

# Helping Small Businesses after Hurricane Floyd

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HARRY LYNCH / NEWS & OBSERVER

**O**n September 15, 1999, Hurricane Floyd struck the southeastern coast of North Carolina, near Wilmington. It was the second of two hurricanes that hit the coast in near succession that year. A month before, Hurricane Dennis had saturated the coastal region's rivers and streams. Floyd brought huge additional amounts of rain—upwards of 20 inches in a number of counties.

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The result was enormous damage to housing, crops, infrastructure, and business. The damage to business and agriculture alone was estimated at \$6 billion (see Figure 1, page 22), most of it attributed to heavy flooding.<sup>1</sup>

On September 16, at the request of Governor Jim Hunt, President Bill Clinton declared much of eastern North Carolina a major disaster area. This area eventually included 66 of the state's 100 counties. The Federal Emergency Management Agency (FEMA) categorized the economic impact of Floyd as severe in 12 counties, moderate in 14, and minor in

*In Hurricane Floyd's aftermath, flooding from the Tar River engulfs parts of downtown Rocky Mount, North Carolina.*

18, with negligible impact in the remaining disaster counties (see Figure 2, page 23). The 44 counties most affected became the focus of massive federal, state, and local recovery efforts.

Small businesses in the region were hardest hit. Of the approximately 96,000 businesses with employees in the region, more than 60,000 employed fewer than 100 people. Of these, nearly 60 percent

Figure 1. **Hurricane Floyd–Related Losses**

BUSINESS STRUCTURES

**\$1 billion**

BUSINESS REVENUES

**\$4 billion**

AGRICULTURAL LOSSES

**\$1 billion**

Source: REGIONAL DEV. SERV. ET AL., EAST CAROLINA UNIV., A SOCIO-ECONOMIC HURRICANE IMPACT ANALYSIS FOR COASTAL NORTH CAROLINA: HURRICANE FLOYD (Greenville, N.C.: Regional Dev. Serv., ECU, Nov. 12, 1999).

reported damage as a result of the hurricane.<sup>2</sup>

This article focuses on the disaster-recovery assistance to business undertaken by the state of North Carolina, the U.S. Small Business Administration (SBA), and the Small Business and Technology Development Center (SBTDC), a business development service of The University of North Carolina system (see sidebar below). This assistance began almost immediately after the hurricane and is ongoing.

The article looks first at the role and the importance of the small business sector in eastern North Carolina and the expected economic impact of Floyd. Next, it reports the steps taken from September through December 1999 to aid the business-recovery efforts. Then it describes a long-term initiative, begun in January 2000 and continuing today. The article closes with an assessment of the state's disaster-recovery efforts and recommendations for future undertakings.

## Small Business in Eastern North Carolina

North Carolina is a small business state. Of its 370,000-plus businesses, more than 95 percent employ fewer than 100 people. These small firms account for nearly one-half of the state's private-sector employment and about one-half of the state's gross product. More important, firms employing fewer than 100 people have contributed about 75 percent of the state's net employment growth over the past decade.<sup>3</sup>

Eastern North Carolina's economy has generally lagged behind the state's economy, and the effects of Floyd are yet another setback to it. The region has had slower growth, higher unemployment, lower per capita income, and a heavier dependence on agriculture and traditional industries than the state's metropolitan areas. As is the case elsewhere in the state, small businesses dominate the economy of eastern North Carolina. They account for much of the service and retail sectors, about one-half of the

## THE SMALL BUSINESS AND TECHNOLOGY DEVELOPMENT CENTER: REACHING OUT TO NORTH CAROLINIANS

"Supporting the SBTDC is the best use of my state and federal tax dollars," says a client of the Small Business and Technology Development Center (SBTDC), a business development service of The University of North Carolina system. Most of the 70,000 past and present SBTDC clients agree.

The SBTDC started in 1984 in a single, small basement office at The University of North Carolina General Administration building in Chapel Hill. It now has more than seventy full-time associates and 250 to 300 graduate students (in business, law, and technology) in sixteen offices across North Carolina. In addition to assisting beleaguered companies after disasters like Hurricane Floyd (the subject of the main article), SBTDC employees regularly provide in-depth management counseling and educational services to

small and mid-sized businesses, to non-profit organizations, and to communities in all of North Carolina's 100 counties.

