

Potomac Highlands Region of West Virginia

AN ACTION PLAN FOR ECONOMIC PROSPERITY

EXECUTIVE SUMMARY

 West Virginia University
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1 Introduction

In 2015, Pendleton County, WV, and the broader Potomac Highlands region (including Hardy, Hampshire, Grant, Mineral, and Pendleton counties) experienced a significant economic loss when the Sugar Grove Naval Station in Pendleton County shut down its operations. The base provided a stable source of income for its employees and in turn local businesses that relied on the patronage of the workers at the base for their livelihoods.

As a result of the closure of the Sugar Grove base, the Pendleton County Commission, in coordination with the Region 8 Planning and Development Council, engaged researchers at West Virginia University to develop a Strategic Action Plan to promote the economic development in the Potomac Highlands Region. The development of the Strategic Action Plan was completed through a four-pronged approach with the completion of: (1) an economic impact analysis of the Sugar Grove Naval Base closure and economic profile of the region; (2) a cluster analysis that made recommendations for industrial targeting based on an assessment of existing economic conditions in conjunction with industry-specific growth potential; 3) a workforce and educational assessment of the Potomac Highlands counties; and 4) extensive interviews with business and community stakeholders in the region. Based on these findings, we make six recommendations that make up our proposed Action Plan for Economic Prosperity in the Potomac Highlands region.

2 Economic Impact of the Sugar Grove Naval Station Closure

The closure of Sugar Grove Naval Station eliminated 158 jobs in the region, with an additional 58 jobs lost in secondary industries—such as restaurants, grocery stores, retail stores, etc.—coming as a result of the lost income from the Naval Station workers (Table 1). Total economic losses were approximately \$22 million, with about \$16 million coming from income losses at Sugar Grove. And approximately \$561 thousand in state and local tax revenue was lost due to the Naval Station’s closure. While these impacts were certainly significant, particularly for smaller businesses in Pendleton County that relied on business from workers at the base, they represent a relatively small proportion of the total employment in the region as a whole.

Table 1: Total Economic Impact of the Sugar Grove Naval Base Closure

Type of Impact	Direct	Indirect and Induced	Total
Output (\$, millions)*	15.8	6.5	22.3
Employment (jobs)	158	58	216
Employee Compensation (\$, millions)	15.8	1.6	17.4
Tax Revenue (\$, thousands)†	381	180	561

* Output is equal to employee compensation because other operational expenditures are spent outside the region.

† Tax revenue includes sales, personal income, corporate net income, and property taxes.

3 Cluster Analysis

Delineating industry clusters in the Potomac Highlands region helps to identify target industries for economic development. Our cluster analysis identifies two primary clusters for potential growth in the region over the next 5 years (shown in the upper right quadrant of Figure 1):

- 1) Advanced Materials
- 2) Forest and Wood Products

Secondarily, our cluster analysis identified four additional sectors that can be seen as emerging sectors in the region. These sectors are not currently highly clustered in the region, but are growing in specialization and are thus increasingly important to the economy of the region. In addition to the primary clusters, these emerging clusters are attractive areas for targeted development efforts:

