comments: While DED's recommendations for use of the CDBG funds addressed one aspect of economic recovery planning, those recommendations did not represent a detailed comprehensive plan for economic recovery. DED does not have a single plan detailing current and future economic recovery needs, strategies and initiatives, parties responsible for implementing strategies and initiatives, and timelines for implementation. As discussed on pages 11-12 of this report, without a comprehensive plan that details all of DED's strategies to help the state's post-disaster economic recovery, DED will not be able to ensure that necessary funding is obtained and spent where it is most needed.

At Least $354.5 Million Has Been or Will Be Made Available for the State's Economic Recovery Efforts

From October 2005 through June 2006, DED and DOA have participated in the bridge loan program. In the first phase of the program, DED used $10 million from the Governor's Rapid Response Fund to guarantee loans to 370 small businesses. In the second phase, DOA used $30 million in previously obligated CDBG funds to guarantee loans to 314 small businesses.

DOA, on behalf of the state, expects to receive an additional amount of approximately $350 million in CDBG funds for economic development and workforce training initiatives. Five percent (or $18 million) of the $350 million will be used for administrative costs and $40 million may be used to replenish the dollars spent from the Rapid Response Fund and previously obligated CDBG funding. The remaining funds will be used for a third phase of the bridge loan program, as well as other economic development initiatives. Finally, the EDA granted DED $4.5 million to fund some of its recovery initiatives.

First Phase of the Bridge Loan Program. In the first phase of the program, the Governor authorized DED to use $10 million from the Rapid Response Fund for the bridge loan program. This fund was created as a special fund for economic development within the state treasury during the 2005 Regular Legislative session. The program was administered through a cooperative endeavor among DED, Louisiana Public Facilities Authority (LPFA), and participating lenders. DED guaranteed 370 loans to small businesses and individual lenders provided the actual funding to businesses. As guarantor of the loans, DED draws down the funds from the Rapid Response Fund as needed to make interest payments and payments for defaulted loan principal. Once interest is paid at the end of the loan period, any remaining funding will revert back to the Rapid Response Fund and can be used for other purposes.

Second Phase of the Bridge Loan Program. In the second phase of the program, DOA used $30 million of previously obligated CDBG funds to guarantee an additional 314 loans. In this phase, DOA, DED, LPFA, and lenders entered into a cooperative endeavor agreement. The second phase of the program operated similarly to the first phase except, according to a DED official, DOA (and not DED) guaranteed the loans and interest to the lenders. Individual lenders provided the actual funding to small businesses.

Because these loans are not due until the end of September, DOA has not made any interest payments on the loans. As guarantor of the loans, DOA will draw down CDBG funds for interest payments and for any defaulted principal once these loans become due. According to DOA staff, any remaining CDBG funds may be used for additional economic development programs.

Third Phase of the Bridge Loan Program. DOA expects to receive at least $350 million in CDBG funds for economic development and workforce training initiatives. As administrator of CDBG funds, the U.S. Department of Housing and Urban Development (HUD) approved DOA's action plan that authorizes $100 million of the $350 million in CDBG funds to be used for a third phase of the bridge loan program. However, the state's Joint Legislative Committee on the Budget, the state legislature, and HUD have to approve an amendment to the recommendations before these funds can be used to guarantee loans. Part of the $100 million will be used to replenish $10 million from the Rapid Response Fund and the $30 million from previously obligated CDBG funds used to guarantee loans during the first two phases of the program. According to DED officials, once the Rapid Response Fund and previously obligated CDBG funds are replenished, about $55 million will be available to guarantee loans in a third phase of the bridge loan program. Currently, DOA staff is assessing how oversight of the third phase of the bridge loan program can be improved. For example, OCD staff is working to improve program guidelines and monitoring practices.

Status of the $350 Million in CDBG Funds. According to an economic development official, the $350 million amount for economic development and workforce training is insufficient. The LRA's Economic Development and Workforce Training Taskforce plans to request more funding. However, according to this official, the state needs a detailed plan to obtain more federal support. As of June 15, 2006, the LRA Board of Directors had given initial approval for the following recommendations for use of the $350 million in CDBG funds. About $18 million of the $350 million will be used for administrative costs. These administrative costs are not included in the following LRA recommendations:

- $95 million for short- and medium-term bridge loans (as stated above, according to DED officials, a total of $40 million will be used to replenish the dollars used to guarantee loans in the first two phases of the bridge loan program, leaving about $55 million for a third phase)
- $95 million for a long-term loan guarantee program
- $38 million for a small firm recovery loan and grant program
- $9.5 million for technical assistance to small firms
- $28 million to the Louisiana tourism and marketing program
- $38 million for a sector-based workforce training program
- $28.5 million for a higher education recovery and rebuilding program

HUD has approved the Board's recommendation to use $100 million of the funds for a short- and medium-term bridge loan program (this amount includes $95 million to guarantee loans for small businesses and about $5 million for administrative costs). However, as stated previously, the state's Joint Legislative Committee on the Budget, the state legislature, and HUD have to approve an amendment to the recommendation before these funds can be used to guarantee loans in a third phase of the program. The recommendations regarding the remaining $250 million must go through the following process before they are finalized:

- Sent out for a 10-day public comment period
- Sent back to the LRA Board for final approval
- Approved by the Joint Legislative Committee on the Budget
- Approved by entire legislature
- Sent to the U.S. HUD for final approval

As of July 11, 2006, these remaining recommendations were at different stages in this process as presented above. For example, the long-term loan guarantee program was pending legislative approval while the recommendation for the workforce training program had been sent out for public comment.

