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West Virginia Economic Development Funding:
The Role of Federal Earmarks

Sean O'Leary and Karen Kunz

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Cover
Damaged overpass and construction equipment in West Virginia
8 June 2008
Federal Emergency Management Agency
Robert Kaufmann

West Virginia Economic Development Funding:

The Role of Federal Earmarks

Sean O’Leary and Dr. Karen Kunz

Abstract

This study examines the use of federal earmarks to help fund economic development in West Virginia. Federal earmark data collected by Citizens Against Government Waste (CAGW) over the decade, along with demographic and fiscal data provided by West Virginia Comprehensive Annual Financial Reports (CAFRs) and several federal agencies are used to illustrate the means by which federal dollars are allocated to West Virginia for economic development. We find that the conventional means of government agency funding have been overshadowed by the increasing allocation of federal earmarks for community development projects within the state. This calls into question the state’s ability to attract funding from federal programs, such as Economic Development Authority and Community Development Block Grant awards, and points to its reliance on federal earmarks, which are a much less dependable source.

Introduction

Federal funding of economic development has declined throughout the decade, leaving state and local governments in dire straits when it comes to funding community needs. Yet declining tax revenues and increasing unemployment underscore the need for increased focus on economic development as a viable means of revitalization. As federal Economic Development Administration (EDA) funds and Community Development Block Grants (CDBG) – customary sources of financing for projects that do not meet the parameters of traditional program funding - decrease, state and local leaders increasingly look to federal earmarks to fund revitalization efforts.

On average, over one-third of all federal earmarks received by West Virginia between fiscal years 2000 and 2009 were designated for economic development activities within the state. Nationally, on average over the same period, West Virginia received more earmarked funding for community development projects than 75 percent of the states. Like traditional federal program funding, such as Economic Development Administration (EDA) and Community Development Block Grant (CDBG) awards, earmarks provide funding for projects that generally do not qualify or are not determined to be priorities for these conventional funding sources, but which are priorities for local communities nonetheless. And similarly to EDA and CDBG awards, earmarks are one-time awards for specific projects.

As a source of funding, however, earmarks are fiscally

inconsistent and unpredictable, whereas the agencies that award EDA and CDBG receive annual Congressional appropriations to support award funding. This study sheds new light on sources of federal funding for community development projects in West Virginia through a comparison of federal earmark, EDA and CDGB awards received over the current decade.

Funding Community Economic Development

The acquisition of funding for community development can be a challenging endeavor. Local officials often lack the authority to provide the resources necessary for economic development. When local government officials craft a budget, economic development initiatives often compete for scarce resources with departments such as housing, health and education. For example, in Los Angeles, the Department of Water and Power (DWP) acts a vehicle for funding economic development activities in the San Fernando Valley. In 2003 the city withdrew its \$100,000 contribution to the Economic Alliance of the San Fernando Valley, which supports regional economic development. DWP officials cited the need to cut expenses and increasing costs in securing Los Angeles's water and power supplies as the reason for not funding the Economic Alliance (Nash, 2003).

Local governments often must devise creative ways to fund economic development initiatives. Even within a single state, differing communities use unique strategies to fund such projects. Three communities in Kansas recently announced significant economic development activities, each funded by a variety of sources (Zalneraitis, 2009). Overland Park, KS announced an expansion of the Black & Veatch headquarters, to accommodate up to 1,100 new employees; Hutchison, KS was chosen as the site of a new wind turbine manufacturing center from Siemens energy, creating up to 400 new jobs; and Sedgwick County announced that they would seek the acquisition of 808 acres of land for the development of a new industrial park (Zalneraitis, 2009).

All three of these projects involve the use of state and local funding. In Overland Park, a 75% tax abatement and \$25 million in assistance from the state were used to facilitate the Black & Veatch construction project. Hutchison and other local governments provided Siemens with \$2 million of cash and 109 acres of land; in addition, the state pledged \$5 million to the project. Sedgwick County will work with multiple local jurisdictions to finance its project (Zalneraitis, 2009).

At the local level, these types of activities are often funded through the municipality's General Fund. A variety of taxes are used, including sales, property, and guest taxes, as well as user fees. In some cases, private contributions are solicited. In these instances, it is often a Chamber of Commerce chapter that receives the funding. These organizations often increase contributions through increased membership dues as

well (Zalneraitis, 2009).