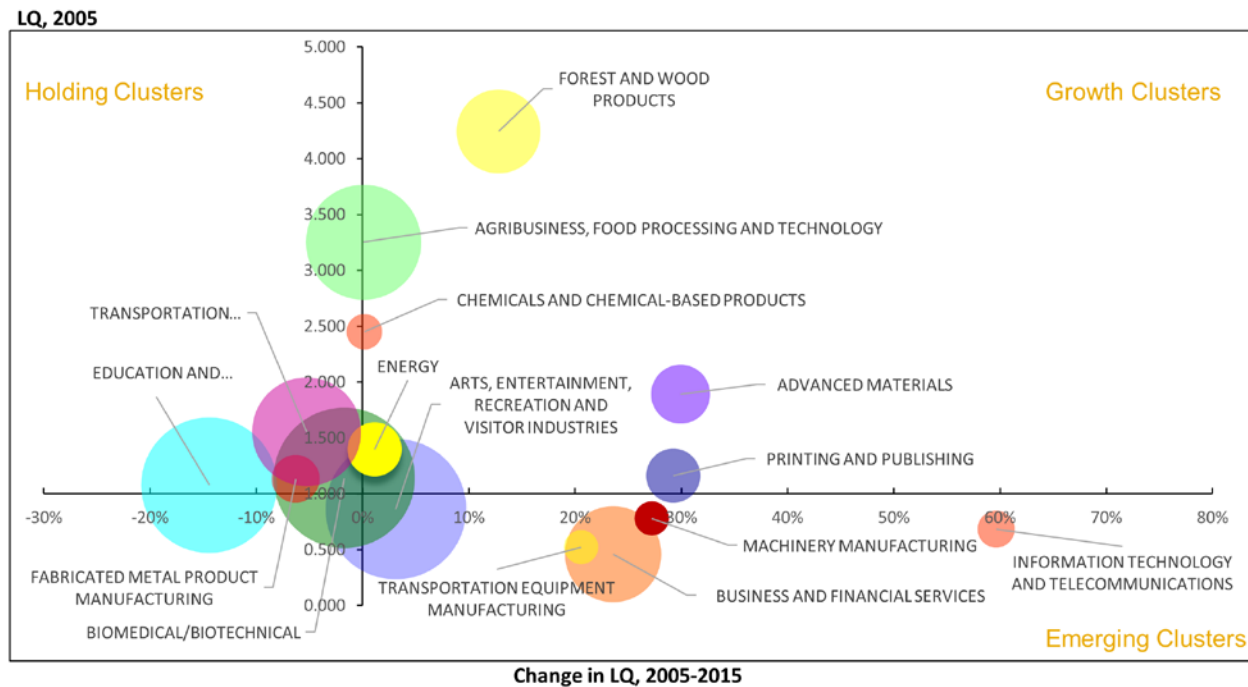
- 1) Business and Financial Services
- 2) Information Technology and Telecommunications
- 3) Machinery Manufacturing
- 4) Transportation Equipment Manufacturing

Lastly, the cluster analysis found the Agribusiness, Food Processing, and Technology sector to be a highly significant cluster for the region. However, we classify this cluster as a “holding,” rather than a growth cluster, as it does not have the same potential for growth as the other clusters identified as growth and emerging clusters.

The cluster analysis also highlighted the region’s role in the larger metropolitan areas in surrounding states. Hampshire and Mineral counties are officially part of the Winchester, VA, and Cumberland, MD, metropolitan areas, respectively. The region also has significant commuting ties to Harrisonburg, VA. The fact that many Potomac Highlands residents work outside the region but choose to live in the area indicates that they value the lifestyle they find in the Potomac Highlands. They also import income into the region from their jobs in the larger labor market areas of the nearby cities.



Figure 1: Cluster Analysis



4 Workforce and Educational Assessment

Human capital is a crucial element of any regional economic growth plan, as companies looking to locate or grow in a region require a skilled workforce to meet the demands of their businesses. Overall, we predict that the Potomac Highlands region is likely to have an oversupply of lower-skilled workers entering the labor market each year, and an undersupply of workers with higher skills (Table 2).

Table 2: Predicted Supply and Demand of Workers by Educational Attainment

Educational Attainment	Demand	Supply	Supply-Demand
High School Degree	402	871	469
Some College/Associate's Degree	330	397	67
Bachelor's Degree	142	21	-121
Graduate/Professional Degree	64	0	-64
Total	938	1,289	351