### SBTDC Services

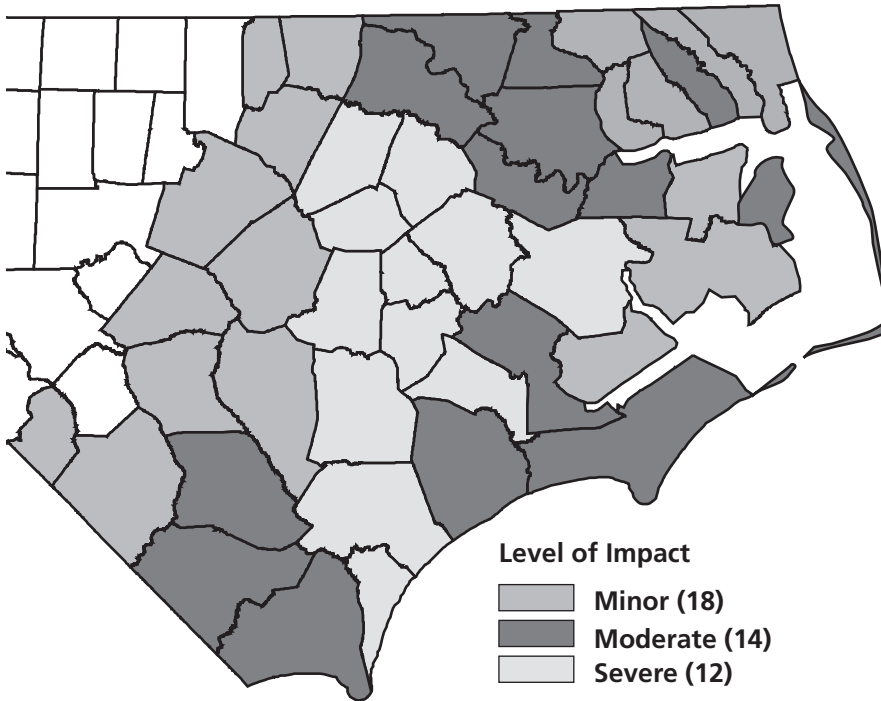
SBTDC services are based on annual needs-assessment surveys and are strategically focused to meet clients' needs while achieving the greatest impact. The SBTDC focuses primarily on providing management counseling, addressing issues such as strategic positioning, financing, marketing, human resources, operations, business planning, and feasibility assessment. It also provides targeted, research-based educational products on change management, strategic performance, and leadership development for business owners and organization managers. Further, it undertakes a broad range of applied research projects on business and community needs, economic development, and ways of improving the entrepreneurial environment.

The ultimate goal of SBTDC services is to support the growth and development of North Carolina's economy. According

to a third-party study of the SBTDC's economic impact, SBTDC clients increased their sales by almost 30 percent from 1997 to 1998, while the average North Carolina business had only a 7 percent increase. Also, SBTDC clients experienced a 9 percent increase in the number of full-time employees, while North Carolina businesses in general increased their employment by less than 1 percent. Further, long-term SBTDC clients generated \$199.8 million in new sales, and they created 1,472 new jobs through SBTDC counseling assistance. SBTDC clients with existing businesses and those starting new firms generated a total of \$12.9 million in additional tax revenues: \$9.98 million of this went to the state of North Carolina, the remainder to the federal government.<sup>1</sup>

The SBTDC targets established firms, particularly high-growth companies (businesses with more than a 150-percent growth in sales or employment over a four-year period), and serious start-up businesses. On average, the SBTDC assists more than 6,000 clients annually in one-on-one counseling

Figure 2. Hurricane Floyd's Impact



Source: ECONOMIC DEV. ADMIN. (ATLANTA REGIONAL OFFICE) FOR THE FEDERAL EMERGENCY MANAGEMENT AGENCY, ECONOMIC IMPACT ASSESSMENT FOR HURRICANE FLOYD IN NORTH CAROLINA § 2.2 (Atlanta: EDA, Jan. 2000).

manufacturing sector, and most of the tourism sector.

### The Economic Impact of Floyd on Small Businesses

According to a Business Impact Survey conducted by East Carolina University and FEMA shortly after the hurricane, nearly 75 percent of all businesses shut down, at least temporarily, because of the storm and the severe flooding that followed. About 20,000 reported physical damage, and almost 45 percent reported significant business disruption. Small businesses suffered disproportionately, with almost 80 percent sustaining physical or business losses.<sup>4</sup> Survey data show that fewer than one in six small businesses carried insurance against business interruption, and most did not carry insurance against floods—the principal cause of damage across the region.

More ominous for the future, the Institute for Home Business and Safety (an initiative of the insurance industry to reduce deaths, injuries, property dam-

sessions and a like number of people seeking small business information by phone, in group counseling sessions, and at SBTDC-sponsored seminars, workshops, and conferences.

In the study cited earlier, SBTDC clients estimated that, had they paid for the services they received from the SBTDC (most of which are free), they would have spent \$23.8 million. According to this study, SBTDC counseling was worth an average of \$17,778 to existing businesses and \$15,024 to start-up ventures.<sup>2</sup>

The SBTDC's client base is as diverse as the state's economy. Following are three stories of businesses assisted by the SBTDC.

