MUNICIPAL FINANCES IN WEST VIRGINIA

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Municipal Finances in West Virginia

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Executive Summary

West Virginia's municipalities are part of the lifeblood of our state. From the smallest incorporated towns and villages to our larger cities like Charleston, Wheeling, and Morgantown, our state's cities and towns often act as hubs for civic, social, cultural, and economic activity. We associate these municipalities and their surrounding communities as places to shop, work, worship, and receive services like healthcare and education. There is an ebb and flow in cities and towns—they are not just for residents but for those who come to visit and work. Essential functions like police and fire protection, sanitation, roads, and water systems are provided not only for residents, but for all. In order to provide quality services and to promote community development and economic prosperity, cities and towns must rely on revenues and resources to do their work. It should come as little surprise that finances are constrained and are at times strained. As has been noted by national authorities, local government finance faces unique challenges due to the changing nature of economic activity in our nation and because of growing expectations that local governments will provide effective, equitable, and efficient services. This report seeks to place West Virginia's cities and towns in this broader context of change, challenge, and opportunity by providing an in-depth study of major features, trends, and factors in municipal finance. Among our findings and recommendations are:

1. West Virginia's municipalities shoulder much of the responsibility for the delivery and management of public services that are crucial to the wellbeing of our state's residents, businesses, and visitors.
2. In recent years, the demand for the delivery of crucial services such as public safety, infrastructure, and essential governmental services has led to increased budget expenditures. This follows national trends.
3. West Virginia's 230 municipalities are varied, reflecting diverse geographic, economic, and demographic contexts. The state's 44 Class III cities, with populations ranging between 2,000 and 10,000, illustrate the diversity of municipal conditions and contexts.
4. In order to meet current needs, as well as to plan and invest in the future, municipalities must rely on a diverse revenue portfolio drawing from many different sources. For general revenues alone, state reporting procedures identify over 50 sources of revenue.
5. Prudent fiscal management and planning includes setting aside funds for unexpected contingencies. Rainy day or budget subsidization funds are a function of the capacity to raise funds, the need to set aside funds, and legal constraints and inducements. Because of the lack of aggregate data on rainy day funds, we are unable to provide a clear picture of trends. However, it appears that a number of municipalities are making conscientious efforts to set aside funds to deal with revenue shortfalls and unexpected expenditures.
6. The key sources of general revenue funding for municipalities are the Business and Occupation Tax, Property Taxes, and increasingly the Local Sales Tax. Combined reliance on these, as well as other sources, is necessary given current policies and practices.
7. Municipal leaders see the Business and Occupation Tax and the Local Sales Tax as important revenue sources now and in the future. Property taxes are also seen as a continuing and important source of revenue. Like many in our state, there is the recognition that these are imperfect revenue tools that might be improved through reform and revision.
8. Municipal finance and budgeting are inextricably tied to other areas of city governance and responsibility. We find that concerns over constrained authority to engage in community and

economic development efforts, like minor boundary adjustments, complicates the delivery of effective municipal services that benefit residents, businesses, and other stakeholders.

9. Municipal leaders strongly believe in the need for state and municipal coordination and cooperation. Concerns have been raised over recent legislative action and proposals that may serve to constrain local discretion to address needs and to capitalize on community and economic development opportunities.
10. A good example where clearer communication may be needed involves the state's Home Rule Program, first initiated in 2007 and subsequently amended and expanded in the years since. Municipal leaders think it is important for experiences to be shared that reflect both the opportunities and challenges involved in the program.
11. The COVID-19 pandemic has altered the landscape of state and local government. In the short term, municipalities will benefit from guidance and perspective as they put federal recovery funds to innovative and needed uses to build resiliency and opportunities for the future. Even more fundamentally, there are clear indications that West Virginia is now being seen in a different light by those both within and outside of the state. An economic growth strategy embraced by recent gubernatorial administrations and many legislative leaders has centered on bringing West Virginians home and attracting newcomers as well. The COVID-19 pandemic has further heightened interest in these prospects as options for remote work and a desire to live in less densely populated areas has taken even deeper hold. By serving as regional hubs, providing amenities and services, places of business and residence, our state's municipalities will have a crucial role to play in this potential transformation.

West Virginia's municipalities play a vital role in the economic and civic life of our state. In partnership with other local governments and with state government they have the capacity to meet the demands and expectations of 21st century society. If municipalities are part of the engines that help to promote, foster, and sustain economic growth, then revenue is the fuel and local government discretion helps guide these engines. Working in concert with stakeholders across the state, West Virginia's municipalities can further contribute to the wellbeing of the state.

1 Overview

In order to assist the West Virginia Municipal League's (WVML) efforts to lead strategic planning efforts to support healthy finances and economic growth for our state's municipalities, this report provides an in-depth examination of municipal government finances in West Virginia. The analysis considers the 230 municipal governments in the state, providing a comprehensive assessment of municipal government revenue and expenditures, and a detailed examination of other policy parameters related to these governments.

In addition to providing aggregate data on trends and conditions in our state, the analysis gives special attention to differences and similarities among the different classes of West Virginia municipalities (i.e., class I & II, III, and IV municipalities—as outlined in Table 1). The analysis was conducted using three distinct yet complementary research approaches: First, to set the context and gain perspective on the broad issues facing our state, focus group discussions were held with representatives from different municipality classes along with relevant state officials, local government association representatives, and private sector stakeholders. Second, to provide detailed analysis of fiscal trends, we analyzed annual municipal budget reports submitted to the West Virginia Auditor's Office Local Government Division. These annual reports focus on general fund revenues and expenditures. While this limits the reach of our analysis—for example by excluding certain special revenue funds and long-term fiscal responsibilities for pensions, capital projects, and other obligations—it is useful to comparatively study local government finances by focusing on general funds. A recent national study by the Government Finance Officers Association (2021) notes the utility of studying general funds since they make up the bulk of local government budgets and offer the most flexibility in terms of meeting needs and demands for services and programs. Third, to gain overall perspective on the experiences, expertise, and opinions of municipal officials, we conducted a survey which yielded responses from 87 municipal government representatives. Where needed, we supplement our research with detailed study of various public documents, research reports, and academic literature to gain perspective on specific matters of interest relating to municipal finances.

Table 1: West Virginia Municipalities by Class Size

Municipality Class	Population Size	Number of Municipalities
Class I and II	>10,000	13
Class III	>2,000 and ≤10,000	44
Class IV	≤2,000	173

Note: Based on 2020 Census

After offering a broad portrait of economic trends in our state, this analysis provides background information and an overview of general municipal finance trends and context, followed by four sections organized around the following themes: 1) revenue trends and perspectives; 2) expenditure trends, and perspectives; 3) high priority issues for municipal governments surrounding such areas as: long-term financial prospects, infrastructure, local government powers and discretion, and intergovernmental cooperation; and 4) possible action steps to be considered by the WVML and its members. The overall goal of this report is to assist the WVML in its efforts to foster more efficient and effective municipal government activity and service delivery.