State funding is also an important source for local economic development funding. State budgets often delineate economic development priorities and identify tax incentives to fund them. Legislators use specific budget lines to supplement funding for economic activities in their districts. The FY 2007-2008 New York State budget, for example, contained seven Western-New York-specific budget items totaling \$1.8 million for the funding of several different economic development programs (Office of Assemblyman Robin Schimminger, 2007).

In West Virginia, the Tamarack Foundation, which helps developing entrepreneurial businesses that focus on quality arts, crafts and fine art, received economic development funding from the state through the West Virginia Parkways, Economic Development and Tourism Authority. However, in 2010, the agency was stripped of its authority to pursue economic development projects and ended its involvement in existing ones (Gavin, 2010). The Tamarack Foundation's annual installment of \$250,000 was lost, forcing the organization to find funding from other sources, including other state government sources (Porterfield, 2010) and out of state money (Johnson, 2010).

Funding for local economic development also takes place at the federal level through transfers and grants. The Economic Development Administration (EDA), an agency within the U.S. Department of Commerce, makes grants and provides other forms of economic assistance to economically distressed rural and urban communities. The EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations and Native American tribes to promote locally and regionally developed economic development activities (Arena, et al, 2008; Economic Development Administration, 2009).

The EDA's budget in 2006 was \$285 billion (OMB 2009a), of which approximately \$250 million, or just under ten percent, was obligated for economic development grants. Annually, approximately 80 percent of EDA grant funds are allocated to construction projects that support local communities in their acquisition or development of land and improvements for public works, public services, or development facilities. In addition to providing direct assistance, construction grants are intended to leverage local and private sector matching funds, generally at fifty percent of the total project costs (Arena et al, 2008).

In addition to the EDA, federal funding for local economic development can be found through community development block grants (CDBG). The CDBG program is run by the U.S. Department of Housing and Urban Development and funds local community development activities. These projects include those that address development, housing, economic infrastructure, and low income needs, and are generally used to finance projects that fall outside of the purview of traditional

program funding parameters. For example, a CDBG award through their Entitlement Communities program might be used for highway repairs that are not eligible for Highway Trust Fund dollars through the state Department of Highways, or water infrastructure needs that do not qualify for state clean water or drinking water revolving funds. The funding from the CDBG program is largely used at the discretion of the state and local government recipients (U.S. Department of Housing and Urban Development, 2009).

In recent years, the CDBG programs have faced budget cuts and losses in other sources of revenue, leading many communities to cut back on economic development. The National League of Cities and other local government associations have been fighting for more funding, inviting their federal representatives to see CDBG-funded projects first hand. As a result, the 2010 federal budget called for \$4.5 billion for the program, a substantial increase over the \$3 billion proposed for the previous fiscal year. The CDBG program also received an additional \$1 billion from the American Recovery and Reinvestment Act. As a result of the additional funding, municipalities that had lost their community development funding capacity due to program cuts are now trying to quickly rebuild (Brock, 2009).

Community Development in West Virginia

West Virginia has faced substantial challenges to economic development efforts within the state, primarily as a result of long-term fiscal impediments. For more than thirty years the state gross product has grown more slowly than nearly all other states, while its poverty rate has remained among the highest in the country. The state's weak economy has made it difficult to generate revenue for basic public services as well as to provide funds for economic development. According to data from the Bureau of Economic Analysis, in 2009 West Virginia had the second smallest Gross State Product per capita, as well as the fourth smallest personal income per capita. West Virginia is also facing a projected \$500 million revenue deficit by FY 2015 (West Virginia Governor's Office, 2010). Taxation in the state is already high, forcing the state to find other alternatives for funding sources (Brisbin et al., 2008).

In the 1980s, West Virginia used a number of business tax incentive programs to retain and attract business investment. One of these, the Business Investment and Jobs Expansion Tax Credit allowed employers who created at least fifty new jobs to deduct half of their capital investment costs against their business's state tax liability. By the late 1990s, state legislators determined that these tax incentives were not effective and in 2002 they were replaced with four more targeted and less expensive tax credits (Brisbin et al., 2008).

