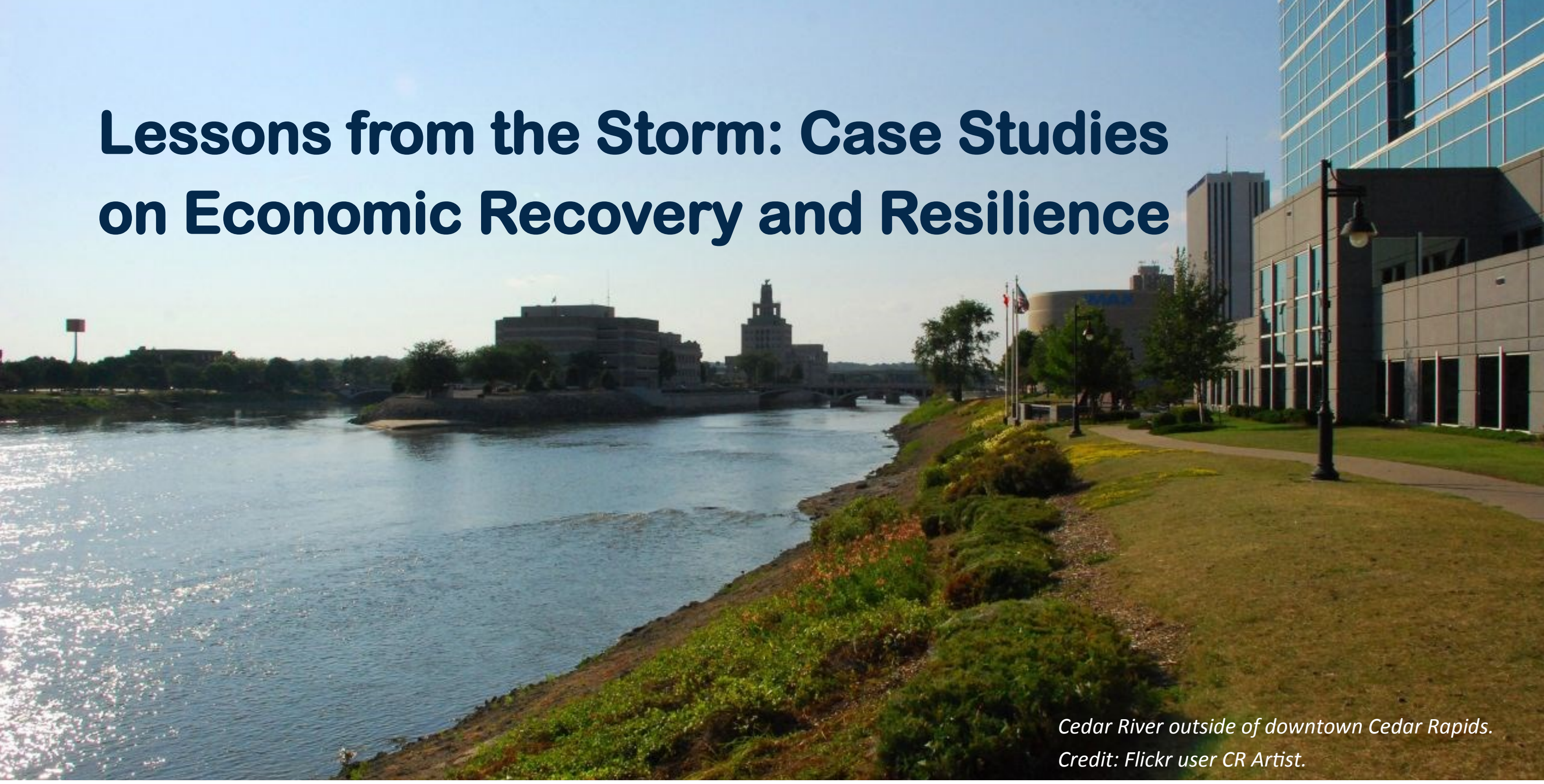
Lessons from the Storm: Case Studies on Economic Recovery and Resilience



Cedar River outside of downtown Cedar Rapids. Credit: Flickr user CR Artist.

