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Action Plan Amendment Number 2 for Disaster Recovery Funds

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1. Introduction

Hurricane Katrina hit the State of Louisiana on August 29, 2005, and Rita slammed into the State on September 24, 2005. They were the second and third Category 5 hurricanes of the 2005 hurricane season. The storms were deadly and costly to communities throughout the Gulf and particularly destructive to Louisiana. More than 1,570 persons lost their lives in Louisiana; approximately 18,000 businesses were destroyed; roads, schools, public facilities, medical services were washed away; and thousands of people were forced to relocate.

In the wake of the storms an unprecedented number of businesses and employees were damaged or affected in Louisiana. The damage statistics include:

- Roughly 81,000 businesses in 13 Louisiana parishes suffered business interruptions or direct damages as a result of Hurricanes Katrina and Rita
- Approximately 18,000 businesses were destroyed
- Approximately 190,000 workers became unemployed
- Approximately 1,409 tourism and hospitality businesses shut down after the storm, affecting 33,000 employees

HR 2863 provided $11.5 billion to the states of Mississippi, Louisiana, Alabama, Florida and Texas through the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) Program. Louisiana received $6.2 billion of those funds. President Bush has asked Congress for an additional $4.2 billion in CDBG funds for Louisiana, which is pending appropriation.

As the target of investment of this supplemental CDBG assistance, Governor Kathleen Babineaux Blanco has prioritized housing redevelopment, infrastructure rehabilitation, and economic development. The CDBG funds are available to the State subject to HUD approval of action plans which describe how the funds will be used. The Louisiana Recovery Authority (LRA) has been charged by the Governor and Louisiana Legislature with statutory responsibility for developing policy for the CDBG funds. The Louisiana Office of Community Development, the agency that runs the State's annual CDBG Program, will administer the supplemental CDBG recovery program.

To promote sound short- and long-term recovery planning at the state and local levels that impact land use decisions that reflect the need for responsible flood plain management and growth, the State, through the LRA, is leading community planning efforts in its most affected parishes. Dubbed "Louisiana Speaks", this effort is a multifaceted planning process to develop a sustainable, long-term vision for South Louisiana in the wake of the destruction caused by Hurricanes Katrina and Rita. The plans developed locally through Louisiana Speaks will be supported by CDBG allocations.

While the first action plan amendment submitted dealt almost entirely with housing programs known as *The Road Home* Housing Plan, the programs included in this proposed Action Plan Amendment Number 2 address the other two priorities identified by Governor Blanco as high priorities: economic development and infrastructure.

Four new programs are proposed for economic development – primarily to the benefit of small firms – geared at assisting with financial assistance, technical assistance, and marketing Louisiana to a national tourist audience and conventions.

Two additional economic development programs – to fund workforce training to meet the needs of businesses and funding to rebuild the research base that can lead to new, higher wage jobs – are being developed for a future action plan amendment.

The Infrastructure Program described in Section 3 adds additional funding and program details to the previously approved Local Government Emergency Infrastructure Program, including funding for a program to repair Primary and Secondary Education Infrastructure which was damaged by the storms.

Subject to further refinement of the program guidelines and structure of operations, the following are preliminary estimates of the various program costs outlined in this Action Plan Amendment:

Proposed Action Plan Amendment Number 2 Budgets

Program	***Funding***	***Subtotals***
Economic Development		
Small Firm Recovery Loan and Grant Program	$38,000,000	
Technical Assistance to Small Firms	$9,500,000	
Long Term Recovery Loan Program	$95,000,000	
Louisiana Tourism Marketing Program	$28,500,000	
Economic Development Subtotal		$171,000,000
Infrastructure		
Local Government Emergency Infrastructure Program	$300,000,000	
Primary and Secondary Education Infrastructure *	$200,000,000	
Infrastructure Subtotal		$500,000,000
TOTAL		

** = The Primary and Secondary Education Infrastructure program is a part of the funding within the Local Government Infrastructure Program. However, this allocation is reserved specifically for education infrastructure repair costs.*

Additional details of these programs follow in Sections 2 and 3.

2. Economic Development Programs

2.1 Introduction to Economic Development Programs

Under the Economic Development category, $332.5 million will be utilized to stimulate short-term and long-term economic recovery of our State. The economic development programs are designed to provide capital, to provide technical assistance, to rebuild the customer base and provide trained employees for existing businesses and to rebuild the base for developing new, higher wage jobs for the region.

Many businesses in the impacted regions suffered losses as a result of damages from the storms and business interruption after the storms. In addition, many businesses are continuing to suffer losses as a result of a lack of customers. This lack of customers is a result of fewer residents in the regions, changes in spending patterns of those residents remaining in the regions, and a dramatic decrease in the number of tourists visiting the regions.

The four economic development programs proposed as a part of this Action Plan (outlined below) are intended to provide assistance to the many businesses that are in danger of closing without additional assistance. The four programs outlined below will provide:

- Access to loan and grant capital for small firms,
- Technical assistance to help companies adjust to a new business environment, and
- Funding for tourism marketing to attract visitors and conventions.

The programs described below are intended to provide loans, grants, technical assistance to small firms who are determined to have a viable business in the post-storms economy. These proposed economic development programs have sought to strike a balance between providing assistance to small firms that lack the necessary capital resources or technical assistance to survive, while also being cautious that many companies may fail because market conditions as a result of the storms have changed and many businesses are likely to fail as a result of these forces. That balance is achieved by following models that succeeded in New York's recovery effort after 9/11, which used technical assistance and a mixture of loans and grants to help good businesses rebound. In addition, an intended goal of the housing programs in Action Plan Amendment No. 1 and the proposed Tourism Marketing Program is to bring back the customer base that supported many businesses in South Louisiana.

The four economic development programs identified herein are expected to help companies retain and create jobs, many of which are expected to be jobs for low-moderate income individuals.

