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ROLE OF THE FEDERAL GOVERNMENT IN SMALL BUSINESS DISASTER RECOVERY

(110–166)

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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September 10, 2008

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Economic Development, Public Buildings, and Emergency Management

FROM: Subcommittee on Economic Development, Public Buildings, and Emergency Management Staff

SUBJECT: Hearing on "Role of the Federal Government in Small Business Disaster Recovery"

PURPOSE OF THE HEARING

On Friday, September 12, 2008, at 10:00 a.m., in room 2167 of the Rayburn House Office Building, the Subcommittee on Economic Development, Public Buildings, and Emergency Management will hold a hearing on the role of the Federal Government in the recovery of small businesses from disasters.

BACKGROUND

The Robert T. Stafford Disaster Relief and Emergency Assistance Act[1] ("Stafford Act") provides the statutory authority for most Federal activities in the wake of a natural disaster or other emergency. In particular, section 406 of the Stafford Act[2] provides for the repair, restoration and replacement of damaged facilities. Assistance under section 406 of the Stafford Act is primarily for state and local government facilities.[3] However the Stafford Act also provides assistance to a limited universe of private non profit ("PNP") facilities that perform services of a "governmental nature". For example, it doesn't matter whether a fire house is owned by the local government or a private non-profit, as it performs a service of a governmental nature. Even for PNPs, grant

[1] 42 U.S.C. 5121-5207.
[2] 42 U.S.C. 5172.
[3] See section 406(a)(1)(A).

assistance is limited. Congress amended section 406 of the Stafford Act[4] in the Disaster Mitigation Act of 2000[5] to require PNPs to first seek a loan from the Small Business Administration ("SBA") before applying for assistance from the Federal Emergency Management Agency ("FEMA").

After a disaster, assistance provided directly to businesses is provided through the SBA, under the authority of the Small Business Act[6] rather than through FEMA. SBA assistance takes the form of loans not grants. Businesses are eligible for loans up to $2 million for repairs or replacement of their buildings, inventory, and machinery, as well as working capital loans to help with business losses as a result of the disaster. These loans are at interest rates as low as four percent.

While FEMA does not provide Public Assistance grants, including those under section 406, to small businesses, businesses benefit indirectly from that program. For example, the authority to reimburse state or local governments to remove debris from private property includes debris on commercial property as well as homes. However, unlike eligible private non-profits, businesses can not be reimbursed if they remove the debris themselves. In addition, businesses receive indirect benefits from repairs to public facilities such as roads, sewers, and water systems.

Businesses can also receive assistance indirectly under FEMA's Hazard Mitigation Grant Program or Pre-Disaster Mitigation Program authorized by sections 404[7] and 203[8] of the Stafford Act, respectively. Under these programs, state and local governments can use their grants to provide some assistance to private businesses, such as buyouts or elevations of structures in a flood plain.

On July 29, 2008, Representative Steve King introduced H.R. 6641, the "Small Business Owner Disaster Relief Act of 2008". H.R. 6641 amends section 406 of the Stafford Act to allow businesses with 25 or fewer employees to receive grants under section 406 of the Stafford Act to repair, restore, or replace their damaged facilities. The assistance is limited to the maximum amount of assistance a family can receive under FEMA's Individuals and Households program under section 408(h) of the Stafford Act[9], which is currently $28,800.

PRIOR LEGISLATIVE AND OVERSIGHT ACTIVITY

In 110th Congress, the Committee on Transportation and Infrastructure acted on the following bills related to FEMA, the Stafford Act, and disaster assistance:

- **H.R. 6658, the "Disaster Response, Recovery, and Mitigation Enhancement Act of 2008"**: This legislation amends the Stafford Act to improve the assistance the Federal Government provides to states, local governments, and communities after major disasters and emergencies. On July 31, 2008, the Committee ordered H.R. 6658 reported to the House.

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[4] Section 406(a)(3).
[5] P.L. 106-390.
[6] 15 U.S.C. 631-651e.
[7] 42 U.S.C. 5170c.
[8] 42 U.S.C. 5133.
[9] 42 U.S.C. 5174.

- **H.R. 6109, the "Pre-Disaster Mitigation Act of 2008"**: This legislation reauthorizes FEMA's Pre-Disaster Mitigation Program and makes improvements, including codification of the competitive aspects of the program. On June 23, 2008, the House passed H.R. 6109 by voice vote.

- **H.R. 3247, the "Hurricane Katrina and Rita Recovery Facilitation Act of 2007"**: This legislation provides additional Federal relief targeted to the recovery from Hurricanes Katrina and Rita in Louisiana and Mississippi. On October 29, 2007, the House passed H.R. 3247 by voice vote.

- **H.R. 3224, the "Dam Rehabilitation and Repair Act of 2007"**: This legislation establishes a program to provide grant assistance to states for use in rehabilitating publicly-owned dams that fail to meet minimum safety standards and pose an unacceptable risk to the public. On October 29, 2007, the House passed H.R. 3224 by a recorded vote of 263-102.

- **H.R. 1144, the "Hurricanes Katrina and Rita Federal Match Relief Act of 2007"**: This legislation provides significant relief for communities devastated by Hurricanes Katrina, Rita, and Wilma, by raising the Federal cost share for critical disaster relief programs to 100 percent and by authorizing the cancellation of Community Disaster Loans under certain conditions like all previous Community Disaster Loans. H.R. 1144 was enacted as part of P.L. 110-28, the "U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007".

In the 110th Congress, the Committee also collaborated with the Committee on Financial Services on H.R. 1227, the "Gulf Coast Hurricane Housing Recovery Act of 2007", to ensure that Louisiana is allowed to use Hazard Mitigation Program funds for its Road Home program. H.R. 1227 passed the House March, 21, 2007.

In the 109th Congress, Congress enacted the Post-Katrina Emergency Management Reform Act of 2006 (Title VI of P.L. 109-295).

In the 106th Congress, Congress enacted P.L. 106-390, the Disaster Mitigation Act of 2000.

In the 110th Congress, the Committee has held numerous hearings related to FEMA and the Stafford Act, including:

- "Moving Mississippi Forward: Ongoing Progress and Remaining Problems" (June 19, 2008);
- "Saving Lives and Money through the Predisaster Mitigation Program" (April 30, 2008);
- "National Flood Plain Remapping: The Practical Impact" (April 2, 2008);
- "Readiness in the Post Katrina and Post 9.11 World: An Evaluation of the New National Response Framework" (September 11, 2007);
- "Assuring the National Guard is as Ready at Home as It is Abroad" (May 18, 2007);
- "Legislative Fixes for Lingering Problems that Hinder Katrina Recovery" (May 10, 2007);
- "National Levee Safety and Dam Safety Programs" (May 8, 2007);
- "FEMA's Preparedness and Response to All Hazards" (April 26, 2007);

- "FEMA's Emergency Food Supply System" (April 20, 2007); and
- "Post-Katrina Temporary Housing: Dilemmas and Solutions" (March 20, 2007).

WITNESSES

The Honorable Steve King
Member of Congress
5th District of Iowa

The Honorable Bruce Braley
Member of Congress
1st District of Iowa

Mr. Herbert Mitchell
Assistant Administrator of the Office of Disaster Assistance
U.S. Small Business Administration

Mr. Marko Bourne
Director of Policy and Program Analysis
Federal Emergency Management Agency

ROLE OF THE FEDERAL GOVERNMENT IN SMALL BUSINESS DISASTER RECOVERY

Friday, September 12, 2008

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND EMERGENCY MANAGEMENT,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:14 a.m., in Room 2167, Rayburn House Office Building, Hon. Eleanor Holmes Norton [Chair of the Subcommittee] presiding.

Ms. NORTON. Good morning and welcome to today's hearing on the role of the Federal Government in small businesses disaster recovery.

The American people must be assured, in the midst of yet another hurricane season—and if I may say so, yet another hurricane—and in the aftermath of devastating floods affecting the Midwest, of the tools available from the Federal Government effectively to recharge the economic engine of America's small businesses. While small business recovery is not covered by the Stafford Act, it is important to assure that FEMA works with the Small Business Association to assure implementation of the small business policies of the Federal Government in order to hasten an expedient recovery.

The Small Business Association Act of 1958 created the SBA as an independent agency to ensure that—and here is the quote from the Act—"The Federal Government should, insofar as possible, aid, counsel, assist, and protect the interests of small business concerns in order to preserve free competitive enterprise, ensure that a fair portion of the total purchases and contracts for supplies and services for the government is placed with small businesses, and maintain and strengthen the overall economy of the Nation."

The SBA was given authority to coordinate and cooperate with government procurement officers to better utilize the unique capabilities of American small businesses and to act as a advocate for the concerns of the small businesses.

The roughly 25 million small businesses in the United States account for 50 percent of America's private gross national product and create between 60 and 80 percent of new jobs in America. Post-Katrina small businesses turned to the SBA, particularly for below-market interest loans. In Iowa, for example, SBA recently announced the approval of $153 million in disaster loans to Iowa homeowners, renters and businesses damaged by floods in the spring of 2008.

This Subcommittee will work closely with FEMA and SBA to ensure that small businesses recover as rapidly as possible and play an active role in the recovery of their areas. We are particularly concerned that small businesses have ready access to contracting opportunities as allowed under the Stafford Act. Contracting with the Federal Government has the dual purpose of benefiting both small businesses and the communities in which they are located, particularly during a disaster. The goals of disaster recovery and the desire of small business to do business with the government are mutually beneficial.

I look forward to hearing from our colleagues and to hearing from our other witnesses.

I insist this hearing not last more than an hour because of urgent commitments that I have as well.

I want to hear first from our colleagues, Steve King of the Fifth District of Iowa and Bruce Braley of the First District of Iowa. Which of you would like to go first?

Mr. KING. Thank you, Madam Chair.

Ms. NORTON. I ask all the witnesses to summarize their remarks and to keep them to 5 minutes.

TESTIMONY OF THE HON. STEVE KING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. KING. Thank you, Madam Chair. I appreciate you holding this hearing today.

I have my written testimony before me. I think I will speak off of my memory, recollection and my motivation here.

We're here to discuss H.R. 6641, which amends the Stafford Act to qualify small businesses of 25 or less for grants within those otherwise definitions of the existing Stafford Act. My motivation on this goes back to deep and profound experience, having been a business owner throughout 28 years.

In 1993, many will remember that Iowa was underwater multiple times in the floods of '93. You can look at the State of Iowa from satellite, and it looked like ocean from outer space. We had so much water, more water than ever before. It was at least a 500-year flood event.

In my business, I had four different construction projects going on simultaneously. They had been underwater intermittently all spring; and on July 9th, the day that the Des Moines water works was taken out and the water supply for the capital city of Iowa was out of business, on that day I had all of my projects underwater simultaneously. There was nothing I could do to help myself at that period of time.

We loaded up some men and equipment, and we went clear over to eastern Iowa to help some businesses out over there. A business in Keokuk that was a for-profit company couldn't receive any help. They had their inventory under 7 feet of water. They needed some help to get that inventory out. We put our equipment and our manpower over there without expectations of pay to try to help that business survive, even though the National Guard couldn't help them, FEMA couldn't help them, and small business couldn't help them because they were for profit. That was my first exposure to this.

When I went back home to try to pump the water down on my projects and I looked around and realized what was going on, we have structured from the Federal Government relief in grant form for every sector of our economy except for private enterprise and sectors that are not necessarily sectors of our economy except for private enterprise, and the ones that are the most vulnerable are small businesses. There is grant money available for residences, for example. FEMA can go down the street and offer help for people that have their basements flooded, and they do. It is common.

We do recognize they help a small business. It provides low-interest loans to businesses. But, aside from that, there is grant money available even to private-sector transportation such as railroads, not-for-profits. Even some churches qualify for grants, every level of government, political subdivision from city to county to State.

Of course, the Federal Government can receive bailout money to rebuild back to pre-flood conditions. All of the links in the economic chain that are part of this—the educational institutions, the institutions of government, some of the religious institutions, transportation links that are privately owned and publicly owned—all of them and residences qualify for some form of Federal grant except the evil capitalist small business people that are in business to make a profit and make a living, the ones that create the jobs and pay the taxes.

So I, as a business owner, want to emphasize there is nothing in H.R. 6641 that, had it been enacted back before 1993, would have helped me or my business, because those are construction locations. But the businesses—for example, like let's take a flower shop that might be on the edge of a residential area. Maybe it is a partnership. And a house owned on the right and on the left of the flower shop might be the partners. Their homes can receive grants to bail them out if they are flooded, but the business cannot.

This bill, H.R. 6641, provides that opportunity for grants to small businesses so that they can get that stipend up to the statutory limit that is under Stafford today, which would be, effectively, $28,800. If we can't do that here in this Congress when we look at the most essential link in the economic chain as the business link and the most important from the job perspective is a small business link, what is the point in setting up the rest of society, the rest of the community that has been devastated by a flood if the jobs that are provided can't be protected in the sense of small business?

So I am submitting that whatever there may be for technical difficulties on the part of FEMA and small business, I haven't heard them suggest a way that there is a problem that can't be worked out. We are the United States Congress, and we can make changes, and we must look at the people in this country and provide equity.

Cedar Rapids gripped my heart. It is outside my district, and my district has pretty much recovered from this. We have some places. But the eastern part of Iowa, particularly Cedar Rapids, Mr. Braley's district, and Loebsack district and also Mr. Boswell's district in central Iowa are examples of this. But nationwide we have got to help the small businesses. That is what this bill does.

I appreciate the opportunity to testify, and I'd be happy to answer any questions, and I would yield back the unbalance of my time.

Ms. NORTON. Thank you very much, Representative King.

Representative Braley.

TESTIMONY OF THE HON. BRUCE BRALEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. BRALEY. Thank you, Madam Chairwoman, and thank you, Ranking Member Graves, for holding this important hearing today and inviting me to testify.

I am very pleased the Subcommittee is holding this hearing to examine the role the Federal Government in helping small businesses recover from natural disasters, because in the spring and summer of 2008 Iowa was hit hard by tornados, storms and flooding of epic proportions, causing the greatest level of widespread damage in our State's history, with even 500-year floodplains affected.

Iowa has suffered damages that place this disaster within the top dozen or so all-time national disasters. Eighty-five of Iowa's 99 counties were declared Presidential disaster areas for both individual and public assistance, and the rebuilding and recovery from these storms and floodings will take place for years.

These storms have affected nearly everyone in Iowa, causing unprecedented damage to our homes, our lives, our property and our livelihoods. Iowa's small businesses have been particularly impacted by the storm and face an uncertain future because of lack of capital, revenue gaps and a weakened ability to generate revenue. In fact, unemployment in Iowa has jumped from 3.9 percent in May to 4.3 percent in July, largely because of these natural disasters.

According to the data from the Iowa Department of Economic Development, the Iowa Finance Authority and the Iowa Homeland Security and Emergency Management Division, small and intermediate businesses alone have sustained $5.36 billion in total assessed damages. Approximately 48 non-manufacturing small businesses and 800 intermediate businesses were impacted. Large businesses experienced an additional $100 million in losses, and these businesses will sustain hundreds of millions of additional dollars in lost revenue.

Although the data is not final and continues to be updated, the Rebuilding Iowa Advisory Commission just released its preliminary report that the total unmet need for damage to small and intermediate businesses just in Iowa is estimated at $2.78 billion. These businesses provide jobs and are critical to the local economy but will struggle to survive without some additional assistance.

Small businesses were devastated and will never reopen in many of the towns that I represent. Local governments, in addition, face extraordinary challenges to sustain a tax base that is in jeopardy as a result of loss in housing and the local economy; and the closing of these small businesses, as we will talk about, have an especially detrimental impact on the small towns and livelihoods that I represent.

The Iowa impact indicates that the SBA has provided approximately 3,500 loans for $222 million just from this event, which is greatly appreciated, but the issue that we are talking about today is that small businesses have few other places to look than the SBA for flood relief support, and they provide only loans. When these businesses are going through such a difficult transition, there is a reluctance on the part of the small business owners to take on additional debt.

Others have taken loans from SBA, but the amounts are not nearly enough to cover their damages. For example, Mike Tully, who is a constituent of mine, is president of an aerial services business; and among the things that company does is aerial mapping and imagery. They have submitted nearly $2 million of losses in physical damages but have only received $308,000 of insurance proceeds and a $213,000 SBA loan, which doesn't even cover a third of their total loss.

Or consider Don and Vicky Bowers, who own Tapken's convenience store in Anamosa, which had flooding that covered its entire athletic fields and its wastewater treatment facility. The Tapken's lost more than $120,000 to the floodwaters. But the only reason they are now open for business is because of the generosity of people in their community who donated time and materials to fix up their store. And they face additional challenges as they continue to rebuild their business.

Although SBA is the only source of financial assistance directly to small businesses affected by these disasters, there are other agencies that could indirectly aid small businesses. FEMA can reimburse State and local governments for debris removal and even on commercial property. HUD provides community development block grant funding that can be used to create jobs for expansion and retention of businesses.