#### Helping a Venerable Family Business

A typical SBTDC client is Van's Hardware in Greenville. Van's Hardware opened in 1953, and the original owner's son, Van Everett, still owns it today with his wife, Cynthia. For almost half a century, Van's Hardware successfully weathered recession, increased competition, and changing neighborhood demographics. But never did Van and Cynthia expect to

find five-and-a-half feet of muddy water in their store.

The Tar River flooding that followed Hurricane Floyd in September 1999 destroyed parts of Greenville and virtually all of Van's Hardware (except the mechanical pecan shellers that Van and Cynthia reconditioned and still operate today). "After the flooding, Cynthia and I had to decide whether we wanted to reopen or close the business for good," Van says. "Closing seemed like a better option because we just didn't know where to turn for help reopening the store."

After the waters subsided, and as Van and Cynthia were trying to salvage whatever they could from their business, Cynthia heard from her banker at Wachovia that the state was offering help to small business owners who needed assistance following the flooding. "We were skeptical," admits Cynthia, "but since it was a local office over near the East Carolina University campus, I decided to call."

Walt Fitts, the SBTDC's Greenville office director until his retirement in June



FRANK PORE / SBTDC



age, economic losses, and human suffering caused by natural disasters) has found that, “of all businesses that close down following a disaster, more than 43 percent never reopen, and an additional 29 percent close down permanently within two years.”<sup>5</sup> Because of their more limited access to capital, small businesses find it difficult to recover from the short-term market disruptions caused by disasters like Floyd.

### The Federal Government’s Immediate Disaster Response

FEMA has the lead responsibility for immediate disaster response nationwide. This response includes very early deployment of Disaster Assistance Teams from the SBA to the area of impact. These teams promptly begin the federal damage assessment and disaster-loan process for both businesses and homeowners.

Disaster loans for businesses (without regard to size) are available for direct physical losses and for economic injury resulting from closures and lost business,

up to \$1.5 million per business. Physical loss loans are available only to the extent of losses not covered by insurance, and they may not place the business in a better position than before the disaster. Economic injury loans also are available to the extent not covered by insurance; they are intended to provide relief from lost revenues in the aftermath of the disaster. Both types of loans typically carry interest at 4 percent and allow for repayment terms of up to thirty years.

The FEMA/SBA business-disaster response in North Carolina was quick and impressive. Between the president’s declaration of eastern North Carolina as a disaster area on September 16, 1999, and the closure of the disaster-loan application dates (February 29, 2000, for physical loss and June 16, 2000, for economic injury), the SBA deployed approximately 350 staff to twenty-eight field offices in eastern North Carolina. As of February 2001, the SBA had processed 6,203 applications for business-disaster loans and had approved nearly \$188 million in loans. This swift and

effective federal action is characteristic of the remarkable response seen after most major disasters across the country.

### The State Government’s Immediate Response

What was unique about the response to Floyd was the state’s aggressive role in reaching out to the business community in eastern North Carolina. This resulted from lessons learned during the recovery from Hurricane Fran three years earlier.

Following Fran, Governor Hunt appointed a task force to assess the state’s recovery effort and to recommend areas where improvements could be made. Key among the task force’s findings was that the state had not done enough to assist businesses in their recovery. In light of the state’s previous experiences, in the aftermath of Floyd, officials at the North Carolina Department of Commerce focused on (1) expanding outreach to the business community with information on recovery assistance; (2) improving the quality of disaster-loan applications; and

*Nearly six feet of floodwater invaded Van’s Hardware in Greenville, North Carolina. With help from the SBTDC, owners Van and Cynthia (right) Everett rebuilt the store at a new location.*



2000, answered Cynthia’s 6:30 p.m. call. He responded to her questions and scheduled an appointment with her and Van the following Monday to give them the help they needed. “Like many of our local businesses, that flooding destroyed Van and Cynthia’s life’s work,” Walt notes. “They had decisions to make.”

After learning what Van and Cynthia had lost and after advising them on what issues they had to consider, Walt assigned a team of graduate business students from East Carolina University to work with them as part of the statewide Graduate Business Student Competition. This competition, now in its fourteenth year, gives student teams from twenty-six eligible colleges and universities in North Carolina an opportunity to work with companies as small business consultants. It is sponsored by the SBTDC, Wachovia Bank, and RSM McGladrey.