EDA Funding. As of June 30, 2006, DED has spent $1.2 million of the total $4.0 million in EDA grant funds it has been awarded. The department has used the funds for initiatives such as an advertising campaign aimed at promoting the state of Louisiana and funding the business counseling centers. DED has obligated another $2.2 million from the EDA grant for economic development recovery initiatives. DED anticipates receiving another $500,000 in EDA grant funds, upon approval from the Joint Legislative Committee on the Budget. According to DED officials, these funds will be used to provide technical assistance to businesses.

Exhibit 2 details disaster recovery funding for economic development initiatives as of June 2006.

Exhibit 2
Economic Development Recovery Funds

Funds	Program(s)	Amount Used as of June 2006	Source
*$10 million	Bridge Loan (first phase)	**$97,000** spent on loan interest (DED will make more interest payments as loans are due and will pay the principal on any defaulted loans). Also used by DED to guarantee **$8.8** million in loans using these funds.	Governor's Rapid Response Fund (RRF)
*$30 million	Bridge Loan (second phase)	Not yet spent, but used to guarantee **$27.6** million in loans	Previously Obligated CDBG Funds
**$100 million	Bridge Loan (third phase)	Pending state and federal approval	CDBG Funds
**$250 million	Other economic development and workforce training programs	Pending state and federal approval	CDBG Funds
$4.0~~5~~ million	▪ Advertising ▪ Business Counseling Centers ▪ SAGE program ▪ Gulf Coast Reinvestment Forum sponsorship costs ▪ Consultant costs ▪ Marketing	**$1.2** million spent (DED has contracts that will require use of approximately $2.2 million more in EDA money)	Economic Development Administration (EDA)

* The state plans to use part of the additional $350 million in CDBG funds to repay this amount.
**Part of the $100 million will be used to replenish the $10 million dollars from the RRF and the $30 million from previously obligated CDBG funds used to guarantee loans during the first two phases of the program. According to DED officials, once the RRF and previously obligated CDBG funds are replenished, about $55 million will be available to guarantee loans in a third phase of the bridge loan program. Approximately $5 million of the $100 million will be used for administrative purposes. LRA, state, and federal officials will have to approve the Economic Development and Workforce Training Taskforce's recommendations on how to allocate these funds.
Note: According to DED officials, it also incurred support costs, totaling $388,873, resulting from its disaster recovery efforts. DED unsuccessfully attempted to obtain reimbursement in this amount from FEMA but may be reimbursed by the state with any FEMA funds it receives. This total was not audited and is not reflected in the total amount spent on recovery efforts.
Source: Prepared by legislative auditor's staff using information provided by DED.

DED Has Identified Disaster-Impacted Businesses and Provided Advisory Assistance

One of the immediate needs DED recognized was identifying disaster-impacted businesses that needed assistance. DED identified them through business counseling centers, small business development centers, a call center, and its website. It also purchased software to track these businesses. However, DED may not have recorded data relating to all disaster-impacted businesses that they made contact with. Also, DED may not have coordinated with other agencies to ensure that they were able to compile the most comprehensive list of affected businesses.

Business Counseling Centers (BCCs) and Small Business Development Centers (SBDCs). According to DED and EDA officials, the department received a $4 million grant for economic recovery from the Economic Development Administration (EDA) to assist in funding various economic recovery needs. In addition, the EDA recently granted DED an additional $500,000 grant. The EDA and DED developed a scope of work that allows DED to expend the grant money in five broad categories:

1. **Restoring business and investor confidence** includes allowing DED to launch a broad advertising campaign that Louisiana is "open for business."

2. **Providing technical assistance to small businesses in the disaster-impacted areas** allows DED to secure a network of facilities and professional staff that can provide expert technical assistance to the business sector. In addition, it includes acquiring cutting-edge information technology to provide the business sector the information and services it needs to resume operation.

3. **Capacity building** includes allowing DED to hire additional staff to aid in the recovery effort.

4. **Developing a long-term economic-recovery strategy** allows DED to procure professional services in an effort to formulate a blueprint the state will follow in rebuilding its economy.

5. **Establishing a revolving-loan fund** allows DED to use EDA grant funding to provide capital assistance for businesses that want to rebuild.

According to DED officials, DED spent approximately $790,000 of the EDA grant to fund six BCCs, which provide businesses free, temporary assistance. The BCCs offer in-depth, one-on-one business counseling sessions, provide business assessments, and link businesses to available resources and information. As of January 31, 2006, the six BCCs had served approximately 2,603 individuals representing businesses. DED was able to identify and track disaster-impacted business through its BCCs, using a customer relationship management software package called Sage.