That is why the Iowa congressional delegation came together in a bipartisan manner and worked with the President to quickly pass a $2.65 billion flood relief package which included funding for SBA, FEMA, HUD and other agencies. That will go a long way to helping Iowa families, farmers and businesses to rebuild, but the cost of recovery is increasing every day. Unfortunately, much of that money is tied up in red tape.

It is important that small businesses have the assistance available to recover apart from loans, which is why I was happy to cointroduce, along with my colleague, Mr. King, H.R. 6641, the Small Business Owner Disaster Relief Act of 2008. This important bill would amend the Stafford Act to allow these emergency assistance grants for small businesses of 25 or fewer employees.

It is also why I introduced, along with my other Iowa colleague, Dave Loebsack, H.R. 6587 the Midwestern Disaster Tax Relief Act to help small business owners affected with the storm and flooding get back on their feet. Among other things, it reduces the tax burden for small and mid-sized businesses by substantially increasing allowed deductions for the depreciation and expensing of their property.

You can be assured that, along with other Members of the delegation, I will continue to fight to work toward legislation that helps Iowa's small businesses as well as completing a second relief pack-

age. We need to ensure that the administration is releasing all currently appropriated funds as soon as possible and work to make sure that small business owners get the much-needed relief that they do.

Thank you again for allowing me to testify, and I look forward to your questions.

Ms. NORTON. Thank you, Representative Braley.

I do want to say that Mr. Graves was unable to remain in Washington this Friday, but he wanted to assure the witnesses he is concerned about this issue, and he has asked that his statement be placed in the record.

I only have one question. We sat through multiple hearings on Katrina, the total wiping out of a major American city and of an entire section of Mississippi; and in all of the time I don't remember anyone asking us, even given the devastation there, even ever suggesting that the Federal Government should give grants to a private enterprise, small or large.

I read in the paper this morning that GM wants loans, and they are coming for loans. I don't know if they will get them, but they want some government loans because they want to retrofit their cars to keep the car business from going out of existence in this country because people didn't do it when they should have done it.

There is—the bipartisan support for small businesses in this Congress is pretty close to absolute. But I really have to ask you—and Mr. King is the author of this bill. He is from the side of the aisle who has not exactly been an advocate for giving money to private businesses, small or large. How—particularly after Katrina, particularly after devastation in Florida that is recurrent, and particularly given the deficit we have, how are we to convince the Congress that it should offer grants to private enterprises who can get insurance, private enterprises to whom the Federal Government offers below-interest loans as it does not to others if they are small businesses, how are we to convince for the first time since the Stafford Act was passed, how are we to convince a Congress faced with an extraordinary deficit that this is the time to start giving what amounts to money to private enterprises?

Mr. KING. Well, thank you, Madam Chair. And, as you can imagine, I have examined the justice and equity of this thoroughly over the last 15 years since I had many of my projects underwater. I want to emphasize there is nothing in this bill that would have helped my in the circumstances that I was in. But I looked across the entire spectrum of the grants that we had. I wasn't aware at the time of what programs were available, but, as I looked at this, I could tell you personal anecdotes that go pretty deep inside me. But it caused me to look at how can we justify going into grants with residences——

Ms. NORTON. You really are questioning? You do not see the difference——

Mr. KING. No.

Ms. NORTON. —between a residence and a business enterprise?

Mr. KING. Well, if I could make my point, I think this, that we have justified providing relief for residences. We have justified providing relief for not-for-profits, even some churches who qualify.

Ms. NORTON. Not-for-profits—and that is an important point you make—do qualify for aid under the Stafford Act.

Mr. KING. And we have justified grants for every political subdivision—city, county, State and, of course Federal; and when I look at the entire economic chain the link that is the most essential is the private sector that funds everything else. And if we can look at this and say to business owners that you are going to pay the taxes, including the unemployment of this, and you are going to fund all of this, but when things visit you, then we don't have any relief for you.

As I saw that from the inside, from underwater, from standing in the mud and from running in the pumps, and I saw people that went broke and sacked up their bats, so to speak, and gave up on a lifetime, I came to the conclusion that from a justice and equity standpoint we could not say to the business owners, you are out of luck because you are for profit and we don't like you, even though you are the ones who pay the tax.

Now this is minimal, I will emphasize. That it's capped underneath the limits that exist, the $28,800. And it is just for small businesses, and it would not be enough to save many of them, but it is a component like it would be of a series of scholarships that you might have to compile the resources necessary to go to college.

So I look at this from the standpoint of I think it is unjust for us to compel businesses to fund every other entity except business when we have a disaster, and these disasters are calamitous.

Ms. NORTON. Mr. Braley?

Mr. BRALEY. Madam Chairwoman.

Ms. NORTON. Would you put your microphone on?

Mr. BRALEY. You are absolutely correct that under the Stafford Act that provision does not exist, but when you look at what we have recently done to bail out Bear Stearns at a time of national crisis, if you look at what we've done to bail out Fannie Mae And Freddie Mac at a time of national crisis——

Ms. NORTON. They are not grants, Mr. Braley. There are some big loans and guarantees of loans being proposed, but nobody is giving these people money. Now there is a whole big controversy as to whether or not we should stand behind them as we have, and you want to go much further and say give some money, albeit to smaller businesses for whom we have much greater affinity. But in a market economy, those could be fighting words.

Mr. BRALEY. You also made the point these are businesses that could get insurance. That is not true in a flooding disaster.

In Iowa, for example, I have a picture up here of a town, Elkader, a county seat town in Clayton County. The flood forecast, flood stage is 12 feet. The forecasted flood was at 24 feet, higher than it had ever been on the Turkey River before. The flood actually crested at 31 feet, and many businesses outside the flood plain who would not have had a need to purchase flood insurance were affected, like the grocery store and the bank in Elkader and the grocery store and the bank in Greene, Iowa, which also had record flooding.

The problem is these businesses are the lifeblood of a small community. When they are destroyed, it impacts everyone in the community; and it makes people decide whether they want to stay in

those communities. And as it impacts the financial ability of those communities to survive, it impacts the eventual flow of revenues to the Federal Government through the forms of businesses that are putting money into the hands of taxpayers that pay money. It is an unmet need.

I can tell you from all the time I have spent in the past 2 years dealing with people affected by blizzards, by ice storms, flooding, the most powerful tornado in the country hit my district this year, the number one concern on the minds of small business owners is they do not have the resources to survive. When they go out of business, it devastates small communities in the same way that Katrina devastated New Orleans.

Even though Cedar Rapids, Iowa, is the largest city in Iowa impacted by this, I drove this week through 400 square blocks of boarded-up homes and businesses. If you are living in Elkader, Iowa, facing the devastation of that magnitude, you go through the same things in your life that the people in New Orleans have gone through. And the problem is you have even fewer resources to rebuild because you don't have large corporations in your community that have a longer standing ability to reinvest in the community. That is why I would contend, especially in rural parts of America, small business owners are ill-equipped without this type of assistance to survive and thrive.

Ms. NORTON. Both of you made very important points about what small businesses do not only to small communities, I must say, but do for job creation in our country. I indicated that in my opening statement, and I hope you don't take my own comments to be anything other than my normal cross-examination of witnesses, because there will be great sympathy for what you desire to do.

I do want to say for the record, Mr. Braley, that Iowa's claims—for this year's Midwest floods, we asked for the amount in insurance claims to businesses. Because, in fact, the national flood insurance program does not leave people just out there on their own; and the amount is very hefty. It is $20,302,272.26 for business claims. This is an area that we need to look at more closely, and I think that your testimony indicates that that is the case.

The Chairman may want to——

Mr. OBERSTAR. No, you go right ahead.

Ms. NORTON. I am through with my questions, sir. And I certainly was going ask Mr. Braley and Mr. King if they wished to remain and come sit on the dais.

Mr. OBERSTAR. I was going to ask unanimous consent that Mr. King may be allowed to sit with the Committee, but under Committee rules noncommittee Members are not allowed to ask questions. But we would invite the gentleman from Iowa to remain with the Committee, sit at the dais. Sit on our side, if you wish.

Ms. NORTON. We would be glad to have you, Mr. King.

Mr. OBERSTAR. And throughout the hearing, because of the intense interest and concern of the gentleman on the subject matter. But under Committee rules, as much as I would like to invite the gentleman, it is a long-standing practice that noncommittee Members are not allowed to ask questions. He may submit questions to the Chair in writing, but I welcome the gentleman's participation.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. KING. Madam Chair.

Ms. NORTON. Yes, Mr. King.

Mr. KING. Thank you, Madam Chair. If I could enter into the record an additional comment——

Ms. NORTON. Please do.

Mr. KING. I want to make also the point that Mr. Braley has met with a lot of the business people who had their lives devastated by this event that goes beyond a 500-year event. That 500-year event already took place in 1993. They were above that level. This is an extraordinary anomaly. I looked these people in the eye that for a lifetime had built their business and have seen it devastated. And they are 63, 65 years old; and they are looking at a 30-year loan to keep their business going.

If we can inject a little bit of capital into that, their salvation was, I think I can pass this loan along to the next generation. I am going to try to convince my daughter or son to come back and pick up this business, but they are going to be saddled with a 30-year debt. This is the kind of thing we are dealing with, especially in eastern Iowa.

And the reason that the question probably hasn't been raised before, a very astute observation that out of Katrina we didn't hear these requests, I think the business people just don't think outside the box they are delivered. It weighs them down. And it is a very depressing thing to march through a slow flood. Your adrenaline goes up. It diminishes as the water goes down, and you are left with the sandbags and nobody to empty them. We have to help them empty their sandbags and get their lives back together.

Ms. NORTON. Well, this county better get ready for it. Houston is about to experience something to the likes of which they have never experienced before either, and I wonder what small business is going to look like when this is all over.

There is a very important point that you raise. I certainly invite you to stay, because the administration does not support this bill, and they will offer testimony to that effect. I would ask you, Mr. Braley, of course, as a Member of the Committee, if you would both like to stay, we would be glad to have you both; and I will go on to the next witness.

Mr. OBERSTAR. Madam Chair, I will ask unanimous consent Mr. Braley be allowed to sit. He is not a Member of the Subcommittee but he be allowed to sit with the Committee and to ask questions.

Ms. NORTON. So ordered.

Mr. OBERSTAR. If I may Madam Chair, I offer a few observations while FEMA is getting ready to come to the table. I apologize for being delayed this morning not by Committee business but by family business. I was unexpectedly delayed.

While we all have September 11th and Katrina in our minds, we, today, and thanks to your generosity making time on a Friday for hearing, we will hear from the SBA and FEMA who are Federal partners in disaster recovery. And under the authority of the Small Business Act, the SBA provides low interest loans now at 4 percent, with a cap of $2 million for businesses that are stricken by disaster. Those are the business physical disaster loans for businesses to repair, to replace, to restore to condition of good repair,

property damaged by disaster, including the real estate, their inventories, supplies, machinery and equipment.

Businesses with also receive economic injury capital loans which are working capital loans to help small businesses with their financial obligations that cannot be met because of the disaster, and we have thousands of those loans over the many years.

I worked as a staff person, Committee staff and as a Member. This year, in Iowa, over 498 loans were approved by SBA totaling $65 million. We went to hear FEMA's response to the issues raised by the Members from Iowa, in particular Mr. King, on the issue of grant assistance to businesses; and Mr. Braley also shares in that concern.

In the anticipation of and right at the outset of the Iowa floods I convened a meeting of the Iowa delegation with FEMA to assess their readiness and preparedness to deal with the tragedies, and this issue was the principal question that came out of those meetings and subsequent disaster effects.

FEMA clearly has responded. They provided over $500 million in assistance in Iowa and grants to families, nearly 24,000, 23,300, totaling $127 million in grants. This hearing is not in criticism of FEMA or of SBA but to probe further to see how much more we can expand properly the assistance under FEMA to those stricken.

Thank you, Madam Chair, for the opportunity to make those remarks.

Ms. NORTON. Thank you, Mr. Chairman.

We now go to our next witnesses; and I will ask Mr. Bourne of FEMA and Herbert Mitchell—Marko Bourne, the Director of Policy and Program Analysis at FEMA, and Herbert Mitchell, who is the Assistant Administrator of the Office of Disaster Assistance at SBA, to proceed.

TESTIMONY OF HERBERT MITCHELL, ASSISTANT ADMINISTRATOR OF THE OFFICE OF DISASTER ASSISTANCE, U.S. SMALL BUSINESS ADMINISTRATION; AND MARKO BOURNE, DIRECTOR OF POLICY AND PROGRAM ANALYSIS, FEDERAL EMERGENCY MANAGEMENT AGENCY

Mr. BOURNE. Good morning, Mr. Chairman, Madam Chairwoman. I appreciate the opportunity to be here before the Subcommittee.

I am Marko Bourne. I am the Director of Policy and Program Analysis at FEMA; and joining me today is James Walke, who the Division Director of FEMA's public assistance program. We thank you all for the opportunity to appear here today.

My written statement certainly goes into a more detailed account of FEMA's disaster assistance programs, the history of some of the disaster assistance programs, their evolution, how they have been invoked over the years and what those programs do and who they are designed for and, more specifically, additional testimony on how FEMA is incorporating the needs of small business, and minority, disadvantaged businesses into its overall disaster relief acquisition strategies, how we are meeting our socioeconomic contracting goals and how we are engaging the private sector in areas of preparedness, prevention, protection, response, recovery and mitigation.

At this time, I would like to take just a moment or two to provide some historical context on Federal disaster assistance, which is well-known to this Committee. But, for the record, the Robert T. Stafford Disaster Relief and Emergency Assistance Act is the Federal law that is designed to bring an orderly and systemic means of providing Federal disaster assistance to State and local governments to help them carry out their responsibilities to aid citizens in times of disaster events. And the law also establishes the process of requesting and obtaining such a declaration. It defines the scope and assistance available under the Stafford Act and certainly contains the conditions for obtaining that assistance. It also allows for assistance authorized by this statute to individuals, families, State and local governments and certain nonprofit organizations.

And, as you are well aware, the Stafford Act does not at this time allow FEMA to provide assistance to business or business-related needs in the form of grants. Historically, Federal assistance has only been eligible for individuals, households, public entities and nonprofits of affected jurisdictions within and in support of a presidentially declared disaster or emergency.

Obviously there is other assistance that is available to individuals and businesses other than a presidentially declared disaster or emergency assistance under Stafford. Certainly the main program in any of the disaster relief acts, either for individuals and exclusively for business, is managed by my colleague from the Small Business Administration with the low interest loan programs. I will defer to him to discuss his programs in more detail.

Other Federal agencies have distinct disaster relief authorities outside of Stafford and address certain other business community needs such as the Department of Agriculture, Department of Commerce and others.

Following the San Fernando earthquake in California in 1971, Hurricane Agnes in '72, Congress spent a quite a bit of time looking at disaster program administration and expanded the authority to assist certain private nonprofits, namely educational, utility, emergency medical and custodial facilities that support the restoration of services to the public in general; and Congress has revisited this matter several times over the last three decades and enacted disaster relief amendments to the Stafford Act in 1974, the Robert T. Stafford Act in 1988 and most recently the Disaster Mitigation Act of 2000, all of which refined even further the roles and relationships and eligibility requirements for those that are eligible for that assistance.

DMA2K, as the Disaster Mitigation Act of 2000 is short-handed known by, amended the Stafford Act to include certain noncritical private nonprofit facilities to apply first to the Small Business Association for a loan for permanent repair or restoration work, rather than FEMA for a grant. Most of the grants, most the disaster relief act monies that are provided to individuals are in the form of low interest loans. They have to be denied by SBA for a loan before they are eligible for direct individual assistance, with the exception of critical immediate needs and temporary housing if their insurance does not cover those items.

At this time, I would like to highlight what some of FEMA's accomplishments have been in working with the private sector, especially small businesses, and what our goals are in the future.

As you know, the first priority of FEMA during an initial phase of any major disaster is and always has been to provide relief to the victims in the most efficient and effective way possible in order to save lives and property. We try to use competitive strategies in providing small businesses a competitive advantage, and we are proud to report that FEMA competed 81 percent of it's procurement dollars in fiscal year 2007 and year-to-date total more than 83 percent. FEMA went from last place within the Department of Homeland Security from competing its dollars to first place in 2007.

To enhance our efforts in attaining these small business goals, we recently dedicated a full-time small business specialist. His primarily responsibility is to increase contracting opportunities for small, minority and disadvantaged businesses, especially those in the areas that are most affected by disasters. This assignment will further help institutionalize our small and minority contracting efforts to help maintain a more level playing field.

To date, FEMA's achieved very good results in meeting and achieving most of our contracting goals.

From 2006 to present, we have awarded more than $2.6 billion to small businesses in contracts. In fiscal year, 2006 FEMA awarded approximately $1.8 billion to small businesses. This amount represents approximately 27 percent of the total procurement dollars awarded.