At the same time the state began to fund economic development projects through state revenue bonds. The bonds

were paid for through revenue generated from lottery proceeds and the licensing of video poker machines. This system was challenged by opponents of gambling and communities whose requests for funding had been denied. Ultimately, the West Virginia Supreme Court of Appeals ordered the state to revise its standards for awarding grant funding (Brisbin et al, 2008).

West Virginia's poor economy and precarious fiscal health have ruled out some of the more traditional ways of funding economic development, forcing the state to find other, sometimes less successful and more politically contentious alternatives.

Earmarks: An Unconventional Resource

"Ever since the country was founded, congressional lawmakers have curried favor with hometown voters by providing funds – known as earmarks – for local project and favored firms.....Opponents of uncontrolled earmarking... complain that local 'pork' projects take funds away from national needs."

CQ Researcher 2006

Political perspectives differ on what constitutes an earmark (CAGW 2008; CRS 2006; OMB 2008). Some see earmarks as solely a Congressional activity, while others include spending directed by the Office of the President, Vice President and First Lady, as well as executive and legislative agency directors (GAO2008a, 2008b; Lilly 2006b). This study uses the more conservative understanding of an earmark as a Congressional designation of funds in circumvention of normal budget review procedures, not specifically authorized or competitively awarded, and serving only a local or special interest (Finnigan 2007; CAGW 2008).

Earmarks direct the use of funds already appropriated within the federal budget; they are not requests for additional spending and in fact are budget neutral within the appropriations process. Reducing earmarks will not reduce federal spending. If a "\$10 million earmark were eliminated there *would not be a \$10 million budget savings*" (italics in original) (OMB 2008, 4). However, earmarks do impact state budgets, particularly when they are contained within intergovernmental program funding. For example, a record-setting 2,243 earmarks were contained in the FY 2005 Transportation Appropriations Bill, which determined annual Highway Trust Funds allocations to states for transportation needs. Of the Highway Trust Funds allocated to the West Virginia Department of Transportation, those that were designated for specific projects in Wheeling or Charleston reduced the dollar amount of discretionary funds that could be used by the state's Department of Highways for planned projects.

Determination of priority setting –agency versus Congressional control– is a contentious issue. Legislators argue that they spend more time in constituent communities and are

therefore more able to identify needs. The image of earmarks as new-construction funding that provides legislators with ribbon-cutting photo-ops for re-election is generally a myth. In contrast to the literature and common perception, lawmakers indicate that most requests from constituents are for repairs and maintenance of existing structures and infrastructure. They are for “needs that can’t be filled otherwise.” In Illinois, one mayor remarked that the state was fiscally negligent in its inability to fund state road improvements. The community was dependent on tourism dollars facilitated by the road that connected the town with others along the state route. For her, and the town’s economic viability, an earmark became the only option (Kunz, 2010).

On the other hand, agency directors and association executives note that “earmarks are frustrating; they tie [the agency’s] hands... [agencies] can’t make sure the money is going where it is most effective, eliminating merit-based decisions”... “[earmarks] take needs-based rational planning and substitute political clout” (Kunz, 2010).

Earmarks have been portrayed by the media and numerous think tanks as evidence of Congressional corruption and as such are often referred to as “pork” or “pork barrel spending” (CQ Researcher 2006). Setting aside the relatively small number of earmarks that are awarded to controversial projects, the vast majority of federal earmarked dollars are used to fund essential state and local projects, such as water and sewer systems, emergency and social services, transportation needs, and economic revitalization efforts.

Further, earmarks do not make up a sizeable amount of Congressional spending. The dollar amount of earmarks contained in appropriations legislation more than doubled between FY 2000 and 2005, from \$17.7 billion to \$37.9 billion; however reform efforts and delayed passage of appropriations bills reduced earmark spending in subsequent years. At the height of directed spending (FY 2005) earmarks totaled only 6% of Congressional spending.

In spite of the recent decline in earmarked dollars, the total number of annual individual awards of earmarked dollars has continued to increase, from 4,326 line items in FY 2000 spending legislation to 13,997 in FY 2009 appropriations. This is indicative of the fiscal stress experienced at all levels of government: decreases in federal program funding (such as the Highway Trust Fund, which relies on declining gas tax revenues) translate to fewer intergovernmental dollars to states through traditional program transfers. This limits state spending and transfers to county and municipal governments. Earmarks may not be significant in relation to federal spending, but in relation to state and local spending their impact is considerable.