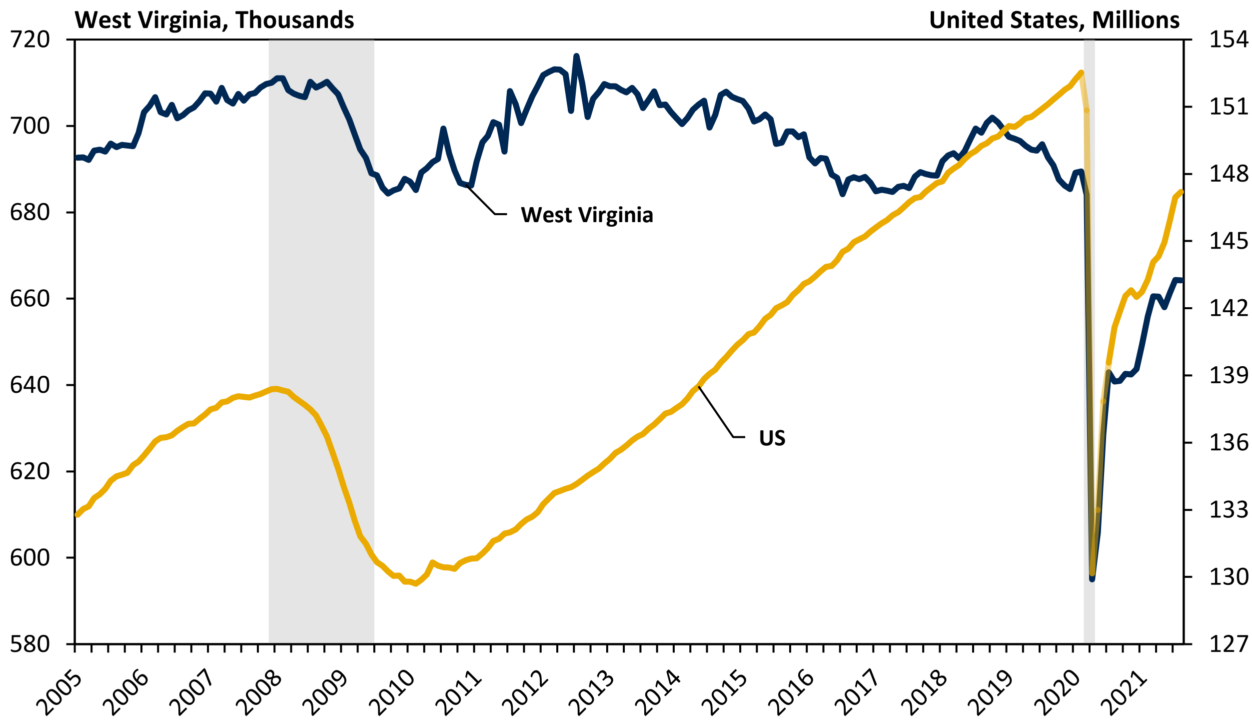
2 Statewide Trends

To provide context for our discussion of municipal finances, we begin with a brief overview of the state's economic picture.

EMPLOYMENT AND LABOR FORCE: In the decade prior to the recession brought on by the COVID-19 pandemic, West Virginia employment had failed to realize stable growth. Employment in the first quarter of 2020 was about 2 percent below its recent peak in 2018 and about 3 percent below the 2012 peak (see Figure 1).

During the COVID-19 shutdown, more than 90 thousand jobs were lost in the state, sending employment falling by nearly 14 percent. The state regained around 80 thousand of those jobs as of the second quarter of 2022, leaving total employment more than 2 percent below the number of jobs prior to the pandemic recession.

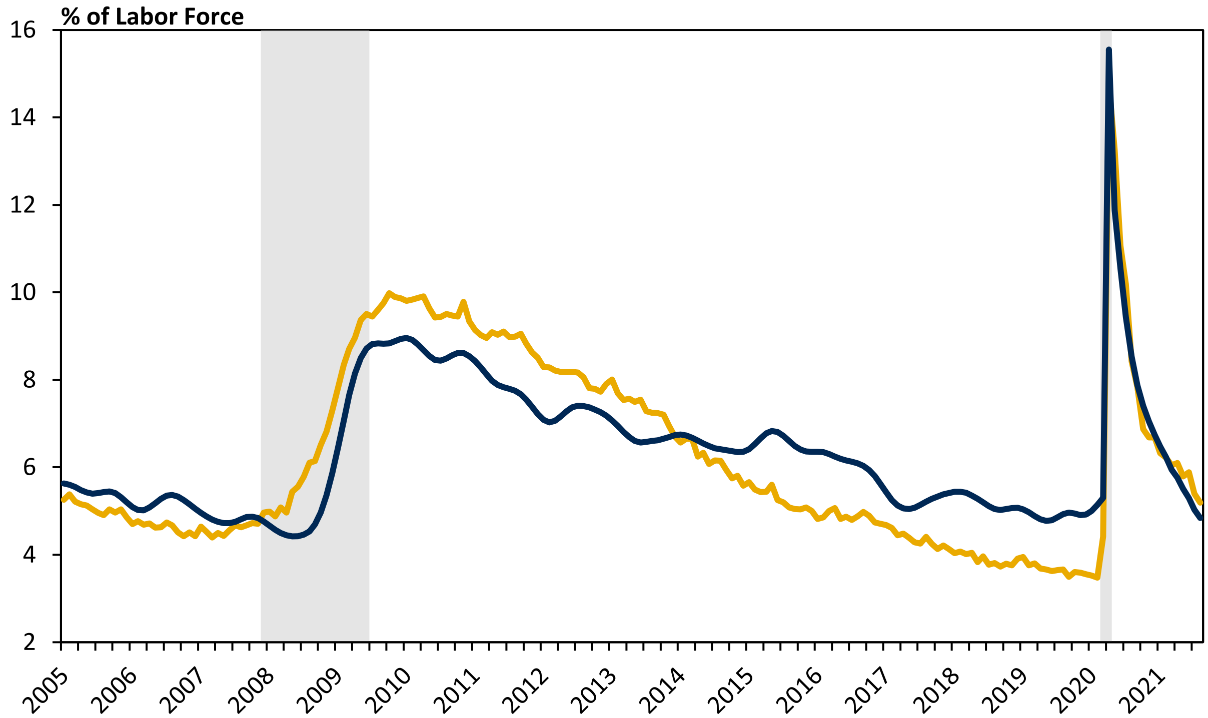
Figure 1: Total Statewide Employment



*Shaded regions indicate recessions. Source: US Bureau of Labor Statistics.

Over the last 10 years, West Virginia's unemployment rate had been following a gradual recovery from the previous recession (Figure 2). However, the pandemic sent West Virginia's unemployment rate to more than 15 percent in the second quarter of 2020. Despite the fact that the number of jobs in the state is still below pre-pandemic figures, West Virginia's unemployment rate has fallen rapidly in the nearly two years since the pandemic recession. As of Spring 2022, unemployment was lower than at any point in the last decade and stands near historic lows.

Figure 2: Unemployment

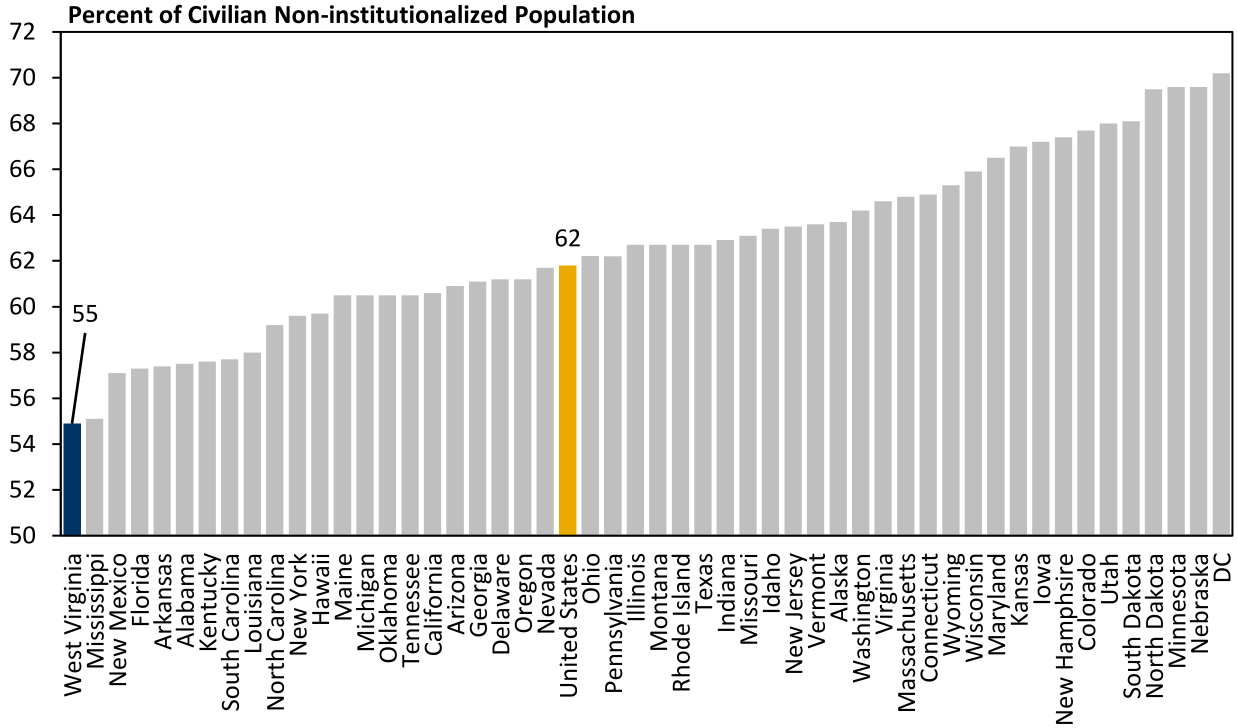


*Shaded regions indicate recessions. Source: US Bureau of Labor Statistics.

West Virginia's unemployment declines can be traced in part to falling labor force participation. Since the unemployment rate measures the ratio of people who are employed versus unemployed and actively looking for work, residents who are not looking for work are not considered to be in the labor force are not considered in the unemployment figure.