Student teams are assigned by the SBTDC to a local small or medium-sized business. They work with company management as business consultants (for an estimated 100–120 hours per team member), identifying and analyzing

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MEL NATHANSON / NEWS & OBSERVER

(3) speeding access to financing. To help meet these concerns, the SBTDC proposed to assist the Department of Commerce by establishing and staffing five Business Recovery Assistance Centers (BRACs) at SBTDC offices in Elizabeth City, Fayetteville, Greenville, Rocky Mount, and Wilmington. Through these offices and its state headquarters in Raleigh, the SBTDC would undertake an aggressive outreach effort to businesses in eastern North Carolina. It would provide information about the SBA disaster-loan process, and it would make direct counseling assistance available to businesses to help improve the quality of loan applications. The latter assistance was deemed vital in order to increase the SBA disaster-loan approval rates, which his-

*Left: The proprietor of a boat store in Kinston, North Carolina, tries to salvage what he can. Below: Visible in the background is about one-third of the radio station that Batanga.com operates. The CD case in the foreground offers a size comparison.*

problems and making recommendations for resolution of those problems. The teams submit a written case report to a panel of judges for review and evaluation, then present their results in person. Prize money totaling \$6,000 is awarded.

For Van's Hardware, the students (who won second place in the statewide competition) rebuilt financial statements lost in the flood. They then analyzed the data (including demographics) to determine whether relocation or rebuilding was more feasible. "And they gave us a marketing strategy, an advertising plan, and some recommendations about how we could better operate the store," Van says. "So we decided to rebuild."

Van and Cynthia had no business plan (they had operated successfully without one for fifty years), so with Walt's help, they immediately began to craft one. "I like to say that Van and I went back to school for five months under Walt's direction," laughs Cynthia, a former English teacher, "because he taught us what effective business people need to know."

Van and Cynthia also needed to apply for disaster assistance through the U.S.

Small Business Administration (SBA).

"But the disaster-loan application was so detailed, we would have been lost without Walt's help," says Van. "Walt was the consummate professional."

"Seventy percent of SBTDC-assisted disaster-loan applicants received their loans," notes Walt, "whereas the acceptance rate nationally is only 50 percent."

Cynthia gave Walt's business card to many other business owners who had suffered in the flooding. "Each one told me afterwards how wonderful he was," she says.

Van's Hardware reopened temporarily at its flooded site in March 2000, but between then and October, Van and Cynthia built a new store in a suburban Greenville neighborhood. "Even since his retirement, Walt still visits us when he's in town," Cynthia comments. "What a prince, a jewel, a gentleman."

### Breaking into Internet Broadcasting

Imagine a radio station that could double as carry-on luggage: ten thousand songs stored in an area the size of your compu-



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torically were about 50 percent in the southeastern United States. The start date for the BRACs was set for Monday, September 27.

State officials also discussed ways to advance limited funds to businesses in order to speed recovery efforts. The SBA disaster-loan process typically has taken nine to eleven weeks from the submission of the application (if complete) to initial loan disbursements. To assist businesses in the interim, a \$2 million state fund was created for advances of up to \$10,000 to businesses that submitted applications to SBA for disaster loans. These interest-free Business Advance Payment (BAP) loans were to be made through the BRACs and repaid from the proceeds of SBA disaster loans once approved.

Extensive discussions between the Department of Commerce and the SBA office in Atlanta followed over the next several weeks to link the state's BAP initiative to the SBA disaster-loan process. The SBA agreed to conduct within twenty-four hours a credit review of all applicants for business-disaster loans who

were being considered for a BAP loan. If the review was favorable, the state would extend the BAP loan through Centura Bank, and the SBA would assign a portion of the initial SBA loan disbursement to satisfy the state's advance payment.

### Near-Term Results

Through most of this early period (September–December 1999), the BRACs operated six days a week from 8:00 A.M. to 8:00 P.M. SBTDC headquarters personnel staffed toll-free telephone counseling lines on a similar schedule. Also, the SBTDC called on staff from all its offices across the state to support the BRACs. Rotating staff schedules made it possible for nearly fifty SBTDC professionals to participate. This work was supplemented by a number of volunteers and several temporary hires.

Extensive outreach efforts to eastern North Carolina businesses began September 27 and continued through December. Numerous press releases were distributed to all eastern North Carolina media

outlets through the Department of Commerce. Dozens of town hall informational meetings were held for business owners. These were typically arranged in cooperation with city officials, chambers of commerce, community colleges, and merchant associations. The SBTDC organized "street walking" teams, which called on all businesses in areas with a high concentration of damage, such as Goldsboro, Kinston, Rocky Mount, Tarboro, and Windsor. Also, in conjunction with area community colleges, the SBTDC arranged regular circuit-riding schedules to provide information and business counseling in twelve communities of the main counties affected by the hurricane.