Scope and Methodology

The examination of earmarks is, for the most part, an exercise in document review and analysis. The research

for this study is derived from federal documents and data from the President’s budget, the US Census Bureau, Commerce Department, Department of Housing and Urban Development, and other federal agencies and programs as well as West Virginia State Comprehensive Annual Financial Reports (CAFRs), Appropriations Reports and the Auditor General’s reports. Data from state agencies and programs, including the West Virginia Infrastructure and Jobs Development Council, the Economic Development Authority, the Parkways, Economic Development and Tourism Authority and the Water Development Authority have also informed this study.

According to Congressional Budget Office (CBO), Congressional Research Service (CRS) and The President’s Office of Management and Budget (OMB) staffers, records of the total spending cost of each appropriations bill are not maintained by them or any other any federal agency that they are aware of; finding the total cost of any given bill requires a calculator and personal determination. Discussions herein that describe total legislative spending are based on the calculations of individual bills conducted by the authors. Tracking earmarks in federal appropriations bills and conference reports is also not generally maintained by any federal agency. At best, OMB provides online data for 2005 and 2008, along with estimates for 2009. Citizens Against Government Waste (CAGW) maintains a database of earmarks contained in every appropriations bill passed since 1991. Their comprehensive and consistent records are the basis for the earmarks data presented here.