The state's labor force participation had been rising in the four years leading up to the pandemic. However, labor force participation fell sharply in the first part of 2020 and continues to be slightly down compared to its pre-pandemic level. As shown in Figure 3, West Virginia's labor force participation stands at 55 percent in 2021, which is the lowest among the 50 states.

Figure 3: Labor Force Participation



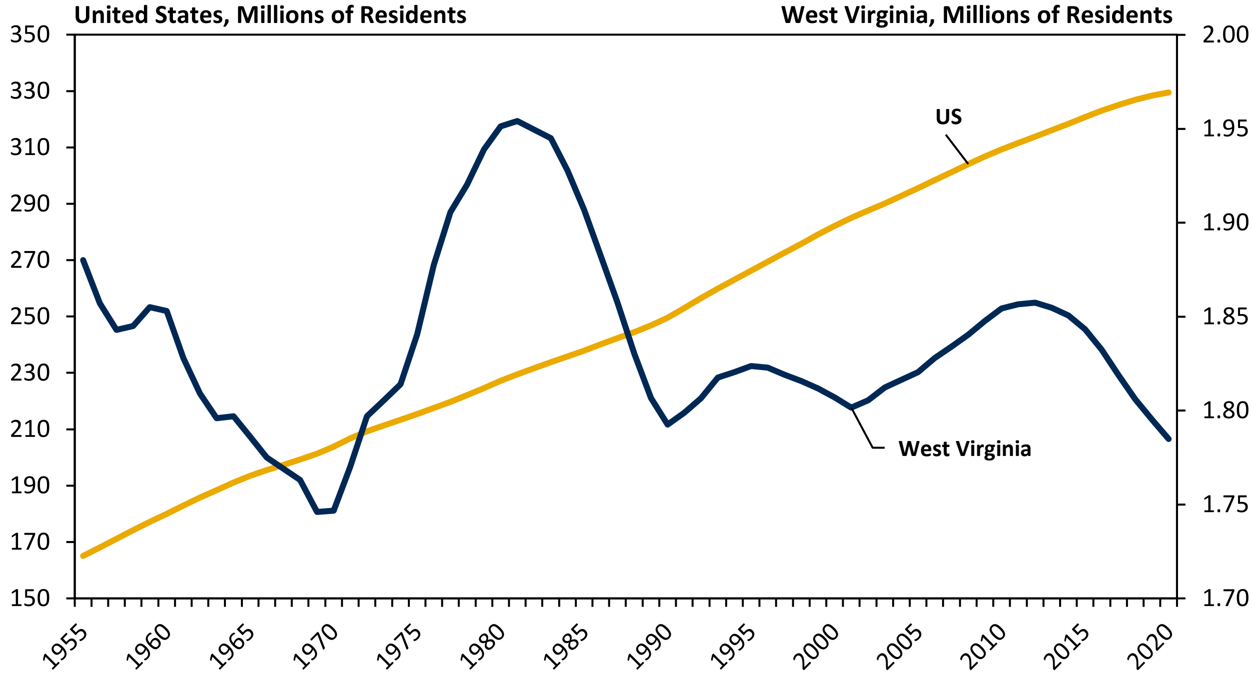
Source: Bureau of Labor Statistics

POPULATION AND INCOME: West Virginia's population declined by 3.2 percent between the 2010 and 2020 census counts, the largest drop of any state in the country (see Figure 4). These population declines are not uniform across the state, however. Approximately 10 counties in the state—primarily those in the North Central and Eastern Panhandle regions—have experienced population gains over this period and are likely to continue to be centers for in-migration from outside the state in the near future.

West Virginia's per capita personal income (PCPI) has grown at higher rate than the national average since 2007, as shown in Figure 5. PCPI rose nearly 53 percent over this period, a growth rate, nearly 3 percentage points above the US average.

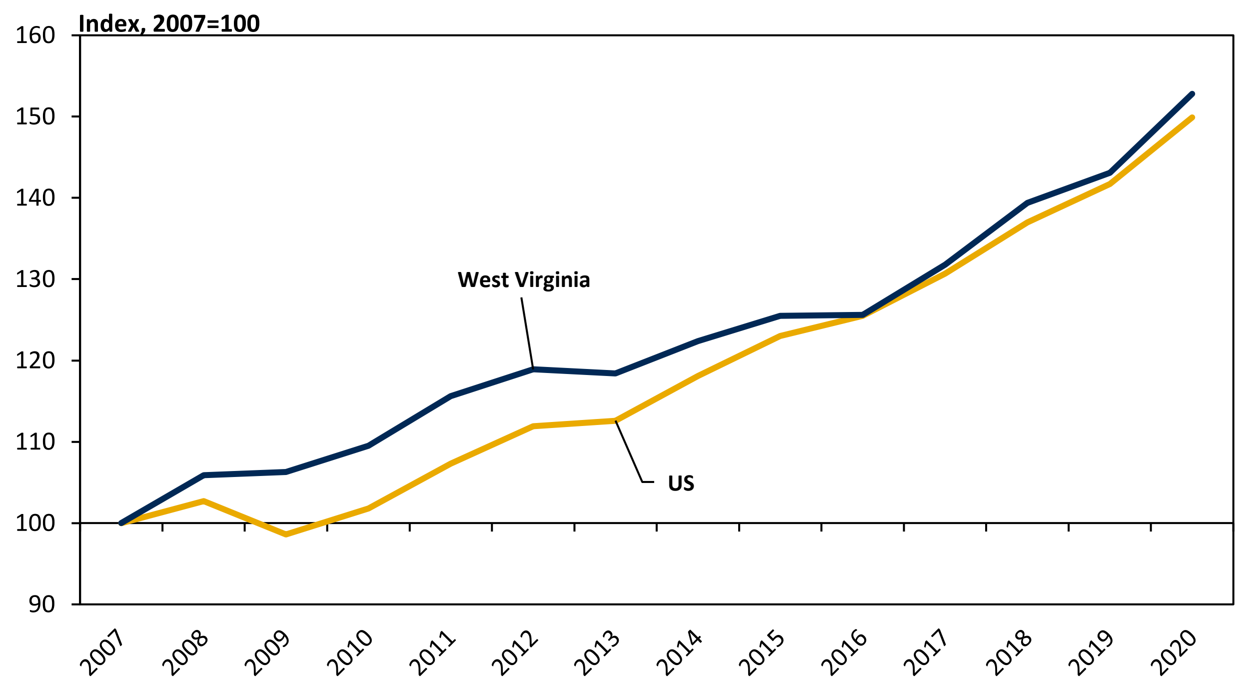
However, despite this growth, the state's PCPI remains low compared with the national average. West Virginia's PCPI in 2020 was just under $45 thousand per resident, about $14 thousand lower than the national average of $59 thousand.

Figure 4: Population



Source: US Census Bureau

Figure 5: Per Capita Personal Income Growth



Source: Bureau of Economic Analysis

IMPLICATIONS: Statewide employment and labor force declines, as well as the economic effects of the pandemic, have significant negative implications for municipal finances. Fewer jobs and people in the workforce are likely to diminish local tax revenue, such as sales and business and occupation taxes. Many regions of the state have also seen significant population declines, which can have longer-term negative effects on property tax revenue as lower housing demand suppresses home values. Though income growth in West Virginia has kept pace with the United States over the last decade or more, incomes remain low in relative terms compared with the US average. A lower income base leads to lower state income taxes, which can indicate fewer resources available for local governments from the state level. We explore many of these themes in subsequent sections.

