PROMISES MADE, PROMISES BROKEN:

THE BUSH ADMINISTRATION'S RECORD ON REBUILDING THE GULF COAST

A REPORT RELEASED BY

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<u>Promises Made, Promises Broken:</u>
<u>The Bush Administration's Record on Rebuilding the Gulf Coast</u>

After more than six months since Hurricanes Katrina, Rita and Wilma devastated the Gulf Coast, the Bush Administration has failed to implement a real plan for rebuilding communities and the economy. Now, as President Bush prepares to visit the Gulf Coast for the 10th time, Senator John Kerry (D-Mass), Ranking Member of the Senate Committee on Small Business and Entrepreneurship, highlights the Bush record and rhetoric on rebuilding. The Bush record shows obstruction, mismanagement, and a sluggish response.

Summary

Hurricane Katrina alone devastated an area the size of Great Britain. More than 44,000 small businesses were damaged or destroyed by the 2005 hurricanes, and more than 365,000 residents were left homeless. President Bush and the Small Business Administration (SBA) – which is responsible for the disaster loan program for homeowners, renters and businesses – have promised time and time again to help local communities rebuild. However, through a series of missteps and mismanagement, the Bush Administration has been slow to help the economic recovery and has even undermined the ability of local business owners and families to rebuild their communities. **Today nearly 120,000 residents are still waiting for their disaster loans to be processed so they can rebuild their homes and businesses – more than six months since Hurricane Katrina pummeled New Orleans and the rest of the Gulf Coast. More than 140,000 residents have been declined for disaster loans.**

From loan applications sitting in a processing center for weeks, to President Bush's blocking common sense, bipartisan legislation to aid the economic recovery of the Gulf Coast, to ignoring local and small firms that by law should be considered for federal contracts, the Administration has failed the Gulf Coast residents. In fact, a refusal to admit mistakes, poor planning and short-staffing by the Bush Administration has plagued the SBA's response to the disasters – including a near shutdown of the disaster loan program twice in February 2006.

Now, on the eve of the deadline for residents to apply for disaster loan assistance (March 11, 2006), and just three months before the next hurricane season begins, the Bush Administration is still not getting the job done.

Empty Promises

- **September**

  "And tonight I also offer this pledge to the American people: Throughout the area hit by the hurricane, we will do what it takes, we will stay as long as it takes, to help citizens rebuild their communities and their lives." - **President George W. Bush**, September 15, 2005, in Jackson Square, New Orleans, La.

- **December**

  "*We're now implementing a comprehensive plan to help the people of the region recover and rebuild."* – **President George W. Bush**, December 21, 2005, White House website.

- **January**

  "There's going to be a building boom down here; there just is." – **President George W. Bush**, January 12, 2006, on his last visit to the Gulf Coast.

- **February**

  "Our commitment to rebuild and help Mississippi and Louisiana is ongoing and robust." – **President George W. Bush**, February 23, 2006, White House website.

- Over the last six months, President Bush has promised numerous times that the federal government would help the Gulf Coast rebuild. Unfortunately, this rhetoric is hollow for the homeowners and business owners who need loans, counseling, and contracts to rebuild or operate their businesses. The first two supplemental funding requests the President sent to Congress provided $62 billion for recovery through the Department of Homeland Security (DHS) and the Federal Emergency Management Agency (FEMA) but not one penny was designated for small businesses or the Small Business Administration. In the third request, the Administration dismissed calls from Senators John Kerry and Mary Landrieu to reallocate some of the billions in unspent funds from FEMA's Disaster Relief Fund for the SBA to provide comprehensive assistance and complement the SBA's disaster loan program for small businesses and homeowners.

- Instead, the President did the bare minimum, providing additional money only to the SBA's troubled disaster loan program. The Administration provided nothing for bridge loans, nothing to compensate SBA's experienced lending partners for processing disaster loans, and nothing to increase access to counseling to help small businesses put together loan documents and mitigate losses and bankruptcies. The Administration merely recycles the same old line about a commitment to rebuild, and that is not enough.