2.2 Small Firm Recovery Loan and Grant Program ($38 million)

Out of the Economic Development category, $38 million will be utilized to fund the Small Firm Recovery Loan and Grant Program (SFLG).

Eligible Activity	**105(a)(17)**
National Objective	**Low to moderate income and urgent need**
Activity Amount	**$38 million**

Small, locally owned firms in the regions impacted by Hurricanes Katrina and Rita were seriously affected by the storms and continue to be impacted by the lower population and dearth of tourists in the regions. These firms provide many jobs and contribute to the character of the region in which they are located.

The Small Firm Recovery Loan and Grant Program is proposed as a program to target assistance to small firms that are deemed to have a chance to survive, contribute to the economy, and maintain and create jobs. Funds would support low-cost loans on flexible terms, small grants to reimburse for tangible losses, and technical assistance to support the firms receiving the financial support, some of which may not qualify for or have received bank and/or Small Business Administration (SBA) loans. Firms assisted would be those expected to survive and pay back the funds if given an opportunity for a loan. Firms will be asked to provide a plan showing how they would use the loans, grants, and technical assistance to survive and move ahead.

Louisiana plans to implement a program that is similar to that developed and used in New York after the terror attacks on 9/11. Through a Request for Proposals (RFP), Louisiana will seek proposals from nonprofits and Community Development Financial Institutions that would be used as intermediaries to provide working capital loans on flexible terms and small grants to reimburse for tangible losses to small firms, including nonprofits, and technical assistance services to companies receiving loans and grants. Results after 9/11 showed that technical assistance linked to the loans and grants was found to be important for the success of the small firms and subsequent repayment of the loans. Among other things, potential contractors seeking to offer assistance to small firms through this program will define in their RFP response information about the amount of funding to be dedicated to the loan category, grant category, or for technical assistance.

Firms to be assisted would be those located in the parishes in southeast and southwest Louisiana most affected by Katrina and Rita, including but not limited to those with substantial infrastructure damage.

Substantial documentation of the proposed approach the bidder would use and the bidder's relevant experience will be required. Contractors receiving these funds would be expected to provide, or partner with a group to provide, technical assistance to the firms receiving funds. This program would be managed carefully to provide the contractors/lenders flexibility while working closely with them to ensure coordination and provide oversight. As in New York, contracts would be re-evaluated every quarter, and funds will be moved between contracts/organizations if deemed appropriate to meet the objectives of the program.

Respondent organizations will be encouraged to develop partnerships with other groups to provide a team that might serve a specific geographic area or specific type of company or industry. It is envisioned that there will be multiple contracts. The contracting agency will reserve the right to select all or some of the applicants, reject any or all proposals, select all or fewer than all responding to the RFP as part of a consortia or partnership, allocate funds in any amount depending on the number and quality of the proposals, and negotiate any part(s) of any proposal. Priority will be given to groups that contribute cash and/or in-kind matching funds.

To be eligible for funding, small Louisiana firms must have suffered losses, damages, displacement or substantial business interruption as a direct result of either or both hurricanes. They must demonstrate that they applied for conventional loans or SBA loans, but have not received the necessary capital assistance. The maximum loan amount is $250,000. If grants are proposed as part of an offer, the maximum grant amount is $25,000; the minimum grant amount is $2,500. Grants may be provided only for reimbursement of tangible losses as a result of Hurricanes Katrina and/or Rita and related flooding.

Eligibility Requirements: Those eligible to apply for loans under the Program will include:

a. **Individual(s)** who own 51% or more of a small firm, with an existing Tax Identification Number, established in southeast and southwest Louisiana most affected by Katrina and Rita (for not less than six months prior to the hurricane), that sustained physical damage, displacement or substantial business interruption due to either or both of the hurricanes, Katrina or Rita.
b. Minimum number of employees – two. The business owner and at least one other employee are considered two employees. A contract worker or certain part-time workers may be considered a second employee. Single self-employed individuals are not eligible for this program.
c. Maximum number of employees – 25 employees.
d. The need for the loan or grant must be directly related to the impact of or mandatory evacuation due to one or both of the storms.
e. <u>Loan/grant recipient:</u> Loans and/or grants will be made to individuals, or groups of individuals, who own 51% or more of the firm.
f. Nonprofits shall be eligible for assistance under this program.

Use of Funds: Contractors will propose the mix of loans and grants they anticipate issuing to eligible companies. Funds will be required to support firms within the affected areas. Grants may be provided to cover tangible losses as a result of one or both storms. Loan funds cannot be used for any establishment that has gaming or gambling as its principal business, religious institutions, establishments with liquor or tobacco retail sales as the primary source of revenue, any establishment that has consumer or commercial financing as its business, to buy out any stockholder or equity holder by another stockholder or equity holder in a business, or to buy out or reimburse any family member.

The applicant must present an acceptable use of funds schedule to demonstrate planned uses for the funds.

Application Procedures: Contractors will propose their own application procedures. These procedures must be included as part of the proposal and must meet HUD and State regulations. The application procedures will be created or approved by the LRA and Office of Community Development.

Repaid Loans: Repaid loans are considered program income and will be returned to the CDBG disaster recovery program.

Monitoring: The Small Firm Recovery Loan and Grant Program is a high-risk activity. Close monitoring will be the key to an effective program. Groups under contract will submit a list of new companies assisted at least twice a month, the type of assistance provided, and loans and grants scheduled to be closed in the subsequent two weeks. Contractors will also be required to provide a quarterly report to the Louisiana Recovery Authority and the Office of Community Development in a standard electronic format. This report will detail the number of jobs in each position, including job titles and salaries, created or retained by each of the businesses during the term of loans. The State will ensure that contracted organizations comply with all federal regulations including but not limited to 24 CFR 570.482 (utilizing waivers provided by HUD) and 24 CFR Part 58. Monitoring visits will be made randomly to the businesses served as well as the contractor, to ensure correctness of information sent to the State.