In 2007 FEMA, awarded $485 million to small businesses. This represented 33 percent of the agency's total procurement dollars that fiscal year, thus exceeding our small business goal of 30 percent.

So far in 2008, FEMA is on target; and we have awarded more than $293 million to small business, which represents now 31 percent of the total procurement dollars awarded so far this fiscal year.

As the Committee considers the role of the Federal Government in small business disaster recovery, we would like to urge the Committee to also consider how the Federal Government is engaging the private sector, small or large, across the disaster relief and homeland security landscape.

We have made significant progress in obtaining our thresholds for supporting small businesses under contract. We have also begun to proactively lean forward to integrate the private sector into emergency preparedness programs, our response, recovery and mitigation planning and beginning to find ways to engage them also in training, exercise and the real time implementation of disaster support.

FEMA's new structure and vision is now in place, and the agency is aggressively pursuing new inroads with the private sector community. We have stood up a new FEMA office in the private sector where small businesses and large businesses can be engaged in supporting and learning about preparedness efforts as well as our response.

We have created small business community outreach, we have also leveraged the private sector in development and refinement of

the National Response Framework and the national preparedness system and trying to create a stronger, more vibrant public-private partnership through programs such as Citizen Corps, Ready Business and the Loan Executive Program, which we enacted last year now to help foster the open lines of communication with our Homeland Security partners and the nonprofit communities as well. And we are leveraging the resources and expertise of those private sector and nonprofit partners even as we move beyond the role they played in the past.

Now I am happy to know it has been a two-way street. The Ready Business program has allowed businesses to take more proactive mitigation and preparedness approaches. Our Citizen Corps program is bringing civic and business leaders together in order to do all hazard emergency preparedness planning and mitigation.

We are also actively encouraging our small businesses and individuals to actively participate in the National Flood Insurance Program, which is the primary means for providing insurance to flood events, as well as working with the larger insurance community on issues that relate to other types of disasters.

In conclusion, as Congress considers H.R. 6641, it is important to note that for over 50 years the posture of the Federal Government has been to provide Federal disaster assistance grants mostly to individuals and to businesses low interest loans as the primary means of recovery. Grants have not been part of the equation for the private sector community. The individual grants that have been provided to nonprofit organizations have traditionally been targeted to those nonprofits that perform a governmental mission or are in support of a governmental mission. While there has been some expansion of that——

Ms. NORTON. Mr. Bourne, will you further summarize your remarks? We have let you go well beyond the time.

Mr. BOURNE. Thank you. Sorry, Madam.

In conclusion, while we cannot support the language as currently drafted, we certainly believe the issue is worthy of discussion and debate and look forward to working with the Committee on that bill in the future.

Ms. NORTON. Thank you very much, Mr. Bourne.

Herbert Mitchell, the Assistant Administrator of the Office of Disaster Assistance at SBA, we ask you to summarize your testimony in as close to 5 minutes as you can.

Mr. MITCHELL. Good morning, Madam Chairwoman. Thank you. And to the Committee Members as well, thank you for inviting me to discuss this important topic today. Not only will I try to summarize my written testimony, I will try to summarize my oral testimony that was prepared as well with respect for the time.

SBA's Office of Disaster Assistance has the mission of providing timely, affordable and accessible financial assistance not only to small businesses but large businesses, private nonprofits and to homeowners and renters as a result of the disaster.

Probably something that is not well-known, but about 80 percent of all of the disaster loans are actually made to homeowners and renters, which constitute about 50 percent of the dollars. The busi-

nesses, while they are smaller in number, actually receive the majority of dollars, well over 50 percent of the dollars.

As has already been mentioned, SBA disaster loans really take on two forms, one in the form of a physical loan that can be used to repair or replace the property that has been damaged or destroyed by the disaster, and for small businesses only a working capital loan identifies an economic injury disaster loan to help sustain that business to meet its operating expenses such as rent and payroll or invoices that become due during that disaster period until the business can return to normal operations.

For the homeowner, they can receive a low interest loan up to $200,000 to repair or replace their home, $40,000 for the personal property. The renter as well is eligible for $40,000 for personal property loss.

For business owners, SBA just recently raised the limit from 1.5 million to 2 million for repair of the property or it can take the form of a working capital loan. It is up to 2 million. It is not a combination thereof, but the total of the two is limited to $2 million.

One of the other features that happens in a disaster—obviously, there is the preparedness phase. There is the emergency response. SBA's focus is on long-term recovery. Once people are taken care of, people are safe, and they now look to rebuild their property, that is where SBA comes into play and certainly in cooperation with FEMA. We are collocated in the recovery centers. We share information on applicants, or individuals who register assistance are recovered to SBA, for those that are dependent upon an SBA decision, even prior to getting recovery assistance or assistance from FEMA.

One of the things that we would point out in terms of the SBA role in economic recovery and assisting small businesses, and I have already mentioned the fact that employees who own homes that are damaged in that community who are employees of those small businesses are eligible for home loans and personal property loans as well.

For the small business owner and, just recently, SBA included private nonprofits that are eligible for working capital loans, it is a critical point to make, particularly in a lot of disasters even where the small business owner has not received physical damage or incurred physical damage, they are still eligible for working capital assistance. Oftentimes, for the small business owner their business is disrupted because the customer base has been disrupted or a supplier has been cut off and not been able to provide supplies to that business. So if the business is economically impacted in any way, even though there is no physical damage to their property, they are still eligible for a working capital loan up to $2 million to sustain their operation until the business returns to normal.

SBA, also, through what I call the regular programs, our 7(a) guaranteed lending program, certainly are available to small businesses in those communities as well. SBA provides management and technical assistance through the Small Business Development Centers, the SCORE program, the Women's Business Centers and counseling businesses that have been impacted by a disaster in term of helping them prepare the application. In some cases, making decisions about taking alternative directions in terms of do I

really want to build back the way I built or do I really want to stay in this particular line of business. So counseling can play an important role in a disaster situation in helping businesses to make that decision.

I will just close by making some observations. Like a lot of Federal agencies and private sector firms post Katrina, certainly SBA was challenged, not unlike a lot of agencies. So we learned a lot and what we put in place now we are seeing the benefits of and, obviously, the Midwest floods and, God forbid, Hurricane Ike that is targeted toward Houston right now or the Texas area.

We have basically cut our processing time. Our goal is to process a loan within 16 days. We are currently processing within 9 days. We have upgraded our computer underwriting system. From pre-Katrina 2000 concurrent users, we have the ability now to process with 12,000 concurrent users. We have a cadre or reserve force of about 2,000 employees that are available to us for immediate call-up to be deployed within 48 hours. We have additional search space in place in terms of the overall infrastructure and all of the equipment outfitted to basically almost 200,000 square feet of storage pace.

Probably one of the most important things we have done post-Katrina, we assign a case manager to every——

Ms. NORTON. Mr. Mitchell, would you briefly summarize the rest of your remarks?

Mr. MITCHELL. I sure will. We assign a case manager to every borrower that receives a loan so that they walk through the process, they understand the process from beginning to end. And I assure the Committee that SBA is better prepared than ever to respond to disaster events.

And, with that, if there are any questions, I will be glad to answer any questions. Thank you.

Ms. NORTON. Thank you very much.

Now, I am going to ask one question that gets to another of my concerns, and then I am going to have the chutzpah to have the real Chair to take the Chair as I go to an urgent appointment that I must attend.

When I questioned some colleagues, my concern was about—if you forgive the pun—the floodgates, opening the floodgates, countless small businesses critical to the economy. My own opening remarks said that is who makes the jobs in America. I don't think you have to convince anybody in this Congress how important they are. When they go down, we know what happens to jobs in the community.

I must say in listening to both of you I heard of assistance that I didn't know of before. It does seem to me that the Federal Government has heard small businesses, has not begrudged small businesses; and the question before us is in a market economy experiencing great problems, small businesses will be experiencing them even more, even before floods or hurricanes. But in the context, particularly where we sit, the unprecedented notion of grants comes up I think precisely because these colleagues have seen small businesses wiped completely out and don't see any way for them to quickly recover. And Mr. King even analogizes a small

business to a residence. There he and I depart. But I do think that his point about small businesses cannot be gainsayed.

Now the notion of loans I have had some experience with in my own district where there was a hurricane here and there were floods. They were below-market-rate loans. We were very pleased. But the fact is—and I think it was Mr. King that made the point about 30-year loans. So if I were going to grapple with changes, I perhaps would not have taken the route that Mr. King took, because it is such an uphill battle to ask the Federal Government to give some money—let's be clear what it is—some money to businesses.

I probably would have—the most compelling argument I heard him make was about a 30-year loan. You say to a small business, look, here is a below-interest loan. Aren't you happy? And SBA is trying to make it easier, not harder by giving the person 30 years to pay it off.

It looks like it has been 30-year loans like this without change. Has SBA in particular given any thought to how often these below-market-rate loans businesses think they shouldn't take, can't take? Is there any way that some of the concerns raised by our colleagues could be addressed by more lenient loan terms so that a small business didn't see a loan, even one offered by the SBA, as just another burden on him rather than relief for him?

I guess that would be to Mr. Mitchell.

Mr. MITCHELL. Well, there is always a question; and there, again, I make the distinction between emergency response and long-term recovery. I then point out that SBA loans are only designed to cover uninsured loss; and while obviously there are situations where small business owners do have insurance, there clearly are situations where small business owners don't have insurance. And I would suggest that even those who have insurance may be underinsured, so SBA does play a role.

We think the 30-year term, the low interest rate of 4 percent gives us the flexibility to work with the borrower. What we try to do is we don't set an initial term like in the private sector that is geared toward the useful life of the property. For example, generally working capital loans are limited to 3 to 5 years. We determine first what can you afford to pay on a monthly basis and then we back into the term of 30 years to——

Ms. NORTON. So this is negotiable? The terms are negotiable up to 30-year loans?

Mr. MITCHELL. We can make them up to 30 years. And we set the target payment based on one-third of the cash flow of the business as an affordable amount that they can pay and then we back into the term. So a different borrower with the same amount of loan amount may get a different term based on what they can afford to pay, based on their monthly cash flow.

Ms. NORTON. Are there—if—I think it was Representative King talked about burdening—I can't imagine how big a loan this would be—but burdening one's children. Are there any prepayment penalties of any kind if one wanted to pay off the loan quickly once one's business jumped back?

Mr. MITCHELL. There are no prepayment penalties involved. A lot of loans obviously do pay off. In some cases, businesses may ul-

timately settle with their insurance companies and the insurance companies pay off. Obviously, there are situations where people run into financial difficulties; and we have some tools available to work with people in terms of adjusting payments, extending the term of the loan, deferring payments as they work through those financial difficulties.

Ms. NORTON. It is very important to hear that. Obviously, the 30-year loan is not meant to be a burden. It is meant to be just the opposite. I am only asking about the terms to make sure that we don't have some rigid notion and that the terms can be tailored to the business, just as a bank would tailor often the terms within certain parameters to the particular needs of the client.

Mr. MITCHELL. Absolutely.

Ms. NORTON. Mr. Chairman, could I ask you to be the Chairman once again?

Mr. OBERSTAR. [Presiding.] I want to thank you very much for being here, both SBA and FEMA.

I just note for the record that, time and again, we refer to the underlying FEMA authority as the Stafford Act. It probably should be called the Tom Ridge Disaster Assistance Act. Because in 1987 he came to me as the Chair of the Investigations and Oversight Subcommittee in the aftermath of the Reagan administration budget submission to Congress proposing to zero out the funding for the then Civil Preparedness Agency.

It wasn't called FEMA at the time, and proposed only in the most extreme conditions 25 percent Federal funds, zero Federal assistance for most disasters. And the Pennsylvania delegation was understandably in an uproar because they had just been hit with a big disaster. Bill Clinger of Pennsylvania, sitting right here, my clefthand partner in a wide range of hearings that we held, was offended. And we then called the emergency preparedness authorities from all over the country into this Committee room and had 3 days of hearings and literally rewrote the civil defense program and restored the authority much as it is today. Somehow, along the way, it got off track. It was named for a very nice fellow, first a House Member and then a Senator, Stafford, Bob Stafford. But it really should have been named for Tom Ridge because he led the way.

Now I want to come back to the core issue here, and that is, in your testimony, Mr. Bourne, the administration supports current Stafford Act authorities. It does not support authority for grants to businesses. But in the same breath, you do not offer a rationale. Why?

Mr. BOURNE. Mr. Chairman, we are not certainly unsympathetic to the plight of businesses, especially small businesses that are affected by disaster. But the rationale at this point is that the posture that the agency has taken over the years for many years has been that—and the Federal Government has—is that Federal support is supplemental and that insurance is a primary means for recovery, whether it be a home or a business that has a fire or whether it is a flood in a major disaster and that the assistance provided by the Federal Government, as codified in Stafford those many years ago and prior incarnations, is supplemental in nature to support those unintended or those uninsured, uncovered needs and that primarily the focus of that support has been for govern-

mental entities or for individual homeowners. Part of the challenge with having grants to small businesses under the current conditions falls along the lines of not really having yet a good understanding of what the implications of that would be to either the Stafford Act programs, public assistance program or the individual assistance program. What that would do to the coverage—not just the availability but whether businesses would then maintain insurance, you are asking at that point the Federal Government to actually invest in a business with no guarantees that that business may survive even after the grant is provided to them. Certainly one of the concerns is with regards to the fact that the vast majority of the assistance provided is low-interest loans and that the assistance that is provided under the individual assistance to homeowners is minor dollars for repair. Mostly it is for temporary housing and other needs that are not covered by their insurance policies. Now, one of the things that I——

Mr. OBERSTAR. Let me just stop you there for a moment.

Mr. BOURNE. Yes, sir.

Mr. OBERSTAR. I understand your concern about the magnitude of effect. But we do know that as FEMA has a list of all businesses in itself; SBA has a listing of all businesses, you have an experienced track record. You know what the universe of businesses has been in receiving loan assistance. And I understand your concern that if an entity can anticipate getting a grant, that it might not—that it might forgo insurance. But in the farm program, a farmer cannot expect to and does not receive assistance in a crop failure if he has not signed up for crop insurance. So supposing we condition any kind of grant assistance upon a minimum—whatever the level might be—a minimum level of flood and storm damage insurance. You sign up for that. You pay your premiums, and then whatever amount over that coverage is not protected, then a grant could be available up to the $28,000 cap that is proposed in the legislation of Mr. Braley and Mr. King, would be limited and condition that upon the State cost share as proposed in their legislation.

Mr. BOURNE. That is certainly worthy of consideration and it actually in many ways ties to what is already required under the public assistance and individual assistance programs for the obtaining and maintaining of flood insurance for a flood event should they receive Stafford Act assistance, whether it be a governmental entity or whether it be an individual who has been flooded. There are requirements that if you do receive assistance under those programs, then you are required to obtain and maintain flood insurance.

So certainly anything that could increase the obtaining and maintenance of such insurance would go a long way towards reducing overall the impact on the Federal Government's contribution to it and continue to promote the culture of preparedness that puts insurance as the primary means of restoration.

Mr. OBERSTAR. That is a very encouraging gesture, and I welcome your offer to consider it and will welcome your thoughts back to the Committee by, say, mid next week because we only have a couple of weeks left in the session. And if we are going to act on something, we need this—we need some substantive input from the administration. How many businesses in Iowa in the current flood

received—what is the total number of businesses that received FEMA assistance?

Mr. BOURNE. Actually, that assistance would have been through SBA programs. I can see if I have got those figures with me. I may not have them handy. But if I don't, I will get them to you.

Mr. OBERSTAR. Mr. Mitchell, do you have the number?

Mr. MITCHELL. I don't have the number as of this morning, but I think, as of last night, 523 businesses had received loans for a little over $220 million. But we will get you the exact number.

Mr. OBERSTAR. In Iowa, 523.

And how many, Mr. Bourne and Mr. Mitchell, what was the total number of homeowners that received assistance?

Mr. MITCHELL. Well, the total loans in Iowa is about 3,300. So the difference would be about 2,700, 2,700 homeowners.

Mr. OBERSTAR. 2,700 homeowners and 530 some, maximum of 530.

Mr. MITCHELL. Right.

Mr. OBERSTAR. So we are not talking about a vast number. Now you multiply that over the country, however, with 50 disasters listed in your testimony here, and that is just so far this year, through 9 months or 8.5 months of this year—or no, this is fiscal year. So from fiscal year last year. So it is almost a calendar—almost 12 months. There are a lot of disasters we are dealing with.

Mr. Mitchell.

Mr. MITCHELL. Just to comment on the numbers. Those are the approvals. But it does not represent all of the businesses and homeowners that may have been impacted. Obviously, everybody who is impacted doesn't apply for an SBA loan. Some have insurance, or some just decide not to seek debt but just to put it in perspective.