East Central Iowa: On-the-Ground Assistance and Business Loans Support Recovery and Economic Competitiveness

A "1 in 500" Chance Flood

In the spring and summer of 2008, months of snowmelt and heavy rainfall in Iowa saturated the Upper Mississippi River basin, the Cedar River, and the Iowa River. Iowa had experienced devastating floods in 1851, 1966, and 1993, but 2008 brought the worst flooding in many communities' histories. Eighty-five of the state's 99 counties were declared disaster areas that summer.[2] The Cedar River, adjacent to the city of Cedar Rapids, broke the previous crest record by 11 feet with a 30 foot crest on June 13. The flood waters hit the 500-year floodplain, an area of the city with only a 1 in 500 chance of flooding each year. Fourteen percent of the city was impacted by flooding, with most of downtown submerged.[3,4]

The floodwaters slowly receded at the end of June. Residents returned to decimated homes, neighborhoods, schools, roads, and businesses. When the Rebuild Iowa Office Coordinating Council conducted a survey of 13 communities impacted by the floods, they found that over 2,000 businesses closed for at least 24 hours due to property damage or lack of access. At least 2,000 jobs were permanently lost in the surveyed communities because of the floods.[5]

The 2008 event reminded Iowans of their vulnerability to flooding. This time around, local leaders didn't want to simply rebuild what previously existed, but to restore their communities and their economies in ways that made them more vibrant, sustainable, and disaster-resistant than before. The East Central Iowa Council of Governments (ECICOG) supported these efforts, designing its regional recovery strategy to diversify the economy, provide flexible financial capital options to businesses, and promote business continuity planning. The result was a strong recovery and a regional economy more resilient to future natural and man-made disasters and other economic shocks.

This case study is part of a series produced by the NADO Research Foundation exploring how regional development organizations[1] have used 2008 disaster recovery funds from the U.S. Economic Development Administration (EDA) to address the impacts of natural disasters, become more resilient to future events, and increase long-term economic competitiveness and quality of life in their regions. This project is supported by EDA under Agreement No. 08-79-04379. Any opinions, findings, or recommendations expressed here are those of the author and do not necessarily reflect the views of EDA or the NADO Research Foundation.

NADO
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
RESEARCH FOUNDATION

Fall 2013

Key Facts

<u>EDA Funding</u>: $300,000 for disaster recovery coordinators; $1.5 million for a revolving loan fund
<u>Other Funding</u>: $85,000 from the Washington County Riverboat Foundation
<u>Project Description</u>: The East Central Iowa Council of Governments used EDA disaster recovery funding to hire two disaster recovery coordinators and create a revolving loan fund to help businesses purchase property and equipment and access working capital after the devastating floods of 2008.
<u>Key Outcomes</u>: Direct support for 153 businesses and 184 homeowners, increasing access to funding and technical assistance opportunities; over $3 million in loans to over 27 businesses, leveraging $29.5 million in other funding; 652 private sector jobs created or saved; increased financial capital options for businesses; faster business recovery; diversified industry base; more resilient regional economy
<u>Partners</u>: Washington County Riverboat Foundation
<u>Website</u>: www.ecicog.org

Bringing in Hands-On Help

ECICOG is an intergovernmental planning agency that serves Benton, Iowa, Johnson, Jones, Linn, and Washington counties in east central Iowa. It supports local efforts and regional cooperation on housing, community and economic development, infrastructure, and transportation planning and implementation. In response to the 2008 floods, ECICOG used federal dollars to support two disaster recovery coordinators and create a revolving loan fund.

In October 2008, the organization received a $300,000 grant from the U.S. Economic Development Administration (EDA) to fund two disaster recovery coordinators to guide community members through the process of applying for federal and state financial assistance after the floods. One of the coordinators focused on homeowners, helping residents find funding for home rehabilitation, assistance with mortgage and down payments, and financing for new construction. This coordinator also helped ECICOG manage a Federal Emergency Management Agency-funded residential buyout and demolition program.

The second disaster recovery coordinator focused on local businesses, connecting business owners with funding opportunities to help with rent and lost inventory, equipment, and supplies. This person was also responsible for administering the Jumpstart Business Program, a state-funded forgivable loan program that assisted 80 businesses in east central Iowa after the flood.[6]

Filling the Financial Capital Gap

ECICOG knew that the lack of access to financial capital was a major barrier to businesses' recovery from the floods, and to the recovery and resilience of its regional economy as a whole. In response to this challenge, ECICOG secured a $1.5 million EDA grant to establish a revolving loan fund (RLF) in October 2008. To assemble the required match contribution, the Washington County Riverboat Foundation donated $85,000 and ECICOG contributed $15,000.[7]

The RLF is operated by ECICOG and the loan decisions are made by an RLF Loan Committee comprised of representatives from local banks, a credit union, an entrepreneurial development center, and a small business development center in the region. Loans are available to businesses that were impacted by flooding and that need gap financing. Funded projects must create or preserve jobs and strengthen the regional economy. Loans can be used to purchase real estate and equipment and for working capital. The maximum loan amount is $250,000, but the average loan award is $50,000. The terms of the loans typically run from five to seven years. The loan closing fee is 2 percent of the award, and the interest rates are fixed, below market rates.[8]

Traditional lending institutions' primary considerations when making a loan are the applicant's current equity, the cost of the project, and the likelihood of repayment. As a result, these institutions are often unwilling to make loans to businesses for the full amount requested. ECICOG requires that projects receive two-thirds of their financing from private lenders, but ECICOG is willing to fund up to the remaining third of the project.[9] ECICOG's RLF also differs from traditional lending mechanisms in that the RLF Loan Committee considers the impact of the business on the regional economy.[10] ECICOG's RLF provides businesses with much-needed equity on reasonable terms to bridge important projects' financing gaps.