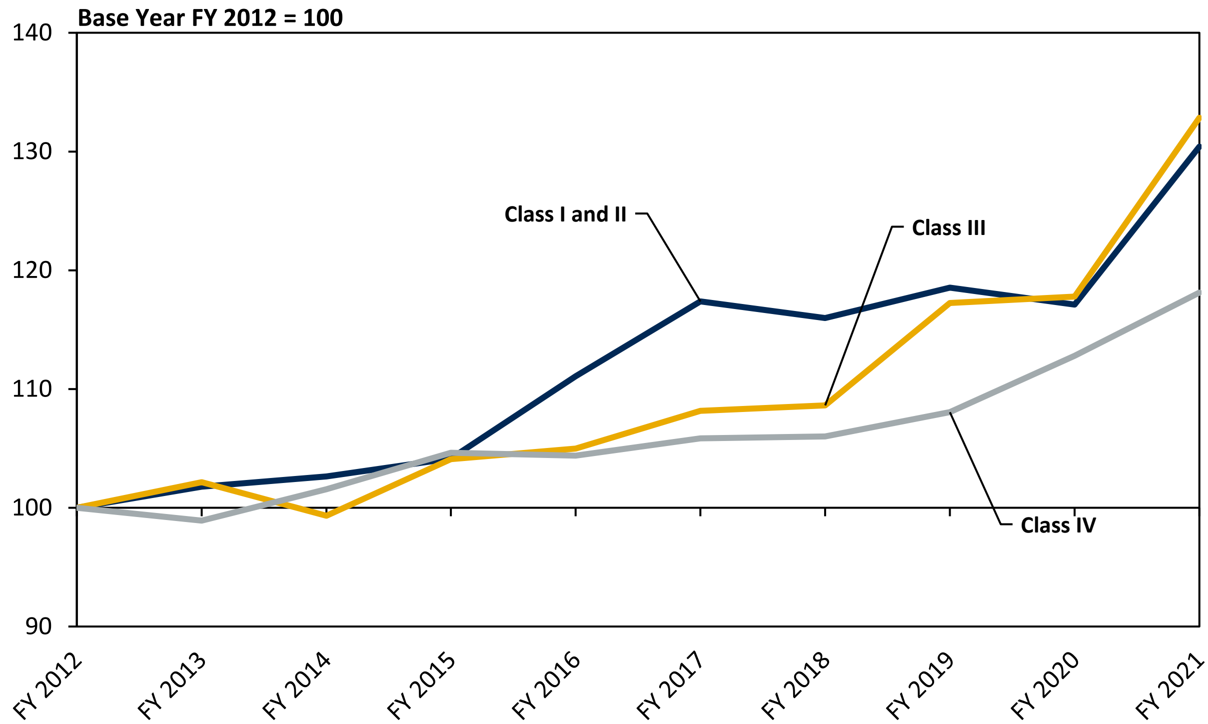
3 Municipal Finance Trends in West Virginia

West Virginia's municipalities play a crucial role in delivering public services and promoting the well-being of our state's residents and visitors. Traditional municipal functions, like law enforcement and other public safety functions, street and transportation development and maintenance, and health and sanitation services constitute a foundational component of our social and economic system. In 2020, total general fund outlays for all Class I and II municipalities combined was approximately $458.4 million. During the same period, outlays for Class III and IV municipalities were approximately $197.4 million and $100.5 million, respectively. Over time, the costs of governance have increased as illustrated in the trend data below. This trend has been consistent across all municipal classes with the most significant increases in expenditure found in Class I and II municipalities. These trends can also be found among cities nationally (see National League of Cities 2021).

Figure 6 provides a baseline comparison of expenditures across municipal classes. In order to make trends comparable across the three class groupings, actual expenditures have been indexed utilizing a base value of 100 for FY 2012[1] to show percentage changes in expenditures across time for each municipality class, and to provide a comparison of trends among the municipal class types. One of the biggest takeaways has been the consistent growth of general fund expenditures in recent years, with growth being most pronounced in Classes I and II, and Class III municipalities. The rapid rise in expenditures in FY 2021 bears further analysis and is likely attributable to state and federal policy initiatives associated with the COVID-19 pandemic.

[1] Dollar amounts in this study are adjusted for inflation to the 2020 state fiscal year using the US Bureau of Economic Analysis Personal Consumption Expenditures Price Index.

Figure 6: Total Municipal General Fund Expenditures



Source: West Virginia State Auditor's Office, Local Government Services Division

3.1 Class I and II Municipalities

Until the 2020 Census, West Virginia had 14 municipalities that fell into Class I or II designations. As a result of the 2020 U.S. Census, there are now only Class II municipalities in West Virginia, i.e., there are no municipalities with populations of 50,000 or more. The total number of municipalities in the category is now 13. It is important to note that Class II municipalities are most likely located within larger metro areas, such as Charleston, Huntington, Martinsburg, Morgantown, and Wheeling. These communities represent a changing demographic landscape.

Table 2 shows changes in the populations of Class I and II municipalities between 2010 and 2020, based on U.S. Census data. With few exceptions, all Class I and II cities have lost population within their formal jurisdictional boundaries. Population losses were the most pronounced in Parkersburg (-5.6), Wheeling (-5.0 percent), Charleston (-4.9 percent), and Huntington (-4.7 percent). Martinsburg (9.0 percent), Morgantown (2.3 percent), and South Charleston (1.5 percent) were the only Class I and II municipalities that gained population during this period. These figures provide an updated look at important demographic trends in our state's municipalities. However, for the purposes of our analysis, which is based primarily on 2020 state fiscal year data, our discussions and explorations focus on municipal class status prior to the release of detailed Census Data in fall 2021.

Table 2: Population Change for Class I and II Municipalities

City	2010 Population	2020 Population	Percent Change
Charleston	51,400	48,864	-4.9
Huntington	49,138	46,842	-4.7
Morgantown	29,660	30,347	2.3
Parkersburg	31,492	29,738	-5.6
Wheeling	28,486	27,052	-5.0
Weirton	19,746	19,163	-3.0
Martinsburg	17,227	18,777	9.0
Fairmont	18,704	18,416	-1.5
Beckley	17,614	17,286	-1.9
Clarksburg	16,578	16,061	-3.1
South Charleston	13,450	13,647	1.5
St. Albans	11,044	10,861	-1.7
Vienna	10,749	10,652	-0.9
Total	**315,288**	**307,706**	**-2.4**

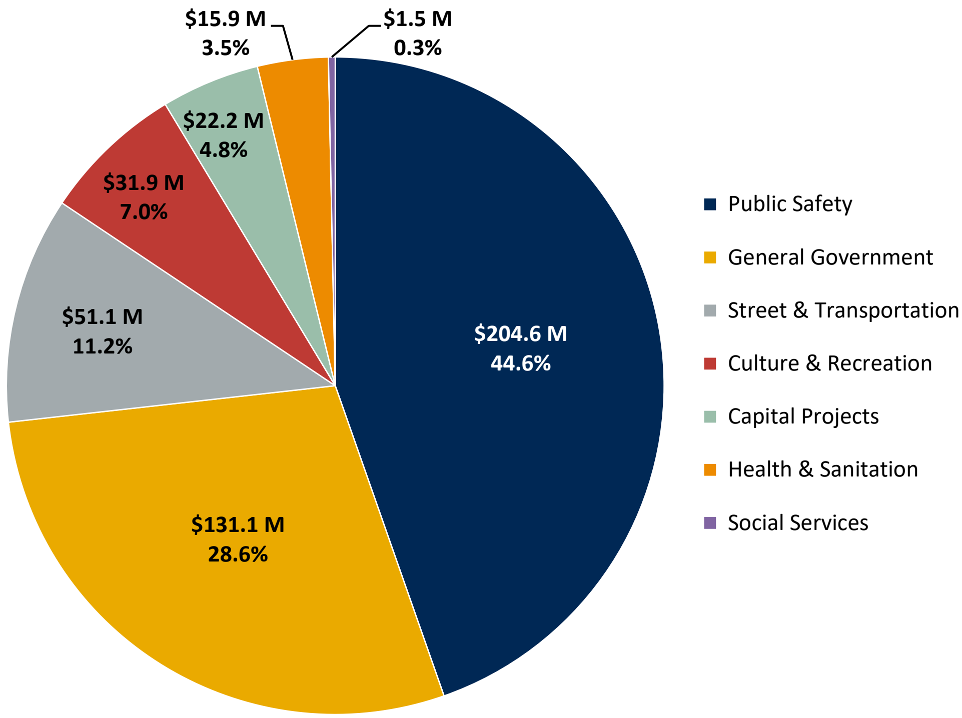
Source: U.S. Census Bureau

Our state's Class I and II municipalities are tasked with many responsibilities and as a result have dedicated considerable resources to programming, service delivery, and professional staff. Public safety expenditures constitute over 44.6 percent of outlays, followed by general government expenses at approximately 28.6 percent, and street and transportation expenses at 11.2 percent. Public safety expenditures include such services and functions as emergency services, ambulance authority, dams and dredging, fire and police departments, and traffic engineering. It is notable that public safety expenditures have been increasing in recent years, both in absolute terms and relatively in terms of total budget burden.