Source: Authors' calculations

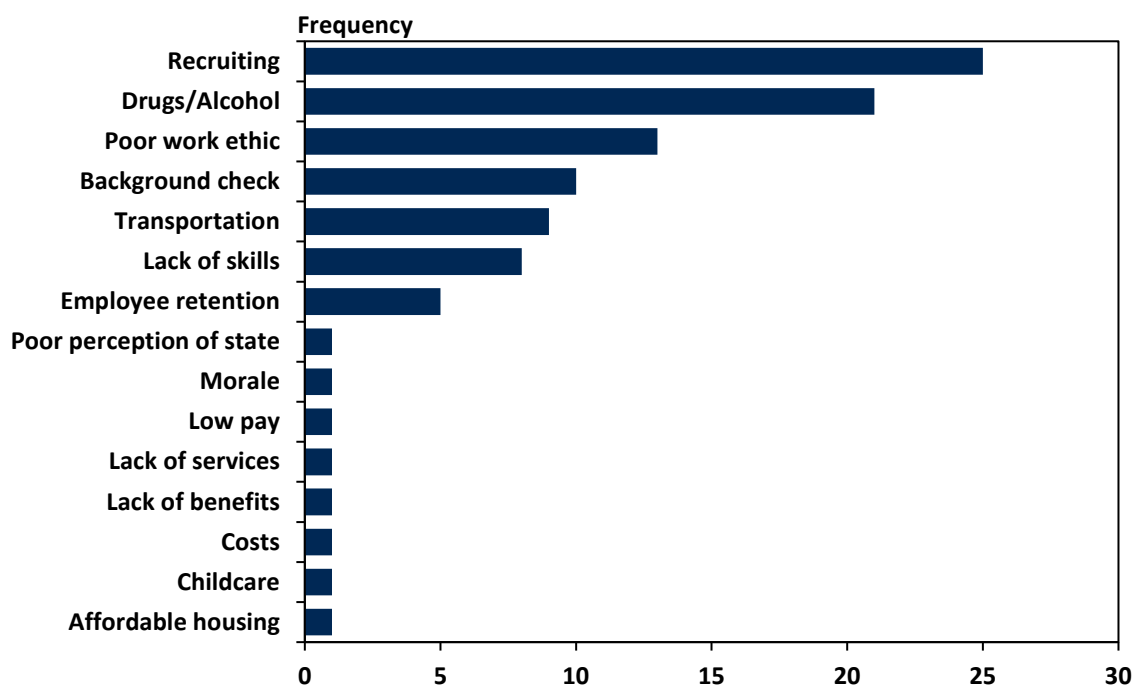
The region’s labor challenges over the next five years are thus twofold: providing enough jobs for lower-skilled workers while at the same time attracting workers with the necessary education to fill higher-skilled job openings. The rural nature of the region is both a blessing and curse: Limited infrastructure—such as broadband and cellular service—may make attracting new residents a difficult task. However, workers may also be drawn the rural lifestyle and outdoor recreation opportunities in the area.

5 Interviews

In order to understand the workforce, institutional, and cultural needs of the Potomac Highlands region, we conducted interviews with business owners and other community leaders throughout the last half of 2018 and the beginning of 2019. While the respondents all valued living and working in the region, they outlined a wide range of challenges they face in expanding their businesses or recruiting workers into the area.

Workforce issues were among the most prominent concerns among employers in the Potomac Highlands region. While the large majority of employers we interviewed said they planned to grow their organizations, many said they faced significant barriers to that expansion (Figure 2). Many leaders had trouble finding skilled workers to fill their job openings, and pointed to poor work ethic and problems with drugs and alcohol as significant impediments to hiring. Some business owners said specific knowledge-based skills were needed, particularly in the areas of machinists, technology, and math. However, most of the skills that employers were looking for were those that are considered “soft skills”—communication, working in teams, ability to get along with other people, and reliability.