Bush Administration Blocks Bipartisan Recovery Legislation

> *"We're going to help people rebuild…That's what we're going to do. And we're going to listen to people who know what they're doing."* **– President George W. Bush,** September 2, 2005, on his visit to the Gulf Coast.
>
> *"We are not in support of bridge loans right now…one of the reasons is that we have just put forward a proposal today that we think is going to be able to help these folks a lot quicker than what we could do with bridge loans."* **– SBA Administrator Hector Barreto,** November 8, 2005, at a Committee on Small Business and Entrepreneurship hearing.

- The Administration didn't listen to the small business owners, business counselors, lenders, or even the Louisiana Recovery Authority about what small businesses needed. When the business community said in congressional hearings that their number one priorities were access to bridge loans and SBA processing disaster loans with more urgency, the Administration worked against them.

- **The Administration routinely rejected proposals by Senators Kerry and Landrieu in the fall of 2005** for bridge loans that would fill the demand for immediate assistance to residents and for the SBA to pay experienced SBA lenders a fee to process loans in order to expedite the disaster loan processing on an emergency basis as a pilot program. The Administration opposed bridge loans as part of the amendments Kerry and Landrieu put forward in the Senate to the Commerce, Justice, Science appropriations bill for 2006, **with one passing 96-0;** opposed bridge loans as part of S. 1807, the Small Business Hurricane Relief and Reconstruction Act; and opposed bridge loans and disaster processing fees for lenders as part of the Katrina supplemental funding request that was enacted in December.

- At a November 8, 2005, Senate Small Business Committee hearing on Katrina, SBA Administrator Hector Barreto again opposed bridge loans when Senator Kerry asked him about the Administration's position on the Small Business Hurricane Relief and Reconstruction Act. This bill had bipartisan support but was being blocked by the Administration. The Administration opposed bridge loans, even though at that time, **73 percent of the disaster loan applications (more than 166,000)** were waiting to be processed and the need was clear for a solution that could provide access to capital with some urgency.

- Now, five months since the bill was introduced on September 30, 2005, in spite of numerous appeals to the Administration and to Majority Leader Frist, the Small Business Hurricane Relief and Reconstruction Act (S. 1807) remains blocked from consideration. And, though some progress has been made, the need for initiatives to complement the SBA's disaster loan program are clear.

- In November 2005, Barreto touted the Administration's ill-fated alternatives, the "Give a Lending Hand Initiative" which called for SBA lenders to identify and recruit employees to leave their jobs and relocate to Fort Worth and review disaster loans for a minimum of 60 days. This initiative would have set forth a conflict of interest between the SBA and its lending partners in the private sector whom the SBA oversees and whom the SBA has the power to approve or decline as SBA lenders. The SBA has not reported to the Committee that any lender volunteered employees for the Lending Hand initiative.

- On November 8, 2005, the Bush Administration announced its Gulf Opportunity (GO) Loan program which SBA Administrator Hector Barreto hailed as a quicker way to provide loan assistance to the Gulf Coast than through bridge loans while victims were still waiting for disaster loans. Yet as of March 6, 2006, the Bush Administration has only approved **161 GO-Loans** totaling $14 million. **Clearly 161 loans does not bridge the gap of the more than 52,000 waiting for loan disbursements or the nearly 120,000 still waiting for loan decisions. Further, borrowers didn't like these loans because of the higher interest rates.** GO-Loans have variable interest rates that as of today could be as high as **14 percent**, while disaster loans are capped at four percent.

    - While the Administration did not wand to provide federal support for the states to provide bridge loans, the evidence shows that bridge loans compared to GO-Loans are an effective way to get funding out quickly. For example, following the 2004 hurricanes in Florida, the Florida State Bridge Loan Program provided 1,679 bridge loans totaling more than $35 million and following the 2005 impact of Wilma, the Florida program disbursed 593 bridge loans for nearly $13 million. Following Hurricanes Katrina and Rita, the Louisiana Bridge Loan Program, with limited funding, provided 407 bridge loans for affected businesses for $9.7 million and Mississippi's Bridge Loan Program provided 464 bridge loans for $11 million.

- Now six months after the disaster and a tacit recognition that their Lend-A-Hand and GO Loan initiatives weren't working, the **SBA has finally adopted a Kerry-Landrieu proposal** to contract with lenders to process disaster loans (SBA press release, February 27, 2006). Had the Administration been willing to accept this proposal earlier, the SBA could have avoided unnecessary delays in the processing of disaster loans and helped homeowners and business owners rebuild much sooner.

