MILKEN INSTITUTE

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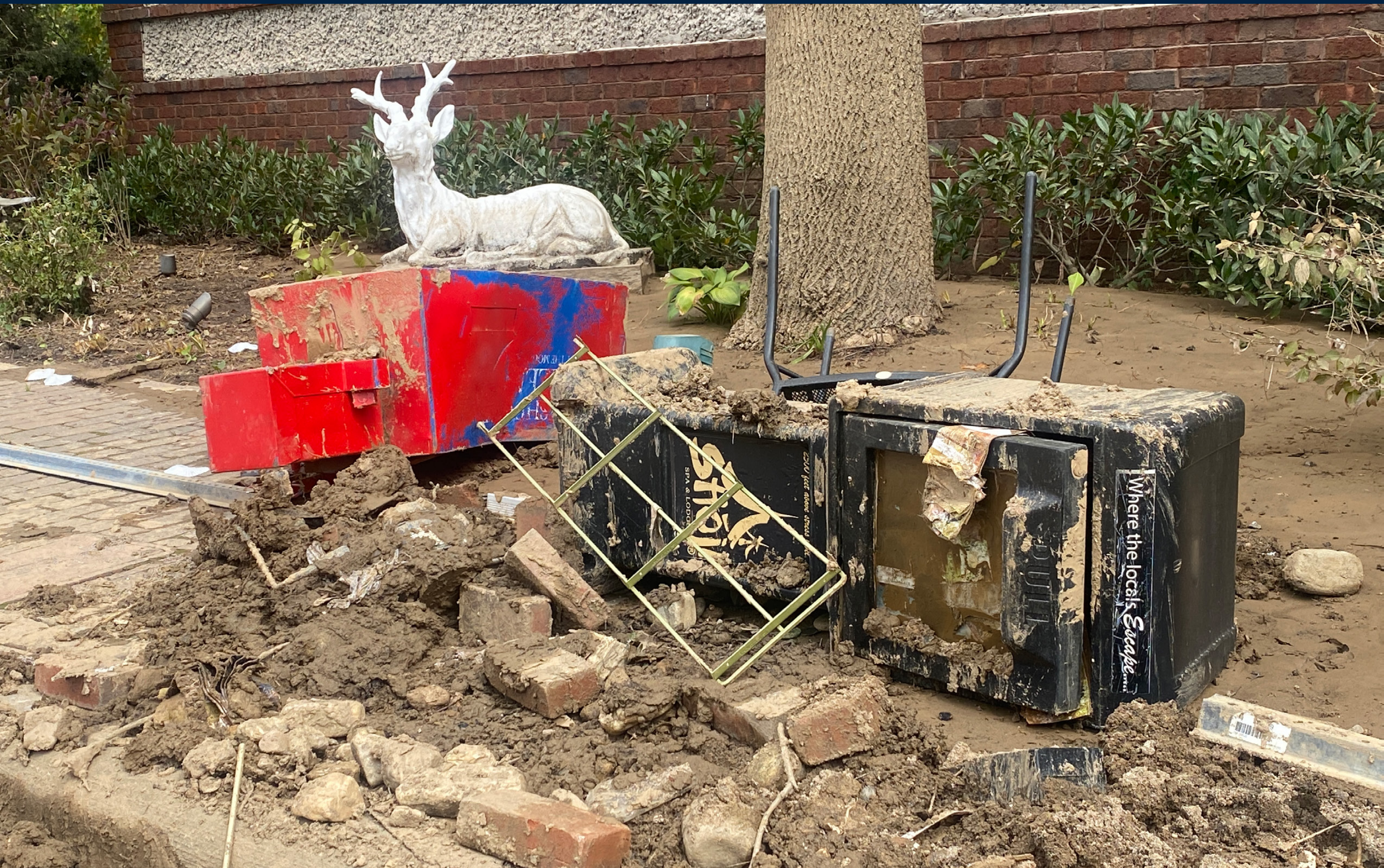
WEATHER AND WASTE:

Rethinking Small Business Support Following a Natural Disaster

Kristen Fanarakis



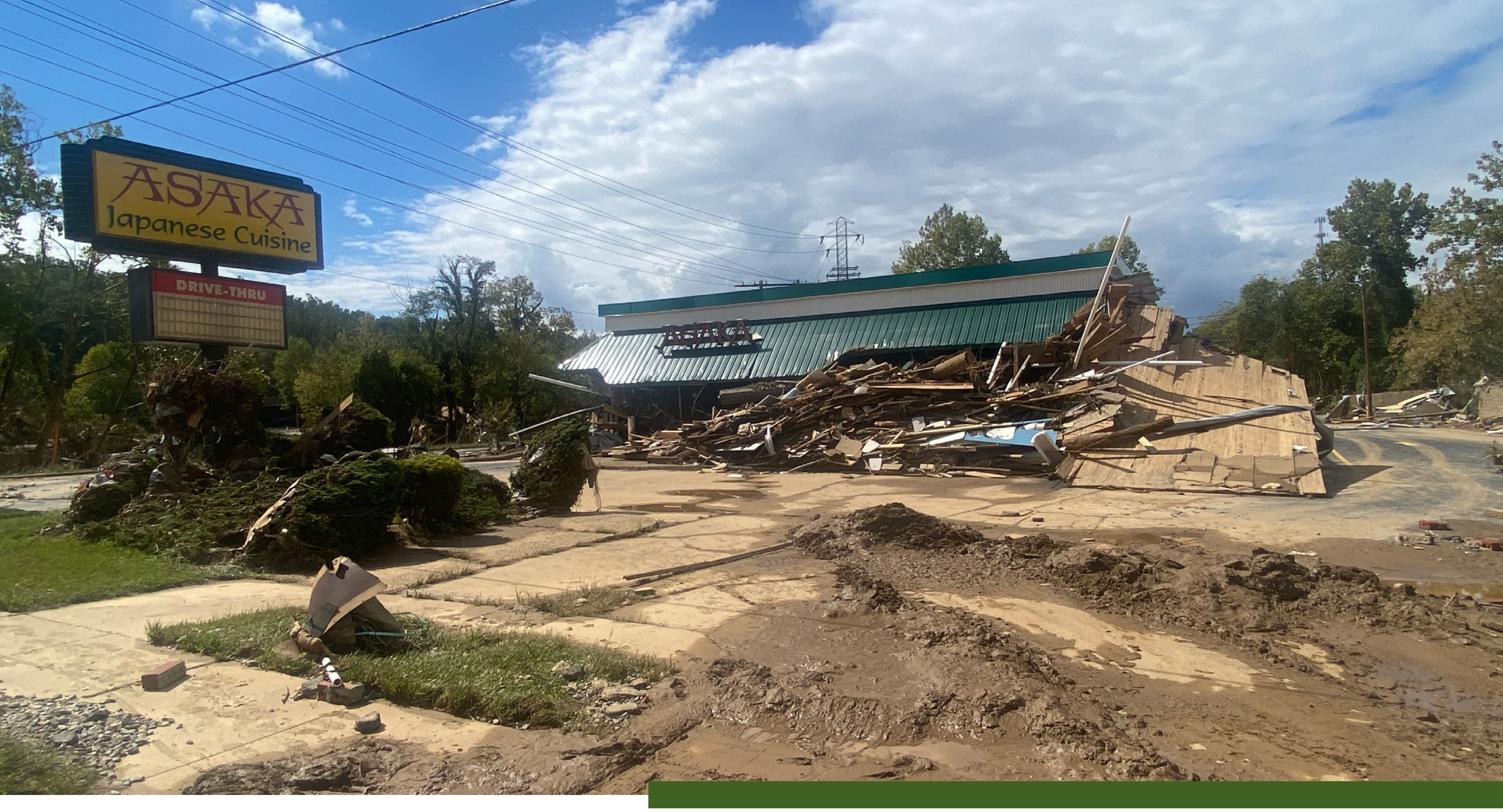
INTRODUCTION

As of November 1, 2024,[1] each of the 24 confirmed weather-related disasters in the United States caused damage associated with losses exceeding $1 billion. The year was one of the costliest since 1980. Nationally, the annual number of natural disasters increased from 3.3 in the 1980s to more than 17 in the past decade.[2]