In 2012, public safety expenditures amounted to $164.9 million, or 42.1 percent of total expenditures. By 2020, total public safety expenditures had increased to $204.6 million. At the same time, general government expenditures increased from $116.7 million to $131.1 million but decreased as an actual share of expenditure from 29.8 percent to 28.6 percent. It is very important to note that general government expenditures represent a wide range of functions, services, and activities. Standardized budget reports required by the State Auditor's Office list 55 categories of expenditures relating to general government expenses.[2] Significant expenditures include those relating to economic development, allowed transfers to other funds, building and facilities maintenance, and the operation of critical administrative services. Figure 7 aggregates total general fund spending among Class I and II municipalities for fiscal year 2020.

[2] For a breakdown of government expenditure categories, see Table 24 in Appendix Three.

Figure 7: Class I & II Municipality General Fund Expenditures, FY 2020



Source: West Virginia State Auditor's Office, Local Government Services Division

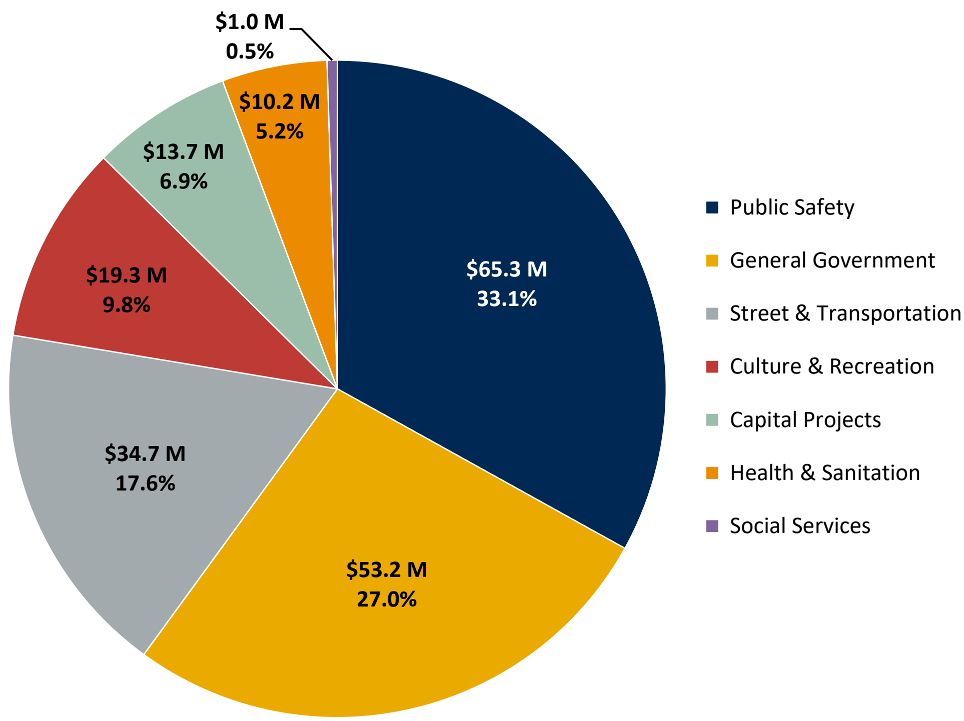
3.2 Class III Municipalities

In fiscal year 2020, West Virginia had 46 Class III municipalities. These small-town governments form much of the face of local government for West Virginians. Spread out across the state in both rural and metro areas, they are responsible for the delivery of public services much like those provided by Class I and II municipalities. Like Class I and II municipalities, Class III cities are granted the full powers of municipal government provided under the traditional home rule powers established in the state code. However, they do not have to provide certain mandated services such as those required of Class I and II municipalities. For example, they have the option but are not required to establish professional fire and police services. If they do elect to do so, however, they must provide pension and retirement benefits as stipulated by state code (Sayre 2013).

Thus, Class III municipalities have greater responsibility than Class IV municipalities (which number 2,000 or fewer residents). Yet in many ways, Class III municipalities are closer in nature to villages and towns, given their relatively low populations. Because their populations range from 2,000 to 9,999 residents, larger Class III municipalities may be more similar to Class II municipalities, while smaller Class III municipalities may have more in common with Class IV municipalities. Like the rest of West Virginia, these communities are seeing demographic changes, which include a loss of population. In the Municipal League Finance survey, 39 percent of respondents from Class III municipalities reported that resident populations had dropped in the past ten years. According to recently released US Census data, 33 of 46 or 70 percent of Class III municipalities lost population between 2010 and 2020. Appendix Two provides details on population change in all of the state's municipalities.

As Figure 8 illustrates, Class III expenditures tend to reflect trends for Class I and II communities in regard to the prominence of public safety, general government, and street and transportation expenditures. However, aggregate spending in these communities suggest that street and transportation expenditures constitute a greater share of budgets than is found in Class I and II municipalities. Spending across all areas has been increasing since FY 2012. For example, public safety expenditures increased from $54.2 million to $65.3 million between FY 2012 and FY 2020. As a total share of expenses, public safety expenditures increased from 32.3 percent to 33.1 percent in the same period while as a percentage of expenses general government expenditures declined from 30.4 percent to 27.0 percent. As in the case for all municipalities, general government expenditures in Class III cities reflect a broad range of services, activities, and responsibilities. Typical in these communities are expenditures on core city administrative services, building and facilities maintenance, as well as community development efforts, contributions to regional development agencies, and allowable transfers to other city functions.

Figure 8: Class III Municipal General Fund Expenditures, FY 2020



Source: West Virginia State Auditor's Office, Local Government Services Division

Given the diversity of Class III communities in terms of size and location, a closer look at differences within this classification may be helpful. We analyzed differences by dividing these municipalities into tiered population categories separated into thirds based on 2010 population figures. Lower tier municipalities are those with populations between 2,001 and 4,666—33 municipalities in all. Middle tier municipalities are those with populations between 4,677 and 7,333—nine municipalities in all. And upper tier municipalities are those with populations between 7,334 and 9,999—four municipalities in all. Table 22 in Appendix 2 shows the population for all Class III municipalities.

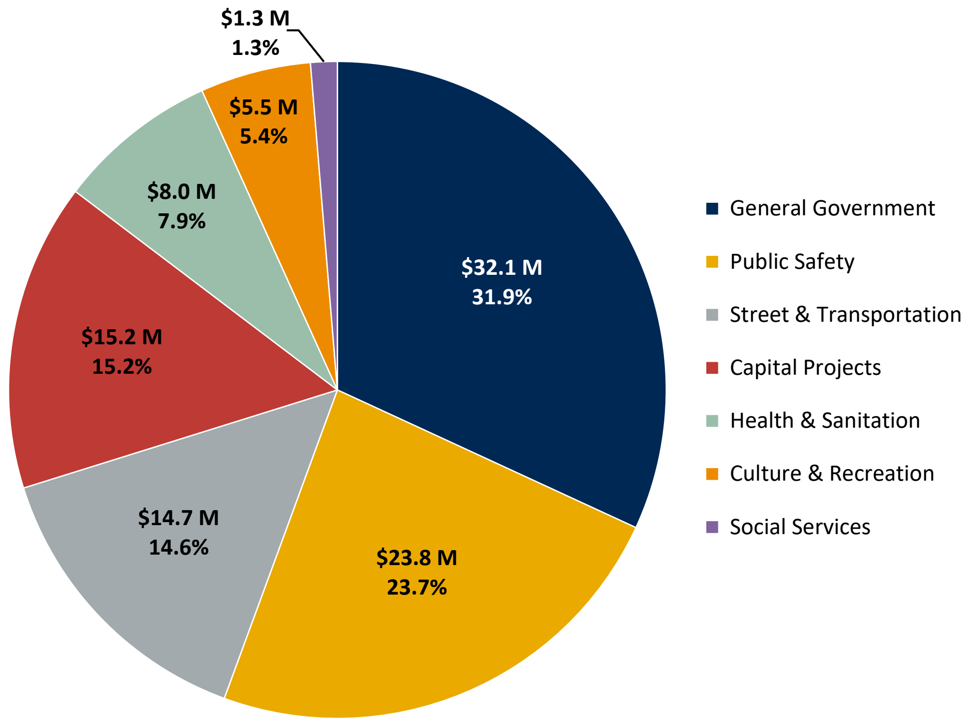
Among the bottom tier of Class III municipalities, expenditures on core governmental and public safety functions were lower per community than those in the middle and top tiers. In fiscal year 2020, the bottom tier Class III municipalities spent $28.4 million on General Government Expenditures, or an average $861,000 per municipality. Those in the middle tier, representing nine Class III municipalities, spent $15.5 million in the aggregate, or an average of $1.7 million per municipality. The four cities composing the top tier of population, spent $9.3 million in the aggregate or an average of $2.3 million per municipality. A similar pattern plays out in public safety spending, where $29.5 million was spent in the aggregate, and averaging $894,000 per municipality in the lower population tier. For those cities in the middle tier, total aggregate spending was $20.1 million or $2.2 million per municipalities. And for those in the top population tier, aggregate spending was $15.7 million or $3.9 million per community.