Mr. OBERSTAR. Certainly, and then we have the problem in the Gulf in the aftermath of Katrina where insurance companies were making a distinction between storm damage and surge, a rather fine line distinction without a difference. The surge that came from Lake Borgne across the Mississippi River Gulf Outlet. And because the MRGO, as it is known, had been dredged and built some years ago and allowed salt water to move up that channel and kill off the grasses and reeds and other plant material that served as the shock troops, the buffer against storm surge; never in the history of St. Bernard parish had it been overtopped, but it was in Katrina.

And the insurance companies came in to the homeowners and said, sorry, you are not covered because this is storm surge. This wasn't hurricane wind damage and rain damage and flood damage. There was a storm surge. Well, you mean, it just happened all by itself? That the storm, that Katrina didn't have anything to do with the storm surge? Those are the kinds of things that drive people nuts.

Now I spent a good deal of time down there in St. Bernard parish. My wife is from New Orleans, has a great many friends there and family. And so we just went there. And you know what happened? Not only were the houses overtopped, they were lifted off their base with their concrete pad and floated in some cases three blocks away. One stopped only when it crashed into another house that didn't move. And after 6 months of no action by the Corps of

Engineers, by FEMA, by private insurance companies, the homeowner whose house was stationary sued the other homeowner for collision damage. I asked him why. He said, what else are we supposed to do down here? No one is helping us. So, you know, there are these anomalies that happen. And what we have to do is try to be as equitable as possible.

Now I would like you to take those 50 storms and develop a list of the total number of businesses that were affected and multiply that by the 28,000 cap and a 25 percent State cost share and come back to us with what the potential exposure to the Federal Government would be in terms of the grants—as a result of a grant program proposed by the Iowa delegation legislation.

Now, Mr. Mitchell, from your standpoint, you are able to offer businesses 4 percent loans—not you. I mean SBA. I don't mean to personalize this. But SBA is able to offer 4 percent loans. Those are pretty good interest-bearing loans. And compared to the market rate, what would those loans be if they had to go out in the open market to borrow money?

Mr. MITCHELL. Probably somewhere around 5 percent now. Generally, small businesses are going to qualify for prime plus two, two and a half. And obviously depending on the type of business and the credit risk, I mean, the spread could be as high as 5 to 6 percent. So within a range of about 7.5 to 11, percent. Depending on that business situation, that is what the market would probably——

Mr. OBERSTAR. And then the next question is, can they get the loan? When the bank looks at the disaster and the effects, there are probably a great many that——

Mr. MITCHELL. Obviously, it is going to vary for every business situation, whether or not they have the cash flow, the assets and the collateral to go to the marketplace. The challenge with a disaster, it is unplanned debt. And in a lot of cases, it is just debt on top of debt where it doesn't add value to the business. But it just—you know, we make it affordable, but it is still debt at the end of the day.

Mr. OBERSTAR. And that is what Mr. King and Mr. Braley are saying, that businesses in their State go to the lending institutions, and then they look at it and say, well, we are just piling debt upon debt. We are digging ourselves in deeper. And the grant funds would make a difference.

Now in restoring a community, restoring a region, the cornerstone is business. The private sector creates the jobs. And minimal, as both Members state up front, this isn't going to provide a total rescue for them. But it is a gesture. It is a big helping hand. It will help them move up out of their current problems.

I will withhold at the moment and ask Mr. Braley for any questions or comments that he might have.

Mr. BRALEY. Well, thank you, Mr. Chairman.

And I want to start by saying to both of our witnesses that on, behalf of the people of First District of Iowa, I want to tell you how much I appreciate the initial response from both of your agencies. I spent time with Administrator Paulison and Acting Administrator Carranza in my district, and the compassion they showed to the

people I represent and the field program on the ground from both of your agencies was extremely impressive.

But I want you to look to the photograph that I placed on the easel because New Hartford, Iowa, is the home of someone you may have heard of before, one of my constituents, Senator Chuck Grassley, who is the Ranking Member of the Senate Finance Committee, who is working very hard on tax relief for small business owners and individual homeowners who have been impacted by disasters.

Now we know that there are two sides of this finance puzzle. One is the revenues, and one is the appropriations. Now what I want to talk to you about is how we can get to the point that Mr. King and I are interested in. Neither one of us wants to do anything to create disincentives for businesses to buy their own insurance. That should be the primary source of relief. But we know that there are already in place tax incentives for people whose lives have been devastated, whether they are business owners or homeowners, that a lot of people in Iowa, quite frankly, aren't spending a lot of time thinking about. Because of their immediate needs, they are not thinking about those tax appointments next spring.

But isn't it true, Mr. Bourne, that if we wanted to, in addition to putting in place as a condition of eligibility for the type of grants Mr. King and I are talking about, in addition to putting an insurance requirement in there, we could also say, if you take this incentive, there may be some tax credits that ordinarily would be available to you that you will not qualify for because we are going to assume with the benefit of these grant dollars that are coming to you, you are going to be in a better position than someone who is adding additional debt through a low-interest SBA loan.

Mr. BOURNE. Well it would be a little unwise for me to talk about tax policy. That is not normally FEMA's bailiwick. Certainly the concept of tax relief or some type of tax relief has been considered by States at times in their own recovery from disasters. And I know it has been placed before the Congress in various forms over the years. I think that is a consideration worthy of discussion. I am not sure exactly what the administration's policy is on that. But I think it is certainly worthy of looking at because one of the things that we have recognized in FEMA over the years is that communities survive when their businesses stay and survive; that communities that lose their largest employers or many of their smaller employers have a tendency to fail as communities ultimately. And that is a challenge. So certainly the incentives that can be provided to, one, keep businesses in business, provide them opportunities to get their people back to work very quickly by engaging them in their own recovery, and then certainly providing an avenue for them to continue to serve that community, is always preferred. And I think that is something that we could take a look at.

Mr. BRALEY. Well, in fact, you mentioned earlier in your testimony that one of the distinctions on why grants are available to municipalities and not-for-profits is because one of the primary concerns is restoration of services. And we are talking about basic human needs here. And in fact, if you look at that photograph, beyond those flooded vehicles, you will see a reddish building back in the background which is a hardware store in New Hartford which is going out of business. And if you go down the street to the left,

you will come to a Quick Star convenient store, which is the only place in New Hartford for people to get gas or groceries. And it is going out of business because of decisions that were made by those business owners that, even with the availability of low-interest loans, they could not afford to maintain their businesses. And one of the things we have to do is start thinking about these policies in terms of fundamental human needs that will not be met in the New Hartfords all over the State of Iowa if we don't provide some incentives that really make a difference. And one thing I would ask you, Mr. Mitchell, is during the surveys you do after a disaster with small business owners who have benefited from the essential services your agency provides, do you ask them survey questions about their unmet needs? And is the demand for grant money identified as one of the top priorities that is not currently being met by the Federal Government?

Mr. MITCHELL. We conduct surveys. We don't ask a specific questions about grants. We do ask whether or not they have been able to recover as a result of receiving the loan.

Mr. BRALEY. One of the points you made—and Mr. King and I were talking about this—is that this 30-year low-interest loan is also—part of the eligibility determination is based upon the capital position of those small businesses in terms of whether they are eligible for that 4 percent loan or might have a higher interest rate, correct?

Mr. MITCHELL. Correct.

Mr. BRALEY. So if you don't have the great capital position and you are a 50-year-old small business owner who doesn't qualify for anything other than a 30-year loan, you would agree that that would be a pretty daunting future if you were facing that choice?

Mr. MITCHELL. Well, yes. But it is no different from a 60-year-old homeowner who gets a 30-year loan. Obviously, the debt will attach to the property or to, you know, the new owner. Generally, we don't—I mean, obviously people at certain ages are reluctant to take on debt, so they make business decisions in that regard. But the debt would attach to the business or to the new owners.

Mr. BRALEY. But the big distinction there is that most people are not rebuilding their homes for the purpose of generating revenues to feed their families.

Mr. MITCHELL. Understood.

Mr. BRALEY. One of the other points I wanted to ask you about is the issue between an emergency response and long-term recovery. You said that SBA's focus is on long-term recovery. It is obvious from a lot of the small business owners that I am talking to in the First District of Iowa that they can't even focus on long-term recovery until their short-term needs are met. And one of the short-term decisions they have to make is whether they are even going to stay in business and whether the opportunities to inject immediate cash into their business without adding to their debt load is going to make that decision one way or the other for them.

So I guess the question I have for you is, isn't it true that the legislation Mr. King and I are proposing would certainly make a much greater impact on the short-term decision of business survival than adding additional debt over a long period of time to a small business owner?

Mr. MITCHELL. Well, clearly, any source of funds that address business needs would be helpful to that business. I mean, obviously, I can't address in terms of what form that assistance should take, but certainly businesses obviously have immediate emergency needs just as individuals do as well.

Mr. BRALEY. Under the SBA disaster loan program where we have talked about this range of interest rates 4 to 8 percent, who actually sets the floor of that interest rate?

Mr. MITCHELL. There is a formula in statute that guides us in determining the interest rate itself, whether it is, you know, the low rate is 4 percent and the high rate is 8. What we do is we apply a test to every applicant. We take a look at their net assets, their credit history, and their cash flow to determine whether or not it is reasonable to assume that this borrower with this set of financial conditions could get a loan in the marketplace at a reasonable rate. And those that we determine they can get that high—the rate will get the higher rate. And those that can't will get the 4 percent rate.

Mr. BRALEY. But in terms of this existing 4 percent floor of the interest rate level, when is that adjusted? Who makes that determination? And how frequently is that adjusted?

Mr. MITCHELL. It is adjusted on a quarterly basis. And SBA itself makes that determination.

Mr. BRALEY. The administrator or someone within the agency?

Mr. MITCHELL. Someone within the agency. It is generally done within my office.

Mr. BRALEY. Within your office?

Mr. MITCHELL. Yes.

Mr. BRALEY. Thank you, Mr. Chairman.

Mr. OBERSTAR. I thank the gentleman.

I thank you for your responses.

I want to compliment SBA and FEMA; SBA for their long-standing program of assistance to businesses in disasters, which I have personally observed for over 40-some years, my service in Congress, on the staff as staff director of this Committee, and House Member and Chair. SBA has also done a great service to businesses by simplifying the forms. I remember when the forms were this thick. By the time a business got through with its application and got their funds awarded, they say, I will never do business with them again. Now you have made it—it has happened over several successive administrations. That problem has been cleaned up.

And FEMA, after the problems of the mid-80s that I already described, has improved substantially and especially after the disaster of Katrina. There is a program that I want to probe a little bit. And that is the mitigation assistance in which FEMA has, I think, you know, performed very well. Its mitigation assistance to businesses, that goes in two categories. The pre-disaster mitigation program started during the year of James Lee Witt and the HMGP, the Post Disaster Grant Program. In the case of those two programs, the funding goes to the State and then from the State to local governments. Local governments then can help homeowners raise their homes to avoid future effects from storm or storm surge and also to relocate out of the flood plain. And they can also provide funding to businesses to relocate out of the flood plain.

Now, what is the difference between PDM and HMGP post-disaster mitigation—mitigation assistance and the proposition that the Iowa delegation is offering?

Mr. BOURNE. Well, in general, pre-disaster mitigation really looks at money provided in advance of a disaster to a State through a competitive grant process that allows State and local governments to prioritize their risk areas. It may be—parts of their communities that have flooded out before or are at risk to tornadoes or other disasters and they wish to take steps in advance in order to mitigate those.

Those mitigation activities can support the protection of public and private property, such as, you know, elevations, other flood protection methods that may not be directly with the property that is owned by a business but certainly can protect the business itself as well as the homes in that area. HMGP is really very similar only that it is money provided after a disaster based on a formula that is provided to the State and the local governments to again address mitigation measures that they have prioritized to support their community. Many of those mitigation measures are in the form of buy-outs of affected properties or elevations of those properties or elevating certain components of a building in order to protect them from future disaster. And the State and local governments look at their risk, prioritize their risk and apply the mitigation money, whether it be for PDM or HMGP, to address those risks. Those risks certainly are not just confined to private homeowners, but it is also for flood protection measures for communities as well.

Mr. OBERSTAR. Yes, they have described it well, and I appreciate that. As you respond to the earlier questions and provide the information I requested, consider that as well. And for Mr. Mitchell, for SBA, SBA also has mitigation loan authority for homeowners. But does it provide such assistance to businesses as well?

Mr. MITCHELL. Yes. Mitigation covers both homeowners and businesses. We have the authority to increase the loan by 20 percent——

Mr. OBERSTAR. By 20 percent?

Mr. MITCHELL. Of the loss.

Mr. OBERSTAR. 20 percent of loss.

Mr. MITCHELL. Right. So, in the case where someone may have insurance that covers say the property and we can make a smaller amount of loan for the uninsured amount, we can cover 20 percent of the loss of the property for mitigation.

Mr. OBERSTAR. Have you made such decisions in the case of Iowa?

Mr. MITCHELL. I would have to check. I am not sure. But they are eligible.

Mr. OBERSTAR. Would you do that, provide that information for the Committee so we can then——

Mr. MITCHELL. Yes. Yes, sir.

Mr. OBERSTAR. Okay. I think we have really covered the essence of the subject matter at hand and the legislation pending. And we will await responses and the information provided and then we will have further—engage further in discussions. Mr. Bourne, will you be heading off to the Gulf to welcome Ike?

Mr. BOURNE. I will initially be heading back to FEMA headquarters for a series of meetings this afternoon in preparation. And based on the current storm track and the potential for damage, I am sure that many of us will be engaged in the Gulf for quite some time. Ike is proving to be a massive storm that is pushing far more water than its current wind speeds might indicate. And I think we are going to see a significant event in that region. And we are prepared. We have got a lot of folks in place. The State is well positioned. The other Federal agencies are supporting us completely. But it is going to be a very significant flooding event and wind event for Texas and perhaps even the western parishes of Louisiana.

Mr. OBERSTAR. It appears on the Weather Channel report this morning that I was following, the diameter may be as much as 400 miles.

Mr. BOURNE. It is an odd storm in many respects. The Weather Service has told us that it is not one that is common. It has a wind field of hurricane winds that extend more than 140 miles, when normally that radius is less than 30 or 40 in most hurricanes. Tropical storm winds almost 300 miles. It has a barometric pressure that would allow it to support a smaller circumference storm but one at category three or four level, but it is really only at a category two. But because the wind field is so large, it is pushing a tremendous amount of water in the Gulf of Mexico into Texas and into the northern landscape there. Storm surges may be in excess of 20-plus feet in some areas, including the Houston ship channel, if it follows the course it is on right now.

Mr. OBERSTAR. I know FEMA will lend its best efforts. SBA will be there as well in the aftermath to help. I just wish we had a FEMA for Haiti. I lived 3.5 years in Haiti; have many, many friends still there. Many Haitians who moved to this country, they have suffered extraordinarily, and with the deforestation of the land, the mountain rush of water that is sweeping the hillsides down into the valley and into Gonaives, at one time was a lovely community, is now just cake and mud. It is an unspeakable tragedy.

I thank you very much for your participation.

Mr. BOURNE. Thank you, Mr. Chairman.

Mr. OBERSTAR. I await your comments. The hearing stands adjourned.

[Whereupon, at 11:45 a.m., the Subcommittee was adjourned.]

BRUCE L. BRALEY
1ST DISTRICT, IOWA

Congress of the United States
House of Representatives
Washington, DC 20515

Statement of Congressman Bruce Braley
House Committee on Transportation and Infrastructure,
Subcommittee on Economic Development, Public Buildings,
and Emergency Management
"Role of the Federal Government in Small
Business Disaster Recovery"
September 12, 2008

Thank you, Chairwoman Holmes Norton, Ranking Member Graves, and members of the Subcommittee, for holding this important hearing today and for inviting me to testify. I'm very pleased that the Subcommittee is holding this hearing to examine the role of the federal government in helping small businesses recover from natural disasters.

In the Spring and Summer of 2008, Iowa was hit hard by tornadoes, storms, and flooding, causing the greatest level of widespread damage in the state's history, with even 500-year floodplains affected. Iowa has suffered damages that place this disaster within the top dozen or so all-time national disasters. Eighty-five of Iowa's 99 counties were declared Presidential Disaster Areas for Individual Assistance, Public Assistance, or

both. The rebuilding and recovery from these storms and flooding will take place for years.

The storms and floods of 2008 have affected nearly everyone in Iowa, causing unprecedented damage to Iowans homes, lives, property and livelihoods. Iowa's small businesses affected by the storm face an uncertain future as a result of a lack of capital, revenue gaps, and weakened ability to generate revenue. Unemployment in Iowa has jumped from 3.9% in May to 4.3% in July, largely as a result of these natural disasters.

According to data and materials provided by Iowa Department of Economic Development, Iowa Finance Authority, and Iowa Homeland Security and Emergency Management Division, small and intermediate businesses sustained $5.36 billion in total assessed damage. Approximately 4,800 non-manufacturing small businesses and 800 intermediate businesses were impacted. Large businesses experienced an additional $100 million in losses. Additionally these businesses will sustain hundred of millions of dollars in lost revenue.

