U.S. Senate Commerce Committee
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New Orleans

Testimony of Michael J. Olivier, Secretary, Louisiana Economic Development

Mr. Chairman and distinguished members of the committee, thank you for the invitation to speak to this hearing. My name is Michael Olivier and I serve as the Secretary of Louisiana Economic Development, or as we call it, L.E.D.

Prior to Katrina and Rita, LED's primary mission was recruitment of new businesses to Louisiana, as well as retention and expansion of existing Louisiana-based operations. In spite of the hurricanes, this is still our mission. However, we have expanded our role to respond to the needs of impacted businesses.

LED is working to build a *New* Louisiana -- a place where businesses can thrive and citizens willing to work can find quality jobs.

This is no easy task.

First, let me put the impact of both storms in perspective from a business standpoint. Many of the parishes in the Katrina and Rita impact zone are so dramatically affected they require substantial, sustained investment by federal, state and local governments and the private sector. In the 13 parishes most dramatically impacted by Katrina and Rita, before the storms there were 80,850 businesses. By comparison, the entire state economy had 197,446 registered businesses.

Although only 13 of 64 parishes were severely impacted, they represent 41 percent of the state's total businesses - 90 per cent of which are small businesses.

Let me also describe the damage to three of our largest industries – oil and gas/petrochemical, transportation and shipping and agribusiness which includes agricultural commodities and manufacturing and timber.

In oil and gas/petrochemical, in the Katrina impacted area, three major facilities – Murphy Oil in Meraux, ConocoPhillips in Belle Chasse and ExxonMobil in Chalmette will remain out-of-service through the end of the year. In the Rita impacted area, the three Lake Charles facilities, Citgo, ConocoPhillips and Calcasieu Refining, are expected to be at full operation by mid-November – three months after Rita hit.

On- and off-shore pipelines are reporting a return to operation following shut-downs from Katrina, Rita and Wilma. As of October 28, MMS reports:

- Only 32% of daily oil production is back on-line
- Only 45% of natural gas production is back on-line
- 27% (224 of 819) manned platforms remain evacuated

Ports, shipping and transportation is the lifeblood of this state. Louisiana's shipping activities are increasing:

- 21 inland and shallow-water river ports remain fully operational
- Eleven of twelve grain transit facilities are fully functional
- The Louisiana Offshore Oil Port (LOOP) is unloading supertankers at 70% capacity

However, our deepwater ports are a different story. Two suffered extensive damage and are not operating, Plaquemines and St. Bernard. We don't know when, if ever, either of these ports will reopen. The Port of New Orleans is partially operational, but it will be another six months before fully operational. The infrastructure (roads, rail) leading to the terminals are 90% operational. You will hear from Gary LaGrange later, so I'll let him describe the port's condition in more detail. The Port of South Louisiana, which is the nation's largest port by tonnage and essential to the nation's agriculture exports, is 100% operational. The Port of Lake Charles remained open during and after Katrina, however it sustained damages from Rita. It is again operational, however will require some reconstruction. The Port of Baton Rouge was the only Louisiana port to remain open through all of the storms and has been taking diverted cargo.

However, by saying fully operational, does not mean that ports are fully functional. The combined damage to our ports is in the billions of dollars. To bring them back to the level of operation that the nation relies on will require substantial investment from the federal government.

Agriculture is where we've seen some of the greatest damage to business interests. In the area of commodities, according estimates by the LSU AgCenter, Katrina's total agriculture products damages are approximately $1 billion, while Rita's are $569 million. For many commodities, the economic impact could potentially grow as delays in re-establishing infrastructure exist.

While crop damage was significant, on the manufacturing side, agribusiness manufacturing and processing is coming back on-line. Sugar and rice mills are all fully operational. Our pulp and paper mills are at 50% capacity. Food processing, which is mainly New Orleans-based, is 50% on-line. Most processors have December start-up targets because of mechanical/electrical issues from water damage.

Timber is where we suffered some of the greatest losses. Louisiana is a major timber supplier and manufacturer of wood products. The combined timber loss sustained by both hurricanes is estimated to be approximately $850 million. Katrina alone has total estimated losses of $612 million. In that storm alone, we lost over 3 billion feet of timber equating two times annual harvest amount.

We estimate in Louisiana alone that there were 250,000 homes impacted by Katrina – meaning either totally lost or substantially damaged. To rebuild and repair these homes will require five billion board feet of lumber and three billion square feet of panel products. Rita's top commodity loss was timber at over $227 million in projected losses.

Since this committee's topic is revitalization, let me tell you my view of the one thing we need to revitalize the economy – **access to capital**.

If our businesses can have access to capital, we can rebuild not only the individual businesses, but the economy as a whole.

If the lack of access to capital continues, we are facing the largest default rate for private and public entities – including local governments – since the depression.