Bush Administration Leaves Homeowners, Business Owners Behind

> *"We're beginning long-term planning to help those who have been displaced, as well as long-term planning to help rebuild the communities that have been affected."*– **President George W. Bush,** September 2, 2005, on his visit to the Gulf Coast.
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> **On Bridge Loans:** *"We just do not feel that that is the best way to do it for us...the states may do it, other folks may do it, banks may*

want to do it, but for us to be involved with it. Right now, what our disaster program is intended for is long-term recovery." **– SBA Administrator Hector Barreto,** November 8, 2005 at a Committee on Small Business and Entrepreneurship hearing.

- As of March 8, 2006, out of more than **83,000** homeowners and business owners in the Gulf Coast who have been approved for loans under the SBA's disaster loan program, more than **53,000** have yet to receive their loans. In dollars, that means that out of **$5.9 billion** that could be used to rebuild the local neighborhoods and get businesses up and running again, only **$499 million** has been disbursed – that's <u>**just 8.5 percent**</u>.

Mismanagement Causes Delays and Leads to Near Shutdown of Disaster Loan Program

"I will tell you that the SBA has put out about $470 million worth of SBA loans. In other words, the loans are going out."
– President George W. Bush, January 12, 2006, in his last visit to the Gulf Coast.

- When the President made this statement, according to the SBA's own data, there were only $**160 million in disaster loans "going out," not $470 million**. Out of the $2.6 billion that had been approved at that point, that amounted to only **6 percent** of the total money that could be used for rebuilding. This was nothing to brag about. However, if it weren't for Congress providing additional funding in December, not even this money would have been available to business owners and homeowners in the Gulf.

- Congress has had to step in three times so far this fiscal year to prevent the disaster loan program from turning away hurricane victims. Without the intervention of Congress, the Administration's mismanagement would have prevented loans from getting out to hurricane victims.

  - $441 million in December 2005 – emergency Department of Defense supplemental appropriations bill
  - $100 million in early February 2006 – reprogrammed from the SBA's disaster loan program's administrative funds to the SBA disaster loan money
  - $712 million in mid February 2006 – reallocated from the FEMA Disaster Relief Fund

- When the disaster loan program was running out of money, the Administration waited till the eleventh hour to seek Congressional help and then was not forthcoming about the problems. It was in early February 2006 that the Bush Administration first alerted Congress to the fact that the disaster loan program only had enough money to help disaster victims through February 13^{th}. The SBA concluded it needed $1.3 billion to keep the program solvent through the end of the fiscal year (September 30^{th}), but only asked Congress for $100 million at the last minute.

- The President released his budget on February 6th and deployed his staff to the Congress to promote his proposals and justify his requests. Yet, in staff briefings on that day and the following day the Administration failed to notify the Committee on Small Business and Entrepreneurship that the disaster loan program would run out of money the next week unless Congress approved an emergency request to reprogram money.

- On February 10th, Senator Kerry sent a letter to President Bush asking him to request the full $1.3 billion that the SBA estimated it needed to make it through the year, providing stability to the program rather than pursuing a piecemeal approach to make it two weeks to the end of February, then four months to make it to June, and then three months to make it through September.

- On February 14th, Senator Kerry, along with Senators Landrieu, Levin, Harkin, Cantwell, and Pryor, reiterated the need for a more efficient and fiscally responsible approach, and sent a letter to Majority Leader Frist asking for the disaster loan program to receive full funding in order to prevent a shutdown.

- On February 17, 2006, the Senate approved a measure to provide $712 million for the disaster loan program – which will **only keep the program running through the end of April**.

- The SBA said its new computer system for disaster loans was up and running in December 2004 and could handle the volume. Yet this system and the lack of staffing to input data into the computers left the SBA with a massive backlog and an unwillingness by the Administration to admit there was a problem. In fact, the SBA failed to oversee the contract for the system, discovering in the middle of the processing failure that the contractor had not provided the SBA with the capacity the system should have and that the SBA paid for. This mistake slowed down the process even further.