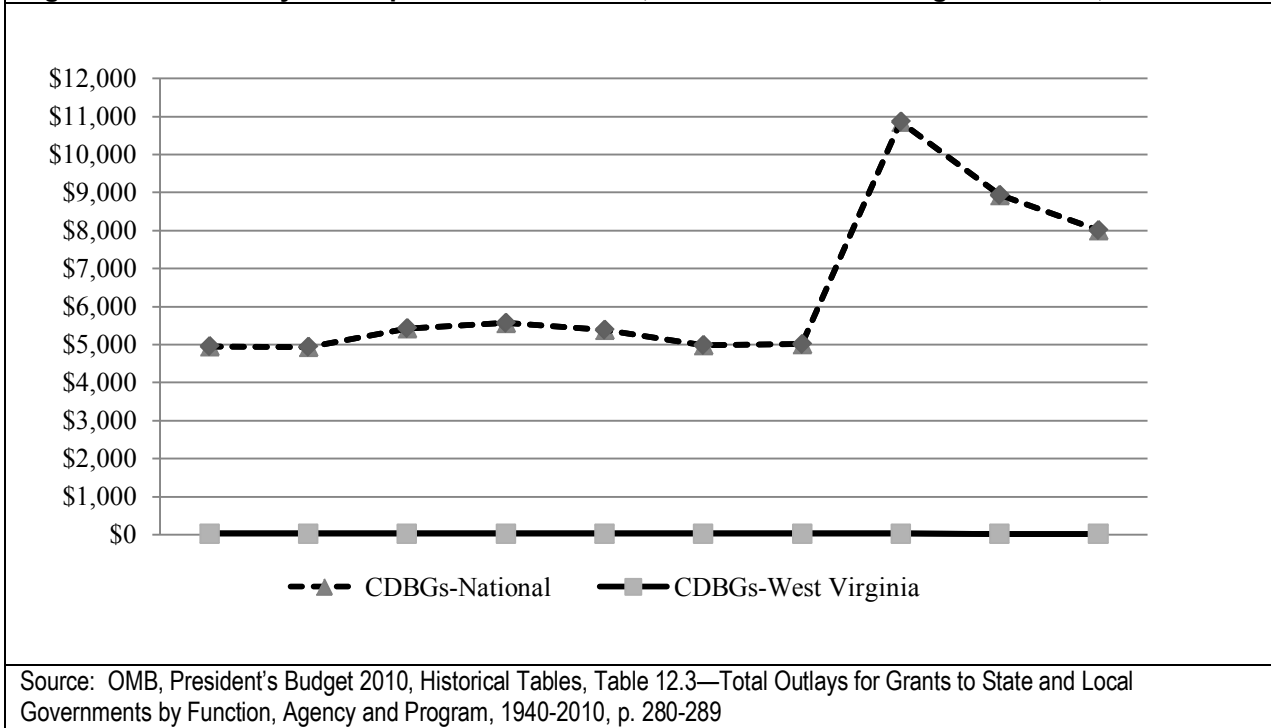
Selection and Coding

This study uses CAGW’s reports of earmarks contained in FY 2000 through FY 2008 spending bills. Line items were coded into thirteen categories based on descriptions of use: Agriculture, Army Corps of Engineers, Community Services, Homeland Security, Emergency Services, Education, Energy, Environment, Infrastructure, Military, NASA, Institutional Research, and Social Services. Within each category earmarks were subdivided into defined aspects, such as after school, substance abuse and corrections/prison programs within the social services category. Earmarks pertaining to state and local economic development were contained within Community Services and Infrastructure categories. Those included allocations, respectively, for community revitalization, municipal buildings, parks and recreation, senior centers, economic development, cultural and historic preservation, and museums and libraries, as well as for bridges, highways, trails and railroads, airport facilities, dams, waterways, drinking and waste water, and related technology and research.

Bias and Limitations

Several limitations apply to this study. Results obtained

Figure 1: Community Development Block Grants, National and West Virginia Awards, 2000-2009



from archival sources are dependent on the sources identified by the researchers; it is possible that a significant publication, an updated government report or other published work that contradicts the study findings has not been identified or has been overlooked. Compilation and use of the CAGW and other data sources are dependent on the validity of the underlying source material. Assumed validity is based on the reliability of the originating organization; however, there is no way to know if data were overlooked or if errors occurred in the compilation of the originating data. In addition, earmarks are contained in sources other than appropriations legislation, including conference reports, authorizing legislation, supplemental appropriations and continuing resolutions, and also executive sources such as budget documents, directives, executive orders and signing statements. Since those other resources are often much more difficult and often impossible to find, this study is limited to examining only earmarks contained in appropriations and related conference legislation as identified by CAGW.

Individual error and coding bias may also impact this research. Over 87,400 earmarks contained in the CAGW databases for 2000-2009 were individually reviewed and coded by the authors. The interpretation and identification processes could bias the study as only the authors chose the classifications and assigned items within the classifications.

Findings

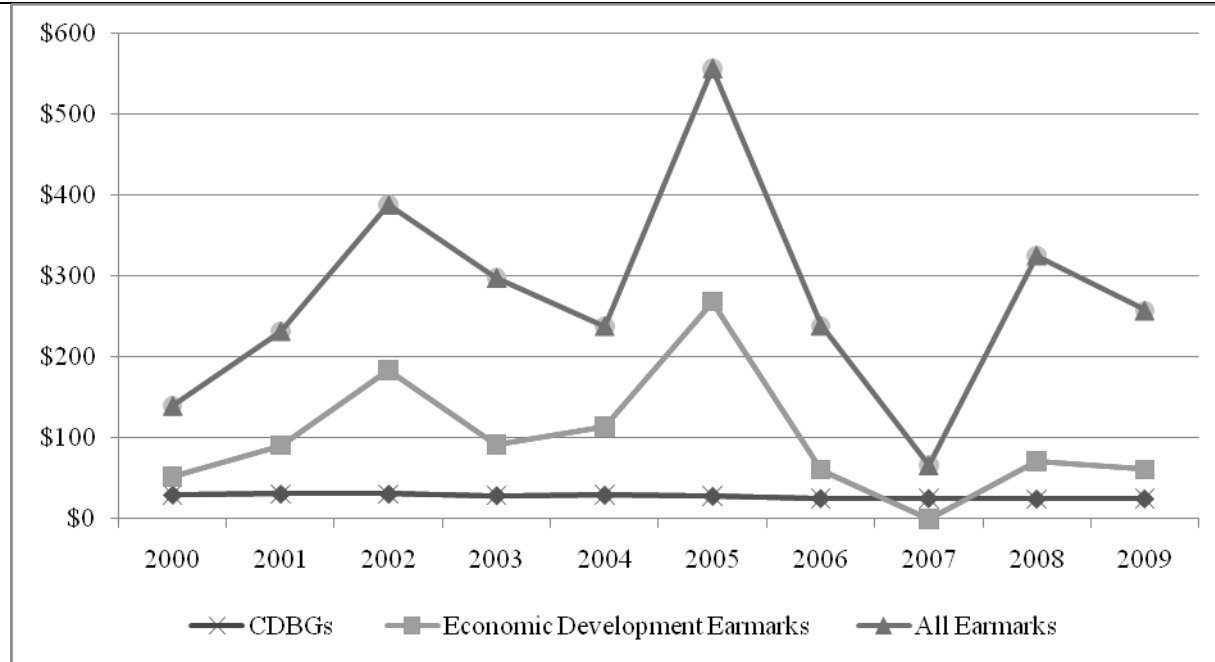
This study examines earmarks received by West Virginia state and local governments specifically for projects