3.3 Class IV Municipalities

Most communities in West Virginia are classified as Class IV municipalities, with populations of 2,000 or less. These small towns are found throughout the state, including those that border larger municipalities and those located in rural areas. Among the latter, these municipalities may serve as an economic, community, and cultural hub for a county or region. In FY 2020, there were a total of 173 Class IV municipalities in the state. Most of these towns once had larger populations but have seen declines in the residential population within and adjacent to their communities, following the downward trend of the rest of the state. These municipalities are chartered to provide essential services, such as those associated with public safety and street maintenance. It is not uncommon for these small municipalities to also operate water treatment and sewage systems and provide sanitation services.

Like other municipalities, the general expenditures of Class IV towns track along lines that give public safety, general government, and streets and transportation priority (see Figure 9). A comparison between FY 2012 and FY 2020 expenditures reveals a picture that is little changed, though there was a decrease in relative costs for streets and transportation from 19.5 percent of budget expenditures to 14.6 percent, respectively. As with all municipalities, general government expenses cover a wide range of services, programs, and responsibilities. Funds are primarily directed to expenses associated with the maintenance of buildings and facilities, and the provision of key municipal services. Other common costs include contributions to commissions and other statutory authorities.

Figure 9: Class IV General Fund Municipal Expenditures, FY 2020



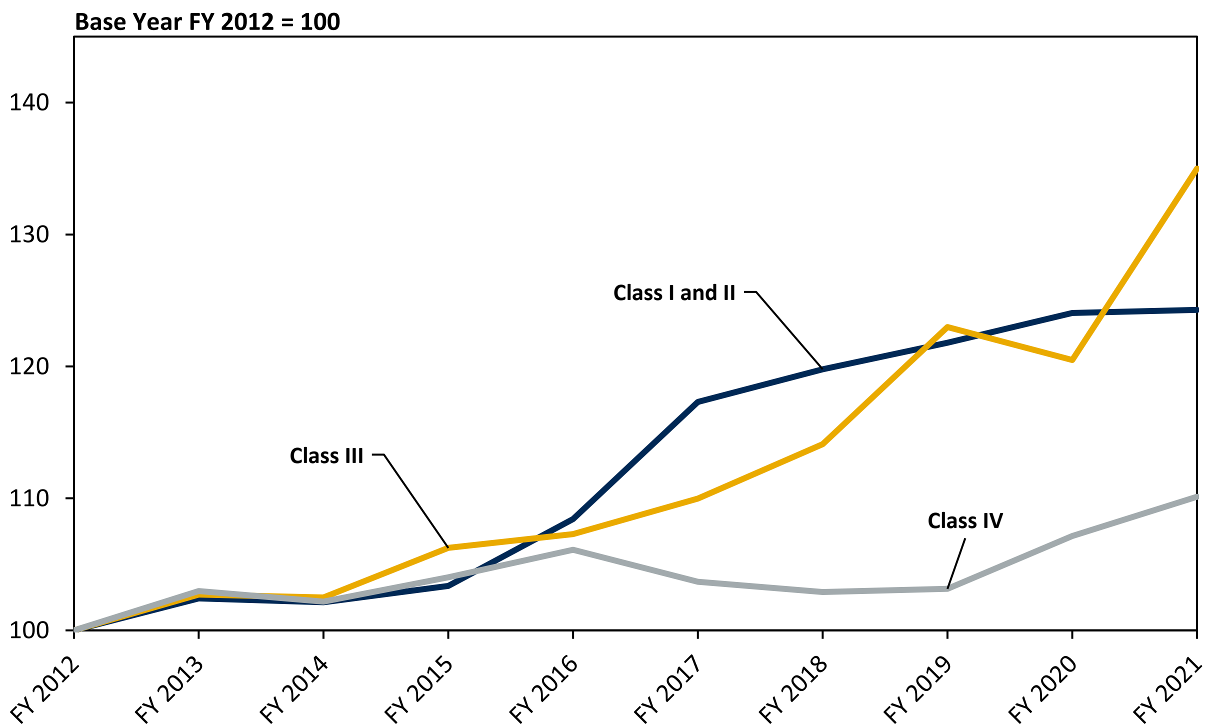
Source: West Virginia State Auditor's Office, Local Government Services Division

3.4 General Fund Trend Summary

Assessments of financial trends in municipal governments are best predicated on the costs of services and programs that are provided. A general overview of conditions in our state suggests that financial burdens are increasing, especially in the area of public safety, and to a lesser extent, in other major expenditure areas such as general government and streets and transportation. Figure 10 illustrates how costs have grown in recent years and provides comparisons across municipal class by normalizing costs to base year change from 2012.

In the aggregate, public safety expenditures constitute the largest outlay for the state's municipal governments. Associated costs for law enforcement, emergency services, and jail fees have increased significantly over the past decade across all municipal classes. For example, by FY 2020, public safety expenditures had increased in absolute terms by more than 24 percent for Class I and II municipalities, and 35 percent for Class III municipalities. For Class IV municipalities, this rate of increase was just over 10 percent.

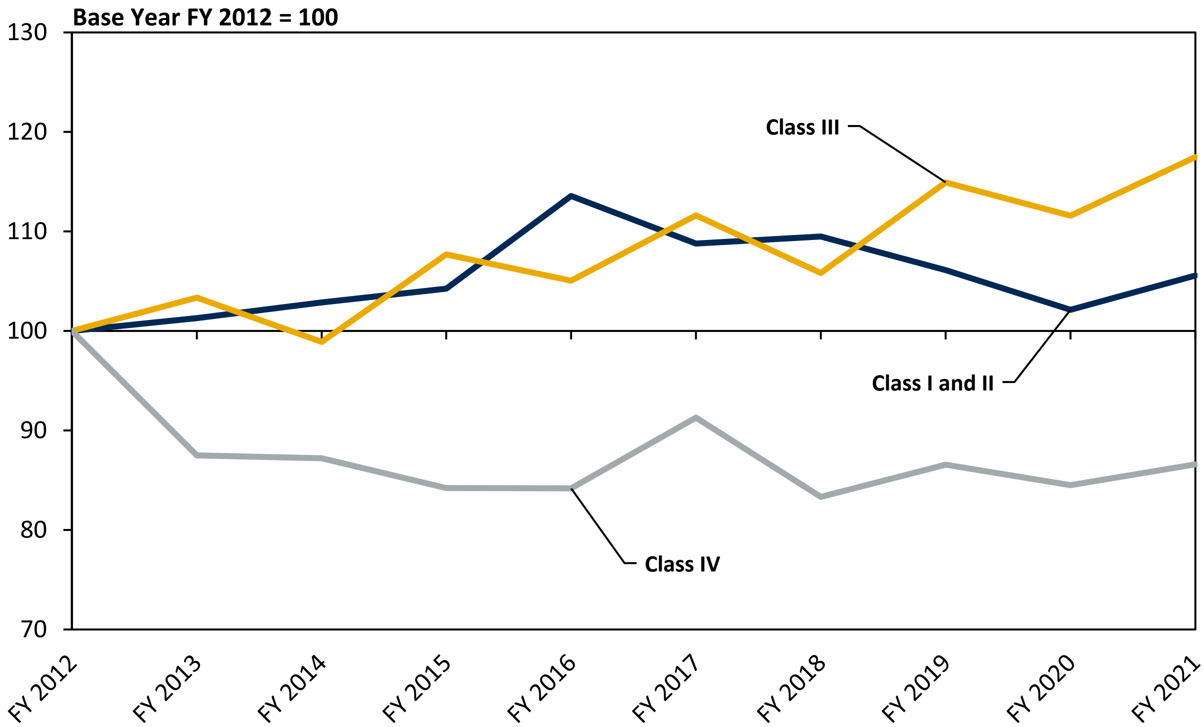
Figure 10: Public Safety Expenditures



Source: West Virginia State Auditor's Office, Local Government Services Division

While accounting for a smaller overall percentage of budget outlays, expenditures relating to streets and transportation services have also increased in recent years for Class I, II, and III municipalities (Figure 11). Among Class I and II cities, between FY 2012 and FY 2020, expenditures increased by 5.6 percent. During the same period, expenditures in Class III cities increased 17.5 percent. Class IV communities, in turn, experienced a 13.4 percent decline in outlays between FY 2012 and FY 2020. It is important to remember that in West Virginia, counties have little if any responsibilities for road and street maintenance. Responsibility for county road systems was assumed by the state almost 90 years ago.

