



SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

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Written testimony from Donna Little

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Senator Landrieu, Senator Vitter, Members of the Senate Committee on Small Business and Entrepreneurship, and distinguished guests, thank you for the opportunity to tell you about the work the Louisiana Small Business Development has done and is currently doing in small business recovery in South Louisiana and to tell you of the challenges our small businesses still face.

Senator Landrieu and Senator Vitter, we in the LSBDC deeply appreciate the leadership you, Chairman Kerry and Ranking Member Snowe provided in securing additional funds for the SBDC program for FY 08. I am very proud to say that every member of the Louisiana delegation supported your effort. The increase in funding restores the funding to our program that we lost in FY 2001 because the 2000 census showed Louisiana's population did not grow as fast as other states.

I am Donna Little, Director of the Louisiana Small Business Development Center at McNeese State University. The LSBDC is an SBA partnership program with the State of Louisiana and participating universities, operating nine centers in the state. Our mission is to facilitate the formation and growth of small businesses through individual consulting services, entrepreneurial training programs, and business information resources to develop and diversify the Louisiana economy.

Let me start off by saying that small businesses still need in-depth technical assistance just as we provided after the hurricanes. We helped with loan applications, staffed state business recovery centers, worked out of DRC's, listened to owners, and helped thousands apply for SBA Disaster loans. LSBDC consultants provided small businesses with an average of 5 hours of loan assistance – time a SBA Disaster Loan Officer cannot spend with every business.

What the LSBDC has been able to achieve in assisting the small business community with recovery is pretty impressive. Since October 1, 2005 the LSBDC centers that serve south Louisiana have provided one-on-one consulting to 6,750 small businesses and entrepreneurs across south Louisiana and we have provided business related training to almost 14,000 more. Believe me - we did not get every person, business or training event recorded. Of those receiving consulting services, more than half (53%) are existing businesses that employ 19,356 full time and 4,560 part-time employees and have sales of just over \$1 billion. Another 356 new businesses and 2,000 new jobs have been created by our clients and they have secured more than \$104 million in debt and equity funding. Those are significant numbers for recovery across south Louisiana.

Now and going forward, the LSBDC is focused on helping small businesses make sure that their business model is relevant, helping to adjust that business model when needed, analyzing financial statements and looking for areas where the owner can address identified problem areas, figuring out how businesses can be innovative and serve their clients and markets with fewer employees because they cannot find employees, helping them prepare disaster plans for their business, preparing cash flow projections, assisting with loan packaging, ensuring that our small businesses are competing in a global market, and helping them think strategically. This is not the time to reduce services to small businesses, but rather to provide the resources to increase the services.

When Hurricane Rita was approaching southwest Louisiana, my staff and I planned to protect our client files and our equipment and furniture. I knew from my colleagues what can happen because we lost two of our three offices in New Orleans and two offices were still not occupied when Rita was headed our way. We traded emergency contact information and changed the message on the office phone to say we'd evacuated but being hopeful, we expected to be back on Monday, September 26 - a date that proved to be far too optimistic.

I evacuated to my sister's home in Eunice, LA, east of here, about halfway to Lafayette. My cats and I lived there for nearly two weeks while I waited for electricity to be restored in Lake Charles. I commuted to work at the LSBDC in Lafayette. I assisted at their seminars, counseled their clients with disaster loan applications from Katrina, and helped my own clients using email and telephone.

Finally, on October 6, Lake Charles was re-opened and I was able to return home. My office at McNeese was still quarantined, so I worked at the Business Recovery Center hosted by the Chamber Southwest, using my laptop, a borrowed printer and a folding table.

The state (Louisiana Economic Development) reduced the LSBDC budget by \$115,000, expecting the worst. Then the LSBDC state office cut my budget in anticipation of using portability money and EDA money to hire consultants in southwest Louisiana for my office, and then there was a hiring freeze. All I could think was – they cut my budget and I need help. I could not hire a newly created position for a consultant and I am one person serving five parishes!

The LSBDC at McNeese State University was very small and is currently still a small office with a total operating budget of just over \$150,000 including SBA, state funds, and funds from McNeese. 88% of my budget is for personnel cost and provides for one director, one business consultant and one office personnel. With this staff we can expect to provide individual in-depth consulting to approximately 175 existing businesses and entrepreneurs, and training to another 400 or so. The LSBDC state office began seeking additional funds to help our network hire outside consultants, and/or bring in SBDC volunteer consultants from other states. Through Louisiana Economic Development, the LSBDC was able to secure almost \$250,000 in an Economic Development Agency that we used to help hire additional consultants and get more “boots on the street” and more recently Louisiana Economic Development awarded us another \$1.25 million to provide technical assistance over the next 18 months.

Our national Association of Small Business Development Centers membership agreed that Louisiana and Mississippi could apply for the SBA portability grants, but we had to make six individual grant applications with six different projects and those were not approved until almost one year after Katrina – August 2006. Because of the limitations of the grants, the state office had to contract with consultants we used in the field.