Although the data is not final and continues to be updated, the Rebuilding Iowa Advisory Commission reports that total unmet need for

damages to small and intermediate businesses just in Iowa is estimated at $2.78 billion.

These businesses provide jobs and are critical to the local economy, but will struggle to survive without some kind of additional assistance. Small businesses were devastated and some may never reopen. Local governments face extraordinary challenges to sustain a tax base that is in jeopardy as a result of losses in housing and the local economy. The closing of small businesses can have an especially detrimental impact upon the economies and livelihoods of small towns.

In Iowa, the Small Business Administration has provided 3359 loans for $222 million, and this support is greatly appreciated. The issue, though, is that small businesses have few other places to look than the SBA for flood relief support, and they only provide loans. Especially when these businesses are going through such a difficult transition, there is reluctance for many of them to take on this additional debt.

And others have taken loans from the SBA, but the amounts are not enough to cover their damages. Mike Tully, for example, is President and CEO of Aerial Services, Inc (ASI). Among other things this company does aerial photography and mapping. ASI submitted $1,755,029 in physical damage, but so far has only received $308,000 of insurance proceeds and

a $213,788 SBA loan. This doesn't even cover a third of their total damages.

Or consider Don and Vicky Bowers, the owners of Tapken's convenience store in Anamosa, Iowa. They lost more than $120,000 to the floodwaters of 2008. They only reason they are now open for business again is because of the generosity of people in the community who donated their time and materials to help fix up the store. But there are additional challenges for the Bowers' as they continue to rebuild their business.

Although the SBA is the only source of direct financial assistance to small businesses affected by natural disasters, there are other agencies that can indirectly aid small businesses. For example, FEMA can reimburse state and local governments for debris removal, even on commercial property. Also, the Department of Housing and Urban Development provides Community Development Block Grant funding that may be used to create jobs through the expansion and retention of businesses.

Iowa's congressional delegation came together in a bipartisan manner and worked with the President to quickly pass a $2.65 billion flood relief package into law which included funding for the SBA, FEMA, and HUD, among other agencies. This will go a long way to help Iowa's families, farmers and businesses rebuild, but the cost of recovery is rising

every day. Unfortunately, much of this money remains tied up by bureaucratic red tape. It is shameful for appropriated funds to sit unused while there are so many Iowa flood victims in need. It is necessary to keep pushing Congressional leaders and the President to pass additional federal assistance before adjourning this Fall and to expedite the release of already appropriated funds, to help Iowa and other communities recover from these disasters.

It is important that small businesses have assistance available to recover apart from just loans. That is why I was happy to co-introduce, along with my friend and colleague, Steve King, H.R. 6641, the *Small Business Owner Disaster Relief Act of 2008.* This bill would amend the Stafford Act to allow emergency assistance grants for small businesses with 25 or fewer employees. These grants could be used to repair, restore, or replace their damaged facilities.

I have also co-introduced a bill, along with Dave Loebsack, H.R. 6587, the *Midwestern Disaster Tax Relief Act.* It is a tax package that would help home owners and small business owners affected by the storms and flooding get back on their feet. Among other things, it reduces the 2008 tax burden for small and mid-sized businesses by substantially

increasing allowable deductions for the depreciation and expensing of business property.

You can be assured that I'll continue to fight to work towards legislation that helps Iowa small businesses, as well as towards completing a second relief package. And as I mentioned, we need to ensure that the Bush Administration releases all currently appropriated funds to Iowa as soon as possible. Thank you again for allowing me to testify before the Subcommittee today, and thank you for your efforts to ensure the ongoing success of small businesses.

The Honorable Sam Graves, Ranking Republican Member
Subcommittee on Economic Development, Public Buildings and Emergency Management

Hearing on the "Role of the Federal Government in Small Business Disaster Recovery"

September 12, 2008

[WHEN RECOGNIZED]

Thank you, Chairwoman Norton, for holding this hearing on the role of the federal government in small business disaster recovery.

I want to thank Congressmen Steve King and Bruce Braley of Iowa for their work on this important issue. I would also like to thank our other witnesses for being here today.

Similar to Iowa, small businesses are an essential part of towns in my home state of Missouri. And, Missouri has had to recover from its share of natural disasters.

Small businesses are the backbone of our local economies, and they need to be able to recover after a disaster. According to the Small Business Administration, small businesses make up over 99% of all employer firms in the U.S. and employ about half of all private sector employees. And, over the past decade, small businesses created up to 80 percent of the net new jobs.

When a disaster strikes a community, it is crucially important for the State and local communities to ensure that small businesses are able to recover in order to provide jobs and ensure residents have access to supplies, goods, and services.

The SBA is the primary lender to victims of disasters, including small businesses. Through its Physical Disaster Loan Program and its Economic Injury Disaster Loan Program, the SBA plays the leading role in making available financial resources for small business recovery.

Following Hurricane Katrina, there were questions raised about the efficient administration of these SBA disaster programs. The large backlog of applications and slow processing times impacted the ability of small businesses to get back up and running in the affected communities.

In 2006, the Government Accountability Office found that a key problem was related to the design and functioning of SBA's Disaster Credit Management System (DCMS). The GAO found that this system was not designed to handle the caseload of such a large disaster as Katrina.

Instead of using catastrophic modeling information and disaster simulations as insurance companies and some other government agencies use, SBA designed the system to standards based upon one specific disaster – the 1994 Northridge earthquake.

The SBA, however, has examined ways in which the process can be improved and streamlined. For example, in response to Katrina, it created the Gulf Opportunity Pilot Loan (or GO Loan) program which was specifically targeted to small businesses and promised a short approval process. However, because of the potentially high interest rates, small businesses were reluctant to take full advantage of this program.

Some have proposed that the SBA programs should be supplemented with disaster assistance through the Federal Emergency Management Agency. Congressmen King and Braley introduced H.R. 6641 to allow small businesses to be eligible for grants under the Stafford Disaster Relief and Emergency Assistance Act.

However, the expansion of government disaster grants to for-profit companies has been a controversial issue. In the past, Congress has considered, but never approved, Stafford Act grants for for-profit companies such as hospitals and power companies.

Addressing this problem may be complicated, but improving and streamlining the existing SBA and Department of Agriculture loan programs may help to address many of the concerns raised regarding assistance to small businesses following a disaster. Either way, we ought to examine this issue closely.

The bottom-line is that we must ensure that our small businesses are able to quickly recover following a disaster. The people in those communities count on small businesses for jobs and resources.

Ensuring small businesses understand what resources are available to them and that Federal assistance programs are well-run and functioning efficiently are crucial steps in the recovery of any community following a disaster.

I look forward to hearing from the witnesses today on these and other issues. I would particularly like to thank Congressmen King and Braley for their leadership on this important issue.

I would like to thank Chairwoman Norton and our witnesses today.

Thank you.

Testimony of Rep. Steve King on "The Role of the Federal Government in Small Business Disaster Recovery"
September 12, 2008
Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings, and Emergency Management

First I want to thank Chair Holmes Norton and Ranking Member Graves for the opportunity to appear before the subcommittee today. I've wrestled with questions about the role of the federal government in small business disaster recovery for over a decade now, and I appreciate being able to discuss my take on this subject with you and the rest of the subcommittee today.

As you well know, in June of this year, much of my home state of Iowa was under water. The Floods of 2008 devastated cities, towns, and farmland across Iowa and across much of the Midwest. In many flood-ravaged areas, some of those hardest hit were small business owners.

Before I came to Congress, I myself owned a small business that was nearly washed away by flood waters twice in the 1990s. Because of that experience, I understand the challenges that lie ahead for these dedicated and driven entrepreneurs as they begin the process of salvaging what's left of their businesses and rebuilding their source of livelihood.

Having personally experienced this, I can also identify with the frustration that many small business owners in the affected states are currently feeling about the relatively few government assistance options that are available to them to help them move on and rebuild their livelihoods.

The Small Business Administration does make loans available to help businesses get back on their feet after disasters like floods and hurricanes. But, many very small businesses run on very tight margins that don't allow for the addition of sizeable monthly loan payments to their balance sheets. Shortly after the flood waters receded in the eastern Iowa town of Cedar Rapids, I met with a group of very small business owners whose businesses were severely damaged by the historic flood. As you can imagine, it was a heart-wrenching experience.

Most had already jumped through the various bureaucratic hurdles of the federal disaster response system.

Most did so only to find that the only aid available to them to begin the rebuilding process was SBA loans that had payments they couldn't afford. That would place them—many nearing retirement—back in the woefully undercapitalized position they were in when they started their businesses decades ago.

Unfortunately, this is an all too familiar situation to many small business owners who have weathered disasters. To make matters worse, as business owners work through the recovery process, they look around them and see individuals getting thousands of dollars from FEMA to help address damage and loss sustained in their homes. And yet, there are no grants available to even the smallest of businesses.

I can recall a time when nearly every piece of heavy equipment that I had in my construction business was under six feet of flood water. Despite this loss, my home was high and dry, so I received no grant assistance from FEMA. Instead I was left to figure out how to get my business—the livelihood of my family and of the families of those who worked for me—up and running while watching many of those who I knew collect thousands from FEMA because they got a little water in their basements.

I understand some of the arguments that are made against broadening disaster grant assistance to for-profit businesses. But we must keep in mind that businesses are taxpayers too. Why should individuals and households be entitled to recoup money they have sent to DC in the form of grants when businesses of all sizes are not?

Madam chair, I believe it is important to think through this question carefully. After all, we spend millions—sometimes Billions—of dollars to help individuals repair the damage their homes have sustained. Yet the individual's employer may have been equally devastated by the flood waters. They may be unable to quickly re-open their doors due to a lack of available assistance, and a job and paycheck is lost. In this situation, the federal government has spent thousands of dollars to repair someone's home, and yet, without a job to return to, that person may have no way to pay the mortgage.

I make this point to illustrate the fact that, in my view, getting businesses back up and running is an important part of the recovery process.

We must level the playing field between individuals and small businesses when it comes to disaster relief. And, we must ensure that we begin to correctly recognize business recovery as an important aspect of overall disaster recovery. To do this, I've introduced H.R. 6641, the Small Business Owner Disaster Relief Act. This bill would provide the same kind of FEMA grant relief to very small businesses—defined as of 25 employees or less—that is available to individuals and households through the Stafford Act. My bill would also place the same restrictions upon this grant aid that are currently placed upon aid given to individuals. As such, grants would be subject to the current $28,000 cap and the 25% state cost share.

I should be clear, however, that I do not expect a $28,000 grant to be a sufficient amount of money to completely fund the recovery and rebuilding process that many small businesses in the Midwest and on the Gulf coast are now undertaking. But it is a start, and it is a way to show them that their recovery matters and that their recovery is just as much a priority as that of any individual or household living around them.

Small businesses are the life-blood of the American economy. I would imagine that probably every single member of Congress, from both sides of the aisle, at one time or another has given a speech or two about the virtues of American small businesses. I believe it's now time to put our money where our mouth is. We must act now to ensure that these businesses are given the resources they need to weather devastating storms and continue their role as the engine of our economy.

I want to close by again thanking the chair and ranking member for the invitation to appear today before this body, and I will gladly answer any questions that you may have.

STATEMENT OF
CHAIR ELEANOR HOLMES NORTON
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

"Role of the Federal Government in Small Business Disaster Recovery"

SEPTEMBER 12, 2008

Good morning and welcome to today's hearing on the "Role of the Federal Government in Small Business Disaster Recovery." The American people must be assured, in the midst of yet another hurricane season and in the aftermath of devastating floods affecting the Midwest, of the tools available from the federal government effectively to recharge the economic engine of America, its small businesses. While small business recovery is not covered by the Stafford Act, it is important to ensure that FEMA works with the Small Business Administrations (SBA) to assure implementation of the small business policies of the federal government to ensure an expedient recovery.

The Small Business Act of 1958 created the SBA as an independent agency to ensure that "the federal Government should, insofar as is possible, aid, counsel, assist, and protect the interests of small business concerns in order to preserve free competitive enterprise, ensure that a fair portion of the total purchases and contracts for supplies and services for the Government is placed with small businesses, and maintain and strengthen the overall economy of the nation." The SBA was given authority to coordinate and cooperate with government procurement officers to better utilize the unique capabilities of American small businesses and to act as advocate for the concerns of small businesses.

The roughly 25 million small businesses in the United States account for 50% of America's private non farm gross national product and create between 60 and 80 percent of new jobs in America. Post-Katrina small businesses turn to the SBA, particularly for below market interest loans. In Iowa, for example, SBA recently announced that approval of $153 million in disaster loans to Iowa homeowners, renters, and businesses damaged by floods in spring 2008.

This subcommittee will work closely with FEMA and SBA to ensure that small businesses recover as rapidly as possible and play an active part in the recovery of their areas. We are particularly concerned that small businesses have ready access to contracting opportunities as allowed under the Stafford Act. Contracting with the federal government has the dual purpose of benefitting both small businesses and the communities in which they are located. The goals of disaster recovery and the desires of small business to do business with the federal government are mutually beneficial.

I look forward to hearing from our colleagues Representative Steve King and Bruce Braley and today's other witnesses.

STATEMENT OF
THE HONORABLE JAMES L. OBERSTAR
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,
AND EMERGENCY MANAGEMENT
HEARING ON "ROLE OF THE FEDERAL GOVERNMENT IN SMALL BUSINESS DISASTER RECOVERY"
SEPTEMBER 12, 2008

Thank you, Chairwoman Norton, for holding this hearing on the "Role of the Federal Government in Small Business Disaster Recovery". I would like to welcome our witnesses today, including Rep. Steve King and Rep. Bruce Braley who are kind enough to join us.

The subject of today's hearing is important. Small businesses are the backbone of the American economy, especially in small towns like the ones in my district in Minnesota, as well as Rep. King's and Rep. Braley's in Iowa.

This spring and summer, devastating floods struck the Midwest affecting not only Iowa but also a number of other states including my home state of Minnesota. Yesterday was the anniversary of the 9/11 attacks. While that tragedy is a constant reminder that we must remain vigilant against all threats against our nation, natural hazards such as floods hurricanes and fires continue to be our most consistent threat, and will strike our country with certainty. It is important that small businesses have the tools they need to recover from these disasters. The question for today's hearing is what are the appropriate tools?

Today, we will hear from the Small Business Administration (SBA) and the Federal Emergency Management Agency (FEMA). SBA is FEMA's lead federal partner in disaster recovery. SBA works closely with FEMA on programs to provide assistance to individuals and families after a major disaster. SBA is the primary Federal agency assisting small businesses after a disaster. Under the authority of the Small Business Act, SBA provides low interest loans, currently at four percent, in amounts up to two million dollars.

Specifically, businesses can receive Business Physical Disaster Loans which are loans to businesses to repair or to replace disaster-damaged property owned by the business, including real estate, inventories, supplies, machinery and equipment. Businesses can also receive Economic Injury Disaster Loans which are working capital loans to help small businesses meet their ordinary and necessary financial obligations that cannot be met as a direct result of the disaster. These loans assist numerous businesses every year. **In Iowa, in response to this year's floods, as of September 4, 2008, SBA approved 498 loans totaling over $65 million.**

We will also hear today from FEMA on what they do in to help businesses prepare for disasters, and what they do in disaster recovery. After a disaster, FEMA's recovery programs focus assistance to individuals and

families as well as state and local governments. As of September 5, 2008, FEMA has provided over $500 million in assistance in Iowa. For individuals and families, assistance is available in amounts up to $28,800. As of last week, FEMA has approved grants for 23,358 families totaling over $127 million.

I would also like to take this opportunity to express this Committee's and our Nation's great concern and heartfelt sympathy with the citizens of the Gulf Coast that just faced Hurricane Gustav and as we speak are preparing for the landfall of Hurricane Ike. This Committee stands ready to lend its support to ensure that the citizens of affected communities receive all the help they need as they respond to these floods, and will carefully monitor FEMA's and SBA's efforts as we move from preparedness and response efforts into recovery.

I commend Chair Norton for holding this hearing and look forward to the testimony.

Statement for the Record

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and

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Disaster Assistance Directorate

Federal Emergency Management Agency
Department of Homeland Security

Before the

Committee on Transportation and Infrastructure

Subcommittee on Economic Development, Public Buildings, and Emergency Management

United States House of Representatives

"Role of the Federal Government in Small Business Disaster Recovery"

September 12, 2008

10:00 A.M., 2167 Rayburn House Office Building

Introduction

Chairwoman Norton and Members of the Committee.

We are pleased to be here today.

I am Marko Bourne, Director of the Office of Policy and Program Analysis at the Department of Homeland Security's (DHS) Federal Emergency Management Agency (FEMA). Joining me is James Walke, Branch Chief of FEMA's Public Assistance Program. We appreciate the opportunity to appear before the Committee today to continue our discussion of our role in disaster assistance related to small businesses and how FEMA engages the private sector, in particular, the small, minority and disadvantaged business sector across all FEMA's critical mission areas: preparedness, prevention, protection, response, recovery and mitigation.

