

APPENDIX B-31: WEST VIRGINIA



- Overview
- Public Policy
- Regulatory Affairs
- Tax Policy
- Innovation
- Workforce
- Education
- Cost of Market Entry

<u>Business Poll Ranking</u>	
CEO Confidence	35
CNBC	44
Forbes	50
Pollina	48

Overview

In an annual survey, *Forbes* ranked all states' business climates on a scale of 1-50 (with a ranking of one being the best).¹ In that report *Forbes* gave West Virginia an overall rank of 50 out of 50. Each of the primary rankings is listed below.

West Virginia's <i>Forbes</i> Rankings	
Overall Rank	50
2006 Rank	49
Business Costs Rank	25
Labor Rank	49
Regulatory Environment Rank	50
Economic Climate Rank	29
Growth Prospects Rank	50
Quality of Life Rank	46

West Virginia has annually been one of the worst performing states economically speaking. Areas that need improvement most are innovation, workforce, and education. General numbers that indicate the state's weak economy are per capita personal income and median household income, which both rank 49th in the US.

Public Policy

The State Competitiveness Report (SCR) 2007, a study by the Beacon Hill Institute that examines businesses of all sizes, particularly criticized West Virginia for its lack of business incubation 46th, openness at 47th and weaknesses in human resources coming in at 42nd, ranking the state 47th overall.²

¹ Kurt Badenhausen. "Special Report: The Best States for Business." *Forbes Magazine*. July 2007.
http://www.forbes.com/business/2007/07/10/washington-virginia-utah-bizcz_kb_0711bizstates.html

² David Tureck, Jonathan Houghton, Frank Conte, and Christopher Doyon. *State Competitiveness Report 2007*. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, 2007. 63.
<http://www.beaconhill.org/Compete07/Compete2007State.pdf>.

The similar Small Business Survival (SBS) Index 2007 did not rate West Virginia very well in any areas. It was ranked as the 40th friendliest policy environment for entrepreneurship overall out of the 50 states (with a ranking of one being the best).³ Most notably, it was ranked 51st (including D.C.) in Workers' Compensation Benefits Per \$100 of Covered Wages.⁴ These inhibitors, along with issues in education and technology (which will be discussed later) make West Virginia a very unfavorable place for new or small business.

In the *State New Economy* (NE) Index, West Virginia was again criticized for its lack of openness to new business. It ranked 49th in entrepreneurial activity and 50th in "Gazelle Jobs".⁵ This term refers to jobs in firms with 20% or more growth in the past four years, according to this study.

West Virginia is also facing issues with an overburdened government. Earlier this year, a report titled "With 2,020 Bills, Lawmakers Long on Topics, Short on Time," it is stated that "more than one in ten bills are recurring features of every session."⁶

In more positive policy news, West Virginia officials have reported that the state is expecting a \$64 million surplus for 2008. Tax cuts in personal and corporate income over the past few years have been credited for the surplus.⁷ West Virginia House Minority Leader, Tim Armstead (R), is especially positive about the surplus' effect on the state's business climate. "Armstead believes serious tax cuts would signal businesses about the state's economic climate. He singled out the corporate net income tax for a future cut, and echoed calls to eliminate the business franchise and grocery sales taxes."⁸ Therefore, in the near future, West Virginia's rankings in many of the indexes cited in this report could drastically improve. Tax cuts, especially those in the corporate setting, could make the state look significantly more attractive to relocating businesses. This is especially true relative to West Virginia's neighboring states of Ohio and Maryland, which both have below-average tax structures.⁹

Regulatory Affairs

Forbes ranked West Virginia as having the worst regulatory environment. The state is ranked 50th out of the 50 states.¹⁰ In addition, West Virginia's regulatory affairs have not helped economic matters. The Tax Foundation's 2008 *State Business Tax Climate*

³ Raymond J. Keating, Small Business Survival Index 2007: Ranking the Policy Environment for Entrepreneurship Across the Nation 12th Annual Edition. Small Business & Entrepreneurial Council, Washington, DC, November, 2007. 2. http://sbecouncil.org/Media/pdf/SBSI_2007.pdf?CFID=514256&CFTOKEN=91743709

⁵ Robert D. Atkinson and Daniel K. Correa. The 2007 State New Economy Index. Ewing Marion Kauffman Foundation Kansas, 2007. 31. http://www.kauffman.org/pdf/2007_State_Index.pdf.

