

Hurricane Katrina: How the Business Recovery of New Orleans is Progressing

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Abstract

In August, 2005, the greatest natural disaster occurred in the United States when Hurricane Katrina devastated New Orleans and the Gulf Coast. This paper identifies/describes/estimates the damages to, and socio-economic environment surrounding entrepreneurs/businesses in New Orleans, 10 months and 20 months after Hurricane Katrina's landfall. Hopefully, this study and estimation of damages would assist decision makers both in the public and private sector in collaboratively mitigating the negative effects and in rebuilding the economy and social fabric of the city.

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INTRODUCTION – HURRICANE KATRINA (THE WORST NATURAL DISASTER TO HIT THE UNITED STATES)

Hurricane Katrina further exacerbated the serious economic challenges faced by New Orleans even before Katrina. The flooding, wind, rain, and unfortunate looting and arson associated with the storm, destroyed or damaged thousands of businesses. Commerce was seriously interrupted in industries such as entertainment, hospitality and tourism, finance and transportation. Small businesses and entrepreneurial efforts suffered extensive damages/losses. The city's sales tax (base) plummeted. The labor force declined considerably, particularly in the health and education industries. Unemployment increased, and the city faced significant population losses due to out-migration, particularly of African-American community. Use of mainly Hispanic workers from outside the state in the huge construction business, while the African-American residents in New Orleans remain without jobs, has raised labor issues (Entertainment, Tourism and Hospitality, U.S. Chamber of Commerce; November 8, 2005).

The severity of Katrina's destruction makes redevelopment of New Orleans, including promoting investments, small businesses and entrepreneurs, job creation and economic growth a herculean task.

In particular, it must be kept in mind that Hurricane Katrina led to small businesses lacking in planning, susceptible to cash flow reductions, a lack of inadequate access to capital for recovery, difficulties related to federal government aid, and devastated infrastructure, slowing early recovery (Runyun, March, 2006). Also, it is important that the government agencies take

interest and assist affected businesses to survive, and motivate new entrepreneurs to start fresh businesses (Zolin and Kropp, January, 2007).

The incredible extent of damages due to this monstrous natural disaster should be a matter of great concern to residents, businesses, policy makers, and politicians for the purpose of acquiring and deploying necessary resources for a smooth and speedy recovery. This is not withstanding the fact that federal government (as well as the State of Louisiana) is providing aid to the city for the purpose of assisting residents who lost uninsured property due to the storm, and large grants to rebuild levies, roads, bridges, schools and colleges, local port and the local airport, and public service like city bus service, and environmental mitigation. The federal aid has also been extended in the form of tax relief to residents affected by the storm. Additional, Gulf Opportunity (GO) Zones have been created (in areas that were hardest hit by Katrina) providing tax incentives for economic development (Stoker and Rich, 2006). This paper identifies/describes/estimates the damages to, and socio-economic environment surrounding entrepreneurs/businesses in New Orleans, 10 months and 20 months after Hurricane Katrina's landfall. Hopefully, this study and estimation of damages would assist decision makers both in the public and private sector in collaboratively mitigating the negative effects and in rebuilding the economy and social fabric of the city. It is critical that all businesses in the city, including old ones and new opportunities for entrepreneurship are cultivated, and that the redevelopment effort is an all inclusive and collaborative one in nature.

Methodology

Undergraduate students at Xavier University of Louisiana were asked to visit businesses in Orleans Parish at both ten months and twenty months after Hurricane Katrina made landfall on the Louisiana Gulf Coast. This sample was a stratified sample consisting of a sample of 405 and

322 respectively. A sample of the questionnaires was checked for validity. A copy of the questionnaire is located in Appendix A.

Results

Prior to August 29, 2005, the metropolitan area of New Orleans had a population of 1,319,589 making New Orleans one of the most unique places in the United States. At 6:15 a.m. on August 29, 2005 Hurricane Katrina lashed out at the city causing a footprint of destruction the size of Great Britain.

Chart 1 reveals the population of the Metro Area of New Orleans five months after the storm.

Chart 1	
Metro Area Population	
Pre-Katrina	1,319,589
Post Katrina	929,554
Population Change	-30%
Orleans Parish Population Change	-71%

The Times-Picayune, January 17, 2006, page 1

Five months after the storm the City is still not operating correctly. Chart 2 reveals some salient statistics.

Chart 2

Katrina Statistics – Metro New Orleans

Work Force Metro Area

Pre-Katrina 633,759

Post Katrina 470,608

Change -25%

Local Businesses

Pre-Katrina 81,000

Post Katrina

Currently Open 42,168 52%

Partially Resumed
Operations 20, 268 25%

Closed, Future
Uncertain 18,564 23%

Restaurants Change -68%

Public Schools – Orleans Parish – Change -81%

A more sobering statistic is the number of houses damaged in each of New Orleans' districts. (See Chart 3)

Chart 3

Hurricane Katrina's House Wreckage

<u>District</u>	<u>Wreckage</u>
New Aurora/English	100%
Village de l'Est	100%
New Orleans East	99%
Lower Ninth Ward	93%
Gentilly	85%
Lakeview	83%
Bywater	77%
Mid-City	75%
Algiers	66%
Uptown	61%
Venetian Isles	56%
Garden District	50%
Warehouse District	48%
French Quarter	32%

USA Today, April 17, 2006, Section B, Page 1

In New Orleans (Orleans Parish) there has been a significant decrease in the population as shown in Table 1.