2.3 Technical Assistance to Small Firms Program ($9.5 million)

Under the Economic Development category, $9.5 million will be utilized to fund the Technical Assistance to Small Firms Program (TA).

Eligible Activity	**105(a)(17) & 105(a)(15) Economic Development**
National Objective	**Low to moderate income and urgent need**
Activity Amount	**$9.5 million**

Funds for the "Technical Assistance to Small Firms" program would be used to contract with community-based organizations and other service providers to enable them to provide technical assistance to small firms, including nonprofits, that that have been adversely affected by the hurricanes and/or provide assistance to entrepreneurs or individuals seeking to start a new firm that would be located in the impacted area.

Firms to be assisted would be those located in the parishes in southeast and southwest Louisiana most affected by Katrina and Rita, including but not limited to those with substantial infrastructure damage.

Because of the impacts of the storms, many firms need assistance in dealing with changed circumstances. Small firms in niche sectors such as fisheries, tourism, or the cultural economy may require unique assistance that can be provided by nonprofits with a proven track record within that sector. Through this program, technical assistance will be provided in areas such as business management, strategic planning, accounting, insurance, marketing, and legal.

Similar to a technical assistance program created in New York after 9/11, Louisiana will seek proposals from intermediaries, which would provide some form of technical assistance. The technical assistance may be provided to existing small firms, to entrepreneurs/persons seeking to start a new business to locate within and take advantage of opportunities in the most affected parishes, and/or provided in other ways that help address the unique needs for local/regional business recovery.

The contracting agency will retain the right to select all or some of the applicants, reject any or all proposals, select all or fewer than all responding to the RFP as part of a consortia or partnership, allocate funds in any amount depending on the number and quality of the proposals, and negotiate any part(s) of any proposal. Respondent organizations will be encouraged to develop partnerships with other groups to provide a team that might serve a specific geographic area or specific type of company or industry.

It is envisioned that there will be multiple contracts. The State will seek contracts from groups that provide services to entrepreneurs, minority & women-owned businesses, specific industry sectors, firms in rural areas, and nonprofits. Geographic coverage will also be considered to ensure that funds are directed to southeast and southwest Louisiana. Contractors would be selected based on evidence of quality of services, sustainability, and building capacity that will remain in the region.

Eligibility Requirements: Those eligible for technical assistance under the Program will include:

a. **Individual(s)** who own 51% or more of a small firm, with an existing Tax Identification Number, established in southeast and southwest Louisiana most affected by Katrina and Rita (for not less than six months prior to the hurricane), that sustained physical damage, displacement or business interruption due to either or both of the hurricanes, Katrina or Rita.
b. **Individual(s)** interested in starting a business to take advantage of business opportunities in the most affected parishes.
c. **Non-profit entities** impacted by the storms located in the most affected parishes.

Application Procedures: Contractors will submit an in-depth proposal for the administration of technical assistance, including application procedures for interested firms. Proposals will be reviewed and approved by the Office of Community Development (OCD) and the agency issuing the RFP.

Monitoring: The State will require contractors to provide information on new clients weekly. The purpose of this weekly tracking would be to verify activity, coordinate among service providers, and avoid duplication of services. Contractors will also be required to provide a quarterly report to the Louisiana Recovery Authority and the Office of Community Development in a standard electronic format. This report will detail information such as the number of businesses assisted and jobs created or retained. Performance will be monitored on an ongoing basis and funds will be moved between contracts/organizations if deemed appropriate to meet the objectives of the program. The State through the Office of Community Development will ensure that contracted organizations comply with all federal and state regulations, including but not limited to A-87, 24 CFR Part 58.

Outcomes: The Technical Assistance Program is expected to build capacity within companies, including non-profits, assisted by the contracted organization. It may also connect companies and workers with workforce training opportunities that will allow them to increase skills, wages, and quality of life.

2.4 Long Term Recovery Loan Guarantee Program ($95 million)

Under the Economic Development category, $95 million will be utilized to fund the Long Term Recovery Loan Guarantee Program.

Eligible Activity	**105(a)(17)**
National Objective	**Low to moderate income and urgent need**
Activity Amount	**$95 million**

As has been described herein, over 81,000 businesses were identified as affected by Hurricanes Katrina and Rita in Louisiana. Many had to close for weeks and months before being able to resume business. Louisiana instituted a Disaster Bridge Loan Program to bridge the gap that exists from the time that insurance pays off losses or a SBA Disaster loan is funded. This program started with $10,000,000 of State funds, followed by an additional $30,000,000 of CDBG funding. According to current reports, it has served 739 businesses in order to keep these businesses viable during the crucial early recovery phase. Louisiana banks have been instrumental in developing the Bridge Loan Program and also served to deliver the loans.

These local and regional banks have now identified the need for longer-term capital to continue the recovery started with the Bridge Loans and have pledged continued diligence with delivering loans through a longer term program. The goal of creating a longer term loan program is to motivate banks to provide loans to viable small firms who may have experienced difficulty receiving loans from conventional lenders or the SBA because of complications following the 2005 hurricanes.

The Long Term Recovery Loan Guarantee Program would be targeted to small firms that meet any of the following criteria:

- Were rejected or deemed ineligible for SBA loans;
- Did not apply for an SBA loan for good cause; or
- Are in need of long-term loans for permanent repair or replacement of buildings, repair or purchase of replacement equipment and inventory.

Louisiana will seek to use the infrastructure already in place through the Bridge Loan Program, a cooperative agreement with quasi-public organizations and local banks in the affected parishes to deliver the loans that will be guaranteed through this program. Under the Bridge Loan Program, there have been 22 participating banks throughout the affected parishes.