⁶ Lawrence Messina. "With 2,020 Bills, Lawmakers Long on Topics, Short on Time". The Associated Press. Lexis-Nexis Universe. 26 Nov. 2007.

⁷ Lawrence Messina. "W.Va. Eying \$64 Million Surplus for '08". Lexis-Nexis Universe. Online. 26 Nov. 2007.

⁸ W.Va.

⁹ Chris Atkins and Curtis S. Dubay. Background Paper: 2007 State Business Tax Climate Index. October, 2006. Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>,

¹⁰ Badenhausen.

(SBTC) Index found that West Virginia's sales tax level is relatively low (ranked 21st) and property taxes are average (26th)¹¹. Meanwhile the SBS also ranked the state 51st (including D.C.) in Workers' Compensation Benefits,¹² and 38th in State and Local Sales, Gross Receipts and Excise taxes.¹³

In the Public Policy section of this report, an article about the overburden of bills was mentioned. Many of these bills have been introduced to address tax issues. The article cites nearly 200 new bills that deal with taxation. A large tax restructuring would cause numerous headaches for those trying to start new businesses in West Virginia.

One bill is attempting to create a new agency that deals with health care. If this agency is created, large changes in healthcare are to be expected. Existing businesses would have to spend significant time and resources trying to learn the new system.

Other legislation recently passed is in attempt to fix some infrastructure problems. "Supplemental Appropriations: Seven measures with \$207.8 million in funding proposals. Beneficiaries include Marshall University's medical school, local health departments and highway bridge repair and replacement projects."¹⁴

These measures are progress toward greater safety for West Virginia residents and more R&D funding for the medical school, but they do not help unemployment rates or the undereducated workforce. Also, increases in government spending may cause investors to become weary of possible tax increases to keep up with spending.

Tax Policy

West Virginia has some of the highest tax rates in the country. The SBTC is a tool for lawmakers and the media to compare the states' tax policies (with a ranking of one being the best). In this index West Virginia placed 37th out of 50.¹⁵ The index particularly criticized the state's individual income taxes which placed in the bottom ten at 40th.¹⁶ Meanwhile, the 2007 SBS index rates a state's public policies according to how friendly a state is toward entrepreneurial activity. While the aforementioned taxes point toward some ease of business regulation, there are many more taxes that would indicate otherwise. West Virginia is ranked 33rd in top personal income tax rate, 37th in top capital gains tax rate, and 43rd in top corporate income tax rate.¹⁷ Also, its gas tax is ranked 33rd in the country. Overall, the state was ranked 34th in the SBTC Index. However, as was previously discussed, reform intended on cutting taxes is under serious consideration due to the substantial projected surplus for 2008.

One way in which West Virginia has attempted to alleviate taxes for its citizens is through the recently passed Turnpike Tolls bill (HB201, SB2001). This bill states that

¹¹ Atkins and Dubay.

¹² Keating, 37.

¹³ Keating, 33.

¹⁴ "Special Session Agenda Glance." The Associated Press. Lexis-Nexis Universe. Online. 26 Nov. 2007.

¹⁵ Chris Atkins and Curtis S. Dubay. Background Paper: 2008 State Business Tax Climate Index. October, 2007. Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

¹⁶ Atkins.

¹⁷ Keating, 28-31.

“Motorists who rely on noncommercial commuter passes can deduct up to \$1,200 worth of West Virginia Turnpike tolls from their income taxes.”¹⁸ However, this bill only applies to those who travel using the turnpike, not all drivers in the state. Furthermore, it does not specify whether large trucks which transport inventory would also qualify for this deduction. Therefore, while this bill alleviates the burden for some motorists in the state, it does not appear to aid businesses.

Innovation

West Virginia is especially lacking in innovation. The New Economy Index¹⁹ (NE) rates the states according to advancements in innovation (with a rating of one being the best). In this study, West Virginia ranked as the least innovative state in the nation at 50th. Moreover the SCR reported that technology is not flowing into the state in any form, patents are low ranked 46th, and the educated work force does not give much hope for improvement. While many other states have created niches for themselves in new or high tech industries, West Virginia is still relying on its coal mining industry. As environmental awareness becomes more important, coal use will decrease due to its relatively high pollutant output. Also, while there is speculation that processes may be reached to purify coal and use it as an eco-friendly resource, these processes have yet to demonstrate convincing evidence to potential leading investors.