Most attention has been paid to the physical damage and how to make physical infrastructure more resilient. Little attention has been paid to how to make small businesses, which comprise the bulk of the American economy, more resilient to natural disasters. Roughly 65 percent of small businesses close down within one year after experiencing a natural disaster. The Federal Emergency Management Agency (FEMA) estimates that 40 percent of small businesses do not reopen in the wake of a natural disaster and that 25 percent of those that do reopen close within one year, according to a Congressional Research Service report.

> **How could a national disaster resource hub designed to streamline federal, state, and philanthropic disaster assistance help improve the approximately 65 percent failure rate of small businesses following a natural disaster?**

Small businesses represent 99.9 percent of all businesses in the US, employ roughly half of all private-sector workers, and drive 43 percent of our economic output. They are responsible for creating 53 percent of new jobs and the bulk of our innovation, ultimately raising productivity and living standards.[3]



Small businesses are the backbone of the American economy, but beyond FEMA grants and Small Business Administration (SBA) loans, government support for small businesses following a natural disaster is fragmented and inefficient.

As the Department of the Treasury noted, “small businesses have long played a critical role in our economy, but that role has grown in the post-COVID expansion.”[4] Small businesses stepped up to manufacture personal protective equipment (PPE) when global trade broke down during the COVID-19 pandemic and shortages were widespread. Small businesses are the economic first responders in a community. They provide the critical infrastructure to help communities respond and recover from a natural disaster.

> **Could our nation’s small businesses and communities benefit from launching a formal, cross-agency, federal commission to increase the efficiency and effectiveness of federal disaster recovery spend?**

Programs designed to help federal agencies and state governments invest billions of dollars in programs to spur entrepreneurship and support small businesses include the State Small Business Credit Initiative, Small Business Innovation Research, Small Business Technology Transfer, and the Community Development Financial Institutions (CDFI) Fund. Nonprofits and foundations invest millions to support small business start-ups or implementation of these federal programs, but little to ensure that small businesses maintain operations after a natural disaster. The typical response to such events is disjointed, decentralized, and reactive. It is unmeasured waste that diminishes the return on these investments.

Approaches to reducing government waste should focus not only on how to cut spending but also how to increase the efficacy of the dollars spent. A cross-agency commission and centralized resource hub could accelerate and improve efforts to recover and rebuild from, for instance, Hurricane Helene—the costliest storm since Hurricane Katrina—and provide a template for coping with future disasters.

After Hurricane Sandy, the Government Accountability Office (GAO) reported: "Federal disaster recovery programs are spread across more than 30 federal entities, making it difficult for communities to figure out who to turn to for help. For example, 19 federal agencies were appropriated funds for more than 60 programs involved with providing support after Hurricane Sandy in 2012,[5] which damaged or destroyed more than 650,000 homes. State and city officials involved in Sandy-affected areas told us[6] that **challenges navigating federal programs limited their ability to maximize federal funding—resulting in missed opportunities.** We suggested that Congress establish an independent commission to recommend reforms to the federal approach to disaster recovery. Identifying specific actions for reform could provide Congress and federal agencies ways to speed and improve community recovery after disasters."[7]

> **Missed opportunities have an economic cost. The post-disaster small business failure rate can partially measure government waste. Government waste and inefficiency are not simply overspending. They are spending in a way that does not maximize the return on that spending.**

It takes years to build a small business—to build brand awareness and a loyal customer base. In a natural disaster, years of investments in time and resources are wiped away in an instant. Founders trying to salvage their businesses after a natural disaster scramble to figure out how to navigate resources approaching a byzantine labyrinth in complexity. At the NC Idea Ecosystem Summit, one small-business owner in Asheville, NC, complained that he filled out five different government grant applications, six different insurance claims, and four different disaster loan applications, all of which requested essentially the same information but in different formats. If business owners could use a single application (similar to the Free Application for Federal Student Aid [FAFSA]) for grants, disaster loans, and insurance claims after a disaster, their administrative burden would be drastically reduced.