Eligibility Requirements: The requested funds will be targeted to assist firms located in the parishes in southeast and southwest Louisiana most affected by Katrina and Rita, including but not limited to those with substantial infrastructure damage.

To be eligible for funding, small Louisiana firms must have suffered losses, damages, displacement or substantial business interruption as a direct result of either or both hurricanes.

Firms eligible to apply for loans under the Program will include businesses with an existing Tax Identification Number, established in the parishes in southeast and southwest Louisiana most affected by Katrina and Rita for not less than one year prior to the hurricanes, that sustained physical damage, displacement or business interruption due to either or both of the hurricanes, and which have returned to the community they were in before the storms. The need for the loan must be directly related to the impact of or mandatory evacuation due to one or both of the storms. The loan money will be required for use within the affected areas.

Firms must have at least two employees (the business owner and at least one other employee are considered two employees) and a maximum of 50 employees. A contract worker or certain part-time workers may be considered a second employee. Single self-employed individuals are not eligible for this Program.

Use of Funds: All loans will be made to businesses. The owner or owners will be required to personally guarantee the loan. Loan proceeds may be used to repair or replace buildings (any funds used for construction must follow federal rules required by HUD), to repair or replace machinery, or to purchase inventory.
Loan funds cannot be used for any establishment that has gaming or gambling as its principal business, any establishment that has consumer or commercial financing as its business, to refinance existing debt, to buy out any stockholder or equity holder by another stockholder or equity holder in a business, or to buy out or reimburse any family

member. However, the proceeds may be used to reconfigure any existing loans in conjunction with HUD underwriting guidelines in 24 CFR 570.482. The loan manager will also have the ability to reject loans that may not meet the intent of the program.

The proposed maximum loan amount is $1,500,000. Firms will apply for the loans through a local participating bank. The bank will then enroll the loan, and the administrator will review the application to ensure eligibility. The bank will close and administer the loan. This program will serve as a guarantee for a percentage of the loss to the bank.

The term of the loan may not exceed the useful life of the collateral. Acceptable additional collateral may include, but is not be limited to, fixed assets (business real estate, buildings, fixtures, personal assets with appraisal), equipment, machinery, and inventory. Second mortgages are acceptable on a minimum of dollar for dollar basis. No equity is required, but the company may not have a negative equity position pre-hurricane.

The program can subsidize the interest rate to the borrower at below market rates, to be determined by the State in the program documents.

The bank will be guided by the following general principles in making this loan with these funds.

- The bank shall not knowingly approve any loan if the applicant has presently pending or outstanding any claim or liability relating to failure or inability to pay promissory notes or other evidence of indebtedness, including state or federal taxes, or bankruptcy proceeding; nor shall the bank approve any loan or guarantee if the applicant has presently pending, at the federal, state, or local level, any proceeding concerning denial or revocation of a necessary license or permit.

- There will be a reduction on an annual basis of the guarantee in proportion to the principal reduction of the amortized portion of the loan

- The guarantee will cover the unpaid principal amount owed only.

- Delinquency will be defined according to the bank's normal lending policy and all remedies will be outlined in the guarantee agreement. Notification of delinquency will be made to the corporation in writing and verbally in a time satisfactory to the bank and the corporation as stated in the guarantee agreement.

- Banks will verify eligibility of businesses to receive a loan based on documentation that supports the eligibility criteria stated above.

- Banks will utilize the criteria in 24 CFR 570.482 in underwriting a loan, including ensuring:

1. That project costs are reasonable;
2. That all sources of project financing are committed;
3. That to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
4. That the project is financially feasible;
5. That to the extent practicable, the return on the owner's equity investment will not be unreasonable high; and
6. That to the extent practicable, CDBG funds are disbursed on a pro-rata basis with other finances provided to the project.

- Banks will ensure that the HUD-required environmental reviews are complete and submitted to the State for approval prior to making a loan.

Monitoring: Long Term Disaster Recovery Loan Guarantee Program is a high-risk activity. Close monitoring will be the key to an effective program. Banks will required to submit a quarterly report detailing the number of jobs in each position, including job titles and salaries, created or retained by each of the businesses during the term of loans. These reports must be in a standard electronic format. The State will ensure that contracted organizations comply with all federal regulations including but not limited to 24 CFR 570.482 (utilizing waivers provided by HUD) and 24 CFR Part 58.

2.5 Louisiana Tourism Marketing Program ($28.5 million)

Under the Economic Development category, $28.5 million will be used to fund the Louisiana Tourism Marketing Program.

Eligible Activity	**Waiver requested**
National Objective	**Low to moderate income and urgent need**
Activity Amount	**$28.5 million**

In 2004, the State of Louisiana hosted 24.6 million visitors, of which 76 percent were from outside of the State. Those 24.6 million visitors spent $9.9 billion in the State and contributed $600 million in state and local tax revenues (Source: Travel Industry Association of America). Out-of-state tourists come to Louisiana as a result of marketing and promotion of Louisiana's many cultural and natural assets, family recreation destinations, and various special events Louisiana hosts each year. South Louisiana is the largest draw for the State's tourism and convention business.

Prior to the storms, tourism was the second largest industry in the State in terms of employment (Louisiana Office of Tourism), and the cultural economy was the fastest growing industry in the State (Source: *Louisiana: Where Culture Means Business,* Mt. Auburn Associates, July 31, 2005). The tourism and cultural industries combined sustained 260,000 jobs for Louisiana residents.

Negative images of affected areas portrayed by the media since these storms have resulted in a significant loss of interest in tourism, dramatically decreasing the number of tourism-related jobs. The damage to Louisiana's tourism sector has caused business and leisure travelers to choose other destinations. Currently, the New Orleans region has been losing an average of $15.2 million per day, with the Lake Charles region losing an average of $1.5 million per day in direct tourism income. When the research is completed, Louisiana is expected to have lost 20 percent of its visitor spending in one year—approximately $2.2 billion. The resulting loss of state tax dollars is approximately $125 million (Source: *Louisiana Rebirth through the Recovery of Our Tourism and Cultural Industries,* Executive Summary, Louisiana Department of Culture, Recreation and Tourism).