Table 1

Orleans Parish Population Statistics

	<u>2000</u>	<u>2006</u>
Population	484,674	223,388
Per Cent Change In Population		-53.9%

FedStats

Research Study

A research study was conducted in Orleans Parish ten months and twenty months after Hurricane Katrina made landfall in New Orleans to ascertain how many businesses have returned to the City.

Table 2

Location of Orleans Parish Businesses Pre- and Post- Katrina

Location	Pre-Katrina	10 Months Post-Katrina	20 Months Post-Katrina
Algiers	10.1%	10.6%	15.2%
Downtown	12.1%	11.6%	15.8%
French Quarter	22.2%	22.5%	7.8%
Garden District	12.8%	14.3%	19.3%
Gentilly	7.7%	7.4%	7.8%
Lakeview	5.7%	4.9%	9.9%
Lower 9 th	2.0%	1.7%	1.2%
Mid-City	14.6%	14.3%	11.2%
New Orleans East	7.7%	8.1%	11.2%
St. Claude	3.7%	1.2%	.3%

Table 3

What Type of Business Do You Own?

Type of Business	10 Months Post-Katrina	20 Months Post-Katrina
Retailer	55.8%	55.0%
Wholesaler	2.2%	
Distributor	1.2%	0.6%
Service	39.3%	36.0%

Table 4

Is Your Business Back to Full Operation?

	10 Months Post-Katrina	20 Months Post-Katrina
Definitely Yes	40.7%	54.3%
Almost Yes	38.8%	29.8%
Almost No	5.2%	4.3%
Definitely No	13.3%	6.8%

Table 5

**Where is Your Business Located, Are The
Neighboring Businesses Back?**

	10 Months Post-Katrina	20 Months Post-Katrina
Yes	33.6%	50.9%
Somewhat	49.9%	38.5%
No	15.3%	5.6%

Only 39% of the population applied for an SBA loan or state assistance ten months after Katrina and 36% of the population stated they applied for assistance twenty months after the storm. Only 7.4% of the business population received an SBA loan ten months after Katrina and 13% indicated they received an SBA loan twenty months after Katrina.

Only 58% of the business population applied for business insurance and/or business interruption insurance ten months after Katrina and 59% applied twenty months after Katrina.

45% of the businesses surveyed indicated they had a hard time finding employees ten months after Katrina and 44% indicated they had a hard time finding employees twenty months post-Katrina.

At both ten months and twenty months approximately 28% of the companies' employees are Hispanic.

43% of the businesses ten months post-Katrina are paying increased employee salaries and 47% of the businesses twenty months post-Katrina are paying increased employee salaries.

Results

It is not surprising that the areas least effected with damage by Hurricane Katrina are the areas that are growing, such as, Algiers, Downtown, and the Garden District, whereas, the area most effected by Katrina are experiencing downturns in the business population. One interesting note is the significant decrease in the number of businesses in the French Quarter. It is suggested

that this is caused by the decrease in the number of tourist coming to New Orleans. Of course, there is no significant difference in the types of businesses owned. Certainly, new business owners would be hesitant to come to the city due to the lack of population, poverty, crime, and the general quality of life.

Approximately, 84% of the businesses are back to full operation in the city twenty months from Katrina's landfall. However, Table 5 reveals a very striking statistic where only 51% of the businesses surveyed indicated their neighboring businesses were back in operation.

The survey results revealed that less than 40% of the business population applied for a SBA loan and only 13% of the business population received a SBA loan twenty months from Katrina's landfall. It is interesting to note that to receive a SBA loan, businesses had to be turned down by FEMA.

Approximately 45% of the businesses located in Orleans Parish are having a problem hiring employees. 28% of their new hires are Hispanic and 47% of the businesses have increased their pay to hire employees.

Today, sections of the city look like 'ghost towns' and businesses are still providing small travel trailers for their employees. The distribution of government aid has been painstakingly slow for businesses and aid for the development of new businesses has been nil. The quality of life in Orleans Parish is abysmal, where to receive an excellent education the population must send their children to private and parochial schools and the lack of affordable housing is shocking. My university after three years from Katrina's landfall is still operating in forty-eight double wide trailers.

This paper has identified/described/estimated the damages to and socio-economic environment surrounding entrepreneurs/businesses in New Orleans, 10 months and 20 months

after Hurricane Katrina's landfall. Hopefully, this study and estimation of damages would assist decision makers both in the public and private sector in collaboratively mitigating the negative effects and in rebuilding the economy and social fabric of the city. It is critical that all businesses in the city, including old ones and new opportunities for entrepreneurship are cultivated, and that the redevelopment effort is an all inclusive and collaborative one in nature.

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