In November, West Virginia residents will vote for a new local financing method called tax increment financing (TIF). TIF refers to a local government financing method that originated in California in 1945 with the enactment of the Community Redevelopment Act. It is currently used in 46 states. Initially, TIF aimed at financing a variety of infrastructure improvements for economic development and growth. Today, this original goal can be extended to include lower unemployment, higher wages, higher property values, business attraction, industrial development, downtown development, overall infrastructure improvement, and increases in local tax revenues.

In the tax increment financing method, a local government issues bonds to raise the funds necessary to develop a blighted area. The development project is expected to increase local private investment and raise property values. This would result in higher property tax revenues collected from the developing area. The increment by which the property tax revenue increases is used to retire the bonds.

**The WV Local Option Economic Development Amendment**

The West Virginia State Legislature enacted the West Virginia Tax Increment Financing Act during the 2002 regular session. This act will not go into effect until West Virginia residents ratify it as an amendment to the state constitution in the November 2002 election. Because strong opposition from labor organizations killed a similar amendment four years ago, the new amendment adds safeguards such as the requirements that prevailing wages be paid and that local labor be given preference (see section 14, SB244). Consequently, the AFL-CIO gave its endorsement to the amendment and pledged its support in the campaign for its ratification.

The proposed TIF process starts with an economic development idea initiated by either the private or the public sector. A county commission or a municipality1 reviews this idea with public input and approves or rejects the TIF project plan in a public meeting. Following this approval, the West Virginia Development Office reviews the plan to ensure that the project developer conforms to the requirements set forth in section 8 of the West Virginia Tax Increment Financing Act. The Development Office then reports its decision within 60 days. If the project plan is approved again, the county commission or the municipality works with investment professionals to issue the TIF obligations necessary in the financing of the project. Finally, the county commission or the municipality must prepare a status report each year for each development and redevelopment project. This status report must be filed with the executive director of the development office.

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1 According to SB244, besides a county commission, only Class I and II municipalities are authorized to carry out the tasks related to a TIF project.
Can TIF Really Help in Local Economic Development in WV?

The ultimate goal of a TIF program is to help a local area develop. Being one of the least developed states in the nation, West Virginia and its municipalities appear to be good candidates for the use of this development financing mechanism. In addition, TIF has been used in reconstruction and redevelopment projects following natural disasters--it can be particularly effective in dealing with the flood damages suffered in southern West Virginia. This financing method has already been used by municipalities in states that are structurally similar to West Virginia.

What Are the Risks?

There are two major risks, however, that may affect the successful implementation of TIF programs in West Virginia. First, while there is no absolute consensus from previous studies of TIF use, it appears that growing cities are more likely to use TIF than cities experiencing population losses. The negative population growth rates observed in West Virginia in recent years lead us to wonder whether TIF would actually be used by many municipalities even if the Tax Increment Financing Act is ratified.

The second risk has to do with the revenue generating capability of the TIF mechanism. The success of a TIF program depends significantly on the property value growth it generates. Since TIF debt is paid entirely by the incremental property tax revenues generated by increasing property values, property value growth becomes the single most important aspect of the TIF mechanism. In general, studies showed a positive association between TIF programs and property value growth in TIF districts. Some of these studies provided more definite results and concluded that TIF had a significantly positive effect on the property value growth. This is significant in maintaining a healthy municipal debt financing system despite the fact that, in many states, municipalities do not have explicit moral obligation in the debt service. The exclusion of excess levies from the TIF mechanism may weaken the revenue flow significantly despite a strong growth in property values. This will also make TIF more vulnerable to external shocks such as economic recessions. Finally, TIF also highlights the importance of data collection in the evaluation of both the progress of TIF projects and the impact on local economic development.

Advantages of TIF

1. As an additional local government finance instrument, TIF gives flexibility to local governments in financing economic development projects.
2. It can provide duly needed capital in the economic development of blighted areas. It has been used in various development and redevelopment projects including reconstruction projects following natural disasters such as floods and earthquakes.
3. It is a politically attractive tool because it does not directly involve any new tax increases.
4. It provides local taxing authorities with an improved tax base after the entire TIF debt is paid for.