DED also identified impacted businesses through its 13 existing SBDCs. SBDCs provide on-going, 24-hour technical assistance, such as training and business counseling, to small businesses. The LSU SBDC served 203 hurricane-impacted clients from September 1, 2005, through March 20, 2006.

Call Center. DED officials informed us that DED participated in a call center set up by the Governor's Office in the Office of Motor Vehicles from September 28, 2005, through November 18, 2005. The call center was established to offer immediate disaster-recovery assistance to callers. All business-related calls were directed to DED staff members. As a result, the department was in direct contact with businesses and was able to easily identify their needs.

DED used the Sage database to capture businesses' data. According to DED staff, all calls they answered may not have been captured in Sage; however, they informed us that they answered approximately 3,300 phone calls at the center.

Website. DED also used a new website (*AccessLouisiana*) it developed after the hurricanes to capture businesses' information. The website serves as a resource for disaster-impacted businesses to register their contact information and e-mail their questions to DED. The department compiled the data obtained from the website into the Sage database.

Coordination With Other Agencies. While DED is using Sage and other tools to identify disaster-impacted businesses and their needs, it may not have recorded data relating to all businesses that they made contact with. According to DED officials, the department works closely with the Department of Environmental Quality to assist companies in understanding permitting processes. DED works with the Department of Labor (DOL) on workforce training issues and uses its data for various economic development projects. The department is also working with Louisiana State University (LSU) to geo-map the hurricane-impacted parishes to obtain a more accurate count of affected businesses. However, DED is not coordinating with these agencies to ensure it has identified all disaster-impacted businesses.

According to Department of Revenue (DOR) officials, their department could provide data to DED relating to disaster-impacted businesses using basic data from state income tax returns. In addition, the Department of Culture, Recreation and Tourism (CRT) collects monthly tourism and cultural economy data, which may be useful in identifying impacted businesses and their needs. DED could coordinate with other state agencies, including DOR and CRT, to determine what types of data they are collecting and if those data could help continue to identify impacted businesses and their needs.

Recommendation 3: DED should ensure that data are recorded for all affected businesses that it makes contact with. By doing so, DED will ensure that the most comprehensive list of affected businesses is developed and maintained.

Management's Response: DED partially agrees with this recommendation. Because of the sheer volume of contacts DED made, it is possible that some calls were not captured at the call center. However, since the initial surge, DED has been capturing data on all impacted businesses it identifies through requests for assistance both within the department and at the regional and local levels (see Appendix B for management's full response).

Recommendation 4: DED should determine the types of data other state agencies are collecting and coordinate with those agencies to identify and track disaster-impacted businesses in need of assistance. By doing so, DED will ensure that the most comprehensive list of affected businesses is developed and maintained.

Management's Response: DED disagrees with this recommendation. In the months following Katrina, DED obtained a data file of all businesses in the impacted parishes by entering into a Memo of Understanding with the U.S. Department of Labor, Bureau of Labor Statistics, and Louisiana Department of Labor. DED also initially considered, and then rejected, data sources from other state agencies because the data they could provide would not meet the needs of DED in identifying specific businesses and would not provide information beyond that already obtained in the data provided by the Department of Labor (see Appendix B for management's full response).

Legislative Auditor's Additional Comments: While we understand that DED may have obtained data and rejected data from other sources, we are merely trying to suggest that DED should ensure it is using all potential resources to identify and track impacted businesses.

DED Developed the Bridge Loan Program in Response to the SBA's Slow Allocation of Loans

In addition to identifying disaster-impacted businesses, DED also developed the bridge loan program to provide businesses access to immediate capital through loans that were crucial to help them survive. The SBA has provided some disaster loans to businesses. However, according to DED officials, they established the bridge loan program in response to SBA's slow allocation of loans. The department has provided the means to immediate capital for disaster-impacted business in two phases of the bridge loan program and is planning to be involved in a third phase.

Small Business Administration. According to its website, the SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from national disasters. However, according to DED officials, the SBA is not serving the needs of the business community because it does not have the capacity to quickly get capital into the hands of small businesses. In addition, the SBA has not modified its loan requirements to fit the needs of these unique disasters. Exhibit 3 shows the types of disaster loans the SBA offers and their requirements.