From late September through December, the BRACs provided counseling to 635 businesses. They also processed 217 BAP loans, totaling \$1.6 million, and helped 215 firms apply or reapply for SBA disaster loans.

The most notable impact of these early efforts, as well as the efforts of the first nine months of 2000, was the magnitude of federal hurricane relief secured by

ter's central processing unit. This reality exists as Batanga.com, an Internet broadcasting company. Partners Troy McConnell, Jochen Fisher, and Luis Brandwayn employ seven people at their suite of offices in Greensboro's historic Revolution Mill, a former textile factory converted to a small-business incubator.

Batanga.com began in late 1999 with one station streaming Latin music via the Internet. "Eleven percent of the U.S. population identifies itself as Hispanic," notes Troy, "and by 2010, it'll be 15 percent. It represents the largest minority segment under thirty-four years old in the nation, and that's our target market." Eighty percent of Batanga.com's audience is from the United States, so such advertisers as Wal-Mart, mp3.com, and Verizon can reach that market segment via Batanga.com.

Before the station began broadcasting,

*SBTDC staffers helped Troy McConnell (left), Jochen Fisher, and Luis Brandwayn (not pictured) find investors for Batanga.com, their Internet broadcasting company.*



FRANK PORE / SBTDC



businesses in eastern North Carolina. During this period, SBA approval rates for business-disaster loans in North Carolina were at a remarkably high 65 percent. The SBA attributes this result in large part to the role of the BRACs in improving the quality of loan applications.<sup>6</sup> Because of this higher loan-approval rate, through September 2000, North Carolina firms received \$42 million more in SBA loans than was projected.

## The Long-Term State Response

In the immediate aftermath of Floyd, state officials began a comprehensive planning effort, putting together proposals to both the U.S. Congress and the North Carolina General Assembly for supplemental disaster-related funding to support the recovery effort. This initia-

*In Tarboro, two women contend with more rain as they attempt to clean up a gift and antique shop that was flooded during the hurricane.*



CHRIS SEWARD / NEWS & OBSERVER

Troy, Jochen, and Luis already were pondering the company's future. "Jochen has the software knowledge, Luis has the marketing experience, and I have an e-commerce background and management experience, but none of us know about venture capital or angel funding [risk capital provided by individual investors]," observes Troy, "so I called the SBTDC for help."

"Troy already had a business plan and financial projections," says John Craichy, an SBTDC specialist in development and commercialization of technology, "but it needed more focus and impact to wow potential venture capitalists." John helped Troy rewrite and reformat the proposal. "Together we created a powerful product," notes Troy. "John really understood what investors are looking for." Batanga.com then went online and, within two months of start-up, had 15,000 listeners.

"It was time for us to refine and expand," says Troy, "but we needed investors to do that." John suggested that Troy practice presenting the plan to venture capitalists through North Caro-

lina's Council for Entrepreneurial Development (CED). The CED sponsors a program that enables entrepreneurs to be mentored by and showcased to investors from the angel and venture-capital communities. Two companies per quarter are invited to present to North Carolina's at-large entrepreneurial and investment communities. Batanga.com became one of those companies in spring 2000.

"After working with the CED program, John and I felt we were ready to talk with actual investors," relates Troy. "And he was with me at every turn." Troy first took his plan to LatinForce in New York City, an angel investor in Spanish-language Internet companies. "By the end of my presentation, the principal angel had agreed to fund us," says Troy. He then made proposals to Tristate Investment Group, a North Carolina-based pool of 100 angels, with equal success. "We now have sixteen radio stations—and 200,000 listeners," Troy states proudly.

Before deciding into which of the many Latin music genres Batanga.com would expand, Troy and his partners required market research. Mark Hagenbuch,

back in the SBTDC's Greensboro office after a post-hurricane business-counseling stint in eastern North Carolina, began to investigate the possibility of using one of the many graduate student interns the SBTDC engages annually. "We take MBA students who want exciting, real-world business experiences and match them with businesses who need their energy and expertise," he explains.

Mark put Troy in touch with Brian Lux, a Babcock Graduate School of Management student at Wake Forest University in Winston-Salem, and Brian began a summer internship with Batanga.com in May 2000. His task was to research other Spanish-language broadcasters to update the competitive-analysis section of Batanga.com's business plan. Brian also targeted his market research to give Troy, Jochen, and Luis some idea about professional partnerships they might form with these other broadcasters. "Our partnerships with other Internet-based businesses are a direct result of Brian's work," observes Troy.