Disadvantages of TIF

1. TIF is enacted in a local governmental setting where there are overlapping jurisdictions such as counties, municipalities, and school districts. Since the property value growth in the TIF district is reserved for the repayment of TIF obligations, other non-benefiting jurisdictions that contain the TIF district may feel disadvantaged. This can lead to interjurisdictional conflicts and can possibly undermine the effectiveness of the TIF program.
2. TIF programs are costly to administer. This is due to the complexities involved in the implementation process.
3. Although TIF bonds do not generally count towards county or municipal indebtedness, municipalities can still be affected through possible reductions in credit ratings if TIF obligations default.
Potential Economic Impacts in WV of President Bush’s National Energy Policy and Kyoto Follow-Up*

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In the last 18 months, there have been many significant actions dealing with global climate change and energy policy. West Virginia’s economy is more concentrated than the economies of most states in the production and use of energy. West Virginia exports to other states about 70 percent of its electricity production and over 80 percent of its coal production. West Virginia also produces and consumes large amounts of natural gas. Thus, many of the efforts to address global climate change and energy policy could have substantial and wide-ranging impacts on West Virginia’s coal and electricity industries, as well as other parts of the West Virginia economy.

In this report, we examine the May 2001 report of the National Energy Policy Development Group, the Kyoto Protocol, and the February 2002 Global Climate Change Policy Book which explains the Bush Administration’s approach to limiting greenhouse gas emissions. We find that in some cases the potential effects of these policies are large because of potential impacts on U.S. gross domestic product and potential impacts on the use of coal in electricity generation.

Report from the National Energy Policy Development Group

The policies outlined in the report of the National Energy Policy Development Group (NEP) could have a positive impact on the West Virginia economy. This policy emphasizes improvements in technology to provide the nation both reliable energy and a clean environment. This results in a positive impact on the nation’s GDP and the increase in the demand for coal in electricity production in the near term. The REMI model predicts that by 2010 the results for West Virginia of the NEP’s changes are an annual gain of real Gross State Product of $205 million and a gain of total employment of 4,760.

Kyoto Protocol

The Kyoto Protocol, as it currently stands, is unlikely to have large impacts on West Virginia. The U.S. will not participate in the emissions reductions or the mechanisms of the Protocol, and the requirements on other nations to implement the Protocol have been substantially diluted in recent negotiations. Therefore, the Protocol’s direct effect on the West Virginia economy will be reduced coal exports to those countries still participating in the emissions reductions. For West Virginia, the REMI model predicts that by 2010 the impacts of a 50 percent reduction in coal exports to those countries are an annual loss of real Gross State Product of $60 million and an employment loss of 1,000 jobs.

Global Climate Change Policy

The Bush Administration’s climate change policy proposes U.S. emissions reductions, although the proposed reductions are not particularly severe when compared to the Kyoto Protocol. Even though these reductions are achieved by declines in emissions intensity, they are likely to generate significant negative impacts on the state economy, as power generation moves to lower emission fuels.

*The Coal and Energy Research Bureau of West Virginia University provided funding for this study. The views expressed here are those of the authors and are not necessarily those of West Virginia University or the West Virginia Higher Education Policy Commission. This research is part of a long-term research project examining the implications of federal energy and environmental policies on West Virginia. Other studies are available at www.bber.wvu.edu.
Thinking Outside the Box

It’s commonly suggested that for the state to improve its economic performance, we need to think outside of the box. This may be true, but in order to think “outside the box,” we need to understand the box and its implications for the future.

The Box

Here’s the box, according to data through early 2002:

- West Virginia jobs stabilized in late 2001, possibly signaling an end to the state downturn. However, on a seasonally adjusted basis, the state added only 2,700 jobs from October 2001 to April 2002. Further, the preliminary seasonally-adjusted total employment estimate for May 2002 is below the October 2001 estimate, suggesting that we may not be entirely out of the woods yet.

- West Virginia’s seasonally adjusted unemployment rate spiked up in early 2002, hitting 6.2 percent in May 2002, 0.4 percentage points above the national rate. This may not be a bad sign, if it reflects increased job search activity spurred by job gains.

- The per capita personal income gap between the state and the nation fell in 2001, from 26.2 percent in 2000 to 24.9 percent. According to this preliminary data, the surge in West Virginia per capita personal income in 2001 was attributable to strong gains in earnings in mining (with the resurgence in coal mining), construction, manufacturing, and services, as gains in each of these sectors outpaced the national average.