Exhibit 3
Summary of SBA Disaster
Loan Requirements

Requirements	Home Disaster Loans	Business Physical Disaster Loans	Economic Injury Disaster Loans
Eligible Applicants	Homeowners or renters	Businesses of any size and non-profit organizations (e.g., charities, churches, private universities)	Small businesses and agricultural cooperatives with no credit available elsewhere
Purpose of Loan	Repair/replace disaster damage to real estate and personal property for renters	Repair/replace disaster damage to business-owned property including real estate, machinery, equipment, inventory and supplies; refinance existing mortgages/liens on real estate and/or machinery or equipment up to the loan amount for the repair/replacement	Working capital to assist through disaster-recovery period
Loan Amount Limit(s)	$200,000 for real estate; $40,000 for personal property	$1.5 million for real estate, machinery, equipment, inventory and other physical losses	$1.5 million, limited to the actual economic injury as calculated by SBA, not compensated by business-interruption insurance, and beyond the ability of the business or its owners to provide
Interest Rates	5.375% (or 2.687% if *no credit available elsewhere)	6.557% (or 4% if *no credit available elsewhere)	4% if no credit available elsewhere (n/a if credit available elsewhere)

*Refers to applicants who do not have sufficient funds or resources, or the ability to borrow from non-government sources, to provide for their own recovery.
Source: Prepared by legislative auditor's staff using information obtained from SBA's website.

According to DED officials, the SBA loan application process is slow and requires a lot of data that were lost in the hurricanes for its loan applications. The SBA rejected loan applications instead of coordinating with the Internal Revenue Service (IRS) to obtain these lost data. As a result, many loan applicants have withdrawn their SBA applications and sought other forms of assistance. Exhibit 4 shows that as of March 28, 2006, 23.8% of the 29,166 applicants who applied for Katrina-related business disaster loans withdrew their applications. In addition, 42.5% of all business loan applications were declined by the SBA. The SBA approved $869,943 in Katrina-related business disaster loans but had only disbursed $59,481 to small businesses as of March 28, 2006.

Exhibit 4
Summary of Hurricane Katrina-related SBA Disaster Loans
As of March 28, 2006

	Home	*Business	Total
Number of Applications Received	181,773	29,166	210,939
Percent of Applications Withdrawn	12.4%	23.8%	14.0%
**Percent of Applications Declined	48.0%	42.5%	47.3%
**Percent of Applications Approved	30.9%	41.6%	32.2%
Amount Approved	$3,357,264	$869,943	$4,227,207
Number Loans Disbursed	15,927	2,543	18,470
Amount of Loans Disbursed	$231,277	$59,481	$290,758

*This total includes business physical and economic injury disaster loans.
**These percentages do not include withdrawn applications.
Source: Prepared by legislative auditor's staff using information provided by DED.

The SBA received far fewer Rita-related loan applications, as shown in Exhibit 5. As of March 28, 2006, about 18% of business loan applicants withdrew their applications. The SBA rejected over half, or 52.1%, of the business disaster loan applications. The SBA approved $47,896 for Rita-related business disaster loans but had only disbursed $4,527 to small businesses as of March 28, 2006.

Exhibit 5
Summary of Hurricane Rita-related SBA Disaster Loans
As of March 28, 2006

	Home	*Business	Total
Number of Applications Received	20,425	2,315	22,740
Percent of Applications Withdrawn	14.3%	17.8%	14.7%
**Percent of Applications Declined	51.6%	52.1%	51.6%
**Percent of Applications Approved	20.5%	33.8%	21.8%
Amount Approved	$218,245	$47,896	$266,141
Number Loans Disbursed	485	209	694
Amount of Loans Disbursed	$6,064	$4,527	$10,591

*This total includes business physical and economic injury disaster loans.
**These percentages do not include withdrawn applications.
Source: Prepared by legislative auditor's staff using information provided by DED.

As of June 21, 2006, the SBA had improved the number of loans it disbursed to businesses. For example, the SBA disbursed $149,461 for 5,387 Katrina-related loans. In addition, the SBA disbursed $10,323 for 409 Rita-related loans. However, because of the SBA's slow initial response, DED started the bridge loan program to provide immediate assistance to struggling businesses.

Bridge Loan Program. According to DED officials, they developed the bridge loan program to quickly get capital into the hands of disaster-impacted businesses. The department modeled its program after Florida's short-term loan program. DED signed a cooperative endeavor agreement with the Louisiana Public Facilities Authority (LPFA) to administer the funds through banks in the affected areas. According to the loan agreement with LPFA, the purpose of the bridge loan program is to facilitate business survival and rapid restoration of business operations during the time between the storm and the receipt of other financing or financial assistance.

The department used $10 million from the Governor's Rapid Response Fund, established shortly before Hurricane Katrina, to guarantee loans in the first phase of its bridge loan program. DED guaranteed 370 bridge loans to business owners in 13[1] eligible parishes. However, the funding was depleted within three weeks and 106-108 loan applications were not funded. In March 2006, DED and DOA launched a second phase of the program, using $30 million in previously obligated CDBG funds to guarantee 314 bridge loans. During this phase, the maximum loan amount increased from $25,000 to $100,000, and the number of eligible parishes increased from 13 to 37.[2] All of these funds were depleted by early April 2006.

In a third phase of the program, DED and DOA plan to provide longer-term capital assistance to businesses. DED and DOA intend to make the following modifications to the first two phases:

- Increase the length of the loan from six months to 2½ years
- Subsidize the interest rate for the first six months and then offer a prime rate
- Relax the credit-score requirement for "harder-to-reach" sectors including tourism, dairy, and seafood

[1] These 13 parishes included Calcasieu, Cameron, Jefferson, Lafourche, Orleans, Plaquemines, St. Bernard, St. Charles, St. John, St. Tammany, Tangipahoa, Vermilion, and Washington.