Batanga.com also had had major problems making headway with advertising

**Table 1. State-Funded Hurricane Relief Package**

Housing	\$350.2 million
Public health	34.4 million
Agriculture/fishing	161.4 million
Small business	51.0 million
Schools	6.3 million
Federal match	232.4 million
General economic recovery	1.0 million
<b>Total</b>	<b>\$836.7 million</b>

Source: Interview with Gene Byrd, Director, Housing and Business Redevelopment, Hurricane Redevelopment Center, in Raleigh (Mar. 6, 2000).

tive was carried out through the state's Hurricane Redevelopment Center. In mid-October 1999 a massive supplemental funding proposal was submitted to Congress, under which the state sought \$2.2 billion in additional FEMA and SBA loans and supplemental appropriations to replenish housing stocks and redevelop infrastructure and flood-remediation-related projects. The Hurricane Redevelopment Center also began

contingency planning for deployment of state resources to offset any shortfalls in federal support.

Over the next two months, Governor Hunt and other state leaders made numerous visits to Washington, D.C., to meet with congressional and executive agency leaders. Because of the size of the state's supplemental funding request and the inclusion of a controversial tobacco-farming relief element, congressional

action bogged down. Congress finally reached a compromise in late November 1999, approving a supplemental relief package of more than \$2 billion.

The state's own supplemental funding initiatives were deferred pending congressional action. The governor, senior advisers, and key legislative leaders agreed that state action before a decision by Congress would undermine the state's request to Congress. Accordingly, the governor did not convene a special session of the General Assembly until December 16. The two-day special session resulted in approval of a state supplemental Hurricane Relief Package of \$836 million (see Table 1).

The amount of state funds designated for business-recovery assistance was \$51 million. Although modest in comparison with other allocations, the amount was deemed necessary to help with the pace of business recovery and to address the needs of businesses unable to obtain federal disaster loans from the SBA.

The state funds were to support two business initiatives. One was a Recovery

agencies. So, tying into the statewide Graduate Business Student Competition, Mark put together a team of students from the Bryan School of Business and Economics at The University of North Carolina at Greensboro to help. In late 2000 the team created and distributed a marketing survey, the responses to which it will track and analyze.

The team's ultimate goal was to create a media kit for Batanga.com. They had accomplished this goal by March 2001, when Graduate Business Student Competition teams from across North Carolina presented their findings and results to a panel of judges. "Jochen, Luis, and I are tremendously excited about this project," says Troy, "and we love the team's enthusiasm. This is just another of the many valuable and effective services we've received from the SBTDC."

### Developing Specialized Markets

3TEX, in Cary, North Carolina, is a typical client for another SBTDC service, specialized market development. In this area, the SBTDC helps growing companies develop specialized markets in govern-

ment procurement, international business development/exporting, marine trades services, and technology development and commercialization. These services aid the companies in expanding their markets and increasing their competitiveness.

Dr. Mansour Mohamed, Burlington Professor Emeritus at North Carolina State University's College of Textiles, started 3TEX in 1996 to apply his newly patented three-dimensional weaving technology. Mansour, who began his textile career in Alexandria, Egypt, fifty-one years ago, had an idea in the early 1990s, to develop a revolutionary weaving process that would create stronger, lighter fabrics. Although many scoffed at his idea, Mansour persisted—and 3TEX's \$8 million in sales for 2000 provide strong evidence of the popularity of his creations. Just in the past year, the company's workforce grew from five employees to thirty, and the company moved into a new Cary facility in 1999.

3TEX first sought SBTDC technology development and commercialization assistance from John Craichy in the Raleigh office. Brad Lienhart, 3TEX president and

chief executive officer, had worked with John in previous professional endeavors. John engaged specialists in two other SBTDC resources, marine trades services and government procurement, to aid 3TEX.

Brad then met with Mike Bradley, program director of the SBTDC's marine trades services office in Beaufort. "Mike was particularly helpful in guiding us through the boat-building industry and in evaluating opportunities," Brad notes. "He introduced us to the players." Marine trades in North Carolina is an \$18 billion industry and includes such areas as boat building; pier, dock, and seawall construction; and floating-structure manufacturing. Mike and Brad attended five statewide and regional trade shows at which 3TEX demonstrated its wares.

3TEX next worked with the SBTDC's Procurement Technical Assistance Center (PTAC) to seek and secure government contracts. Kay Etzler of the SBTDC's Chapel Hill office, a specialist in the federal government's Small Business Innovation Research (SBIR) program, worked with Jeff Leung, director of 3TEX's medical



and Development Fund (READE) to provide state loans to hurricane-damaged businesses that had applied but been turned down for SBA disaster loans. These loans were to be without interest and without principal payments for three years. Thereafter the loans would convert to five-year term loans at 4 percent interest (the SBA disaster-loan rate). As a condition of these loans, borrowers had to reapply to the SBA for a federal disaster loan and, if successful, apply the proceeds of the SBA loan to the state READE loan.