Overarching Authorities

The Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) (Public Law 100-707) is the federal law designed to bring an orderly and systemic means of providing federal disaster assistance to state and local governments to help them carry out their responsibilities to aid citizens in times of disaster events. A Presidential Disaster Declaration triggers financial and direct assistance through FEMA, and gives FEMA the responsibility for coordinating government wide relief efforts through use of the National Response Framework, which includes the contributions of 28 federal agencies and non governmental organizations, such as the American Red Cross. Through executive orders, the President has delegated to FEMA, within the Department of Homeland Security (DHS), responsibility for administering the major provisions of the Stafford Act. Assistance authorized by the statute is available to individuals, families, state and local governments, and certain nonprofit organizations.

The Stafford Act authorizes the President to issue declarations that authorize federal agencies to provide assistance to states overwhelmed by disasters. This law establishes a process for requesting and obtaining a Presidential disaster declaration, defines the type and scope of assistance available under the Stafford Act, and sets the conditions for obtaining that assistance.

Types of Assistance and Eligibility

FEMA has established three major categories of aid under the Stafford Act — individual and household, public, and hazard mitigation assistance. Not all programs, however, are activated for every disaster. The determination of which programs are activated is based on the needs found during the joint Federal/State preliminary damage assessment and any subsequent information that may be developed.

The persons and organizations eligible for assistance authorized by the Stafford Act may be summarized in the following fashion:

- **Individuals and households** — immediate temporary shelter and cash grants for uninsured emergency personal needs, temporary housing assistance (rental) generally for 18 months, home repair grants, unemployment assistance due to the disaster, legal aid for low-income individuals, and crisis counseling;

- **State, tribal, and local governments and certain private nonprofit organizations** — repair, reconstruction, or replacement of infrastructure and recreational facilities; emergency protective measures, emergency communications and transportation systems; and loans to replace lost revenue or meet federal cost-sharing requirements; and,

- **State governments** — hazard mitigation assistance to reduce future disaster losses.

As you are aware, the Stafford Act does not authorize FEMA to provide assistance for businesses or business-related needs. Federal disaster assistance provided by FEMA is intended to be supplemental in nature, and is not intended to return individuals or households to their pre-disaster condition. Historically, FEMA assistance has only been eligible for individuals, households, public entities and non-profits of affected jurisdictions within and in support of a presidentially declared disaster or emergency.

Because private, for-profit entities have revenue generating capacity, they are better able to undertake prudent preparedness actions such as acquiring insurance to cover building repairs and contents, and take protective measures to mitigate against loss and damage.

There is other assistance available to individuals and businesses other than presidentially declared disaster or emergency assistance under the Stafford Act. One source of assistance is through low-interest loans, which my counterpart from the U.S. Small Business Administration is in a better position to discuss. Other Federal departments and agencies have distinct disaster relief authorities outside of the Stafford Act that address certain business community needs, such as the Department of Agriculture.

Private non-profit (PNP) facilities are described by law as "educational, utility, emergency, medical, and custodial facilities." The authority to provide assistance to PNP medical facilities was enacted in 1971, and disaster aid for PNP educational facilities was authorized in 1972. As a result of hearings held after the 1971 San Fernando earthquake in California where two PNP hospitals maintained the area's overall public and private medical resources, Congress made PNP hospitals eligible for Public Assistance. After Hurricane Agnes in 1972, Congress authorized assistance for PNP educational facilities because these facilities performed a "secular educational mission" comparable to public educational institutions and that if they were not restored, public educational institutions would have to bear the cost of educating students who had attended PNP facilities. In 1974, Congress added the remaining three types of facilities (utility, emergency, and custodial) to the list of eligible PNP facilities.

After flooding occurred in Pennsylvania, Virginia, and West Virginia in 1985, Congress focused on some PNP organizations that served as community centers and provided similar governmental functions but did not receive the majority of its support from governmental sources. Subsequently, in 1988 Congress amended the Disaster Relief Act of 1974 to create the Stafford Act and add a new category of PNP facility eligible for Public Assistance. Congress allowed for "facilities which provide essential services of a governmental nature to the general public." The accompanying House Report included examples of eligible facilities as "museums, zoos, community centers, libraries, homeless shelters, senior citizen centers, rehabilitation facilities and shelter workshops." The House and Senate floor debates contain only one reference to this provision which is that this term "essential services of a governmental nature to the general public" was added to provide flexibility and not to encourage unsupported, broad-reaching expansions of the definition. Since passage of the Stafford Act, FEMA has considered as eligible PNP facilities both facilities which are the same as those provided by some governmental entities and PNP facilities which have a similar function as those included in the 1988 House Report.

In the Disaster Mitigation Act of 2000 (DMA2K), Congress broadened the President's authority to define "critical services" beyond the list provided for by statute and added "irrigation" to the list of "critical services." The House Report indicates that Congress did not intend this addition of "irrigation" to include water for agricultural purposes. The House Report states that "irrigation" does include "water for essential services of a governmental nature to the general public...such as fire suppression, generating and supplying electricity and drinking water supply." DMA2K also amended section 406 of the Stafford Act to require owners of *non-critical* PNP facilities to apply first for a Small Business Administration (SBA) loan for permanent repair and restoration work, rather than to FEMA for a grant. This provision did not affect *critical* PNPs, as defined in the law, which generally include facilities that provide power, water, sewer, wastewater treatment, communications, fire protection and emergency medical care.

H. R. 6641 - Small Business Owner Disaster Relief Act of 2008

H. R. 6641, was introduced on July 29, 2008, by Representative Steve King to amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act to provide assistance to small business concerns. This legislation would amend Section 406(a) of the Stafford Act (42 U.S.C. 5172), making persons that own or operate a private business damaged or destroyed by a major disaster eligible for assistance for the repair, restoration, reconstruction, or replacement of the facility and for the associated expenses incurred by the person, only if the business has employed an average of 25 or fewer employees during the 12-month period preceding the disaster.

The Administration supports the current Stafford Act authorities, and does not see a compelling reason for changing them. In particular, the Administration does not support expanding the Act to provide authority for grants to businesses, as we believe the current

strategy of relying upon private insurance and, where necessary, SBA disaster loans, is appropriate.

Engaged Emergency Management Partnership – FEMA, Helping to Meet the Needs of the Private Sector

FEMA, through the leadership of Administrator David Paulison, is committed to building an engaged emergency management partnership that integrates a culture of preparedness in all levels of government, non-governmental organizations, and the private sector, including the small and disadvantaged business community. Administrator Paulison fully embraces the value and economy of supporting commerce within a disaster ridden area through consistent and fluent investment with the small and disadvantaged business community, the backbone of our U.S. economy. Our primary conduit for doing so is through contracting activities.

To this end, I would like to spend a few moments addressing FEMA's achievements in meeting its socioeconomic goals, and in addition, I would like give you a progress update on the new Private Sector Office established within the FEMA organization.

Additionally, I will highlight some other FEMA achievements and breakthroughs in working with the private sector to enhance its readiness for disaster preparedness, response, and recovery as well as our other initiatives underway where we have engaged the private sector to address the new demands of an ever changing homeland security environment. In this regard, I will address private sector engagement in the development of the national response and preparedness policies; the value of establishing solid broad-base community preparedness partnerships; and how FEMA is helping citizens and businesses, alike, to become active participants in emergency management and outlets for disaster related good will offerings and volunteerism. Furthermore, I will discuss some areas in which we still need to improve.

Contracting

Let me address our achievements in meeting socioeconomic goals through our contracting efforts. FEMA has a dedicated full-time Small Business Specialist with responsibility to promote contracting opportunities for small businesses.

I am proud to report that FEMA has achieved exceptional results in meeting and exceeding most of its socioeconomic contracting goals.

- From 2006 to the present FEMA has awarded an estimated $2.6 billion to small businesses. In Fiscal Year (FY) 2006, FEMA awarded an estimated $1.8 billion to small businesses. This amount represented approximately 27 percent of the total procurement dollars awarded.

- In FY 2007, FEMA awarded an estimated $485 million to small businesses. This amount represented approximately 33 percent of the total procurement dollars awarded that FY.

- FEMA's Automated Acquisition Management System reports that FEMA has awarded an estimated $293 million to small businesses so far this FY through all its acquisition efforts. This represents approximately 31.0% of the total procurement dollars awarded this FY.

The attached graph provides a visual illustration of the percentages of the procurement dollars awarded in each socioeconomic business grouping for each period identified previously.

As you will note, we are moving closer to achieving our goal for service-disabled veteran-owned small businesses. Unfortunately, obtaining the goal is a challenge confronting many Federal agencies, including FEMA. This is not offered as an excuse but rather as a glimpse into the reality of the present contracting environment. I will describe later in my presentation all of FEMA's efforts to increase contracting opportunities for small businesses, particularly those related to service-disabled veterans.

Disaster Relief Funded Contracting
An estimated $570 million in disaster relief funding (out of a total $960 million) was placed on contract by FEMA in FY 08. Of this dollar value, an estimated $189 million or 33% was provided under contract to small businesses throughout the nation.

Your attention is directed to Attachment (2), which identifies the 50 new disasters that FEMA has responded to so far during FY 08. An estimated $15 million in disaster relief funds has been placed on contract with small businesses to support these disasters. Please note however that the bulk of the $189 million in disaster relief funds placed on contracts with small businesses in FY 08, i.e., an estimated $150 million, was in support of recovery efforts related to the Hurricanes Katrina and Rita disasters. The remaining $25 plus million was expended in support of other disasters declared in prior years.

Competition
The first priority of FEMA during the initial phase of a major disaster is and has always been to provide relief to victims in the most efficient and effective way possible in order to save lives and property. FEMA's goal is to use competitive strategies while also providing local and small businesses opportunities.

I am also proud to report that FEMA competed 81% of its procurement dollars in FY 2007. FEMA went from last place within the DHS organization for its competed dollars in FY06 to first place in FY07. To date in FY 08, FEMA has competed approximately 83% of its procurement dollars. FEMA is proud of this accomplishment, and we will strive to uphold our commitment to competitive contracting during the remainder of FY08 and beyond.

FEMA had some pre-negotiated contracts in place before Hurricane Katrina; however, the extreme circumstances of storms like Hurricanes Katrina and Rita demonstrated that these few contingency contracts could not sufficiently meet mission requirements. As a result, many non-competitive contracts were needed in order to effectively and efficiently save lives and property. FEMA will, to the greatest extent possible, pursue competitive contracts in the future and establish pre-negotiated contracts to ensure effective and efficient response.

Due to the magnitude and length of recovery time of Hurricanes Katrina and Rita, FEMA has recognized the need for more robust, well-planned contingency contracts and a thorough understanding of the qualifications and capabilities of the private sector in areas related to the Agency's mission. Since Katrina and Rita, FEMA has worked to aggressively award pre-negotiated competitive contracts, and more than 60 of these are in place and ready for the 2008 hurricane season. Contract agreements are in place covering all aspects of FEMA disaster management including logistics, mitigation, individual assistance, recovery, management, and integration center support.

By having advance contracts or similar agreements in place, FEMA as well as State and local first responders are more organized and efficient. Additionally, coordination is made easier among the Federal, State and local governments, as each entity is aware of the goods and services for which FEMA has already contracted in the event of disaster. This increased coordination makes for a more effective and efficient response.

FEMA's New Private Sector Office (PSO)

PSO Background and Goals

FEMA believes that developing strong partnerships with the private sector, including businesses of all size, and the associations and trade groups that represent them, is important to the Agency's mission of reducing the loss of lives and property and protecting the nation from all hazards. The vision for FEMA includes a dedicated private sector outreach program to build a bridge to businesses and other organizations that are not part of Federal, State, tribal, territorial, or local government. To support this vision, FEMA established a Private Sector Office (PSO) in October 2007 to be a facilitator for private sector innovation and networking across the agency. The office works closely with the DHS Private Sector Office, Office of Infrastructure Protection, and the DHS *Ready* Campaign.

FEMA's PSO focuses on three primary goals:

- Engage the private sector (including small and large businesses) in all aspects of emergency management –preparedness, protection, mitigation, response, recovery and resiliency.
- Engage established businesses and non-profit organizations to help FEMA improve its performance, capacity and capability.

- Leverage the private sector as a partner to increase FEMA's ability to communicate with businesses and nonprofits, and their employees and customers with information needed to help them prepare for and recover from disasters.

PSO Achievements and Initiatives

Effective outreach to the private sector is based on strong internal coordination and collaboration. Over the past months, PSO has engaged in a number of initiatives to strengthen its internal foundation while also reaching out to external partners, which are as follows:

- **Gov Delivery email alerts.** FEMA's email alert service now includes a section for private sector updates. Over 4,700 individuals, businesses, non-governmental organizations, military and academic representatives have signed up to receive email updates from the Private Sector Office since this option went live in April 2008. The PSO uses email alerts to provide information on FEMA initiatives, tailored to call out points of interest for private sector readers.
- **FEMA private sector working group.** One of the Private Sector Office's first activities was to conduct an internal data call across FEMA headquarters to identify FEMA programs that connect to the private sector. As a follow-on, the PSO has established a FEMA working group to bring together representatives of the agency's directorates, programs, and regions to identify and coordinate opportunities to engage the private sector across FEMA programs and initiatives. The working group held its first Video Teleconference on August 15, and the draft charter is currently under review.
- **Field operations.** The Private Sector Office engaged in its first "full" deployment of the ESF 15 private sector function in response to the summer's Midwest floods. Disaster assistance employees were placed in the Joint Field Offices in Iowa, Indiana, and Missouri to act as private sector liaisons. As an example of the support provided, Private Sector liaisons helped coordinate workshops in all three states to bring federal, state, and local recovery resources together, so impacted businesses could get information on the various types of available assistance and engage in Q&A with subject matter experts from different agencies. The liaisons also produced newsletters with information targeted to business owners' needs and supported states' donations management efforts. In response to Hurricane Gustav, a private sector desk was stood up in the FEMA National Response Coordination Center. The private sector desk was staffed by DHS and FEMA Private Sector Office's liaisons to field inquiries, provide information and handle offers of assistance from private sector organizations.
- **State benchmarking.** The Private Sector Office is working through the FEMA National Advisory Council's Private Sector Subcommittee to identify existing private sector partnerships within each state and to understand how the partnerships support emergency management. For example, in Iowa, the Private Sector liaisons were able to connect with Safeguard Iowa, and through this partnership ensure close private sector coordination and collaboration during response and recovery efforts.

- **Exercises.** One theme that has been raised a number of times by private sector partners is the need to engage businesses and nonprofits early in the planning process of exercises. To address this, the PSO has established a liaison to work with FEMA's National Exercise Division (NED) and the DHS Private Sector Office and the Office of Infrastructure Protection to facilitate full and meaningful private sector engagement in the next National Level Exercise, NLE 09. This effort has resulted in the establishment of a Private Sector Working Group within the NLE 09 planning structure to ensure private sector equities are integrated into the foundation of the NLE 09 planning process. While membership has not been finalized, the membership of this working group is expected to include representatives from various private sector and critical infrastructure and key resources areas.
- **Web portal.** A priority for the Private Sector Office is to develop a portal on the FEMA website that will serve as a central repository for posting information most relevant to business and nonprofit organizations, such as information on training activities, business continuity, and referrals to founding organizations.

Small Business Community Outreach

It's important to give perspective on the opportunity – and challenge – involved in effectively engaging the private sector in emergency management. According to the Small Business Administration, small businesses represent 99.9 percent of the 26.8 million businesses in America, and they employ nearly half of the private sector workforce. Of these, approximately 19.5 million businesses have no employees. There were more than 17,000 large businesses in 2004.

Source: Office of Advocacy estimates based on data from the U.S. Dept. of Commerce, Bureau of the Census, and U.S. Dept. of Labor, Employment and Training Administration.

Due to the magnitude and complexity of the small business community, with its varying needs, capabilities and capacities, coordination is a daunting challenge and requires a long-term effort. Through effective outreach and collaboration with non-governmental organizations, business and trade associations, and local, regional and national chambers of commerce, however, the Department and FEMA have made significant inroads into integrating the private sector as a full partner in incident management.

The Agency is accomplishing its goal of partnering with these businesses through numerous initiatives, including:

- Participating in local, State, regional and national conferences, seminars, exhibits and forums to gain access to current small business issues and interface with business and industry; including the 4th Annual National Veteran Small Business Conference & Expo (Las Vegas, NV) and the DHS' 1st Annual Regional Vendor Outreach Session in Atlanta, GA.

- Networking with representatives of the U.S. Small Business Administration and local small business development centers;
- Developing acquisition goals and strategies which are increasingly structured for maximizing the number of awards to small businesses; and
- Enhancing the Central Contractor Registration, also referred to as "CCR" in order to capture information on area businesses interested in debris removal and support of disaster response and recovery requirements for Federal agencies to consult or consider, as needs arise.
- Encouraging private sector participation in the Regional Emergency Communications Coordination Workgroup.
- Mutual Aid for businesses.
- Mutual Aid Training for businesses.