Capital is "oxygen" to businesses of any size. Most small businesses are funded by the founder's personal savings and have less than three months of operating expenses available. Small businesses struggle with access to capital under normal economic conditions, and natural disasters make those challenges more acute. The latest Fed Small Business Credit Survey[8] found that 93 percent of firms faced some type of financial challenge even without experiencing a natural disaster.

The main sources of support for small businesses following a natural disaster are grants from FEMA and low-cost loans from the SBA, for which owners are personally liable whether their business survives or not—if they even qualify.[9] As for loan applications, 77 percent of them are denied, primarily because the business owner's credit score or ability to repay is insufficient. The approval rate is lower in communities with low median household incomes, which disproportionately affects Black, Latino, and rural groups. Further, approvals are contingent on money being appropriated.

Currently, for small businesses following a natural disaster, the primary life raft is adrift. After Hurricane Helene hit, the SBA's disaster recovery loan program was out of money. Several months passed before Congress approved additional funding. Is it any wonder that only 35 percent of small businesses survive after experiencing a natural disaster? The significant damage from Hurricane Helene and the high concentration of small businesses in Western North Carolina (50–75 percent) provide an ideal opportunity to test and implement a new post-disaster small business recovery playbook.

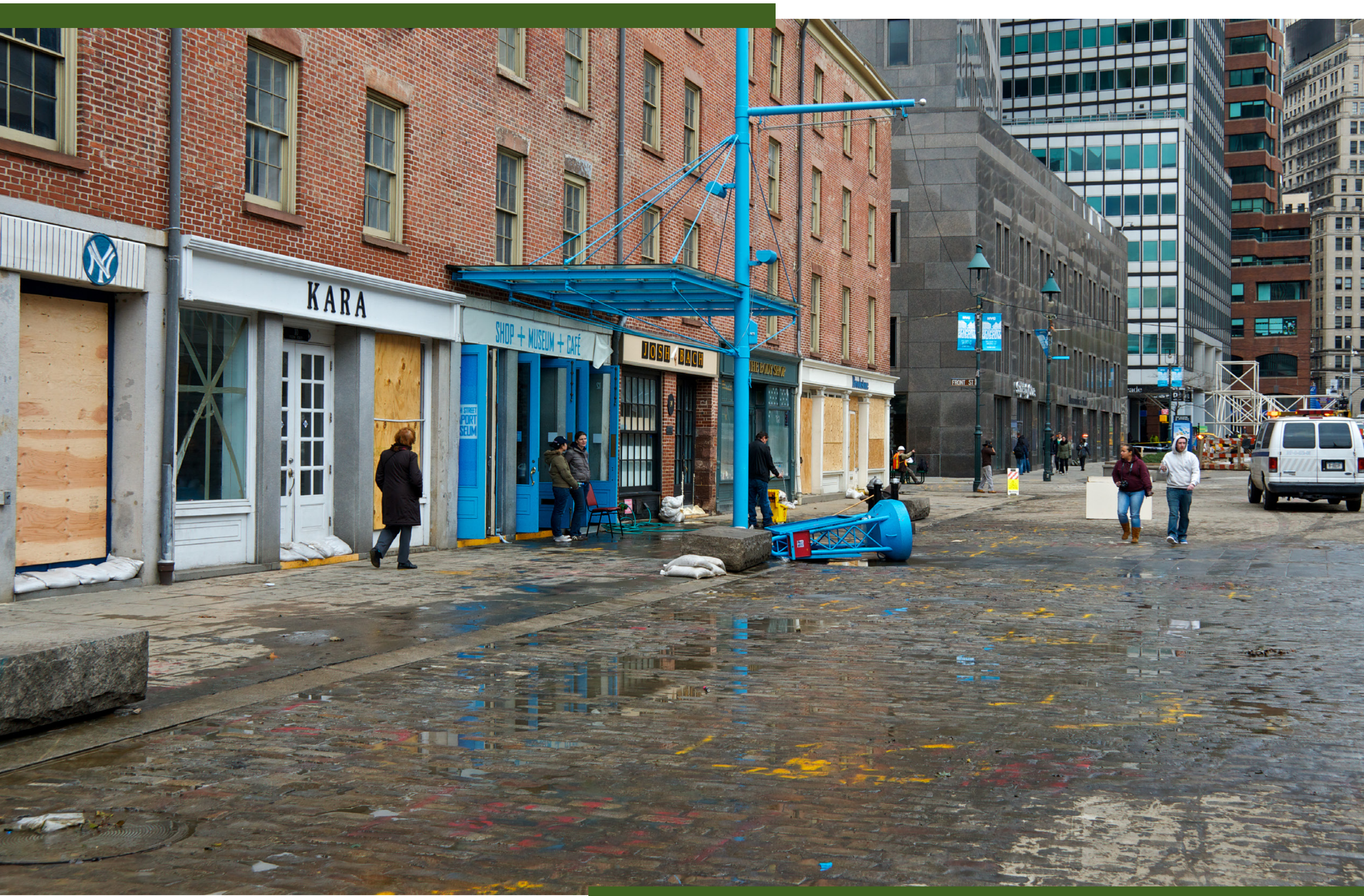
The Milken Institute recommends the following actions to improve the small business survival rate:

- Appoint a cross-agency small business resilience "czar" who will convene a small business disaster response and recovery council to coordinate federal resources, reduce overlap, and increase the efficiency and effectiveness of this spend.
- Create a small business resource and connections hub to serve as a clearinghouse for federal, state, and philanthropic resources and to facilitate the public-private connection to those resources.
- Establish a long-term recovery fund for disaster loans at the SBA.
- Update national, state, and local disaster resilience plans to incorporate small business preservation as a goal.
- Provide immediate grant relief for businesses that could not open because of a lack of municipal utilities yet face denial of business interruption insurance claims.
- Provide one-time tax credits to small businesses that donated time, resources, and space to the community during the recovery process.

- Create a standardized post-disaster application similar to the FAFSA to streamline the post-disaster grant and loan application process for small business owners.

The Milken Institute is uniquely qualified to lead these efforts because of its power to convene key public and private institutions in a way that can drive actionable change.

The Milken Institute has led prior work on innovative methods to improve community and regional climate resilience. In 2019, in collaboration with AECOM, the Institute held a Financial Innovations Lab® in New York City to explore Lower Manhattan, which was hit particularly hard by Hurricane Sandy, as a case study for innovative financing of coastal resiliency infrastructure. During the Lab, a group of stakeholders and industry experts were brought together to examine a variety of financing options to protect Lower Manhattan from future climate risks. This included support for long-term investment incentives to ensure that businesses in the area were more adequately protected by public infrastructure during future storms. One recommendation was a resilience improvement district, to give businesses and investors incentives to make themselves and their neighbors better prepared for future climate-related events. From subways and electricity to sea walls and sewage upgrades, the work designed funding and financing options for projects that would enable the community and companies to be more resilient.[10]



THE BACKBONE OF AMERICA DESERVES BETTER SUPPORT FOLLOWING NATURAL DISASTERS

Appoint a Post-Disaster Small Business Czar, Form a Small Business Resilience Commission, and Assemble a Disaster Response and Recovery Team

We propose a cross-agency, federal-level council and disaster response and recovery management team with the sole mandate of increasing both the small business survival rate following a natural disaster and the efficiency of federal disaster assistance.

The GAO has previously highlighted inefficiencies in the federal government's disaster response. For example, federal disaster recovery programs are spread across more than 30 federal entities, making it difficult for communities to figure out where to turn for help. The commission will focus on reducing overlap and creating efficiencies across small business programs.