designed to supplement community economic development throughout the state. Like EDA and CDBG awards, earmarks provide funding for projects that generally do not qualify or are not determined to be priorities for conventional program funding. And also like EDA and CDBG, earmarks provide lump-sum financing for a specified project. But unlike these program awards, earmarks are often the result of vote-trading or other Congressional influence and as such, they are not a reliable or consistent source for community fiscal needs.

Nationally, EDA awards were relatively stable throughout the decade. After reaching a high of \$375 million in 2003, they gradually fell more than 30% to \$238 million in 2008. Funding was restored to \$366 million in 2009 and is projected to increase in upcoming years. On average, over the decade, EDA distributed approximately \$325 million to the states for state and local projects.

In comparison, EDA funds amounted to just over half of 1% of the funds distributed by HUD's Community Development Fund, which distributes Community Development Block Grants and disbursed approximately \$5 billion annually over FY 2000-2006. Funding doubled in 2007 to \$10 billion, and then leveled off at approximately \$8 billion in subsequent years, resulting in an increase of 60% between 2000 and 2009. Yet CDBGs awarded to West Virginia decreased almost 17%, from \$30 million in 2000 to \$25 million in 2009. As illustrated in Figure 1, over the ten year period, national CDBG awards averaged \$127 million per state per year; West Virginia received, on average, \$27 million per year. On a per-capita basis, between 2005 and 2009 West Virginia received, on average, \$51.77 per

Figure 2. CDBGs, Total Earmarks, and Earmarks for Economic Development Received by West Virginia State and Local Governments, 2000-2009.



Sources: OMB, President’s Budget 2010, Historical Tables, , Table 12.3—Total Outlays for Grants to State and Local Governments by Function, Agency and Program, 1940-2010, p. 280-289. Earmark figures compiled by authors based on data obtained from Citizens Against Government Waste, www.cagw.org.

person, per year in federal earmarks for economic development projects, whereas CDBG and EDA awards averaged \$14.22 and \$3.59, respectively.

Economic development earmarks kept pace proportionally with total earmarks received by the state. Taking into consideration the highs of FY 2005, when Congressional appropriations earmarking reached its zenith, and lows of FY 2007, when continuing resolutions, containing almost very little directed spending, were passed in lieu of appropriations legislation, economic development earmarks comprised on average approximately 33% of all earmarks received each year. In comparison to their CDBG counterparts, earmarked awards for economic development in West Virginia were substantially higher, bringing in an annual average of \$99 million, or three and a half times more community development dollars to the state each year (see Figure 2). On a per-capita basis, federal earmarks accounted for average annual economic development spending in the state this decade of \$.04 per person per year - twice that of CDBG allocations.

To what types of economic development projects were these earmarked dollars assigned? Not surprisingly, of the over \$1 billion in economic development earmarks received during the decade, over 50% (\$539 million) went to highway and road maintenance and repairs. Approximately 10% (\$107 million) went to public projects such as public facilities planning and construction and over 2% (\$24 million) went to community

Category	\$ Earmarks	%
Community Revitalization	\$24,158	2%
Municipal Buildings	\$51,806	5%
Parks and recreation	\$54,728	5%
Senior Centers	\$1,690	0%
Economic Development	\$106,818	10%
Historical and Cultural Preservation	\$12,960	1%
Museums and Libraries	\$0	0%
Bridges	\$40,500	4%
Highway	\$539,187	52%
Trails	\$4,089	0%
Railroad	\$17,300	2%
Air	\$77,209	7%
Dams	\$287	0%
Waterways	\$4,125	0%
Drinking water	\$4,591	0%
Wastewater/sewer	\$89,341	9%
Technology/research	\$1,307	0%
TOTAL	\$1,030,098	100%

Source: Figures compiled by authors from data obtained from www.cagw.org

revitalization efforts, including sidewalks and lighting and other downtown beautification projects (see Table 1).