FEMA is also designated to lead the implementation of Title IX of Pub. L. 110-53 the "Implementing Recommendations of the 9/11 Commission Act of 2007." Title IX requires the Department of Homeland Security to develop a voluntary private sector preparedness accreditation and certification program. The Secretary of Homeland Security selected the FEMA Administrator as the Designated Officer for Title IX, and program efforts are conducted in close collaboration with the DHS Offices of Infrastructure Protection, Private Sector and Science and Technology.

The Voluntary Private Sector Preparedness Accreditation and Certification Program is mandated by the *Implementing Recommendations of the 9/11 Commission Act of 2007* to establish a common set of criteria for private sector preparedness, including disaster management, emergency management, and business continuity programs. The goal of this voluntary program is to enhance nationwide resilience in an all hazards environment by improving private sector preparedness. Participation in the program will be voluntary and intended to be driven by the marketplace.

At present, there is no comprehensive set of standards by which American businesses and other private sector entities can assess their preparedness for all hazards, and yet these organizations are more at risk than ever of catastrophic losses due to natural or other disasters. The Title IX Program is actively working with the Private Sector, including Standards Development Organizations, to establish a comprehensive set of standards for future use.

The National Response Framework and the Private Sector

Through the National Incident Management System (NIMS) and the National Response Framework (NRF), DHS/FEMA worked with industry representatives to include language in NIMS that integrates the private sector as a full partner in incident management. In January, DHS released the National Response Framework (NRF), a revision of the National Response Plan, which establishes a comprehensive, national all-hazards approach to domestic incident response. As opposed to being a Federal-centric plan, the NRF is truly a national plan and describes in detail, both in the base plan and

partner guides, how the NRF starts at the local level using NIMS principles to build a unified approach.

Private Sector organizations play a key role before, during and after an incident. In many facets of incident response, the government works directly with the private sector groups. The NRF describes how the private sector interfaces with other response organizations during an incident and acknowledges the private sector's unique roles from an impacted organization to a response provider. In addition to the existing Private Sector Support Annex and Volunteer and Donations Management Support Annex, the NRF includes supplemental material including a private sector partner guide to further detail roles and responsibilities.

The FEMA Private Sector Office teamed with the American Red Cross to hold a one-day conference in May whose goal was to educate private sector leaders from business and industry, as well as from NGOs and nonprofits, on key aspects of the NRF. A series of regional NRF conferences are planned for 2008/9 to expand private sector understanding and engagement in their roles under the NRF. A few examples of ways the private sector can operate within the NRF include:

- Preparing their own facilities and employees in advance to reduce the impact of a disaster on their organizations and help speed their recovery.
- Becoming involved in community efforts to make their neighborhoods and cities better prepared for future disasters.
- Providing situational awareness to state and federal partners, to aid response and recovery efforts.
- Delivering critical information to employees, customers and members during and after a disaster. For example, organizations can work with Private Sector liaisons to include information in employee email communications, customer interaction, and information exchanges with suppliers and partners.
- Providing bulk donations through appropriate, state-recognized channels.

Loaned Executive Program at FEMA

The Post-Katrina Emergency Reform Act, among other things, required FEMA to align with and leverage where applicable, private sector practices. One way we are working to leverage the capabilities of the Private Sector is through the Loaned Executive Program. The creation of the Logistics Management Directorate (LMD) in the spring of 2007 was the first and most logical area for FEMA to engage the private sector. Last summer we worked closely with US Chamber of Commerce to establish a first of its kind program in the federal government. Our first loaned executive was from the UPS Foundation, which loaned FEMA a global supply chain solutions expert who worked with FEMA from September 2007 through May 2008.

The loaned executive program allows private sector executives to lend their insights and best practices to FEMA and help the agency develop innovative solutions and apply best

practices to business process issues. Specific to the loaned executive from UPS, the program provided industry best practices in the area of supply chain management. This included leveraging tools and methodologies of UPS and its larger customers on demand planning, network design and management, metrics, and continuous improvement programs.

There is also benefit to private sector partners in that the loaned executives gain an understanding of Federal policies, processes, priorities and actions related to emergency management and preparedness.

Some of the key benefits provided by the Loaned Executive pilot included:

- Support of the development of a key performance indicators KPI / metrics program for LMD, which will enable the executive team to make swift and efficient decisions in the area of supply chain management.
- Alignment with LMD leadership on major organizational initiatives and coordinated benchmark sessions that will enable the directorate to accomplish both short and long term objectives.
- Call center design & build out (Processes, Systems, & Training).

FEMA developed a legal framework for the program which includes an Organizational Conflict of Interest/ Risk mitigation strategy. There was collaborative effort between FEMA ethics attorneys, UPS counsel & UPS's external counsel, DLA Piper, to develop appropriate documentation for this program.

Preparedness Partnerships

Citizen Corps

More than ever, we at FEMA are building stronger and more vibrant community coalitions and engaging with the private sector to ensure that they have a more prevalent role in emergency response through FEMA's Citizen Corps Program. Citizen Corps' primary mission is to bring community and government leaders together in an all-hazards emergency preparedness, planning, mitigation, response, and recovery framework. The Citizen Corps nationwide network includes more than 2,300 Citizen Corps Councils located in all 56 states and territories. Councils are encouraged to include business representation and to work with businesses to integrate business resources with community preparedness and response plans. An important priority for Councils at all levels is to educate and inform Americans in all sectors—including the private sector—about steps they can take to be prepared. The Citizen Corps program works closely with the Department of Homeland Security's Ready Campaign, making Ready Business and other Ready materials widely available. Furthermore, Citizen Corps encourages its Councils to work with local emergency management and to incorporate work continuity plans and planning in specific community context.

Citizen Corps' Partner Programs also collaborate with businesses. National Partner Programs include more than 3,000 Community Emergency Response Teams (CERT) and hundreds of Fire Corps, Medical Reserve Corps, Neighborhood Watch, and Volunteers in Police Service programs around the country. Many CERTs already include the business community in their training and exercises. For example, the San Diego County CERT has trained local utility and telecomm employees as part of their partnerships, and many CERTs have adapted the curriculum to business needs, providing Business Emergency Response Training for employees.

In addition, Citizen Corps Councils are encouraged to build strategic partnerships with local governments and businesses to coordinate training activities and exercises.

Ready Business Campaign

The Department's Ready Campaign aims to educate and empower Americans to prepare for and respond to emergencies both natural and man-made. Launched in 2003 with the Ad Council, Ready is a public service campaign. As a part of this effort, the campaign has an extension called Ready Business that is designed to help owners and managers of small- and medium-sized businesses prepare their employees, operations and assets in the event of an emergency.

Launched in 2004, *Ready Business* was developed by Homeland Security and launched in partnership with the U.S. Chamber of Commerce, Small Business Administration, Society of Human Resource Management, The Business Roundtable, The 9/11 Public Discourse Project, ASIS International, Business Executives for National Security, International Safety Equipment Association, International Security Management Association, National Association of Manufacturers, National Federation of Independent Businesses, and Department of Labor's Occupational Safety and Health Administration.

The goal of *Ready Business* is to raise the business community's awareness of the need for emergency planning and motivate businesses to take action. The campaign encourages business owners and managers to discuss the benefits of emergency preparedness measures and the need to plan to stay in business; talk to their employees; and protect their investment. Businesses can find downloadable tools and resources on its website to help them put these steps in place.

Ready Business also has a Spanish language companion, Listo Negocios, which provides several *Ready Business* tools and resources translated into Spanish.

Ready Business messages are delivered through: radio, print, outdoor and Internet public service announcements (PSAs) developed and produced by the Advertising Council. To date, the campaign has garnered $96.4 million in donated media placement for its Ready Business PSAs. The campaign also gets this message out through brochures; www.ready.gov and www.listo.gov Web sites; toll-free phone lines 1-800-BE-READY and 1-888-SE-LISTO; and partnerships with a wide variety of public and private sector organizations.

In May 2006, the Ready Campaign launched the *Ready Business* Mentoring Initiative. This initiative is designed specifically to help owners and managers of small and medium-sized businesses prepare for emergencies. Materials were created to assist business and community leaders in hosting and delivering business preparedness workshops and training sessions. These sessions and the Ready Business Mentoring Guides outline how businesses can plan to stay in business; talk to employees; and protect assets. Workshop materials were provided through collaboration with the Extension Disaster Education Network (EDEN), funded by USDA's Cooperative State Research, Education and Extension Service.

To reach businesses and business organizations across the country, the Department reached out to U.S. Department of Commerce, Small Business Administration, U.S. Department of Agriculture and the nation's leading business organizations to distribute the Ready Business Mentoring Guides and provide access to its resources.

In addition to the Ready Business Mentoring Initiative, the Department also works with the private sector to encourage the adoption of the NFPA 1600 at the local level. For example the Department collaborated with the U.S. Chamber of Commerce on a pilot initiative to create a Regional Business Preparedness Summit in Charlotte, North Carolina. This event brought together local leaders in emergency management, public health and the private sector. Local businesses learned the importance of creating and exercising their business emergency plan, involving their employees, protecting their assets and coordinating with their local emergency management network.

Training and Exercise Programs

Another significant example of public-private partnering is through FEMA's new Training and Education Division, which has a number of courses being developed or delivered that are available for private sector participation. For example, the new online training relating to the National Infrastructure Protection Plan (IS 860) is designed to be used by both government and private sector security partners. More than 3000 individuals have taken this course since it was posted this past year.

Based on exercise scope and objectives NED works closely with the DHS and FEMA Private Sector Offices and the Office of Infrastructure Protection (OIP) to increase the involvement of private sector partners in national level exercise events as well as assist State and local efforts to include the private sector in their exercise programs.

For example, on April 30, 2007, FEMA Region I was a key player in the Hurricane Yvette Exercise which was designed to test the Federal government's response capabilities for a large-scale New England disaster. The early results are positive and demonstrate improvements made by implementing the lessons learned after Hurricane Katrina. The Department of Defense, the Department of Homeland Security, FEMA, the U.S. Coast Guard, State and local officials, and the private sector worked closely together responding to the scenario of a hypothetical Hurricane Yvette making landfall in Rhode Island and impacting several northeastern States. This was the largest such exercise ever conducted in New England. Private sector entities continue to be involved in the

Hurricane Preparedness Exercise activities that are sponsored by NED on an annual basis.

Conclusion: A Call for Continued Public-Private Communication and Partnership

As earlier stated, Federal disaster assistance administered by FEMA under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, historically, has been for individuals, households, public facilities and certain private nonprofit organizations.

FEMA is committed to building an engaged emergency management partnership that integrates a culture of preparedness in all levels of government, non-governmental organizations, and the private sector, including the small and disadvantaged business community. We understand the value and economy of injecting commerce back into a disaster ridden area through consistent and fluent investment with the small and disadvantaged business community, the backbone of our U.S. economy. Therefore, FEMA will continue to work to ensure that our socio-economic acquisition strategy and goals are in keeping with the larger charge of fair and equitable economic opportunity for small, minority and disadvantaged business.

FEMA's new vision calls for the Agency to adapt to new conditions, adopt innovative and more effective business practices, and address ever-changing needs. To do this, we want to hear from and work with all audiences with a stake and a responsibility in preparedness and disaster response.

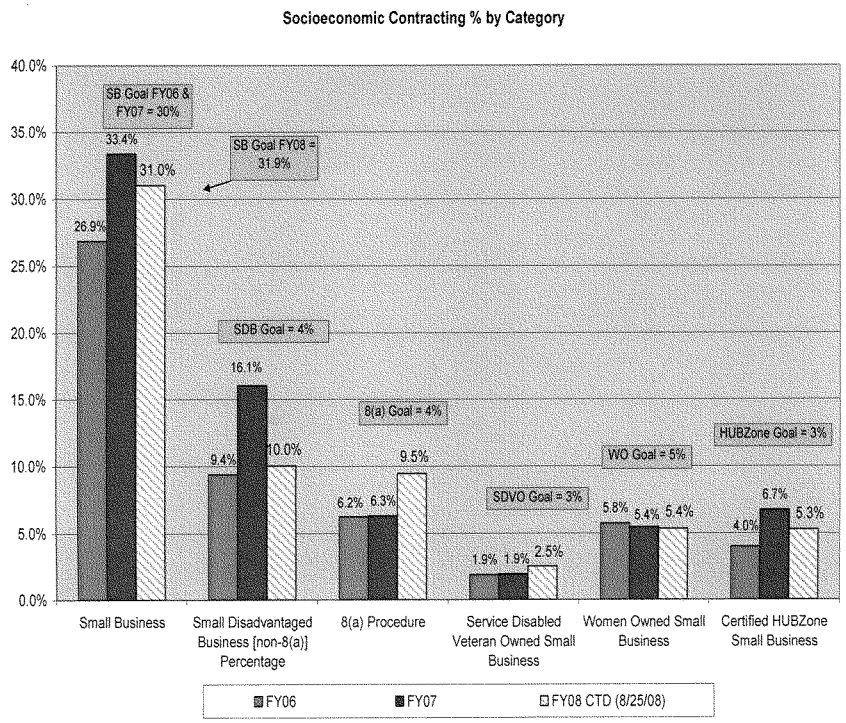
The private sector, in particular the small business community should continue and build upon efforts in several key areas:

1. Developing strong business continuity plans for all of their locations and critical data centers.
2. Develop employee support plans for when their employees' office locations are damaged or if their employees have lost their homes to disaster. A key element of recovery is getting people back to work as quickly as possible.
3. Engage in prudent risk management practices and have strong health and safety programs.
4. Work closely with their local emergency managers, first responders and elected officials to be involved in disaster planning and to build protocols to assist with recovery efforts, before a disaster strikes.
5. Through business associations continue to work with state emergency management and FEMA to support mitigation activities, preparedness planning, disaster response, donations management, and recovery efforts.
6. Engage other private sector partners through planning, training, and exercise activities. The resulting relationships and shared vision can only help to strengthen our Nation's preparedness.

It is the work and resources we expend on this planning now, before a disaster, that will pay dividends later in a faster recovery and a more resilient nation. We cannot wait until

a disaster occurs to exchange our business cards and the private sector understands that it cannot just show up on game day and expect to play without coming to the practices.

Thank you for the opportunity you have afforded us today to speak about the new FEMA. I look forward to addressing your questions.



	Code	State	Description	$$ awarded to SB's	Code	State	Description	$$ awarded to SB's
FY08 Declared Disasters	1730DR	TX	Tropical Storm Erin	$14,150	1758DR	AR	Severe Storm(s)	$43,960
	1731DR	CA	Fire	$2,103,041	1760DR	MO	Severe Storm(s)	$56,553
	1732DR	IN	Severe Storm(s)	$44,800	1761DR	GA	Severe Storm(s)	$13,328
	1733DR	OR	Severe Storm(s)	$1,044,322	1762DR	CO	Severe Storm(s)	$56,200
	1734DR	WA	Severe Storm(s)	$693,637	1763DR	IA	Severe Storm(s)	$4,660,217
	1735DR	OK	Severe Ice Storm	$13,152	1765DR	NE	Severe Storm(s)	$12,042
	1736DR	MO	Severe Ice Storm	$55,242	1766DR	IN	Severe Storm(s)	$675,692
	1737DR	IA	Severe Ice Storm	$51,234	1767DR	MT	Severe Storm(s)	$5,403
	1738DR	NV	Severe Storm(s)	$39,434	1768DR	WI	Severe Storm(s)	$337,405
	1740DR	IN	Severe Storm(s)	$352,151	1769DR	WV	Severe Storm(s)	$63,000
	1741DR	KS	Severe Storm(s)	$87,111	1770DR	NE	Severe Storm(s)	$1,215
	1742DR	MO	Severe Storm(s)	$23,000	1771DR	IL	Severe Storm(s)	$444,026
	1743DR	HI	Severe Storm(s)	$8,075	1772DR	MN	Severe Storm(s)	$119,000
	1744DR	AR	Severe Storm(s)	$225,686	1773DR	MO	Severe Storm(s)	$233,012
	1745DR	TN	Severe Storm(s)	$1,190,003	1774DR	SD	Severe Storm(s)	$10,000
	1746DR	KY	Severe Storm(s)	$167,142	1776DR	KS	Severe Storm(s)	$10,000
	1747DR	IL	Severe Storm(s)	$111,084	1777DR	MI	Severe Storm(s)	$69,000
	1748DR	MO	Severe Ice Storm	$10,000	1778DR	VT	Severe Storm(s)	$1,450
	1749DR	MO	Severe Storm(s)	$827,531	1780DR	TX	Hurricane	$231,625
	1750DR	GA	Severe Storm(s)	$108,314	3279EM	CA	Fire	$130,903
	1751DR	AR	Severe Storm(s)	$250,947	3280EM	OK	Severe Ice Storm	$87,712
	1752DR	OK	Severe Storm(s)	$22,482	3281EM	MO	Severe Ice Storm	$13,643
	1753DR	MS	Severe Storm(s)	$164,438	3282EM	KS	Severe Storm(s)	$82,695
	1755DR	ME	Flood	$56,969	3284EM	TX	Fire	$21,610
	1756DR	OK	Severe Storm(s)	$67,494	3285EM	WI	Snow	$79,650
	1757DR	KY	Severe Storm(s)	$10,949	3286EM	OH	Snow	$37,730
	SUB-Total FY08 Disasters Awarded to SB's							**$15,239,459**
Katrina/Rita	1603DR	LA	Hurricane Katrina					$103,504,358
	1604DR	TX	Hurricane Katrina					$40,571,686
	1605DR	AL	Hurricane Katrina					$3,948,869
	1606DR	MS	Hurricane Rita					$858,829
	1607DR	LA	Hurricane Rita					$173,274
	SUB-Total Katrina/Rita Awards to SB's							**$149,057,015**
	Other Disasters Awards to SB's							**$25,159,247**
	TOTAL							**$189,455,722**

DISASTER RELIEF FUNDS AWARDED TO SMALL BUSINESSES (FY08)

Questions for the Record
September 12, 2008
Role of the Federal Government in Small Business Disaster Recovery

SBA

1. What is the total number of businesses that received SBA assistance in Iowa from this year's flood?

   As of September 15, 2008, 541 business received SBA assistance for a total of $76,944,100.