[2] These 37 parishes included Acadia, Allen, Ascension, Assumption, Beauregard, Calcasieu, Cameron, East Baton Rouge, East Feliciana, Evangeline, Iberia, Iberville, Jefferson, Jefferson Davis, Lafayette, Lafourche, Livingston, Orleans, Plaquemines, Pointe Coupee, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Terrebonne, Vermilion, Vernon, Washington, West Baton Rouge and West Feliciana.

DED Has Promoted Louisiana to Out-of-State Businesses

According to DED staff, one of the most important issues in economic development recovery is improving the state's image to national audiences. According to DED and regional economic development officials, the national perception of the state is negative after the hurricanes. Many out-of-state businesses believe the entire state was destroyed by the hurricanes and are reluctant to locate here. To get the message out that Louisiana is open for business, DED informed us that it undertook the following measures:

- DED contracted with a national ad agency, Trumpet Advertising, to develop its national ad campaign promoting the state. DED used $1 million in EDA grant money and $1 million from its own budget to promote the BCCs, launch a three-month media campaign to get investors to the state, and advertise tax incentives such as the Gulf Opportunity Zone (GO Zone) incentives.

- DED updated its website to provide businesses useful information about tax incentives. In addition, DED used about $2,000 of its EDA grant funds to purchase Fortune 500 lists for use in marketing new tax incentives passed as a result of hurricanes Katrina and Rita.

- DED used $132,000 of its EDA grant funds to purchase print ads in *The Wall Street Journal*, *The New York Times*, and *USA Today*. These ads allowed DED to contact businesses who were forced to locate out-of-state and to send a positive message about the state to the national business community. DED also plans to purchase advertisements to target site selectors, which help businesses make location selections.

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AUDIT SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We followed the applicable generally accepted government auditing standards as promulgated by the Comptroller General of the United States.

Audit Scope

This audit focused on the status of the state's economic development recovery post hurricanes Katrina and Rita. The audit covered the period August 29, 2005, through March 31, 2006. Our audit objective was to answer the following question:

How has DED responded to economic development needs in the state post hurricanes Katrina and Rita?

Methodology

To accomplish our objective, we performed the following:

- Interviewed appropriate economic development officials concerning the state's post-disaster economic development needs including the following:
  - Bring New Orleans Back Commission member
  - DED officials
  - DOR officials
  - Greater New Orleans, Inc. (GNO, Inc.) President/CEO
  - Louisiana Association of Business and Industry (LABI) officials
  - LSU officials
  - LRA Economic Development and Workforce Training Taskforce Chair
  - Public Affairs Research Council (PAR) staff
  - U.S. Economic Development Administration official
  - Baton Rouge Chamber of Commerce

- Researched relevant state laws
- Attended LRA committee meetings
- Attended the Governor's Economic Development Conference
- Reviewed documentation provided by DED

RESPONSE FROM THE DEPARTMENT OF ECONOMIC DEVELOPMENT

See the following pages for the response from DED regarding our conclusions and recommendations.

State of Louisiana

LOUISIANA ECONOMIC DEVELOPMENT

Kathleen Babineaux Blanco
Governor

Michael J. Olivier
Secretary

August 22, 2006

Mr. David K. Greer, CPA
Assistant Legislative Auditor and
Director of Performance Audit

Dear Mr. Greer:

First let me thank you for the professionalism exhibited by your staff during the recent performance audit of Louisiana Economic Development's response to Hurricanes Katrina and Rita. Enclosed are our responses to the findings and recommendations of your audit staff as well as the checklist you provided.

Governor Kathleen Babineaux Blanco charged LED with helping businesses adjust and adapt to the new economic environment, and simultaneously, to continue cultivating investment in our state. LED has taken that charge seriously and has worked closely with businesses going through unprecedented upheaval, with those businesses outside the heavily impacted areas attempting to stabilize and grow, and with those communities looking to attract global investment.

As we reviewed the audit results and prepared the enclosed responses, we recognized the value of having an independent review of our post-hurricane performance. If you have any questions on the responses please contact Fran Gladden, Deputy Secretary at 225-342-5437.

Sincerely,

Michael J. Olivier
Secretary

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Office of the Legislative Auditor – Performance Audit Division
Checklist for Audit Recommendations

Instructions to audited agency: Please check the appropriate box below for each recommendation. A summary of your response for each recommendation will be included in the body of the report. The entire text of your response will be included as an appendix to the audit report.

