

## **Testimony to Small Business Subcommittee on Contracting and Technology**

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Thank you Chairman Braley and Ranking Member Davis for inviting me to present today. University of Northern Iowa (UNI) Business and Community Services outreach programs have dedicated more than 2,000 hours of technical assistance and guidance to small businesses in Northeast Iowa that were impacted by the tornado and floods of late spring and early summer. We have briefly outlined our experiences below.

### **How are small businesses recovering from the disasters?**

In the initial aftermath of the disasters, UNI's outreach programs hosted a series of community meetings for small businesses in both urban and rural parts of Northeast Iowa. More than 300 small business owners attended these sessions. Through these meetings and nearly 1,000 follow up phone calls over the course of the summer, we believe approximately 1,200 small businesses were affected by these disasters in Northeast Iowa alone. My remarks are limited to our experiences with these companies, but are reflective of the kinds of challenges faced in other parts of the state as well.

### **Short-Term Recovery**

Small businesses throughout the disaster-affected areas experienced critical short term financial needs in the first 30 days after the waters receded. Impacted businesses still had mortgage payments to make, utility bills that were due and payroll to meet, but no immediate source of revenue to draw from. Small and rural business owners, many of whom were already struggling, felt this hit much harder. We talked to dozens of firms who relied upon next week's sales to make last week's payroll; this situation put those firms in crisis mode the very day the disasters occurred.

As a result, many of our smallest companies suffered immediate setbacks including employee layoffs, delinquent commercial loan payments, increased overdraft and late fee expenses and a higher than expected number of immediate business closures, even among small firms without extensive physical damage. Many affected business owners were also dealing with flood or tornado damage in their personal lives and at their homes.

### **Longer-Term Recovery**

The re-opening of many, many businesses continues to be in limbo. There is a sense among those interviewed that critical business decisions are being held off until there is some word from Congress or the State concerning what kind of assistance might be forthcoming. Very few business owners in our region have secured SBA disaster loans to date.

Those businesses who had the wherewithal to move forward in putting their operations back to normal, did so quickly using private resources. Many of these firms were larger companies with stronger cash flow and assets, and comprehensive insurance coverage. A few even had some form of disaster recovery plan. These firms simply worked their way through the first 90 days with transitional office, storage and process facilities and have recovered their rhythm very quickly. While their sales have not totally recovered, many are back in full operation this month.

Smaller firms, those with fewer than ten employees, have fallen far behind. By our best estimates more than 50% of these very small companies closed by the disasters have yet to reopen - and those businesses who didn't close are feeling the pinch of slow second quarter sales coupled with greatly increased operating costs. In the past 30 days, a number of prominent small firms with only minor flood or tornado damage have announced they are closing. In almost all cases, these small firms were struggling in advance of the disasters and the extra burden has put them over the edge. This is especially true in rural communities.

For those very small firms who continue working toward re-opening, the depth and speed of their recovery is being driven by landlords, commercial lenders and suppliers who are struggling to safeguard their own positions and are often unable to provide the needed repairs, financing or industry credit to get these businesses back on their feet. The longer this continues, the greater number of businesses we will see fail to re-open or regain their footing.

### **What has worked well?**

The coordination between federal, state and local leadership has been excellent in our part of Iowa. SBA, SBDC, the Universities and local economic development leadership worked very hard to communicate with one another, and jointly serve affected small business owners from Day One and to cross-refer businesses to appropriate agencies and individuals.

At the risk of self-promotion, UNI offered a unique and effective approach to reaching individual business owners directly after the disasters, greatly improving the communications between service providers and affected business owners using the MyEntreNet system. MyEntreNet is an entrepreneurship development system in Iowa, which has been successful in connecting entrepreneurs with services, capital and information since 2003. Our MyEntreNet network was critical in the aftermath of these disasters and provided quality information to service provider partners and community leaders about the depth of damage, the needs of affected business owners and offered a means to determine what was working immediately following the tornado and flooding. As a result of MyEntreNet, we were *faster* to respond, brought *better services* to those affected businesses and we knew if those services were effective.

### **What has not worked well?**

FEMA. From a service provider's perspective, the transient nature of FEMA representatives made it impossible to clearly communicate with them. Within the first week after the disaster, FEMA had transferred three people in or out of Northeast Iowa and many important decisions were mis-communicated or lost. As a result, FEMA representatives were often not in attendance at important events or could not respond to business owners questions accurately or effectively. Business owners repeatedly expressed frustration this summer at being referred to an 800 number to get answers to simple questions.

The Small Business Administration staff members have been excellent. They responded to the tornado and subsequent flooding with staff on the ground throughout Northeast Iowa within hours of each disaster. These individuals coordinated with other service providers effectively, especially the Small Business Development Centers in the state, sharing office space, responding to individual referrals and speaking on a moments notice to assembled groups of entrepreneurs.

Unfortunately, SBA only had one product to offer affected business owners and it was not the product that was desperately needed in the aftermath of Iowa's disasters. Time after time, SBA staff found themselves in front of frustrated audiences because all they could offer was the opportunity to apply for a physical loss or economic injury loan.

### **What is needed moving forward?**

Nearly 80% of the businesses in Iowa's Federal Disaster Declared counties have fewer than 10 employees. Those tiny firms that muddled through the first 90 days have critical unmet needs. In our conversations with Northeast Iowa small business owners this summer, they've asked repeatedly for access to patient, non-collateralized, forgivable capital to rebuild their home-based web development business in Parkersburg or to re-open a 40 seat café in Greene, Iowa. They've asked for 1:1 time to talk through their options with business professionals and with their peers. Most of all they've asked for acknowledgement that their small business is as valued as the larger firms around them who have already received state and local incentives to re-open and rebuild.

Most of all, we need to think not about helping these business recover to the place they were before the floods or the tornado, but we need to empower these small firms to reposition themselves and become part of a larger entrepreneurial community. We cannot expect every affected business will reopen nor save every struggling business that will close in the coming year. We can, however, create a network of support for these businesses that allows them access to the technical assistance and capital they need without a confusing array of referrals and paperwork to get it.