The view of flooded 3rd Avenue in downtown Cedar Rapids. Credit: Flickr user Matt Herzberger.

The RLF also promotes economic diversification, supporting sectors in which the region has a competitive advantage and an interest in expanding. Biosciences, advanced manufacturing, and information and financial services are targeted by the RLF for start-ups and business development. "The loan review committee has given considerable attention to encouraging applications and recommending loan awards in a variety of sectors including manufacturing, technology, service, and medical," says Doug Elliott, ECICOG's executive director.[11] A diverse economic structure with thriving businesses and jobs in a range of industries will make east central Iowa more resilient to future shocks, whether those are caused by natural disasters, the closing of a company, or the downturn of a key sector.

"A Huge Help in a Very Difficult Time"

Though the disaster recovery coordinators were only funded for two years, their impacts were far-reaching. "It takes a significant amount of time to recover from a major disaster both economically and physically," says Elliott. "However, I'd say the majority of affected individuals and businesses had been identified and provided with or directed to resources within the best of our ability within that two-year period."[12]

By 2010, the coordinators had provided support to 153 businesses and 184 homeowners.[13] Brad Tischer, owner of Brogan's Bar and Grill in Palo, Iowa, says, "I felt the program was run very well by ECICOG because of its outstanding people. [The coordinators] did an amazing job and were easy to work with. They really cared about the small businesses and their troubles recovering from the floods of 2008. They were a huge help in a very difficult time."[14]

Former Acting Secretary of Commerce Rebecca Blank, former Assistant Secretary of Commerce for Economic Development John Fernandez, and Ovation CEO Larry Selensky tour the facilities of Ovation Networks, an RLF recipient. Credit: USDOC.

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The disaster recovery coordinators helped connect small businesses to the RLF. One of those businesses was Cedar Ridge Vineyards. Owners Jeff and Laurie Quint had purchased 27.5 acres of cropland in east central Iowa in 2003, developing the land into a successful vineyard and opening a winery in downtown Cedar Rapids. When the winery was damaged during the 2008 floods, the RLF Loan Committee awarded Cedar Ridge Vineyards a $150,000 loan to purchase new machinery that was critical to its operations. The vineyard anticipates that it will create 30 new jobs by 2015 with the help of the ECICOG loan.[15]

"I'm involved with a few different growth-oriented companies that were devastated by the 2008 floods," says Jeff Quint. "While the financial assistance programs were slow to develop after the disaster, they were a godsend in terms of our ability to stay in business. Of all the agencies we worked with to sort through our financing options, I can say without a doubt that ECICOG was the most focused and reactive to our needs."[16]

The RLF also helped businesses that are directly involved in disaster preparedness and response. For example, Inteconnect, Inc., located in Cedar Rapids, provides secure technology systems to businesses. During the 2008 floods, Inteconnect's customers did not experience any service outages because the data center was located outside of the flooded area. Inteconnect's customers were still able to connect to servers, email, and telephones from their offices or remotely from their homes. After the floods, Inteconnect was awarded a $55,000 loan to market its secure technology products and services to more businesses. Inteconnect plans to create seven new jobs by 2015.[17]

Building on Success

The revolving loan fund has played a key role in business recovery and growth in east central Iowa. As of September 2013, the RLF had deployed 27 loans with over $3 million. These loan dollars leveraged an estimated $29.5 million from other sources. ECICOG estimates that these investments have created 325 private sector jobs and saved 327 private sector jobs.[18]

Because of the proven success of the RLF, EDA provided a $2.9 million grant in 2011 to recapitalize the fund. ECICOG assembled the required $195,000 match in just two weeks with contributions from Linn County, Washington County, Benton County, Jones County, Johnson County, the Cedar Rapids Area Chamber of Commerce (now part of the Cedar Rapids Metro Economic Alliance), the Greater Cedar Rapids Community Foundation, and other organizations. The new EDA award expanded ECICOG's RLF to almost $5 million and allowed ECICOG to continue providing low-interest loans to new and existing businesses throughout the region.[19]

ECICOG's disaster recovery and resilience work has not been limited to the RLF and the technical assistance provided by the disaster recovery coordinators. The organization has also created a database of communities and businesses that have been affected by disasters, developed a database of programs that are available to assist communities and businesses after disasters, and created a library of recovery support and emergency response procedures. Additionally, ECICOG has developed hazard mitigation plans with its partner communities and provided continuity planning assistance to businesses.