The second initiative of the state's business-recovery package was a fund to provide interest rebates to businesses that had successfully applied to SBA for disaster loans. The rebate amount was equal to the interest on the SBA loans over the first three years of those loans. Successful SBA loan applicants thus would be treated consistently with those who were not successful but had received a READE loan instead.

The Department of Commerce was charged with responsibility for carrying

out these business-recovery programs. To do so, the department contracted with the SBTDC to manage all support for program marketing, community outreach, applications for interest rebate, and applications for loans for both the READE program and the SBA loan program. The SBTDC also was to provide ongoing management counseling and education over a three-year period to both READE and SBA loan recipients to improve their chances for recovery and longer-term survival. The department engaged Centura Bank and First Union National Bank to make READE loans

and provide interest-rebate checks on behalf of the state.

The state's disaster-relief programs were deferred until after the 1999 holidays and then further deferred pending finalization of program details for housing assistance. As a consequence, not until early February 2000 were these efforts, including the business-related initiatives, announced by the governor.

Immediately thereafter, the SBTDC implemented both the READE loan program and the interest-rebate program. Marketing and outreach efforts included multiple direct mailings to all SBA business-

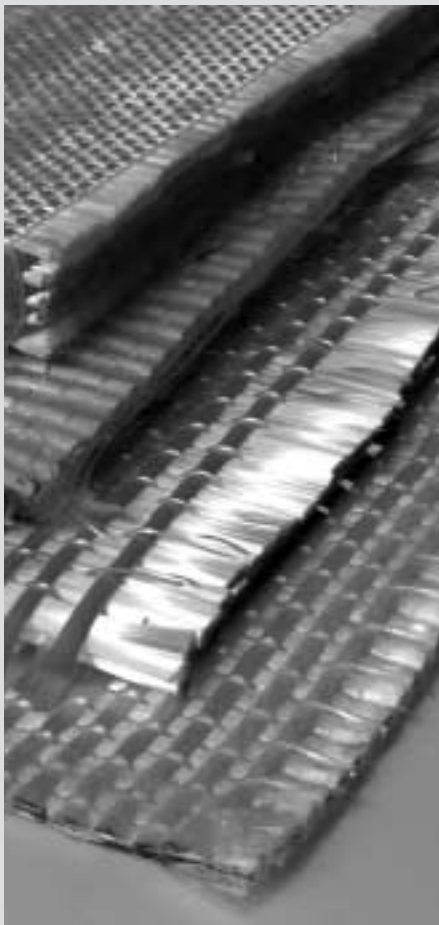


PHOTO COURTESY OF 3TEX

products division, to identify potential projects and then to review 3TEX's applications for these projects. SBIR funds are available to qualifying small and medium-sized businesses that propose innovative ideas meeting specific research and development needs of the federal government. "Kay's experience as a contract evaluator for the U.S. government made her an excellent reviewer for our government contract proposals—format, requirements, protocol," observes Jeff. 3TEX won SBIR research and development awards valued at nearly \$300,000 and now has \$1 million in government contracts.

"We're working with Tom Elam, procurement counselor in the SBTDC's Raleigh office, to identify even more opportunities," adds Brad. "And we're anticipating even greater success as our product line matures."

*With its innovative weaving technology, 3TEX produces a fabric called 3WEAVE E-Glass, which has been used for boat hulls and decks, automotive parts, and ballistic panels and shields, among many possibilities.*

*Further information on the SBTDC can be obtained from its Web site, [www.sbtcd.org](http://www.sbtcd.org), or by calling its headquarters in Raleigh, 1-800-258-0862.*

## Notes

1. James J. Chrisman, *Economic Impact of Small Business Development Center Counseling Activities in North Carolina: 1997–1998* (unpublished report, Univ. of Calgary, Calgary, Alta., Can., July 1, 1999). The taxes reported are limited to sales and employment-related taxes; a heavier portion of these typically is returned to the state because the federal government does not collect sales taxes.

2. *Id.*

disaster-loan applicants (both successful and unsuccessful) and group intake sessions for interest-rebate applicants in the five communities with the largest concentrations of SBA loan recipients. Aggressive efforts also were made to provide counseling and loan-preparation assistance to businesses that had been unsuccessful in securing SBA disaster financing.

### Long-Term Results

From February to July 2000, the READE program achieved substantial results. The SBTDC contacted nearly 5,000 companies in eastern North Carolina. More than 1,200 companies received interest rebates; more than 250 received direct loans; and several hundred were assisted in preparing applications and reapplications for SBA disaster loans.