In the immediate wake of Hurricane Helene, the state of New York sent its Incident Management Team to Asheville[11] to provide operational support in the recovery efforts. This multi-agency, multi-jurisdictional team of expert first responders can be deployed to manage an incident safely, effectively, and efficiently regardless of cause, size, or complexity.

Following this model for future disaster preparation, we recommend the creation of a dedicated small business incident management team as part of the commission to provide a central point of contact and coordinate the implementation of federal resources.

Create a Central Hub to Streamline and Better Coordinate Public and Private Resources

We propose the establishment of a centralized hub dedicated to streamlining and coordinating the communication of public and private resources to small businesses. Working with the Small Business Resilience Commission, the hub would operate as a resource guide and platform to connect small businesses more efficiently with funding options beyond SBA disaster loans. It could also manage donation needs and control the spread of misinformation—challenges every community faces after a disaster.

Piloting a beta version to help Hurricane Helene victims could help alleviate the burden experienced by Community Development Financial Institutions (CDFIs) in the affected regions. CDFIs operate not only as lenders in a time of crisis but also as business trauma centers that help triage the community's small businesses. Most CDFIs operate with limited staff and resources under normal economic conditions. A formal, more structured, and proactive approach aimed at reducing the local burden could improve the small business survival rate.

Often, help from the federal government and nonprofits is available but challenging to find. The lack of coordination means that the right resources will not reach the right businesses at the right time, leading to a high failure rate.

Provide Immediate Grant Relief for Businesses That Could Not Open Because of a Lack of Municipal Utilities yet Face Denial of Business Interruption Insurance Claims

North Carolina alone is facing approximately $53 billion in damages due to Hurricane Helene. Only 5 percent of that amount will be covered by insurance. Many businesses did not suffer flood damage or physical damage but confronted business interruption because flooding destroyed Asheville's water system and other infrastructure. Many insurance claims have been denied. Others simply could not reopen because of the lack of potable water city-wide, and business owners did not have the necessary financial resources without support from insurance. The longer the businesses were closed or remain so, the more likely they will fail because of insufficient cash flow.

Update National, State, and Local Disaster Resilience Plans to Include Small Business Support

We must expand our thinking of disaster resilience beyond protecting just physical infrastructure. Hurricane Helene has shown that small businesses are infrastructure. Local small businesses operated as first responders—helping distribute water and food— before outside help could even reach the region. These businesses donated a disproportionate amount of their time, resources, and physical space to those in need.

Provide a Tax Credit to Small Businesses That Donated Their Time, Resources, and Space to the Community during the Recovery Process

Small businesses are infrastructure, and it is time they were recognized as such. Local small businesses—typically those with the least resources and financial wherewithal—have done the most to foster recovery in communities impacted by Hurricane Helene, ultimately easing the burden on the federal and state governments. In the days and weeks following the storm, local small businesses stepped up to meet community needs. The government neither measures nor compensates small businesses for the assistance they provide in a national crisis.

Revise SBA Disaster Loan Fund Appropriations

It took Congress nearly three months after the impact of Hurricane Helene to pass additional disaster relief. Thousands of SBA Disaster Relief loan applications had been approved, yet small businesses had to wait months for funds. Government inefficiency and dysfunction are directly contributing to impending economic disaster.

BLACK SWANS PRESENT OPPORTUNITIES FOR REFORM

Hurricane Helene was a “black swan” event for the mountains of Western North Carolina. Given the extent of the damage and the disproportionately large number of small businesses in Western North Carolina, this natural disaster risks becoming an existential economic disaster for the region in the absence of a more coordinated intervention that specifically targets small businesses.