Figure 2: Workforce Challenges

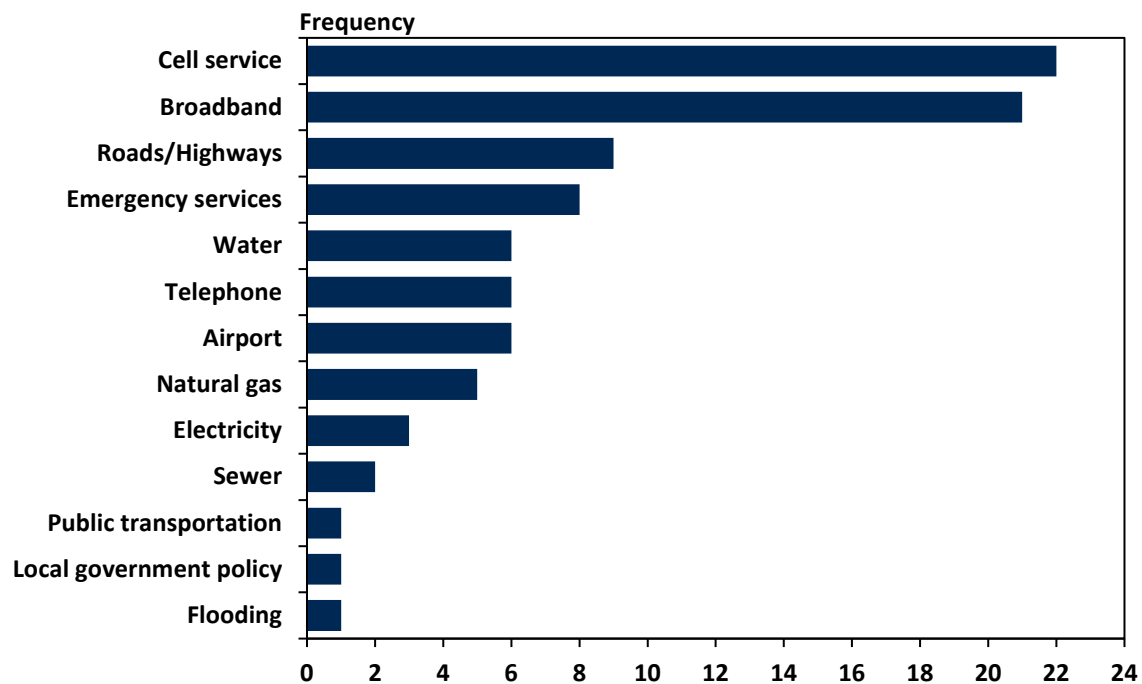


Source: Author interviews



Local stakeholders also identified a wide range of infrastructure challenges. Lack of high-quality cellular phone service and broadband internet were considered significant barriers by nearly all of the respondents to the survey (Figure 3). Also, poor transportation connectivity and limited emergency services are barriers for further economic development.

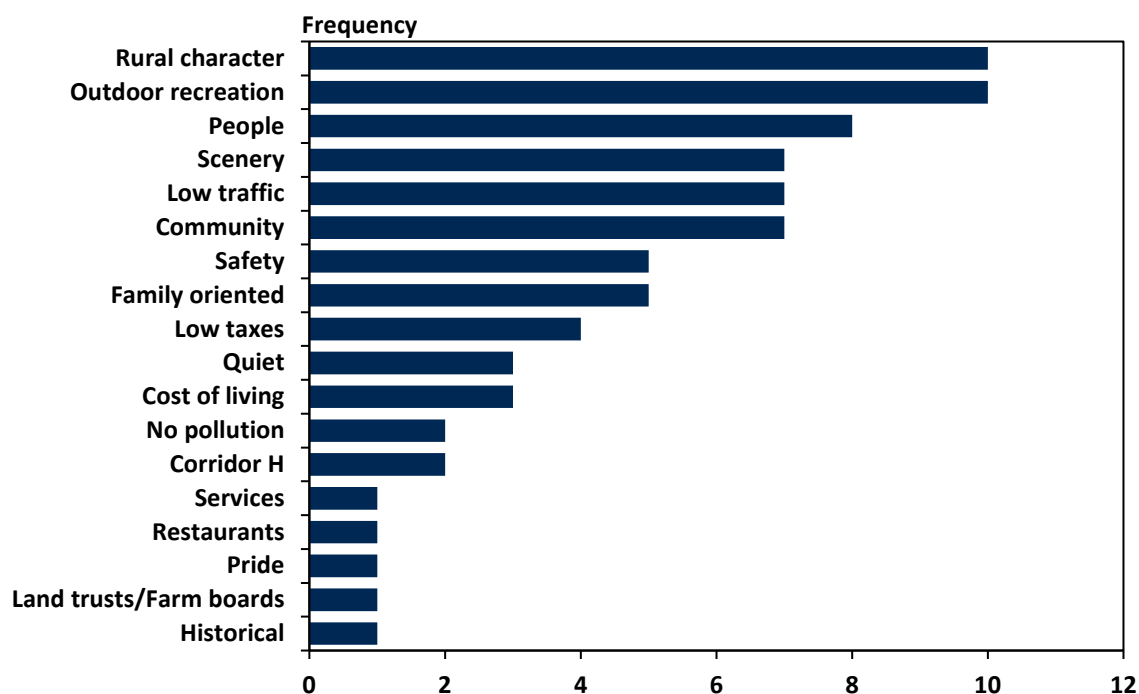
Figure 3: Infrastructure Needs



Source: Author interviews

Overall, the business owners, government officials, and other community leaders we interviewed expressed a great deal of commitment and value to locating in the Potomac Highlands region. They said they valued the quality of life they find in the area, particularly its rural character and outdoor recreation opportunities (see Figure 4). However, the regional lifestyle has its downsides for some, who said the area was too remote and had few amenities they desire in a place to live.