LED is currently working to address our businesses needs in the ways we have capacity by:
1. Connecting affected businesses with information and resources
2. Securing financial assistance for business recovery

Area 1: Connecting affected businesses with information & resources

We started a campaign called "LEDforward." Our goals were to register & assist impacted businesses, connect businesses with immediately available resources and facilitate on-going dialogue with business owners about recovery process. Elements of the campaign include a dedicated website, LEDforward.louisiana.gov, and a toll free call center - 866-310-7617

Both provide access to LED personnel. At toll-free number, callers make specific requests that are not addressed on-line. LED staff can track emerging and unmet needs, create business database for follow-up on emerging assistance and counsel business people about program opportunities.

We have established business counseling centers across Rita and Katrina zones. The business counseling centers are funded through a $4 million EDA grant. They are staffed by federal and state government representatives, local economic development professionals and private volunteer consultants. Businesses do not receive general information, they receive specific program information that applies to their business and long-term business planning assistance.

This is a prime example of the types of programs that LED will continue to initiate. We act as catalyst and lend expertise. We partner with local economic allies to deliver locally appropriate information. We recognize and appreciate all economic development is local

We have also expanded accesslouisiana.com, a web portal that enables businesses to:
Post capabilities for sub-contracting opportunities; search sub-contractors, retrieve or post commercial property opportunities. LED utilizes this database to find qualified Louisiana-based businesses for the recovery work.

This points to one of the biggest gaps in FEMA services. There must be opportunities to facilitate local work for Louisiana businesses and their workforce.

Since the beginning of the reconstruction phase, LED staff have been working at FEMA's center in Baton Rouge to provide qualified sub-contractors to prime contractors. As of October 20 (the last period we could get figures for), FEMA contracts had been awarded to Louisiana companies 25% of the time, but this only represented 4% of the actual dollars or $156 million of $3.7 billion awarded.

Also as of that report, all other federal agencies had awarded Louisiana companies 28% of the time, but only 18% of the dollars or $123 million of $675 million.

We need your help to improve these numbers.

Finally, LED has played an important role in returning businesses and their employees to work. Through November 3, LED coordinated delivery of 3,477 mobile housing units purchased by FEMA for displaced workers at/near their worksite. After a brief suspension of the program by FEMA, LED has resumed deploying units on an ongoing basis. The program initially worked in heavy industry sectors, but now supports small businesses and "mom & pop shops."

Area 2: Facilitating small business aid

Under Governor Blanco's direction, we have forwarded a comprehensive aid request for the impacted region both on the state and federal level, as well as with private capital providers. We implore you to help us with four critical recovery priorities we have to provide immediate access to capital for business recovery

Priority 1: Allocate $200 million for bridge loans to continue existing Louisiana Bridge Loan Program

Because of the desperate need for cash infusion, Louisiana reallocated its $10 million Rapid Response Fund – a fund set aside for business recruitment - to seed this program. This program provides $5,000 to $25,000 loans for up to 180 days at zero interest to businesses with more than two, but less than 100 employees. We work in partnership with 17 regional banks and the Louisiana Public Facilities Authority, under the trusteeship of JP Morgan, to administer the program.

We allocated the $10 million seed proportionally by region. By the end of the first week, there were no funds left for the Rita area. Within the first two weeks of operation, the fund lent $8.8 million to 467 businesses. We conservatively estimate a need for 8,000 more of these bridge loans.

Priority 2: Direct the Small Business Administration (SBA) to expedite loan processing

Through November 3, SBA has received 136,086 loan applications. Of these, they had approved only 2,294 for $157 million. They had rejected 11,703.

They have maintained almost a 90% rejection rate.

Of the 2,294 approved, only 282 for $19.8 million were either for businesses or economic injury. The others were home loans.

Most disturbing, of the $157 million approved, only $1,518,000 are fully disbursed. We have no reporting from SBA whether any of the disbursements made to-date were to businesses.

This is not acceptable.

Priority 3: Provide $10 billion for business grants that parallel those provided to lower-Manhattan businesses after 9/11

Like the 9/11 recovery grants for Manhattan, this request is for programs to provide much needed relief and enable recovery.

9/11 programs included small business recovery grants (similar to business interruption insurance), large business retention grants, technical assistance programs and worker training programs.

Like the 9/11 program, initiatives would be designed with business input with targeted growth/recovery goals.

Priority 4: Authorize $30 billion for tax exempt-private activity "hurricane recovery bonds."

These bonds would be used to finance construction, reconstruction and rehabilitation of non-residential (commercial) property, residential property and residential rental property.

In conclusion, we want for you to understand that LED and the Blanco Administration is focused on "Getting Louisiana Back to Business" – taking steps toward building a better and stronger economy. The greatest key to our businesses succeeding is access to capital. We need your help to continue to find grants, loans and other opportunities that will give all of our businesses the lifeline they need to survive, thrive and prosper.