RECOMMENDATION(S)	AGREE	PARTIALLY AGREE	DISAGREE
Recommendation 1: DED should continue to coordinate with the Louisiana Recovery Authority to establish a comprehensive, long-term plan that outlines the state's port-hurricane economic development needs, strategies to meet those needs, and the entities responsible	✓		
Recommendation 2: DED should continue to work with the LRA to ensure that this plan requires coordination among entities critical to the state's economic development recovery efforts.	✓		
Recommendation 3: DED should ensure data is recorded for all affected businesses it makes contact with. By doing so, DED will ensure the most comprehensive list of affected businesses is developed and maintained.		✓	
Recommendation 4: DED should determine what types of data other state agencies are collecting and coordinate with those agencies to identify and track disaster-impacted businesses in need of assistance. By doing so, DED will ensure the most comprehensive list of affected businesses is developed and maintained.			✓

LED Response to Legislative Audit Recommendations

Recommendation 1:

Agree. DED has been actively involved in the LRA's activities since its inception in 2005. DED placed two existing employees at LRA full-time: the Special Assistant for Policy & Initiatives and a senior research analyst, and both the Secretary and Deputy Secretary have played vital roles with the LRA in the development of the final recovery plan recommendations. Additionally, the DED Secretary is a member of the Recovery Team of the LRA's Economic Development and Workforce Training Task Force. The federal funding requests for economic recovery dollars were developed with direct input from DED utilizing the Manhattan recovery model.

Recommendation 2:

Agree. Although DED is unable to ensure that the LRA includes coordination as a component in the recovery plan, DED has strongly recommended such and DED officials believe that the LRA is strongly committed to the principle that coordination is a key ingredient for success in the statewide recovery efforts.

Recommendation 3:

Partially Agree. On pages 4, 15 and 17 the report indicates that DED did not record data for all affected businesses it made contact with. In the weeks immediately following Hurricane Katrina, LED set up an interim manual email-based tracking mechanism to capture data from the large volume of requests from business owners, employees and the general public seeking assistance. Staff was directed to send emails to a newly created hurricane email account detailing these contacts, in anticipation of adding them to a formal tracking system that was in development. In less than a month a formal electronic tracking system utilizing Sage CRM software was put in place to begin capturing new contacts through the multiple input sources (800 hotlines, disaster account emails, etc.) LED had set up. Two teams were set up to ensure that as much data as possible was being captured into the Sage database. One team was charged with capturing data from new contacts at the Governor's call center, and the second was charged with inputting the backlog from earlier contacts tracked with the manual system. Because of the sheer volume of contacts, it is possible that some calls were not captured at the call center because call center staff (who did not have access to the tracking system) were fielding overflow calls when LED staff were all assisting callers. However, since that initial surge, LED has been capturing data on all impacted businesses that it identifies through requests for assistance both within the department and at the regional and local levels. By the time Hurricane Rita hit DED simply had to incorporate the new business assistance contacts into its existing tracking system.

DED is currently in the process of migrating data files from bridge loan and GO Zone bond applicants into Sage CRM in order to build complete and centralized "assistance history" for all impacted businesses.

Recommendation 4:

Disagree. On pages 4, 15 and 17 the report indicates that DED did not coordinate with other agencies to identify impacted businesses and their needs. In the early months following Hurricane Katrina, DED obtained a data file of all businesses in the impacted parishes by entering into a Memorandum of Understanding with the U.S. Department of Labor, Bureau of Labor Statistics and the Louisiana Department of Labor. DED utilized the data to the extent possible without violating federal and state confidentiality laws and regulations; for example, to identify and make contact with impacted employers and to geocode businesses in impacted zones (wind levels, flood levels, etc.). DED initially considered, and then rejected, data sources from other state agencies because the data they could provide would not meet the needs of DED in identifying specific businesses and would not provide information beyond that already obtained in the data provided by the Department of Labor. For example, DED learned from agency officials at the Department of Revenue that due to confidentiality issues, the data available for sharing with DED could only contain a business name and address and would not contain any other confidential elements such as income, employment, gross sales, etc. Also, extended due dates of tax return deadlines after the hurricanes and damage to regional offices limiting collection staff would have further reduced the amount of business information DOR would have available.

Additionally, DED works closely with the LRA whose task forces and staff have ties to every cabinet department in the state. As good sources of data are identified this information is shared among the agencies.

General Comments:

Coordination and Service Delivery. The auditors found that DED has successfully identified disaster-impacted businesses and provided both advisory and financial and other technical assistance to these programs through its various programs. The auditors also found that DED has marketed the state globally to improve the state's image after the negative impact of the hurricanes, and leads generated from these marketing activities are also being captured in Sage CRM.

Planning. In the early months after Hurricane Katrina, DED officials met with a contingent of representatives from the Lower Manhattan Development Corporation, Empire State Development, and Enterprise Florida in order to learn from their experiences with disaster recovery. As a result, DED developed a recovery plan including both short- and long-term goals based on the New York recovery model. This plan was submitted to the Louisiana Recovery Authority

(LRA) in January, 2006, and it formed the basis of the LRA's current Vision 2020 Revised Action Plan recommendation for economic development recovery (attached). In addition, DED is in the process of updating its five-year strategic plan to reflect ongoing post-hurricane recovery needs which incorporates the existing long-term strategies for economic development contained in Vision 2020 and DED's five-year strategic plan with the recovery needs contained in DED's marketing plan and the Community Development Block Grant funding plan DED will administer through the LRA.