Poor Planning and Reduced Staffing Hurts Disaster Victims, Small Businesses

> *"Our goal is to make sure the jobs first go to Mississippi people when it comes to rebuilding…and Mississippi businesses. And we want this opportunity to be an opportunity where minority-owned businesses and women-owned businesses have a chance to flourish."* – **President George W. Bush,** January 12, 2006, on his last visit to the Gulf Coast.

- The Bush Administration has failed to place a priority on awarding local and small firms the federal contracts that are critical to rebuilding the neighborhoods and infrastructure of the region.

- Only five contract specialists called "Procurement Center Representatives" or "PCRs" are assigned to help small businesses get their share of over $10 billion in contracts that have been awarded thus far for debris removal and reconstruction. **There is one person**

overseeing the entire operation, as well as one person assigned to the entire state of Louisiana, two in Mississippi, and one in Alabama. While the President makes generous assertions about the hundreds of billions of dollars the government intends to use for reviving the regional economy, he has not put a system in place to ensure that local businesses receive any real benefit from those federal dollars. The Administration has been pressed by Members of Congress from both sides of the aisle to increase the number of PCRs so that small firms can help rebuild the Gulf Coast.

- In September 2005, Senator Kerry raised concerns, along with a number of other members of Congress, about the award of approximately $1.5 billion in no-bid contracts to big businesses with White House connections. The Administration assured the Congress that those contracts would be broken up and awarded to local small businesses to help the local economy begin to recover. **However, nearly six months later, while over 300 proposals have been submitted to FEMA, those contracts have not been awarded.**

- Although the President and his representatives have repeatedly reminded the American people that the rebuilding effort will take over a decade, the Bush Administration has not set any long-term goals for small and local firms to participate in the federal contracts being awarded for reconstructing the affected area. In September 2005, Senator Kerry, along with Senators Mary Landrieu (D-La.), Edward Kennedy (D-Mass.), Barack Obama (D-Ill.), and Jon Corzine (D-N.J.), introduced an amendment to the Commerce, Justice, Science appropriations bill that would have established a goal to award at least 30 percent of prime contract dollars and 40 percent of subcontract dollars related to Katrina rebuilding efforts to small businesses.

- In times of emergency, the President can utilize provisions in the Stafford Act to create contracting preferences for local businesses. These local preferences are intended to encourage local economic development by providing jobs to residents and creating a multiplier effect through business-to-business transactions. This Administration has failed to fully utilize local contractors and re-start the local economy through the distribution of federal contracts, as intended in the Stafford Act. Following his testimony at the November 8, 2005, hearing on strengthening hurricane recovery efforts for small businesses, and working closely with members of this committee, Rep. Bennie Thompson (D-MS), Ranking Member of the House Homeland Security Committee, introduced a bill to strengthen the local contracting provisions in the Stafford Act and ensure that small businesses receive the jump start they need following a disaster.

- **The SBA closed its Katrina relief center in Miami on October 19, 2005 – just days before Hurricane Wilma hit.** This poor planning shows the Bush Administration is out of touch with the disaster victims it is supposed to be helping.

Bush Budget Fails to Anticipate Disaster Needs

> *"To contain the escalating costs of the loans, the Budget proposes to adopt graduated interest rates for the Disaster Loan program beginning with disaster events occurring in 2007."* **– President George W. Bush**'s Fiscal Year 2007 Budget Request, page 282.

- President Bush **rescinded his funding request of $139 million for the SBA's disaster loan program in its 2006 budget** because the Administration estimated there was enough money left over from supplemental requests for the disaster loan program in 2005 (following the 2004 disasters). The President's decision to rescind that money proved short-sighted because in December, the Administration had to seek emergency funding through a supplemental request to help make disaster loans in the Gulf region.

- In his Budget Request for next year, the **President has proposed raising the cost of disaster loans** for future homeowners and businesses devastated by disasters – while we are still cleaning up from the 2005 hurricanes. Currently, borrowers pay fixed interest rates for up to 30 years, capped at four percent. The President has proposed eliminating the cap, and imposing a staggered interest rate that would go up if the borrower does not pay off the loan within the first five years of the loan. The purpose of this program is to help victims of disasters that have no other resource. The Administration has already proposed to cut the SBA by more than 40 percent since the President took office – the most of any federal agency. Making disaster loans more expensive for victims is not a common sense or compassionate way to save money.