This significant loss of tourists means that the thousands of small businesses that make up the character of south Louisiana are at serious risk of closing very soon. Many of these businesses are very small retail and service businesses that employ low to moderate income workers and once made a reasonable living for the owners. Even the most viable and successful of these companies have been hanging on, waiting for their customer base to return. However, their tourism customers have not yet returned, and many local customers do not yet have the ability and/or confidence to spend money.

A recent study by Louisiana State University's Department of Economics showed that in 2004 there were 9,153 businesses in the travel and tourism industry alone that provided some 178,000 jobs. Post-storm figures showed that 1,409 travel and hospitality businesses had shut down after the storms, resulting in the loss of approximately 33,000 jobs. While it is impossible at this time to estimate the number of low to moderate income individuals employed in these jobs, most of these were service jobs with low paying wages. In fact, second quarter 2005 figures (pre-storms) from the Louisiana Department of Labor showed that the average wage of travel and tourism workers in six of nine parishes that were most affected by these storms (Calcasieu, Jefferson, Orleans, Plaquemines, St. Tammany, and Washington) fell in the very low income category while the average wage in the other three parishes (Cameron, St. Bernard, and St. Charles) fell below 30 percent of median income, according to HUD income limits published for that period.

Statistics show that advertising expenditures are tied to job growth. A comparison of advertising expenditures to job growth in the tourism industry over the period from 1994 to 2005 has shown a highly significant, positive relationship between the two. Based on a recent regression analysis done for that period, using Louisiana Department of Labor data and historical advertising expenditures of the Louisiana Department of Culture, Recreation and Tourism, research models indicate that this positive correlation will continue. Thus, the intended benefit of spending dollars on tourism marketing will have a measurable benefit to low to moderate income Louisianans.

Tourism and the resulting visitor spending will generate jobs and bring workers home to fill those jobs. Without those jobs, many of the communities severely impacted by the storms cannot recover. For example, New Orleans, which was 80 percent flooded after being struck by Hurricane Katrina, was served directly by more than 6,000 businesses in the tourism and hospitality industry, which employed 85,000 people in a parish of less than 500,000 persons. Much of the retail, banking, professional, and service industries depended on the more than $5 billion of annual direct visitor spending. Not only was the impact direct through visitor spending, but the 85,000 workers employed in the industries were the primary depositors in the banks, purchasers of the largest segment of retail goods, and generally drivers of the overall health of the economy and the success of the area's large and small businesses, resulting in an additional several billion dollars in spin-off impact (Source: New Orleans Metropolitan Convention and Visitors Bureau).

The national tourism leaders who helped with the New York City rebound effort post-9/11 report that marketing is the key to rebuilding credibility with your customer base, which may now have fears about visiting the impacted areas. To date, the U.S. Department of Housing and Urban Development has provided the Lower Manhattan Development Corporation $10 million for tourism marketing projects and approximately $87 million for cultural development projects in order to help promote economic recovery and growth in the areas of Lower Manhattan most affected by terrorist attacks on the World Trade Center on September 11, 2001. The Louisiana Department of Culture, Recreation and Tourism recently completed an impact study that showed that Louisiana is losing ground because the State is not adequately countering negative images about New Orleans and Louisiana, which are still dominating local and national media. The State seeks to follow the example of the Lower Manhattan Development Corporation, utilizing an allocation of CDBG funds to revitalize Louisiana's tourism and cultural industries—to bring Louisiana's second largest industry back.

The State proposes that $28.5 million be invested in a national campaign and other initiatives designed to bring out-of-state travelers back to the New Orleans region, Southeast Louisiana, and Southwest Louisiana. This critical funding is needed immediately in order to provide a powerful, positive impact on the large number of tourism-related jobs in the affected regions.

The primary objective of the Louisiana Tourism Marketing Program is to increase the number of visitors to the impacted areas in order to:

1. Save many small businesses that cater to convention attendees and tourists that have been without customers since the storms;

2. Retain the businesses that are part of the charm and character of New Orleans and South Louisiana and are such an important part of its appeal to tourists and residents alike;

3. Increase the number of available jobs and increase wages; and

4. Increase tax revenues for the communities in which the businesses reside.

The program will also strengthen consumer confidence, which helps encourage conventions to return and citizens to return and rebuild, and sustains small businesses that rely on tourism. The State's image after the hurricanes has weakened investor confidence with regards to spending money in Louisiana. This has affected convention planners or businesses seeking to invest resources to create jobs.

The Louisiana Tourism Marketing Program will target leisure travelers as well as convention and business travelers. This initiative will include, but is not limited to:

1. Convention and interactive marketing, promotions to travel agents, and related activities.

2. An awareness campaign focusing on New Orleans, Southeast Louisiana, and Southwest Louisiana. This campaign will target drive-in and national travelers as well as international travelers.

3. Niche marketing programs designed to promote family activities and festivals and cultural attractions unique to the areas most affected by the storms.

4. Coordinated marketing efforts between the Department of Culture, Recreation, and Tourism (CRT) and the Louisiana Department of Economic Development (LED) to regain investor confidence for spending money and creating jobs in Louisiana.

The initiative will reach travelers and businesses through television and print advertising, direct sales, special promotions, communications, and media.