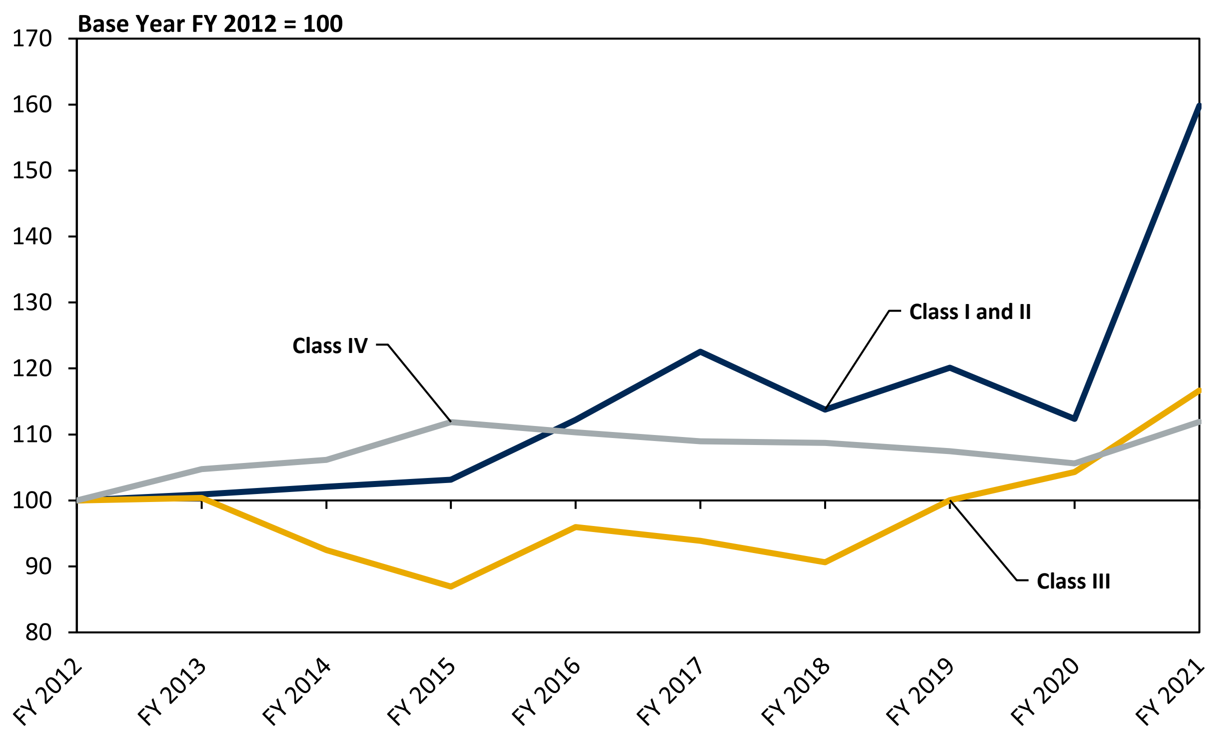
Figure 11: Street and Transportation Expenditures



Source: West Virginia State Auditor's Office, Local Government Services Division

General government operations constitute significant municipal expenditures. Among these expenditures are administrative costs associated with the operation of city government offices and departments, property management and maintenance, as well as community and economic development efforts. Expenditure trends for general government vary from year to year, but the trajectory of costs has been gradually upward in the years prior to FY 2021, which was affected by the COVID-19 pandemic, as illustrated in Figure 12. For example, among Class I and II communities, general government expenditures grew about 12 percent between FY 2012 and FY 2016, but were relatively flat until FY 2021, when expenditures rose 47.4 percent over the previous year. Among Class III municipalities, although spending has at times fallen below FY 2012 levels, it had increased overall by around 16 percent over the time period depicted. Class IV municipalities show relatively constant expenditures in inflation-adjusted terms between FY 2012 and FY 2020, though even in that case outlays were about 11 percent higher in FY 2020 than in FY 2012.

Figure 12: General Government Expenditures

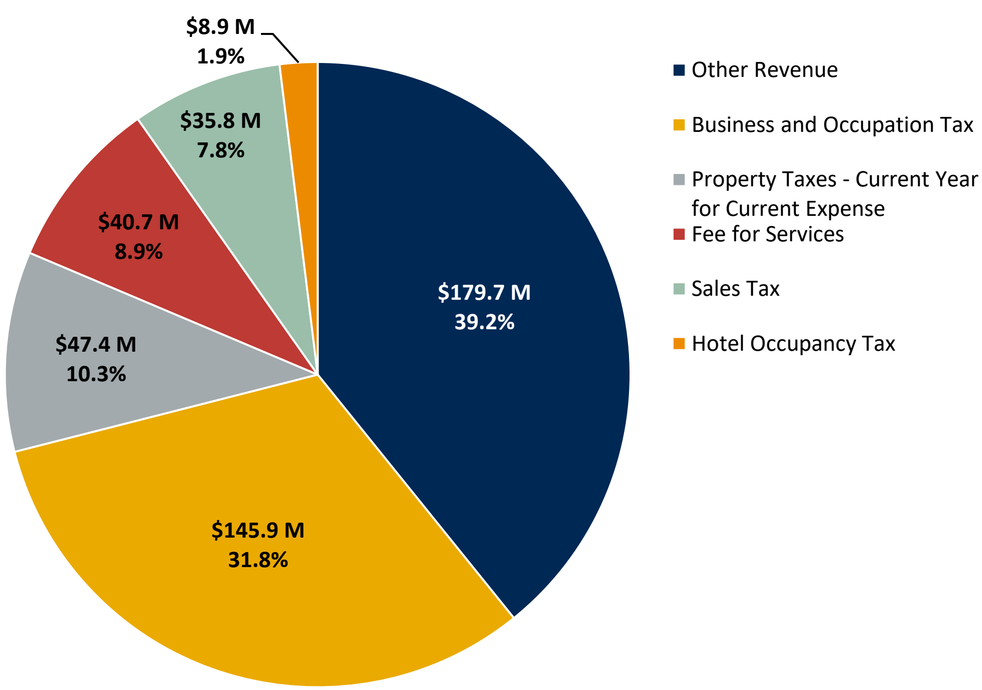


Source: West Virginia State Auditor’s Office, Local Government Services Division

4 General Fund Revenues: A Closer Look

Traditionally, West Virginia's municipalities have relied on a variety of revenue sources to fund the management, infrastructure, and delivery of public services. These revenue sources may be allocated to the general fund or may be assigned to specific and dedicated funds. To meet public service delivery obligations, municipalities rely on a variety of revenue sources, predominant among these are the B&O tax, property tax, and local sales tax. In this section, we provide an analysis of these three essential revenue streams in context of trends and municipality types. As Figures 13–15 illustrate, these three revenue streams represent significant components of a municipal revenue portfolios. As each figure suggests, various revenue streams come from more idiosyncratic, discrete, and unique sources. Labeled as "other" these resources are highly variable among municipalities and are not the subject of our immediate attention in this report.[3] Nonetheless, it is important not to discount these revenue sources, which include not only state and federal transfers, but very specific revenue sources. In our survey of 87 municipal officials, respondents shared revenue sources that are important, and often distinct, to their own communities. These included: franchise fees; tax revenue from beer, liquor, and video lottery; storm water fees; and business registration licenses and permits. These revenues may also include restricted and non-restricted carry-over general fund revenues from the previous year. This is a standard practice nationwide and is prudent approach in smoothly covering liabilities across fiscal years and as a cushion against unforeseen budget disruptions. We will return to this topic later in the report in our discussion of "rainy day funds."