Parks and municipal buildings each received 5%, or over \$54 and \$51 million respectively, over the 10-year period. Water and sewer infrastructure needs received \$89 million (8.7%), and airport awards totals \$77 million (7.5%). Other categories received smaller awards throughout the decade, totaling 1.3%, or \$13 million for historic and cultural preservation; railroads received 1.7%, or \$17.3 million, and 3.9%, or \$40.5 million was awarded for bridge repairs and maintenance. Water transportation and drinking water facility projects received only 0.4%, but other earmarks coded to environmental categories may have contained funding that pertained to such infrastructure (see Table 1).

In 2009 with \$257.6 million in earmarks, West Virginia ranked 10th in the nation for receipt of earmarked funding, and earmarked subsidies solely for community development totaled \$61 million. To put this figure in perspective, the Governor's Budget for FY 2010 estimates total FY 2009 spending for Community Development at \$62 million.

Summary and Conclusions

As illustrated above, West Virginia's portion of annual CDBG funding is nominal in comparison to agency funds distributed nationally. In terms of funding economic development within the state, CDBG awards pale in comparison to earmarked funding. This study points to the significance of earmarked funding in support of economic development. These findings point to several areas of concern and suggestions for future studies.

Most importantly, earmarks are not a reliable source of revenue. Congress' failure to complete appropriations legislation in a timely manner resulted in a scant 2,658 earmarks issued in FY 2007 (as opposed to 13,997 in FY 2005), and of those, West Virginia received none. In addition to Congressional actions taken as a comprehensive body, receipt of earmarks is directed by the political power of individual senators and congressmen. The loss of Senator Byrd, who sponsored 86% of all earmarks received by the state in 2009, and the retirement of Congressman Mollohan, a member of the House Appropriations Committee will negatively impact the state's ability to garner earmarked funding for future community revitalization needs. In addition, as CDGB funding increased nationally, West Virginia's portion remained flat. How can the state increase its access to EDA, CDGB and other federal program funding?

While federal earmarks have made a considerably impact on economic development in the state, reliance on their receipt does not provide for comprehensive planning and prioritization. Rather, they are allocated based on constituent demand and political expedience. But clearly enhanced efforts by state and local officials to access EDA and CDGB grants are

called for, particularly as the budgets for these programs are projected to increase. Expanded access to these conventional awards could provide state and local communities with the stability needed to plan for more inclusive and coordinated economic development endeavors.

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About the Authors

Sean O'Leary is a 2008 and 2010 graduate of West Virginia University where he earned a Bachelor's Degree in Political Science and Economics and a Master's Degree in Public Administration. After serving as a Graduate Assistant for the Division of Public Administration at WVU with Dr. Karen Kunz, Sean became a policy analyst for the West Virginia Center on Budget and Policy. As a policy analyst, he researches the West Virginia economy and state and federal tax and budget issues.

Karen Kunz is an assistant professor of Public Administration at West Virginia University. Dr. Kunz's research interests center on aspects of public budgeting and financial management, as well as political economy and critiques of capitalism. Her academic experience is supplemented by over twenty-five years experience in the investment industry; in addition to employment as a senior executive for a national investment company, she developed one of the first female-owned companies in the industry.