The Louisiana Department of Culture, Recreation and Tourism will implement this program in partnership with the Louisiana Recovery Authority. The State would spend $28.5 million of CDBG funds for the Tourism Marketing Program on advertising and marketing. In March, the Department of Culture, Recreation and Tourism expended $355,000 in production costs and more than $7 million for an advertising and marketing campaign titled, "Fall in Love with Louisiana All Over Again," which may serve as a match to leverage the CDBG marketing funding. In addition, tourism and marketing organizations in the most affected areas of New Orleans and Southwest Louisiana have spent approximately $2 million to date toward recovery related tourism marketing. Because the Department of Culture, Recreation and Tourism has already invested in the production costs, more CDBG dollars can go toward actual advertising costs.

Eligibility: Eligibility will be limited to government and non-profit entities involved in promoting the tourism and convention industry in the parishes in southeast and southwest Louisiana most affected by Katrina and Rita, including but not limited to those with substantial infrastructure damage. If a coordinated program for regaining investor confidence is created between CRT and LED, LED can also be an eligible participant.

Process: The Department of Culture, Recreation and Tourism will solicit proposals through a Budgeting for Outcomes (BFO) process, a process that provides for goal-setting based on determination of the desired results, setting indicators of success, and prioritizing spending based on the desired results. The offers will be ranked based on the best return on investment in meeting four strategies: (1) market the New Orleans region, Southeast Louisiana, and Southwest Louisiana as tourism destinations—both nationally and internationally; (2) highlight Louisiana's family attractions, festivals, and cultural assets unique to the areas most affected by the storms; (3) market to conventions, travel agents, and other related markets in the most affected areas; and 4) restoring business investor confidence in the region. Restoring business investor confidence in the region will restore business travelers and investment in the region. The Department of Culture, Recreation and Tourism will use indicators to rank proposals and recommend the subgrantees, as well as to track the impact of the investment. The process will be evaluated by the Louisiana Rebirth Accountability Panel, which was established with the Department by Executive Order No. KBB 2006-8 to facilitate achievements provided for in the Louisiana Rebirth Plan; develop a work plan; review all sources of funds to implement Louisiana Rebirth; regularly review and report the results achieved from the expenditures of the Department's funds; and recommend changes in state legislation, procedures or practices to enhance the State as a top tourist destination.

Programs that will be allowed as eligible will include, but will not be limited to, advertising, event marketing, and convention coordination. Expenditures that will not be allowed include annual budgets for an organization's operating costs. The State would require that all of the funds be used within 18 to 24 months of receipt. The Department will continue to coordinate with other state agencies and tourism organizations to coordinate messages in order to restore investor confidence with some of these funds.

Monitoring: Subgrantees will be required to provide the Louisiana Department of Culture, Recreation, and Tourism with quarterly reports of spending and results. The Department of Culture, Recreation and Tourism will monitor performance against industry indicators such as hotel numbers (occupancy, number of hotel rooms available, number of room nights booked, etc.), number of visitors to state and federal facilities (state museums, state historic sites, and national park visits), and airport figures (enplanements and flights) to evaluate short term results of the marketing initiatives funded by the Louisiana Tourism Marketing Program. Monitoring for long term results would include review of Louisiana Department of Labor quarterly data to monitor job growth in industries related to tourism and professional tourism market indicators such as visitor volume estimates and economic impact numbers. The Department of Culture, Recreation and Tourism will report quarterly to the Louisiana Recovery Authority and the Office of Community Development on issues such as the impact of the program on low- to moderate-income individuals, successes and challenges, and the correlation of ad spending to job growth.

Outcomes: The activities of the Louisiana Tourism Marketing Program are expected to help promote state tourism both nationally and internationally, which in turn will help sustain small tourism and cultural related businesses, create jobs for low to moderate income individuals, and stimulate economic recovery. Specific indicators include an increase in the economic impact of the tourism industry in Louisiana and an increase in the number of jobs that are tourism related.

3. Infrastructure Programs

Local Government Emergency Infrastructure

The State wishes to amend the Local Government Emergency Activity which was previously described in the State's first action plan. Of the $1,187,500,000 set aside for infrastructure activities, $95 million was initially set aside for the Local Government Emergency Infrastructure activity. Because of consultations with local governments and comments received from the local governments, the State requests that an additional $500 million be allocated to this activity.

In addition to the match for eligible FEMA Public Assistance (PA) grants, the State would like to expand the use of these funds to include providing the non-federal match for FEMA Hazard Mitigation Grant Program (HMGP) funds.

The State would also like to expand the program to pay for repairs that are ineligible under the FEMA PA grant program, including but not limited to uninsured and underinsured damages, insurance deductibles and improvements for code compliance, if they are determined to be critical to continued delivery and or protection of vital public services by state and local government entities in accordance with criteria established by the LRA. These criteria shall take into account the areas where the hurricane damages were most severe.

Expenditures from the program for match of FEMA's PA programs must meet the following guidelines:

1. Funding is provided as a match for projects eligible for FEMA Public Assistance;
2. For requests for match of FEMA's PA program, projects must have been assigned a FEMA field project number by the project officer on or before August 29, 2006;
3. That the funding to be provided is for cases of critical needs. (To be determined by the State);
4. That the funding be provided to parishes which have adopted the latest available base flood elevations of the FEMA Flood Recovery Guidance unless exceptions are granted by the LRA based on reasonable alternatives where safety is not minimized;
5. That the funding be provided to parishes or communities which have adopted, implemented or are in the process of implementing the new statewide building

code standards adopted in the 2005 1st Extraordinary Session of the Louisiana Legislature;

6. That the funding be provided to communities for projects recommended through a broad community planning process; and
7. That the projects receiving funding follow the best design for delivery of services in light of the population shifts and changed circumstances of many Louisiana communities.
8. That a project demonstrate that it is the most efficient and cost effective way to rebuild the infrastructure, or that the applicant has considered alternate methods of rebuilding to achieve the greatest efficiency of the infrastructure to serve the local as well as regional needs of the community as a result of the Public Assistance repairs or reconstruction; and
9. That each infrastructure project considers and/or proposes a mitigation plan to minimize damage in the event of future floods or hurricanes.