The technological aspect of innovation is very weak in West Virginia. It is ranked 44th in number of IT professionals, 47th in online population, 48th in e-government, and last in broadband telecommunications (according to the NE Index).²⁰ With a lacking infrastructure and quality of production in this sector, also noted by a ranking of 46th in manufacturing-value added, innovation is extremely difficult.

This difficulty is evident in the lack of patents that are produced in West Virginia ranked at 46th in patents per 1,000 workers. Since the technological infrastructure and human capital are both very weak, R&D suffer as well as evidenced by a rating of 42nd in industry R&D.²¹

As can be expected, these weaknesses do not foster strong business across the state's borders. West Virginia ranks 36th in foreign direct investment (FDI), 45th in package exports and 41st in globalization.²²

The NE Index gave West Virginia an overall ranking of 45th in innovation capacity. This accounts for high-tech jobs, for which the state is ranked 46th. High-tech jobs are an account of “jobs in electronics manufacturing, software and computer-related services, telecommunications, and biomedical industries as a share of total employment.”²³

¹⁸ “Special Session at a Glance.” 26 Nov. 2006.

¹⁹ Robert Atkinson and Daniel K. Correa. The 2007 State New Economy Index.: Benchmarking Economic Transformation in the States. Innovation Technology and Innovation Foundation. February, 2007. 13. http://www.kauffman.org/pdf/2007_State_Index.pdf

²⁰ Atkinson and Correa, 15.

²¹ Atkinson and Correa, 17.

²² Atkinson and Correa, 16.

²³ Atkinson and Correa, 46.

Venture capital is another factor the NE index used in determining a state's rank for innovation capacity. The index defines this as "Venture capital invested as a share of workers' earnings."²⁴ This is important for two reasons. One is in literal monetary measurements of how much money goes back into companies, for R&D or other various uses aimed at expanding business. A more abstract reason this factor is important is that it shows how confident a state's workforce is in its industries and companies. West Virginia received a ranking of 37th for venture capital.²⁵ This shows that either the state's workers are relatively lacking in knowledge of investment, or are relatively lacking in confidence in the business future of the state.

Workforce

West Virginia has a number of labor issues that can inhibit economic growth. Fifteen percent of the state's working population is represented by unions, which is the twelfth highest in the nation.²⁶ This is the eleventh highest in the country. With more union-affiliated laborers, a state can expect a number of business inhibitors. These include higher wages, more benefits, and a higher propensity to complain about labor laws. The high rates in West Virginia are especially crippling when compared with neighboring Virginia, which is among the lowest in unionization rates.

The SCR also rated the state unfavorably in terms of workforce. The SCR ranks the quality of its workforce in its "Human Resources" category. In this category, West Virginia ranks 42nd in the country. The report ranked the state 50th out of the states in percentage of adults who are in the labor force.²⁷ This means that fewer adults per capita are working in the state than in anywhere else in the nation. Also, the SCR ranked the state 33rd in unemployment. The unionization rate was poor in this report as well, having been ranked 36th in the country.²⁸

Another partial cause of the weak work force is the university system, which is still mostly known for its agricultural and engineering programs. However, as alternative energy becomes an issue of greater importance in the US, these fields could rebound in the forms of ethanol R&D and fossil fuel manipulation. Unfortunately, this is just speculation and there are no statistics to show that West Virginia's universities will benefit from such issues. More likely, if West Virginia wants to obtain a more intelligent workforce, it should attempt to restructure its lower educational system.

The unemployment rate is also creeping up in West Virginia. A recent report showed results that two thirds of the counties' unemployment rates have increased since July. Although the state's rate is only a tenth of a point above the national unemployment rate, it has increased 0.8% since January. Also, with a 6-7% unemployment rate, many of the counties in the state are well above the national average which was at 4.7% in October.

²⁴ Atkinson and Correa, 50.

²⁵ Atkinson, 17.

²⁶ Union affiliation of employed wage and salary workers by state (Numbers in thousands). US Department of Labor. Bureau of Labor Statistics. 1 Feb. 2007. <http://www.bls.gov/ro1/neum.htm>

²⁷ Tureck, et al, 63.

²⁸ Tureck, et al, 63.