After Katrina but before Rita, the LSBDC State Director arranged for an experienced consultant from the Florida SBDC network to come and train all LSBDC staff members about working with small businesses that had just been impacted by a disaster. We also learned about SBA disaster loans from him, the SBA DD Eugene Cornelius, and from the SBA Office of Disaster Assistance staff. We went through the application and all of the additional forms line by line – and I put that information to good use, over and over again.

As soon as possible I starting getting the word out that the LSBDC at McNeese State University was here to help small businesses. Other LSBDC personnel were doing the same across south Louisiana in Baton Rouge, Hammond, Slidell, and of course New Orleans. I held eight seminars in four southwest Louisiana communities to assist many of small businesses to apply for SBA disaster loans, providing my own publicity, doing my own photocopying, and hauling boxes of forms around in my car. I also met individually with clients at the Chamber office.

From talking to the Florida SBDC and others, I knew that disaster loans could take months to be processed, so it became very important to prepare our clients for the time period in between the application and the actual disbursement of funds and to help them manage their expectations. There was so much bad publicity regarding small

business loans after Katrina that many in our region simply decided it was too much work and they probably would not get the SBA loan so they did not apply.

I suggested going to credit unions or using other sources for quick money to keep businesses alive. I explained the importance of cash flow and repayment ability to owners of small businesses that before Rita had survived on almost nothing, with no debt. Suddenly, their buildings were smashed, their equipment in pieces, and they had no insurance to replace anything. Many had no idea how to begin.

I held clients' hands while they cried. The owner of a party goods store with contracts for Mardi Gras balls and Christmas parties was in despair over those lost sales. I suggested she reduce her operations and lease part of her store to someone else -- which is what she eventually did.

A restaurant owner wanted to buy his building to keep the restaurant's 30-plus year history at the location, because the landlord didn't want to bother with repairs. But an SBA disaster loan wouldn't cover that purpose, and other credit wasn't available. I suggested they lease another location -- and that's where they still are. I arranged for KPLC to tape an entrepreneur in the wreckage of her store, where she told her story and inspired others to rebuild.

Over and over again, I talked to businesspeople who had been rocking along, paying employees, providing valuable services and goods to the community -- owners who now couldn't secure a new loan to re-open their doors. Through no fault of their own, they now were wiped out or at least at a standstill.

In November, McNeese re-opened and I returned to my office at the University. I continued to work one-on-one with clients on their SBA disaster loan applications, did outreach to remind businesses of SBA deadlines, and helped clients deal with required SBA paperwork. My budget was cut -- instead of hiring another full-time person to replace a retiree, I was the only full-time counselor, with a half-time administrative person.

In total, since October 1, 2005, we have worked with 479 clients in southwest Louisiana alone on disaster-related issues.

Since Hurricane Rita, small businesses face these problems.

- **Access to Capital:** many business owners incurred personal debt to keep their doors open after the storm -- and now they have difficulty refinancing that debt burden. SBA loans can't be used for that purpose. If a business in south Louisiana had accounts receivable, then odds are very great that they now have credit problems because they could not collect.
- **Insurance:** The cost of insurance, if you can find it, is very high, with high deductibles, and insurance has become a major cash flow item. The profit margin is fairly small in most businesses and the increases in cost of insurance can derail a business. In order to secure a loan, a business must have insurance.
- **New construction requirements and an imbalance of supply and demand** make building even more expensive.

- **Employees:** Unemployment is at record low levels, and finding good workers at a reasonable cost is almost impossible. This has become a statewide problem. The workforce in north Louisiana can find better paying jobs further south. Even with the migration of workers from north to south (if they can find housing), businesses cannot fill the need for workers in the southern portions of the state. Available affordable housing is a critical issue to recovery.

With our limited resources, the LSBDC struggles to work with clients, offer training classes, travel to the communities in the five parishes in which we serve, network with banks and economic development groups, keep our equipment up to date, and maintain professional development. Our goal is to provide quality service, with a minimum of five hours of contact time for most of our clients. This is a tremendously difficult job.

Administrator Preston had made some major changes and has completed the U. S. S.B.A. Disaster Recovery Plan. There are four levels to the plan and at every level there is language that directs SBA personnel during the response to leverage SBDCs, SCORE, and Women's Business Centers. The plan says that these groups primarily help with local outreach by:

- Making potential applicants aware of SBA's services and handing out disaster loan applications;
- Screening and interviewing – helping applicants complete documents and collect requisite background information;
- Application assistance.

However, at no point does this plan indicate that resources will be made available to SBDCs or any other resource partner. Based on our experience during the 2005 hurricane season, it is imperative that the SBA request funding for resource partners in supplemental funding when that request is made of Congress following a disaster where there is a need for additional resources. It has been proven in other disasters that SBDC assistance in preparing clients for SBA disaster loans gives much higher approval rates for our clients. If another storm hits this summer, we will have learned some very good lessons, but our resources will be as limited as they were after Rita.