Expenditures from the program for projects that are ineligible for FEMA PA grants must meet the following guidelines:

1. Projects demonstrate that they are not eligible for PA or any other source of funds;
2. Projects have a substantial return on investment (ROI);
3. That the funding to be provided is for cases of critical needs based on their meeting criteria developed by the LRA for the use of these limited funds;
4. That the funding be provided to parishes which have adopted the latest available base flood elevations of the FEMA Flood Recovery Guidance, unless exceptions are granted by the LRA based on reasonable alternatives where safety is not minimized;
5. That the funding be provided to parishes or communities which have adopted, implemented or are in the process of implementing the new statewide building code standards adopted in the 2005 1st Extraordinary Session of the Louisiana Legislature;
6. That the funding be provided to communities for projects recommended through a broad community planning process; and
7. That the projects receiving funding follow the best design for delivery of services in light of the population shifts and changed circumstances of many Louisiana communities;
8. That a project demonstrate that it is the most efficient and cost effective way to rebuild the infrastructure, or that the applicant has considered alternate methods of rebuilding to achieve the greatest efficiency of the infrastructure to serve the local as well as regional needs of the community as a result of the Public Assistance repairs or reconstruction; and
9. That each infrastructure project considers and/or proposes a mitigation plan to minimize damage in the event of future floods or hurricanes.

A Ranking Team will be created for evaluation of proposed FEMA ineligible projects based on criteria established by the LRA. The Ranking Team will be comprised of representatives from the Governor's Office, the LRA, the Office of Community Development, and legislative representation appointed by the Speaker of the House and President of the Senate. This team will rank all the applications received and recommend projects for funding.

Of the $595 million now allocated to this activity, $200 million will be set aside for Primary and Secondary Education Infrastructure. Working with the LRA, the Department of Education will develop needs-based criteria to prioritize the allocation of the funds to the school districts. These funds will flow to the affected school districts through the Office of Community Development. Schools that are repaired or rebuilt shall demonstrate they have taken into account specific educational and repair goals to build back better facilities. In addition, rebuilding plans will address local community planning priorities, including opportunities for shared use of school facilities with other public agencies, such as libraries.

As stated in the initial action plan, each project funded will meet one of the three national objectives. Until applications are received and service areas and beneficiaries are known, the specific national objective cannot be determined.

This activity is considered to be a low risk activity. Monitoring will be performed by the Office of Community Development staff in accordance with the Infrastructure Monitoring Plan.

4. Bridge Loan Program Amendment

The Louisiana Bridge Loan Program (LBLP) previously approved on May 9, 2006 by HUD, a part of the State's Initial Action Plan, is being amended. Because the change involves a change in geographical location of beneficiaries, a substantial amendment is required. The State proposes to revise the LBLP language from a 50% allocation to the thirteen most impacted parishes, to state a minimum of 50% will be allocated to the thirteen most impacted parishes, and up to 50% allocated to the other twenty-four impacted parishes. This change is being made due to the demand which the State has experienced.

APPENDIX 1: SUMMARY OF PUBLIC COMMENTS AND RESPONSES

This document summarizes comments to Action Plan Amendment 2, which outlines the Economic Development programs and the Emergency Government Infrastructure Program, received during the public comment period of June 5-20, 2006.

The majority of comments were requests for clarification about the goals and specifics of the Small Firm Recovery Loan and Grant Program. The remaining questions were in response to the Long Term Recovery Loan program and the Government Emergency Infrastructure Program. One question responds to the Road Home Housing Program that was covered in an earlier action plan.

A. SMALL FIRM RECOVERY LOAN AND GRANT PROGRAM

The amount of money allocated to this program is inadequate and would only allow $1,520 in assistance per business if we would attempt to assist only 10,000 of the 18,000 small businesses affected by Hurricane Katrina in Greater New Orleans.

The Governor and the Louisiana Recovery Authority have established three main priorities for the use of the Supplemental Community Development Block Grant Funds: housing, infrastructure and economic development. Additional resources available to businesses were allocated in the first Action Plan for a total of $332.5 million in various types of assistance.

The parameters set forth to determine eligibility seem to lack objectivity and could therefore be subject to inconsistent interpretation and abuse. Businesses with a long track record that lost half its employees and half its revenue as a result to the hurricane seem not to be eligible. The program also does not allow the participation of businesses with one employee or those that are self-employed.

RESPONSE: The objective of the economic development programs is to develop a package of financing and technical assistance to support small businesses within the affected areas that were adversely impacted by the hurricanes. Businesses that are deemed to have a chance to survive refers to those businesses that have shown a commitment to invest. This can include, but is not limited to, businesses that have replaced inventory, showed a positive, or at least a neutral cash flow, prior to the hurricanes; or businesses that have signed a new lease immediately prior to or within the month following the hurricane.

As indicated in the eligibility requirements in Section 2.2, eligible businesses include those businesses “established in southeast and southwest Louisiana most affected by

Katrina and Rita (for not less than six months prior to the hurricane), that sustained physical damage, displacement or substantial business interruption due to either or both of the hurricanes, Katrina or Rita." A business that lost employees and revenue, but can show a commitment to growth will be considered eligible.

The eligibility requirements state that businesses must have a minimum of two employees. Sole-proprietor firms are eligible if they work with a contract employee or part-time employee on a regular basis.

The issue of whether minority owners of a business are eligible without approval of the majority owner was also raised.

RESPONSE: If the primary owner of the business, a person who owns 51 percent or more of the firm, meets the other eligibility requirements it will be eligible. A minority owner with less than a 50 percent stake in the business is not eligible to receive services under this program.

Concerns were raised over the need for intermediaries, the selection process to award contracts to the intermediaries, assurance that services were not being duplicated and how the state will monitor these contracts and the program for results.