Education

West Virginia has one of the worst educational systems in the US. A recent study by the US Chamber of Commerce “graded” states for a number of educational effectiveness categories. The first category was academic achievement, for which the state earned an “F.” This was because fourth and eighth graders scored ten percentage points below the national average in the percentage at or above the proficient level on the National Assessment of Educational Progress (NAEP) exam.²⁹ In a similar category, academic achievement of low income and minority students, West Virginia earned a “D.”

The next area of educational effectiveness was return on investment, which ranks student achievement relative to state education spending. The state earned another “F” in this category. The next category is truth in advertising about student proficiency which measures the number of students who scored at or above the proficient level on state exams against those who scored likewise on the NAEP exams. Since a large number of West Virginia students who scored at or above proficient levels on state exams did not do so for the NAEP exams, the state’s tests appear unreliable. Thus, West Virginia earned a “D” in this category. Next, West Virginia earned a “C” for its rigor of standards, which measures the difficulty of science and math tests. The state earned a “D” in post-secondary and workforce readiness, because only 39% of ninth graders who finish high school in four years go to college, and 11th and 12th graders scored poorly on Advanced Placement Tests. The state fared much better in the category of 21st century teaching force, for which it earned an “A” This is because teachers are required to take general knowledge tests and high school teachers must take subject-specific tests. West Virginia earned a “D” in flexibility in management and policy, mostly because the state does not have a charter school law and only 29% of principles expressed that they had some say in hiring teachers, compared with the national average of 88%. Finally, West Virginia earned another “A”, this time for data quality. The state, unlike most others, collects college student readiness scores and has a system to match teachers with students’ performance to measure the teachers’ performance.³⁰ The state earned a “Grade Point Average” of 1.556, among the poorest in the country. However, the two categories for which the state earned an “A” are promising. Furthermore, they are both future-progress-oriented indicators, because the results of positive systems in these categories have yet to be felt. Therefore, all other categories remaining equal, West Virginia’s educational atmosphere will most likely improve.

While it was mentioned earlier that West Virginia is one of the least technologically advanced states in the US, this field is actually its only educational strength. Technology in schools is well above average in West Virginia, which may indicate that the workforce could follow suit. However, this is only speculation and there is not data to back this assumption.

West Virginia is ranked last in workforce education in the NE Index.³¹ This is a weighted measure of the educational attainment (advanced degrees, bachelor’s degrees,

²⁹ The Institute for a Competitive Workforce. Leaders and Laggards: A State by State Report Card on Educational Effectiveness. US Chamber of Commerce, 2007.
<http://www.uschamber.com/icw/reportcard/default>,

³⁰ Leaders and Laggards.

³¹ Atkinson and Correa, 16.

associate's degrees, or some college coursework) of a workforce. With the lowest number of college graduates at 15.3% of the state population, the potential for technological or innovative advancement is greatly reduced, regardless of the level of technology used in primary or high school education. This will increasingly hurt West Virginia's economy relative to other states as companies rely more heavily on technology and new systems.

Cost of Market Entry

The Milken Institute releases an annual study in which it ranks the states with the highest cost of doing business on a scale of 1-50 (with a ranking of 50 being the best for business).³² In this study, West Virginia was given a relatively positive ranking with the 37th highest cost of doing business.

The electrical utility costs in West Virginia are ranked 1st in the country. The gas excise tax, however, is ranked 39th.³³ Therefore, the energy costs in the state fall somewhere a little above average. This is one area West Virginia can hope to promote to attract businesses, especially those that involve manufacturing.

Top individual capital gains tax and corporate capital gains tax are ranked 37th and 41st, respectively.³⁴ These costs will repel many investors and venture capitalists, who are already taking great risks. New businesses will be more comfortable venturing into the market of neighboring Virginia, which has much more favorable tax rates in both of these categories.

If West Virginia is to become a competitive economic state and attract new business, it must shed some of its outdated tendencies. The unionization mentality perpetuated by the mining and manufacturing industries is hurting the state's chances for new, alternative businesses. Moreover, a lack of an adequate education system will not help bring R&D and advanced technological sectors into the state, both of which are crucial to most emerging markets. However, with a large projected government surplus and new educational processes thriving, West Virginia will have the ability to break free from its stereotype as a backwards backcountry state.

³² "2007 Cost of Doing Business Index." Milken Institute. December, 2006.
<http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

³³ Keating, 36, 40.

³⁴ Keating, 29,31.