Figure 4: Quality of Life Assets



Source: Author interviews

6 Recommendations

Based on the economic data, cluster analysis, workforce and education information, and the local stakeholder interviews, we recommend six strategic actions with associated activities¹ to assist in implementation of the suggested action:

- 1) **EMBRACE POTOMAC HIGHLANDS REGIONAL IDENTITY:** Embracing the five-county region as the Potomac Highlands in economic development efforts, county level decision making, state and federal level resource requests, and tourism related branding would provide a united front, thus increasing the area's visibility in business, visitor, and resident attraction efforts.
- 2) **ASSIST IN RECRUITING AND TRAINING WORKFORCE:** With the significant changes in the workforce over the last five years, including major layoffs and hiring activities in different sectors across the region, maintaining a worker training and recruitment infrastructure is essential to support business retention and local citizen needs.
- 3) **IMPROVE DIGITAL COMMUNICATION OF ECONOMIC DEVELOPMENT OPPORTUNITIES:** The digital information available on the area needs to be refined and improved to maximize the region's digital presence for both businesses and visitors.
- 4) **COLLABORATE REGIONALLY ON FEDERAL FUNDING OPPORTUNITIES:** In many cases a regional application may be more competitive for federal funding opportunities based on preferential grant application scoring for larger "impact" based on population demographics. Regional or multi-county applications also shows cooperation and grant management capacity.
- 5) **DEVELOP LAND USE POLICIES THAT INCENTIVIZE HOUSING AND LODGING GROWTH:** There was a strong demand by local stakeholders for additional hotels in the region, and a recognition of the need for new housing stock. To attract appropriate residential and commercial lodging, the region should work collectively across the counties to implement land use policies that incentivize residential housing and commercial lodging opportunities while preserving the natural assets of the region. Regional proactive planning is necessary to provide community stakeholder's address watershed concerns, water resource impacts, and other unintended consequences of growth.
- 6) **TARGET PRIMARY AND EMERGING CLUSTERS FOR RECRUITMENT:** We recommend focusing economic development efforts on the industries that were identified as part of Primary and Emerging clusters in our cluster analysis. These include: Advanced Materials, Forest and Wood Products, Business and Financial Services, Information Technology and Telecommunications, Machinery Manufacturing, and Transportation Equipment Manufacturing.

¹ See the full report for specific activities.



7 Conclusions

Many of the challenges facing the Potomac Highlands region are not unique to this area, but are common among rural areas across the country. The lifestyle provided in the region may be a draw for existing residents, but low-density development also creates obstacles to attracting businesses and workers from other regions.

In particular, infrastructure development—particularly roads and telecommunications—has been a top priority for local government agencies charged with economic development in the region for many years. However, major highway projects require a scale of resources that are out of reach for small local governments, and will require investments from the state and federal level, as well as private sources. Coordinating as a region will allow the Potomac Highlands counties to be united in advocating for these resources to be provided to the region.

Though some of the region’s goals may require interventions from the state and federal levels, we have focused our recommendations in those areas we think can be achieved by local and regional agencies acting together to further the economic development of the region. We believe that by acting together, the Potomac Highlands region can work to enhance its own economic prosperity.



About the Bureau of Business and Economic Research

Since the 1940s, the BBER's mission has been to serve the people of West Virginia by providing the state's business and policymaking communities with reliable data and rigorous applied economic research and analysis that enables the state's leaders to design better business practices and public policies. BBER research is disseminated through policy reports and briefs, through large public forums, and through traditional academic outlets. BBER researchers are widely quoted for their insightful research in state and regional news media. The BBER's research and education/outreach efforts to public- and private-sector leaders are typically sponsored by various government and private-sector organizations.

The BBER has research expertise in the areas of public policy, health economics, energy economics, economic development, economic impact analysis, economic forecasting, tourism and leisure economics, and education policy, among others. The BBER has a full-time staff of three PhD economists, and one master's-level economist. This staff is augmented by graduate student research assistants. The BBER also collaborates with affiliated faculty from within the John Chambers College of Business and Economics as well as from other parts of WVU.

To learn more about our research, please visit our website at <https://business.wvu.edu/bber/>.