RESPONSE: The actual number of intermediaries will not be determined until the Request for Proposal process is completed. However, the purpose of working through intermediaries is to gain the benefit of local knowledge about the needs and best solutions to support businesses. The goal is to most effectively and efficiently provide financial tools and technical assistance to small businesses to help them recover and grow.

The LRA along with the Louisiana Division of Administration, Office of Community Development will closely monitor the effectiveness of the programs and reserves the right to shift funding away from low-performing programs in order to ensure the greatest impact from the total program.

The intent is that the entire $38 million will go towards program implementation.
The purpose and intent of working through intermediaries to develop the loan and grant making program is to keep decision-making and resources at the local level with groups that have local knowledge and a proven track record of assisting businesses through financial and technical assistance measures. This strategy is based on the belief that local intermediaries know the communities and have the most capacity to deliver these funds responsibly.

One comment raised concern over the amount of the $38 million that will go to the LRA for administrative costs and fees for the entities chosen to administer the program as intermediaries.

RESPONSE: No money from the Small Firm Recovery Loan and Grant Program will go to the Louisiana Recovery Authority. The goal of the program is to give businesses the capital and services they need. A small portion of each package given to intermediaries to deliver to businesses will cover the operating costs of running the program.

How long do you expect the RFP process to take?

RESPONSE: Before the RFP process can begin, the action plan has to receive final approval from the LRA Board, the legislature and the U.S. Department of Housing and Urban Development. The full process to get to the RFP process includes:

- Action Plan Amendment submitted to LRA Board for vote.
- Governor approves and sends to the legislature.
- Once approved, the Governor submits the plan to HUD for approval.

Once approved by HUD, the RFP process itself is expected to take at least 3 to 4 weeks with awards expected to be delivered by September 2006.

How much of the $38 million will go to loans and how much to grants?

RESPONSE: The allocations will be determined by the intermediaries based on the determined needs of the businesses.

Two programs established in New York City following 9/11, the Business Recovery Grant Program ("BRG") and the Small Firm Attraction and Retention Program ("SFA&R"), were funded with $557.2 million and $155 million, respectively, for a total of $712.2 million in small business grant relief. Why does this program not model those two programs? And why are third parties administering the program?

RESPONSE: New York's post 9/11 programs, the Business Recovery Grant Program and the Small Firm Attraction and Retention Program, were funded with more than $700 million in federal funds through the CDBG program. Following the design of these two programs, the Louisiana Recovery Authority requested nearly $2 billion in economic development resources to be used for programs similar to the ones mentioned above. This request was not approved.

Louisiana was allocated $332.5 million in CDBG funding for economic development. In order to make the most effective use of the allocation, the Economic Development Action Plans programs are established to provide assistance to small businesses through loans, grants, and technical assistance; retain and train a workforce for the recover; and recover and catalyze the economic potential of our higher education research institutions.

The intent of the Small Firm Recovery Loan and Grant program, along with the other programs in the economic development package, is to address immediate losses in order to have businesses recover, and to give small business owners access to the capital that they need to move forward into the rebuilding process. The Small Firm

Recovery Loan and Grant Program was modeled after the Business Recovery Loan program developed after 9/11 for small businesses. Because of the great need for replacement costs for equipment and other tangible losses, we added grants to this program. We also tailored the program for very small businesses with less than 25 employees, understanding that these are the businesses that have the most trouble receiving traditional bank financing. The Small Firm Recovery Loan and Grant program along with technical assistance and marketing programs are intended to revive our businesses, help them to develop a plan for moving forward and to bring back our customer base.

B. LONG TERM RECOVERY LOAN PROGRAM

A commenter inquired about the rate at which the State will guarantee the loans under the Long Term Recovery Loan Program?

RESPONSE: The State will determine the interest rate in the program documents and will guarantee the difference between the low interest rate offered to the borrower and the actual cost of the loan to the bank.

One commenter disagreed with the following eligibility criteria:

- **Businesses must have suffered losses, damages, displacement or substantial business interruption as a direct result of either or both hurricanes.**
- **Businesses must demonstrate that they applied for conventional loans or SBA loans, but have not received the necessary capital assistance.**
- **Grants may be provided only for reimbursement of tangible losses as a result of Hurricanes Katrina and/or Rita and related flooding.**

RESPONSE: The CDBG supplemental funds that were allocated to the State of Louisiana to address the necessary expenses related to the disaster relief, long-term recovery, restoration of infrastructure and mitigation as a result of the storms. Furthermore, in light of the breadth of the need and the prohibition from duplicating benefits, the state must target assistance to those businesses that sought but were not approved for conventional financing. Because of these requirements and concerns, these eligibility criteria are appropriate for the program.

C. LOCAL GOVERNMENT EMERGENCY INFRASTRUCTURE

One commenter wanted reassurance that this infrastructure program would include streets, water and sewerage in new housing developments.

RESPONSE: The priorities that have been identified by the LRA so far for use of the infrastructure portion of the CDBG money are as follows:

1. Repair state buildings

2. Repair schools
3. Pay 10% non-federal match for FEMA public assistance projects
4. Pay for repairs to other critical infrastructure that may not be eligible for FEMA grants
There has been no determination of use of other CDBG infrastructure money.

CDBG funds are intended to fund the cost of repairs to existing, damaged infrastructure. There is no set aside for new development through this project at this time.

D. HOUSING

Will multifamily redevelopment have a social impact program that will reduce poverty and encourage families to move from renters to home-owners?

RESPONSE: The Road Home Housing Program includes a rental housing portion that encourages mixed income development, but there is nothing aimed specifically at moving families from renting to owning homes. Such programs may be included in Parish Recovery Plans, but the extent of those programs will be determined at the individual parish level. The State does administer federal first time homebuyer programs outside of the recovery programs operated by the State.