Challenges and Opportunities

ECICOG's flood recovery and resilience successes have not come without challenges. Residents and businesses were frustrated that federal, state, and local assistance did not arrive quickly enough after the event, and that funding agencies did not provide support with the application process. The disaster recovery coordinators helped to mitigate these issues but could not eliminate them.[20]

Another frustration was the lack of communication among different stakeholders in the wake of the disaster. The roles of local, regional, and state agencies were not clear. ECICOG helped to address this issue by serving as a convener. For instance, ECICOG brought the Iowa Homeland Security and Emergency Management Division and the Rebuild Iowa Office together to clarify their roles in future disaster response and recovery efforts.[21]

Despite these challenges, ECICOG was able to contribute to the region's recovery from the 2008 floods and make its economy stronger and more resilient than it was before. The organization leveraged federal investments to provide critical hands-on help to residents and businesses in the short term, and to establish a self-sustaining source of financial capital that will support business start-ups and growth and diversify the economy over the long term. With these strategic investments, ECICOG simultaneously met immediate recovery needs and created a resource that will support economic competitiveness in east central Iowa for years to come.

This case study was written by Alexandria Murnan, NADO Community and Economic Resilience Fellow.

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[1] The term "regional development organization" refers to the multi-jurisdictional regional planning and development organizations that exist throughout the country and are known by various names in different states, including councils of government, regional councils, economic development districts, local development districts, and planning and development councils. These public-based entities play an invaluable role in fostering intergovernmental collaboration among federal, state, and local officials; deliver and manage federal and state programs; and work to solve area-wide issues and to address the fundamental building blocks required for competitive and sustainable communities and economies.

[2] Saulny, Susan. "After Iowa Flood, Feeling Just a Bit Ignored." The New York Times. August 27, 2009. http://www.nytimes.com/2009/08/28/us/28cedar.html?_r=0.

[3] City of Cedar Rapids. Flood of 2008 Facts & Statistics. http://www.cedar-rapids.org/government/departments/public-works/engineering/Flood%20Protection%20Information/Pages/2008FloodFacts.aspx.

[4] Maag, Christopher. "In Eastern Iowa, the City That 'Would Never Flood' Goes 12 Feet Under." The New York Times. June 13, 2008. http://www.nytimes.com/2008/06/13/us/13flood.html.

[5] East Central Iowa Council of Governments. *Final Report: EDA Stafford Act Recovery Grant*. 2010.

[6] Dekoter, Tracy. "Eastern Iowa Council of Governments." Entrepreneurial Development Center, Inc. http://www.edcinc.org/articles/view.php?id=43.

[7] East Central Iowa Council of Governments. "Business Assistance Revolving Loan Fund." http://www.iarcog.com/ECICOG_presentation-RLF_marketing.pdf.

[8] Gravelle, Steve. "Regional business loan fund expands to $4.5 million." The Gazette. August 30, 2011. http://thegazette.com/2011/08/30/regional-business-loan-fund-expands-to-4-5-million/.

[9] Gravelle, Steve. "Regional business loan fund expands to $4.5 million." The Gazette. August 30, 2011. http://thegazette.com/2011/08/30/regional-business-loan-fund-expands-to-4-5-million/.

[10] East Central Iowa Council of Governments. "Business Assistance Revolving Loan Fund." http://www.iarcog.com/ECICOG_presentation-RLF_marketing.pdf.

[11] Elliott, Doug. Personal interview. September 24, 2013.

[12] Elliott, Doug. Personal interview. September 24, 2013.

[13] East Central Iowa Council of Governments. *Final Report: EDA Stafford Act Recovery Grant*. 2010.

[14] East Central Iowa Council of Governments. Revolving Loan Fund Recipient Quotes. 2012.

[15] Elliott, Doug. Memorandum to East Central Iowa Council of Governments Board of Directors. September 18, 2012.

[16] East Central Iowa Council of Governments. Revolving Loan Fund Recipient Quotes. 2012.

[17] Elliott, Doug. Memorandum to East Central Iowa Council of Governments Board of Directors. September 18, 2012.

[18] Elliott, Doug. Memorandum to East Central Iowa Council of Governments Board of Directors. September 18, 2012.

[19] Gravelle, Steve. "Regional business loan fund expands to $4.5 million." The Gazette. August 30, 2011. http://thegazette.com/2011/08/30/regional-business-loan-fund-expands-to-4-5-million/.

[20] East Central Iowa Council of Governments. *Final Report: EDA Stafford Act Recovery Grant*. 2010.

[21] East Central Iowa Council of Governments. *Final Report: EDA Stafford Act Recovery Grant*. 2010.