LED Accomplishments:

One year after Hurricane Katrina, more than 60,000 businesses have returned to operation across South Louisiana. To help businesses do so in the wake of the hurricanes, Louisiana Economic Development and its local, state and federal partners, mobilized

- a temporary worksite employee housing program in which DED coordinated with FEMA for the delivery of over 3,700 units;
- a bridge loan program that provided $40 million in gap funding – worked with members of the Louisiana Banker's Association in development of the program structure;
- procurement and contracting workshops in impacted communities, attended by more than 850;
- established a network of six business counseling centers that have assisted more than 3,750 users with business plans, resources and technical expertise – worked with local planning districts and the Economic Development Administrations;
- Six Gulf Opportunity Zone workshops, attended by more than 400 people to help South Louisiana businesses better understand the newly enacted federal incentives;
- a Factory Building Systems Symposium, attended by nearly 300 people and more than 70 exhibitors, to spur the new construction economy.

The hurricanes have not blunted interest. LED's current roster of more than 70 working projects totals more than $6 billion in potential new investment and estimated 20,000 new jobs. Since August 2005, the agency has announced 26 projects worth a total of $6 billion and an estimated 5,500 direct jobs. Projects around the state include Synfuel Inc., a $5 billion new coal gasification plant in Ascension Parish; Marathon Oil's $2.2 billion Garyville plant expansion; and NuComm International, a $3.5 million customer contact center in Lafayette.

More than $1 billion in new projects have been announced in the Katrina impact area, including 84 Lumber Company's $9 million new components factory in Hammond; the $715 million Hyatt Regency downtown revitalization project and $200 million Trump Tower luxury residences in New Orleans; ABSI/Emmedue's new $6 million building systems factory in Jefferson Parish; and Dow Chemical's $65 million plant expansion in St. John the Baptist Parish.

Film industry growing – no days lost to storms. After evacuating from New Orleans, the Louisiana Institute of Film & Technology opened quarters in Shreveport, LA. The northwest region of the state proved so full of options for production projects that the state's film industry now has two permanent hubs – New Orleans and Shreveport. In fact, the geographic diversity of resources and locations across Louisiana ensured that current projects lost *zero* production days as a result of Katrina and Rita. Since the hurricanes hit, 19 projects have completed across Louisiana. One feature film is currently in production and two new large studio features will begin production in Louisiana.

Advanced Manufacturing – Future assured at Louisiana facility. Although damaged by Hurricane Katrina, NASA's Michoud Assembly Facility has since delivered two external tanks for the space shuttle program, including those used in the most recent shuttle mission and has nearly a dozen more scheduled. In addition, NASA announced this spring that Michoud Assembly Facility would be the site for construction of the next generation of manned flight vehicles. This announcement ensured large-scale NASA manufacturing will take place at the New Orleans location for at least a decade more, and require 1,000 – 2,000 employees through 2020.

Center for Construction Technology – Devastation breeds opportunity. With more than 200,000 homes destroyed, Louisiana is a prime location for construction technology. After exhibiting at LED's Factory Building Systems Symposium in June, an Italian construction system company recently announced a $6 million investment in the state by opening a factory in the New Orleans metro area. The company's rapid concrete construction system, known as M2 Emmedue®, has been used in more than 40 countries, including many storm-prone areas. Louisiana businesses are poised to be on the forefront of building technologies, many seeking new opportunities sparked by the Symposium.

Retaining the high tech brain trust. Part of the transformation in Louisiana's economy is a renewed sense of commitment to the state, including among the business community. Network Foundation Technologies (NFT) owners Dr. Mike O'Neal and Marcus Morton have purposefully staked a claim in North Louisiana. According to Morton, the state's progressive incentives and the quality of graphic engineering graduates from state universities make Louisiana the perfect environment for advancing a high tech infrastructure equivalent to Silicon Valley. NFT execs expect the company to reach annual sales of $100 million over the next two years.

Legacy industries also thriving – oil & gas continue to prosper. Louisiana's most well-known economic drivers – the petroleum industry and the state's six deepwater ports – continue to move forward. Ship calls at the Port of New Orleans have returned to their original rates, and cargo levels have reached more than 80 percent of their pre-Katrina levels. Steel volume moving through New Orleans – the largest steel entry point in the nation – has even increased over last year. Nine Liquefied Natural Gas (LNG) facilities are either in operation, under construction or proposed in Louisiana.

Economic Development Uses for Community Development Block Grant Dollars

Louisiana's economy has suffered terrible losses in the wakes of Hurricanes Katrina and Rita. 81,000 businesses were in the 13 most devastated parishes. The US Census Bureau reports that 18,000 businesses were likely devastated by the storms. 240,000 Louisianans were reportedly driven into unemployment by the storms. The damage has been unprecedented in US history, and the response to stimulate short term and long term economic recovery must meet the challenge.