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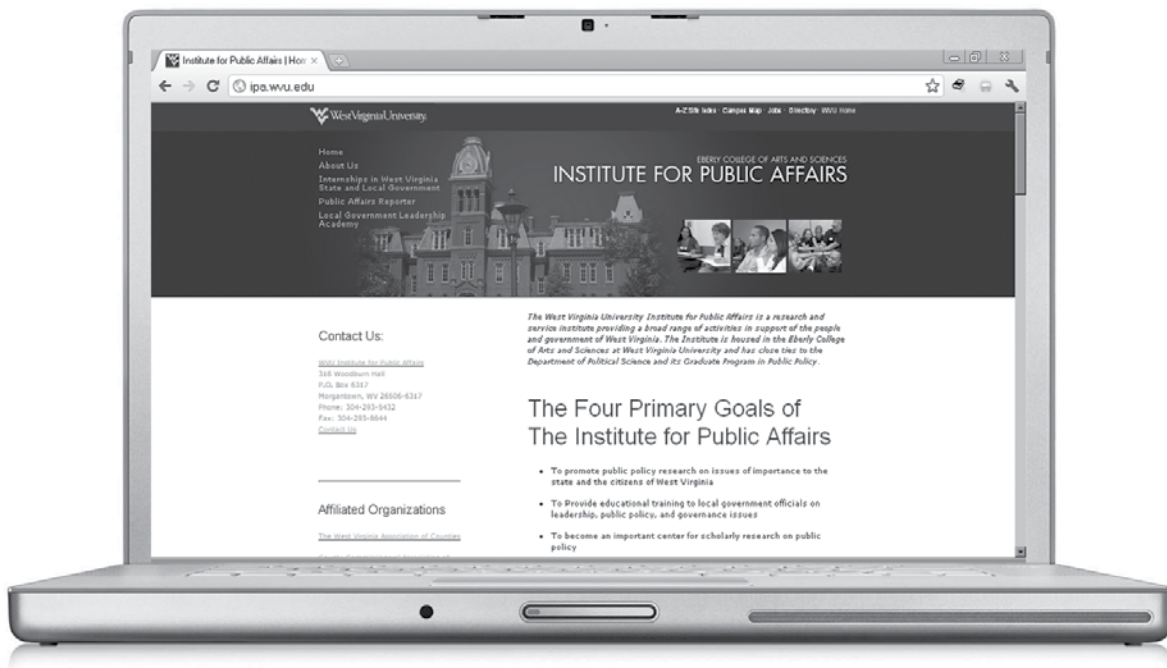
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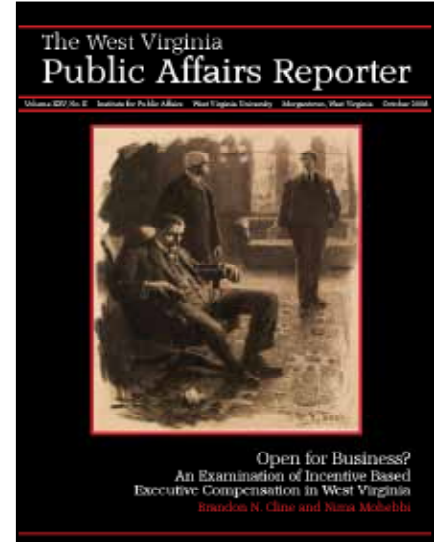
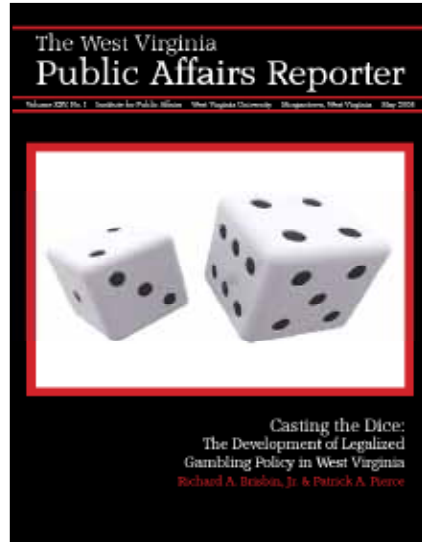
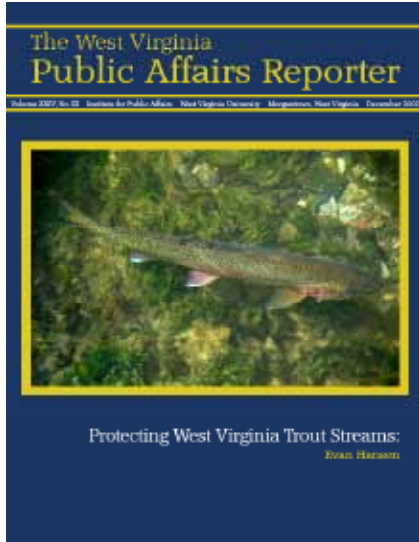
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