- Preliminary Census estimates indicate that the state lost 5,200 residents between July 2000 and July 2001. The state posted negative natural increase (more deaths than births) last year and net migration was negative.

- Overall for the 1990s, the state economy gradually improved by adding jobs, registering increases in per capita personal income and gross state product (GSP) (even after adjusting for inflation), adding residents, and driving down the rate of unemployment.

- West Virginia’s growth in jobs, residents, per capita personal income, and per capita GSP fell short of national results during the 1990s.

Where We’re Headed

The long-term forecast projects historical economic relationships between the state and national economies into the future. In other words, given the box as it appears now, here’s where the state economy is headed:

- The state is forecast to register more jobs, real per capita personal income, and real GSP in 2011 than it does today. In other words, the forecast calls for West Virginia’s standard of living to be higher in 2011 than it is today.

- The forecast calls for gradual population declines during the 2002-2011 period, as the state continues to post negative natural increase and to generate little or no net migration into the state.

- The state unemployment rate stabilizes between 5.0 and 6.0 percent during the forecast period.

- West Virginia’s growth during the forecast period is expected to be slower than national growth. This leaves the state further behind the national average in 2011 than it is today.
### United States

| Year | GDP (Bil. $1996 Chain-Wtd.) | % Change | Consumer Price Index (CPI-U) (1982-84=100)* | % Change | Total Nonfarm Payroll Employment (Mil.) | % Change | Capacity Utilization Rate | % Change | Housing Starts (Mil.) | % Change | Retail Sales (Bil.$) | % Change | Average Weekly Hours | % Change | Real Personal Income (Mil. 1996$) | % Change |
|------|-----------------------------|----------|------------------------------------------|----------|----------------------------------------|----------|--------------------------|----------|-----------------------|----------|---------------------|----------|----------------------|----------|------------------------|----------|----------------------|
| 2001 | 9,214.5                     | 3.8      | 177.1                                    | 3.4      | 131.9                                  | 2.0      | 77.4                     | 3.5      | 1.624                 | -1.1     | 3,167               | 3.6      | 20.6                 | -0.2     | 37,328                | 2.2      |
| 2000 | 9,191.4                     | 3.8      | 177.8                                    | 3.4      | 131.1                                  | 2.0      | 76.2                     | 3.5      | 1.603                 | -0.1     | 3,056               | 3.6      | 20.6                 | -0.2     | 37,248                | 2.2      |
| 2001 | 9,248.8                     | 3.7      | 177.3                                    | 3.4      | 130.8                                  | 1.9      | 75.0                     | 3.5      | 1.573                 | 1.3      | 2,866               | 3.6      | 20.6                 | -0.2     | 37,174                | 2.2      |
| 2000 | 9,363.2                     | 3.9      | 179.7                                    | 3.4      | 130.7                                  | 1.9      | 75.6                     | 3.5      | 1.573                 | 1.3      | 2,866               | 3.6      | 20.6                 | -0.2     | 37,174                | 2.2      |
| 2001 | 9,389.6                     | 3.8      | 179.8                                    | 3.4      | 128.9                                  | 1.9      | 75.6                     | 3.5      | 1.573                 | 1.3      | 2,866               | 3.6      | 20.6                 | -0.2     | 37,174                | 2.2      |
| 1999 | 8,858.9                     | 3.8      | 177.9                                    | 3.4      | 125.1                                  | 1.9      | 75.6                     | 3.5      | 1.573                 | 1.3      | 2,866               | 3.6      | 20.6                 | -0.2     | 37,174                | 2.2      |

**Notes:** West Virginia average weekly hours, average hourly earnings, and initial claims for unemployment insurance data are obtained from the West Virginia Bureau of Employment Programs and seasonally adjusted using seasonal factors derived by the Bureau of Business and Economic Research. West Virginia employment and the state unemployment rate are seasonally adjusted by the West Virginia Bureau of Employment Programs. Personal income data are seasonally adjusted by the Bureau of Economic Analysis, U.S. Dept. of Commerce. Components may not sum to totals due to rounding. All percent changes are measured from the previous period and expressed as annual rates. Value of total housing permits data are from the Bureau of the Census, U.S. Dept. of Commerce.

* Not Seasonally Adjusted.

n/a Not Available.