The amount of direct state funding disbursed for businesses was nearly \$25 million by the close of the READE application period (March 31, 2001), well below the \$51 million appropriated by the state. Three factors contributed to this. First, the funding estimates for the business-recovery program were based on a historical 50 percent SBA disaster-loan approval rate at an average of \$40,000 per loan. As noted, rates of approval on SBA disaster loans actually approached 65 percent and resulted in an additional \$42 million in federal loans.

Second, the significant time delay in securing supplemental federal and state disaster funding caused numerous businesses either to find other means to sustain their business operations, reduce the scale of their businesses, or close down.

Third, a sizable number of businesses in eastern North Carolina did not use the state programs, either because they decided not to take on additional debt or because they misunderstood or mistrusted the programs.

The SBTDC has estimates only of the number of eastern North Carolina businesses that failed to reopen or that permanently closed as a result of hurricane-related damages. These range from 1,200 to 1,500 firms.<sup>7</sup> A major factor in the closures has been the lack of available credit—attributable in large part to the ineligibility of businesses for disaster financing (both physical loss and eco-

nomic injury) or the unwillingness of firms to assume responsibility for new, long-term debt. The timing of the availability of supplemental state funding also contributed to business closures.

As for the negative perceptions of businesses about the financial assistance available from state and federal sources, two factors can be identified. The first is the perceived “red tape” involved in securing this aid. The SBA disaster-loan process requires nearly two months to complete and is seen as paperwork-intensive. Second, because of the terms and conditions attached to federal disaster loans, many businesses approved for loans decided to forgo them.

### Conclusions and Recommendations

Several conclusions and recommendations about business recovery efforts can be drawn from North Carolina’s experience after Floyd:

1. The state’s response must be immediate, and sizable enough to have an impact on hurricane recovery/survival.
2. The state’s response must be closely coordinated with the federal effort. Particularly important is a close collaboration with the SBA Disaster Assistance Area II Office in Atlanta.
3. Recovery efforts are best accomplished with strong state leadership committed to using existing state resources, such as the SBTDC, that serve businesses. Other effective working partnerships involve the North Carolina Department of Commerce, the SBA, and local banks.
4. An effective state recovery effort provides timely, accurate information about the assistance available, direct counseling support to improve the quality of disaster-loan applications, and management and technical support to businesses for up to three years.
5. A state BAP loan program linked to the SBA disaster-loan process can be an effective early stimulator of business-recovery efforts at minimal incremental risk of loss to the state.
6. Timing is critical to successful business recovery efforts. Delays such as

those experienced in securing supplemental federal aid and in developing longer-term state responses (READE) unquestionably had a negative impact on business survival.

7. North Carolina’s experience in business disaster recovery should be documented in a disaster handbook that details the policies, the parameters, and the procedures for an effective state response.

8. The state’s plan should have a formal commitment in place for staff support following natural disasters.

9. The state should commit limited resources to prevention and mitigation efforts targeted at businesses in disaster-prone areas. An annual hurricane-preparedness initiative should be considered.

North Carolina has learned significant and valuable lessons from its hurricane-recovery experiences of 1996–97 (Fran) and 1999–2000 (Floyd). The experience of 1999–2000 may never need to be replicated, but replicating it must always be anticipated. As North Carolina has learned firsthand, a good plan and immediate state action, coupled with the spirit and the energy of business owners, can speed the economic recovery of affected areas.

### Notes

1. ECONOMIC DEV. ADMIN. (ATLANTA REGIONAL OFFICE) FOR THE FEDERAL EMERGENCY MANAGEMENT AGENCY, ECONOMIC IMPACT ASSESSMENT FOR HURRICANE FLOYD IN NORTH CAROLINA § 1.1 (Atlanta: EDA, Jan. 2000).

2. REGIONAL DEV. SERV. ET AL., EAST CAROLINA UNIV., A SOCIO-ECONOMIC HURRICANE IMPACT ANALYSIS FOR COASTAL NORTH CAROLINA: HURRICANE FLOYD (Greenville, N.C.: Regional Dev. Serv., ECU, Nov. 12, 1999).

3. NORTH CAROLINA SMALL BUS. AND TECH. DEV. CENTER, ANNUAL STATE OF SMALL BUSINESS (Raleigh: SBTDC, July 2000).

4. A SOCIO-ECONOMIC HURRICANE IMPACT ANALYSIS.

5. ECONOMIC IMPACT ASSESSMENT § 5.1.1.

6. Telephone Interview with Mike Allen, Regional Director, SBA Disaster Assistance Area II Office, in Atlanta (May 23, 2000).

7. Estimates developed by SBTDC and N.C. Dep’t of Commerce, Hurricane Redevelopment Center (Nov. 1999).