In the short term, companies, especially small businesses, have suffered losses for which they are seeking capital assistance in order to recovery. If the SBA were a more accessible source of funds, more businesses might have been helped. As it is, of 22,000 plus SBA loans applied for by *Louisiana* businesses, roughly 339 had been approved as of December 19^{th} 2005 (inclusive of physical infrastructure and economic injury loan numbers). Louisiana must provide short term capital in the form of bridge loans, larger loans, and capital for business-driven workforce training and other technical assistance programs.

In the longer term, Louisiana must seize the opportunity to drive new growth and prosperity in both rural and urban areas of the state. To do so, we must use cash resources for recruitment and retention grants to create new job opportunities, market and invest in our tourism and cultural economy resources in Louisiana, rebuild academic research capacity at state universities, develop a business investment environment with regional and national venture capital firms, and develop world class entrepreneurs and companies that can compete in tomorrow's global economy.

Given the potential availability of $6.2 billion for Louisiana of disaster recovery CDBG funds, the LRA Economic and Workforce Development Task Force hereby recommends that the LRA allocate $1.5 billion of the available funds to economic development investments in the following categories:

- **$100 million for interest free bridge loans**. The first goal will be to finance $100 million for bridge loans to provide immediate capital assistance to affected small businesses. The state funded $10 million for a small business bridge loan, which was for interest free, 180 day loans up to $25,000. The loans are provided through existing banks throughout the state, and were allocated from regional pools for only 13 parishes. This next, better funded program will be allocated across more parishes/regions, and is proposed to allow 180-day interest free loans up to $100,000. The initial program is funded by providing banks a guarantee against losses, with a 100% reserve, and fixed fees for interest and management costs. This proposed bridge loan program will be similar, but will reduce the guarantee for loans above $25,000. 1 year program.

- **$550 million for interest free loans.** These loans would have larger loan sizes (possibly up to $300,000) and longer repayment periods, but also negotiated and managed locally through Louisiana banks. 3 year program.

- **$300 million for business retention/expansion grants** with strict job creation or expansion ties. 5 year program. This amount would be similar to the Empire State Development Corporation's Large Business Retention Grants, which were negotiated on a case by case basis for retaining large companies in the affected areas and helping them to remain, expand, or to locate new operations.

- **$100 million for tourism small business recovery grants**. These grants would be set aside specifically for tourism related businesses to help them recover and rebuild.

- **$100 million for tourism/cultural economy and economic development promotion program** for all of Louisiana. After the storms, the damage to Louisiana's tourism sector caused conventions to turn away and vacationers to choose other locations. This pool of money would be used not only for promotion of the state to help the tourism sector recover, but also to help communities build their tourism and cultural assets, such as arts and music, that make them unique and interesting to visitors. This pool of funds would also be used for economic development image building to help the state improve its "investor confidence" with businesses, commercial development decision makers, as well as tourists and conventioneers.

- **$150 million for workforce training funding.** 3 year program. The state lost its single greatest training asset, the Incumbent Worker Training Program, as a result of the draining of the state's unemployment trust fund to make payments to unemployed people. Because the state cannot burden employers with a new tax for training during this period of recovery, these CDBG funds must be dedicated for this purpose. This 3 year fund would be to make grants to businesses in the affected areas to meet their employee training needs as they replace employees and develop new skill sets for the "recovery economy."

- **$100 million for building research capacity, focusing on collaborative industry/university research**. One of the most damaging, but underreported affects of the storm on the economy was the loss of research in progress and talent and research that might have propelled Louisiana's economy to new areas and sectors over the coming years. This was at the heart of Vision 2020's strategic plan for Louisiana. This pool of funding would be used to recruit academic talent to return to the state's public and private universities, but based upon their expertise and the connection of their expertise to industry in the region. Like traditional industrial recruitment, recruitment of best-of-class people requires dollars and can create jobs and investment. Similar to the Georgia Research Alliance, this type of model can not only bring back skills and potential that were lost, but might also bring our research assets to a higher level than before. This program is anticipated to be a 7-10 year program.

- **$50 million for venture capital co-investments**. Louisiana had a minimal record for venture capital investment prior to the storms, but the tide was turning in our favor with efforts in New Orleans, Baton Rouge, and Shreveport. Venture funding is the basis for entrepreneurial activity taking off, and while it's a long term strategy for economic recovery and growth, it can have dramatic long term results. These dollars would be managed similar to the Oklahoma model of investing in firms with a track record of success and a demonstrated ability and commitment to investing in Louisiana areas, both rural and urban. This program is anticipated to be a 10 to 20 year program, with a potential return on investment that could pay for itself.

- **$50 million for development of technical assistance programs**, including a world class entrepreneurship development and small business technical assistance program. 5 year program. According to internal LED research comparing state investments into small business development centers (SBDCs), Louisiana is in the bottom quartile for funding for entrepreneurship development. To propel the economy, the state must invest to help improve the success of potential growth oriented companies, whether in rural or urban areas. To do so, the state should target investing roughly $10 million per year over 5 years to help create business assistance programs of the caliber and quality of the Ben Franklin Partnership in Pennsylvania or the KC Source Link program in Kansas.