2. Please provide the number of loans and the amounts provided for mitigation loans for both business and homeowners in Iowa for this year's floods?

   Homes – 8 loans for $49,700
   Businesses – 1 loan for $3,900

HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDING AND EMERGENCY MANAGEMENT
HEARING REGARDING
THE ROLE OF THE FEDERAL GOVERNMENT IN SMALL BUSINESS DISASTER RECOVERY

SEPTEMBER 12, 2008

Testimony of
Herbert Mitchell
Associate Administrator for
Disaster Assistance

Good morning Chairwoman Norton, Ranking Member Graves, and distinguished members of the Committee. Thank you for inviting me to discuss disaster recovery and, more specifically, the role of the Small Business Administration in assisting small businesses get back up and running following a disaster.

Through our Office of Disaster Assistance (ODA), the SBA is responsible for providing affordable, timely and accessible financial assistance following a disaster to businesses of all sizes, homeowners, and renters. Many disaster survivors have insurance, which covers part or all of the physical property losses due to a natural disaster, but for disaster losses not covered by insurance, an SBA loan is the primary form of federal financial assistance. This financial assistance is available in the form of low-interest loans, and since the SBA's inception in 1953, it has provided 1.8 million loans for more than $46 billion dollars.

Additionally, certain small businesses and not-for-profit organizations are also eligible for Economic Injury Disaster Loans to assist with ongoing operating expenses until they recover from the disaster.

SBA's Role in Responding to a Disaster:

The Small Business Administration is not a first responder agency, but rather SBA is focused on the long-term economic recovery efforts in coordination with its government partners at the federal, state, and local levels. In addition to its disaster loan program, SBA helps small businesses recover from disasters through its guaranteed lending, technical assistance, and government contracting and business development programs.

Disaster loans are a critical source of economic stimulation in the affected areas following a disaster. As part of an overall effort to assist businesses get back on their feet, SBA's disaster home loans of up to $200,000 help those employed in the local community return and rebuild their homes. Moreover, businesses of all sizes are eligible for loans of up to $2 million to assist with any uninsured and otherwise uncompensated

physical damage losses sustained during a disaster to repair or replace damaged physical property.

Additionally, SBA's Office of Disaster Assistance offers Economic Injury Disaster Loans (EIDL) to small businesses, small agricultural cooperatives, and most private non-profit organizations who have suffered economic injury caused by a disaster. If a small business or organization is unable to meet obligations and to pay it's ordinary and necessary operating expenses an EIDL loan can help. These loans provide working capital to a business or organization until normal operations can resume following a disaster.

An EIDL can help meet necessary financial obligations that a business or private, non-profit organization would have met, had the disaster not occurred. It provides relief from economic injury caused directly by the disaster and permits a reasonable level of working capital during the period affected by the disaster. The maximum loan amount is $2 million combined for both physical and economic injury.

Lastly, SBA has a program to assist businesses that are impacted following the deployment of a key employee to active military duty. The SBA's Military Reservist Economic Injury Disaster Loan program provides funds to eligible small businesses to meet its ordinary and necessary operating expenses that it could have met, but is unable to meet, because an essential employee was "called-up" to active duty in their role as a military reservist. These loans are intended only to provide the amount of working capital needed by a small business to pay its necessary obligations as they mature until operations return to normal after the essential employee is released from active military duty.

SBA's Key Improvements to Disaster Assistance since Hurricane Katrina:

Following the 2005 Gulf Coast Hurricanes, SBA experienced significant challenges in responding to a natural disaster of such a large scale. The cumulative result of the Gulf Coast disasters caused damage that was so extensive that the number of resulting disaster loan applications overwhelmed SBA's capacity to process them.

SBA recognized the severe challenges that hindered its efforts to aid recovery in a timely way, and has made dramatic improvements to its process operations. Today by incorporating lessons learned and process improvements, SBA's Disaster Assistance Program and our sister federal agencies have overhauled the processes and response protocols. We learned important lessons from the '05 hurricanes and we are prepared to effectively execute our role to support the post-disaster economic recovery. SBA is better prepared than ever to process loans faster, provide better quality service and be more helpful to our customers, disaster survivors.

SBA's Office of Disaster Assistance has re-engineered the process by which the Agency responds to disasters and disaster survivors. All of these enhancements have been incorporated into the Agency's Disaster Response Plan. The DRP was created to

become a comprehensive "playbook" to ensure a broad scope of coordination, awareness, and support throughout the Agency.

Under SBA's Disaster Response Plan, during all levels of disaster response and long term economic recovery, SBA leverages existing resource partners (Small Business Development Centers, Women Business Centers and SCORE) primarily to help with local outreach as well as collaborate to distribute disaster recovery training materials and information to small businesses and non-profit organizations in the impacted areas.. Additionally, SBA and it's resource partners have a long stand reputation for providing management and technical assistance to businesses. Along with SBA, our resource partners are available to those businesses who are recovering from a disaster and we strongly urge them to access these services by contacting their local chapter.

The Agency has improved the application review process. Today, we are able to provide loan applicants an accelerated decision process. To put this into perspective, the goal for processing a Pre-Katrina Business loan was 17 days. The actual time was 70 days for business loans during Hurricane Katrina. Today, the goal for processing a disaster business loan is 12 days but the actual time is currently 9.1 days for SBA's response to the Midwest Floods. Additionally, on August 4, 2008, SBA introduced an electronic loan application which is currently in use and has a capacity of 5,600 applications per hour.

Furthermore, we have revamped the post-approval process, improving processes and tools for loan closing and fund disbursement by creating case management teams with staff from each key area, such as loan processing and legal. The emphasis is on customer service and accountability, with each approved loan assigned to a team and an individual case manager.

On top of this, we have increased the Disaster Credit Management System's capacity from 2,000 to 12,000 concurrent users; expanded our workforce to include over 2,000 reservists along with enhanced training and quality assurance to ensure consistent adherence to policies and procedures; expanded infrastructure including 200,000 square feet of surge space and equipment; and better coordination between non-disaster field staff and improved harmonization across disaster center operations.

Admiral Steve Smith (USN, Retired) was recently named Chief of the Executive Office of Disaster Strategic Planning and Operations (EODSPO) in June 2008. The EODSPO's primary function will be to continue to develop and implement institutional changes to SBA's disaster assistance program and is responsible for ensuring all SBA departments maintain a high state of readiness to deliver on the agency's multiple missions in disaster recovery.

Recent Legislative Improvements:

Finally, I would like to describe SBA's progress in implementing the provisions of the 2008 Farm Bill which bear directly on our Disaster Assistance Program. A number

of these provisions, in fact, were already in operation, and we welcomed the codifications or expansion of these reforms. Specifically, we are talking about the Disaster Response Plan, the Chief of the Executive Office of Disaster Strategic Planning and Operations, regular reports to Congress, and other reforms instituted by SBA and then codified through the Farm Bill.

For those provisions that were new, SBA has been working to quickly and effectively implement these features as a part of our overall Disaster Recovery capabilities. To date, the following program enhancements have already been implemented:

- Non-collateralized loan limits for physical disaster loans have increased to $14,000 from $10,000.
- Loan caps for businesses have increased to $2 million from $1.5 million.
- Use of Net Earnings Clause in the first 5 years of repayment has been prohibited.
- Non-profit organizations are now eligible for Economic Injury Disaster Loans.

In closing, we appreciate the opportunity to share with the Committee the role SBA plays in small business disaster recovery efforts, and we believe that the reforms we have instituted and the new tools Congress has provided will allow us to more effectively and efficiently respond to the needs of our nation's citizens. I look forward to further describing these efforts and answering your questions. Thank you.

Get -Backs
September 12, 2008
Role of the Federal Government in Small Business Disaster Recovery

FEMA

1. Please provide your thoughts on a federal and state program that provides grants to assist damaged businesses when a certain level of flood and storm damage insurance is inadequate to fix the business.

As you are aware, the Stafford Act does not authorize FEMA to provide assistance for businesses or business-related needs. Federal disaster assistance provided by FEMA is intended to be supplemental in nature, and is not intended to return individuals or households to their pre-disaster condition. Historically, FEMA assistance has only been eligible for individuals, households, public entities and non-profits of affected jurisdictions within and in support of a presidentially declared disaster or emergency. Because private, for-profit entities have revenue generating capacity, they are better able to undertake prudent preparedness actions such as acquiring insurance to cover building repairs and contents, and take protective measures to mitigate against loss and damage.

Insurance is the primary method of assistance for damage from all kinds of disasters and perils. Such insurance for most hazards is obtained by businesses and used routinely for fires, wind, accidents and other emergencies. For flood related damage from rising water or riverine or storm surge, the flood insurance, which is federal backed through the National Flood Insurance Program is additional insurance support for business and homeowners. Such insurance is obtainable by any business regardless of location or whether or not they have their business in a flood plane. Every day somewhere in the nation a business is affected by a fire or other disaster and insurance is the means for repair.

Sound business practice dictates that business owners weigh their risks and seek adequate insurance to cover their losses. Such decisions are up to the business owners and they decide how much coverage they wish for the premium they are willing to pay. Providing grants to business in disasters may have a detrimental effect on business preparedness and their obtaining insurance. Business could potentially make decisions to have less coverage than necessary or prudent and be wagering that if they did have a disaster the federal government and the American taxpayer would provide a grant.

2. What is the difference between what PDM and HMGP can provide for businesses and the proposition that the Iowa delegation is offering?

H.R. 6641 would expand eligibility of 406 funds (Public Assistance) to repair, restore and replace certain damaged facilities owned by small businesses.

The HMGP and PDM program assists States, Tribes, and local communities in implementing long-term hazard mitigation measures. The HMGP focuses on funding hazard mitigation activities following a major disaster event while the PDM program is a pre-disaster program. However, in both programs the strategy is to reduce the loss of life and property in disaster event.

HMGP and PDM can fund projects on public or private property, as long as the project fits within State and local government mitigation strategies to address areas of risk and meets with program guidelines. The community, through the planning process, identifies certain public, residential or commercial properties to include in projects that will make the community more disaster resistant, reduce the risk to life and property for future disasters. The following are examples of projects that a community may consider:

- Acquiring and relocating structures from hazard prone areas;
- Retrofitting structures to protect them from floods, high winds, earthquakes, or other natural hazards;
- Constructing certain types of minor and localized flood control projects;
- Constructing safe rooms inside schools and other buildings in tornado-prone areas; and
- Developing State, local, or Tribal mitigation plans.

Eligible applicants must apply for assistance through the State, as the State is responsible for setting priorities through their State plan. Communities must select hazard mitigation opportunities consistent with their local plans. States and communities may include small businesses in their application when the hazard mitigation activities align with the strategies and priorities of the mitigation plan.

Here are some points that help to explain the difference between 406 and HMGP/PDM:

- HMGP and PDM funds are made available to mitigate structures, not to repair, restore or replace them.

- Under 406, funds expended under the disaster are based on eligible applicants. Under HMGP, a funding ceiling is established under the disaster based on 15% (Standard State Plan) or 20% (Enhanced State Plan) of the total estimated Federal assistance provided. PDM funding is established by Congress each year.

- States and local communities establish priorities for use of HMGP & PDM funds. All applications must be cost-effective and meet other federal requirements in order to be funded.

Collaboration (SBA and FEMA)

3. Please take the 50 storms listed in your testimony and develop a list of the total businesses that were affected (using SBA figures) and multiply that by the $2,800 cap per grant and a 25 % State share and come back with the potential exposure to the Federal government as a result of the grant program proposed by the Iowa delegation.

Based upon the Small Business Administration (SBA) data on business applications submitted for disaster assistance loans during Fiscal 2008 for fifty major disaster or emergency declarations during the same or earlier periods, approximately 28, 600 of 55,415 or 51.65 percent of these applications were for businesses with 25 or less employees. If these businesses applicants received disaster assistance grants in accordance to the Individual and Households Assistance Program (IHP) cap of $28,800 the total costs to the federal government would be approximately $824 million dollars less that state cost share. It should be noted, however, that SBA data does not distinguish nor delineate large from small businesses. The data is broken down into three categories per declaration:

- Amount of applications received for SBA disaster assistance loan program from business entities with 25 or less employees;
- Amount of applications received for SBA business disaster assistance loan program for business entities with more than 25 employees;
- Amount of applications received for SBA disaster assistance loan program for business entities where the amount of the employees were unknown.

The unknown number of employee category represents approximately 25,798 applicants or 46.55 percent of the total of applicants. Based on the assumption that the break out of this pool of applicants would replicate that of the overall sample where applications of business entities with 25 or less employees represents approximately 51.65 percent of the total amount of applicants, would hypothetically add an additional 13,324 applicants to the business entities with 25 or less employees, thus increasing the total federal government financial exposure to $1.2 billion dollars less State cost share. (See the attached SBA spreadsheet on Business applications by Number of Employees).

Business Applications by Number of Employees teport date - 09/17/200

Disaster	Physical Nbr	EIDL Nbr	FEMA Nbr	App count - Recd & Acpt	Less or equal to 25 emp	More than 25 emp	UNKNOWN
AL-00003	10180	10181	1605	1116	605	44	467
AR-00016	11166		1744	0			
AR-00018	11206	11207	1751	114	73	1	40
AR-00020	11256	11257	1758	26	16		10
CA-00074	11079	11080	1731	603	458	7	138
CO-00021	11262	11263	1762	39	26	1	12
GA-00012	11196	11197	1750	40	22	3	15
GA-00013	11260	11261	1761	68	40	2	26
HI-00011	11165		1743	0			
IA-00013	11150		1737	0			
IA-00015	11264	11265	1763	1394	958	73	363
IL-00013	11189	11190	1747	37	20		17
IL-00015	11306	11307	1771	93	58	4	31
IN-00014	11120	11121	1732	45	32		13
IN-00017	11160	11161	1740	40	26		14
IN-00019	11286	11287	1766	451	275	14	162
KS-00025	11162		1741	0			
KS-00027	11328		1776	1	1		
KY-00013	11178	11179	1746	24	16	1	7
KY-00016	11255		1757	0			
LA-00002	10176	10177	1603	32059	15900	552	15607
LA-00004	10205	10206	1607	2585	1230	30	1325
ME-00011	11242	11243	1755	12	6	1	5
MI-00013	11335		1777	0			
MN-00015	11310		1772	0			
MO-00019	11145		1736	0			
MO-00020	11164		1742	0			
MO-00022	11195		1748	0			
MO-00025	11203	11204	1749	131	87	3	41
MO-00028	11258	11259	1760	7	6		1
MO-00030	11311	11312	1773	60	42	1	17
MS-00005	10178	10179	1604	10976	5747	159	5070

MS-00018	11237	11238	1753	20	14		6
MT-00038	11290		1767	0			
NE-00019	11271		1765	0			
NE-00020	11297	11298	1770	56	32	1	23
NV-00008	11148	11149	1738	15	10		5
OK-00016	11139		1735	1	1		
OK-00020	11249	11250	1756	2	2		
OK-00021	11291		1752	0			
OR-00023	11122	11123	1733	156	121	4	31
SD-00018	11326		1774	0			
TN-00018	11167	11168	1745	55	35	3	17
TX-00066	10203	10204	1606	3820	1850	60	1910
TX-00265	11055	11056	1730	14	10		4
TX-00297	11353	11354	1780	303	235	7	61
VT-00008	11336		1778	0			
WA-00015	11124	11125	1734	438	325	13	100
WI-00013	11288	11289	1768	595	330	13	252
WV-00009	11295	11296	1769	19	11		8
			Total	**55415**	**28620**	**997**	**25798**

Rpt# 07375