Small businesses in Asheville, NC, employ more than 50 percent of all private-sector workers.[12] This figure climbs to 75 percent in the surrounding rural areas, where disaster recovery is even more difficult, according to the GAO.[13]

By comparison, in the areas of Florida worst hit by Hurricane Helene, small businesses account for less than 25 percent of employment.[14] Many businesses in Asheville incurred little or no physical damage but could not reopen because of the lack of potable water as well as the absence of customers due to other infrastructure damage. The local economy relies on seasonal tourism, and the Buncombe County Tourism Board expects a crippling 70 percent drop during the typically busy fall and holiday seasons, which account for the bulk of their annual income.[15]

As highlighted by the Media Hub at the Hussman School of Journalism and Media at UNC-Chapel Hill and WTPF News, “Despite the traditional support systems—FEMA, insurance, and even SBA loans—small business owners affected by Hurricane Helene face a gap in coverage. Caught between inadequate assistance and the looming risk of insurmountable debt, these business owners find themselves between survival and collapse … ‘It’s bust or bust,’ said restaurant owner Jon Hartman, who is committed to reopening, knowing his decision impacts not only his livelihood but that of his 60 employees.”[16]

In the absence of a more coordinated and targeted response to support small businesses in the near term, this storm could permanently alter the economic landscape of the region given the high concentration of small businesses.

Small businesses create the unique charm that makes Western North Carolina a top draw for tourists; the region is responsible for roughly one-fifth of the state’s tourism revenue. It has been a top destination for residential relocations for nearly a decade.

Various nonprofits, small business owners, and concerned citizens have taken to social media to crowdsource donations and launch GoFundMe campaigns to help pay for repairs and support employees, but these campaigns are unreliable, stop-gap measures. The small businesses—many of whose owners provided critical post-disaster support in the days and months following the storm—deserve a more comprehensive disaster response to help them recover.

Again, capital is oxygen for all businesses, and these small businesses are being deprived of this vital resource from every potential reserve. Business owners face denial of their insurance claims, lost sales, and the inability to qualify for a disaster loan, and they are reluctant to assume additional debt.

No amount of disaster planning could have helped the Asheville small businesses prepare for a months-long shutdown of the municipal water system that would devastate the regional economy during the busiest time of year. It takes years to build a small business and loyal customer base. Most small businesses fail within three years, but many of the businesses that have closed or are facing closure in the wake of Helene have been around for more than three years—many for decades. Building a small business is no easy feat; keeping a small business going after a natural disaster is nearly impossible.

We see the unique composition of the region's economy, with its high proportion of small businesses and rural areas, as an opportunity to test innovative interventions, the results of which could be measured in short order. Instead of letting this devastating natural disaster feed the bleak statistics, we could test a new small business disaster response playbook and salvage the region's small businesses that helped drive its economic success.

ENDNOTES

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ABOUT US

The **Milken Institute** is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

Milken Institute Finance conducts research and constructs programming designed to facilitate the smooth and efficient operation of financial markets—to help ensure that they are fair and available to those who need them when they need them.

The **Milken Institute Small Business Policy and Innovation Initiative** explores the challenges, trends, and policies that impact modern small businesses and start-ups. The Institute is uniquely positioned to draw attention to these structural trends and drive innovative solutions that address the challenges this vital community faces.

ABOUT THE AUTHOR

Kristen Fanarakis is an associate director of Finance, leading the small business policy and innovation initiative. The Milken Institute Small Business Policy and Innovation initiative analyzes the macroeconomic trends and policies affecting small businesses and offers policy recommendations and solutions aimed at fostering an environment of inclusive prosperity. Her work engages and educates policy stakeholders to address the challenges small businesses face.

Prior to joining the Milken Institute, Fanarakis helped colead the University of Maryland's Center for Financial Policy, a think tank focused on topics at the intersection of financial markets and regulatory policy. While in this role, she also launched her own small business, Senza Tempo, a Los Angeles-made, sustainably minded women's luxury apparel brand. As a founder, she regularly wrote, spoke, and was quoted in the press on a variety of policy issues facing the apparel industry, advocated for domestic manufacturing, and testified to the California State Senate on behalf of other domestic apparel brands. Prior to this, she spent over a decade working on Wall Street in foreign exchange trading and investment management for such firms as Merrill Lynch and Citibank.

She holds a BA in economics and political science from the University of North Carolina (UNC) at Chapel Hill and an MBA from UNC's Kenan-Flagler School of Business. She also holds an MS in international economics from Suffolk University.

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