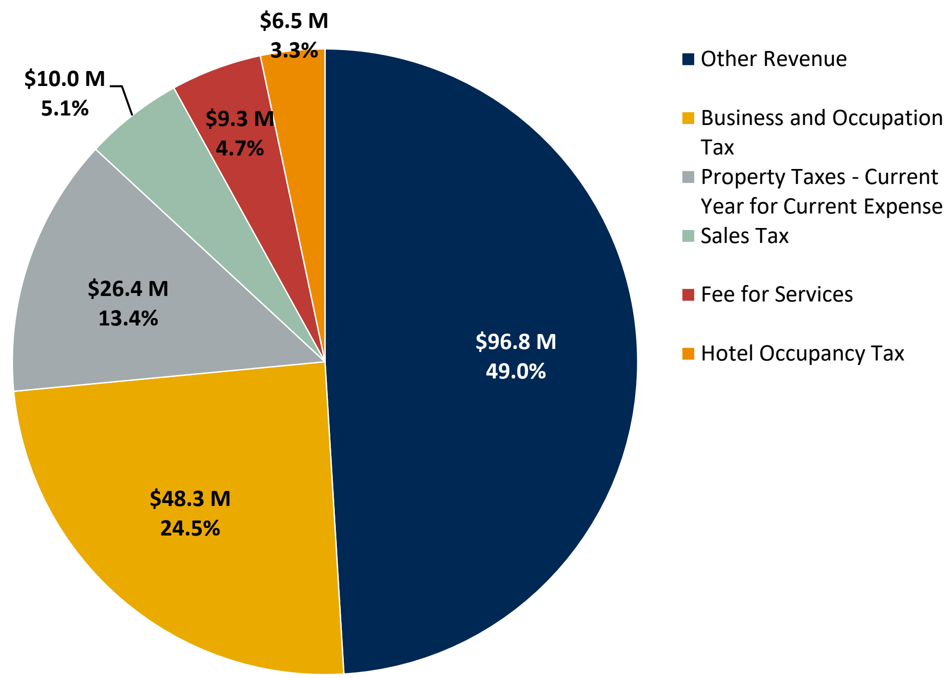
Figure 13: Class I and II Total General Fund Revenues, FY 2020



Source: West Virginia State Auditor's Office, Local Government Services

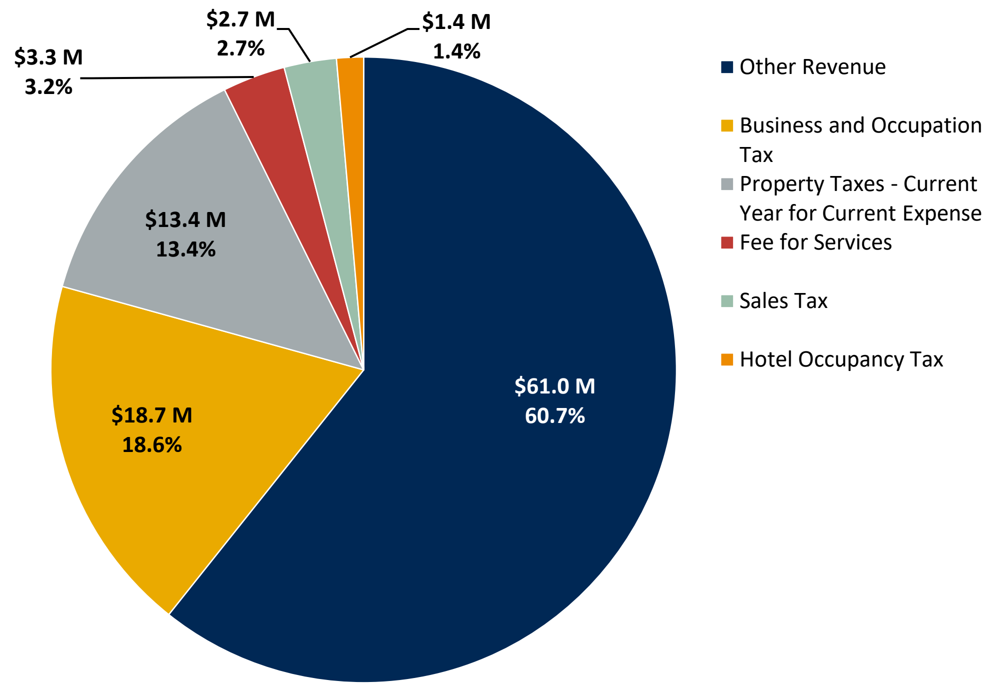
[3] For a breakdown of revenue categories, see Table 25 in Appendix 3.

Figure 14: Class III Total General Fund Revenues, FY 2020



Source: West Virginia State Auditor's Office, Local Government Services

Figure 15: Class IV Total General Fund Revenues, FY 2020



Source: West Virginia State Auditor's Office, Local Government Services

4.1 Property Taxes

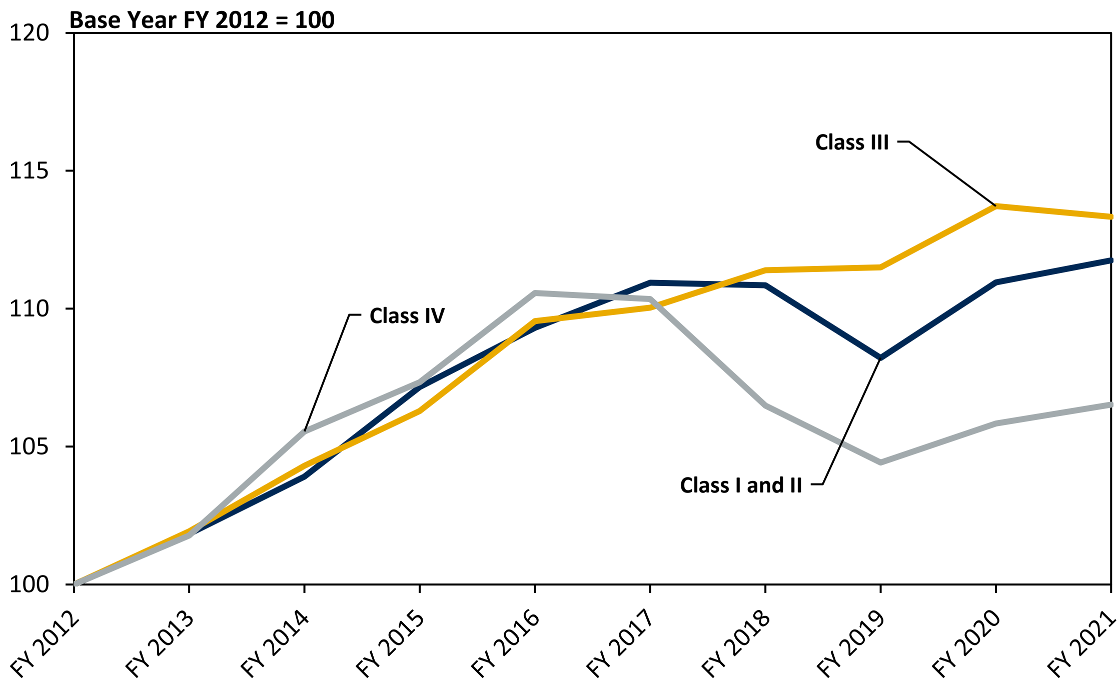
Property taxes are one of the foundations of local government finances across the United States (Propheter 2019). In West Virginia, most property tax revenues are dedicated to school districts. In tax year 2021, approximately $1.3 billion in property taxes were generated statewide. Of these funds, school districts received the vast share of revenue, totaling 66 percent. Counties received approximately 28 percent of property tax revenue, while the state received less than one-half percent. Municipalities received 6.7 percent of tax revenue, or about $130 million. Over the past five years, this percentage of distribution has varied little, ranging only from 6.7 to 7.1 percent. While municipalities receive a small share of property tax distributions, they are a significant revenue base for municipalities (West Virginia Tax Commissioner 2021, pp. 104–108). In comparative terms, West Virginia relies less on property taxes as an overall share of local and state revenue when compared to regional and national per-capita averages (Urban Institute 2021). Various factors may contribute to this, including constitutional and legal constraints on taxation and on the relative value of property in the state as compared to others (Brisbin et al. 2008). In addition, West Virginia municipalities receive a lesser share of property tax revenue than the national average for municipalities (Pagano and Hoene 2018, GFOA 2021).

These distributions reflect not only regular tax levies, but also special excess levies that are subject to voter approval. School districts are by far the most dependent on special excess levies which account for 48 percent of property tax revenue. Special levies are also important for county governments and account for 16 percent of property tax revenue. For municipalities, special excess levies account for 20 percent of revenue (West Virginia Tax Commissioner, pp. 110–112). Excess levies reflect the will of the people and are a good gauge of demand for modern public services where past constitutional and legal decisions have limited or constrained traditional revenue sources. It is important to note that this local option means that there is considerable variation in excess property tax revenue generation among West Virginia's 55 counties and school districts, and 230 municipalities.

Three main sources of property tax are derived from real estate, personal property, and public utilities. In tax year 2021, these accounted for 53 percent, 32 percent, and 15 percent of property tax revenues respectively for the state as a whole. These proportional breakdowns also align with percentage distributions among municipalities in the aggregate (West Virginia Tax Commissioner, pp. 107–108).

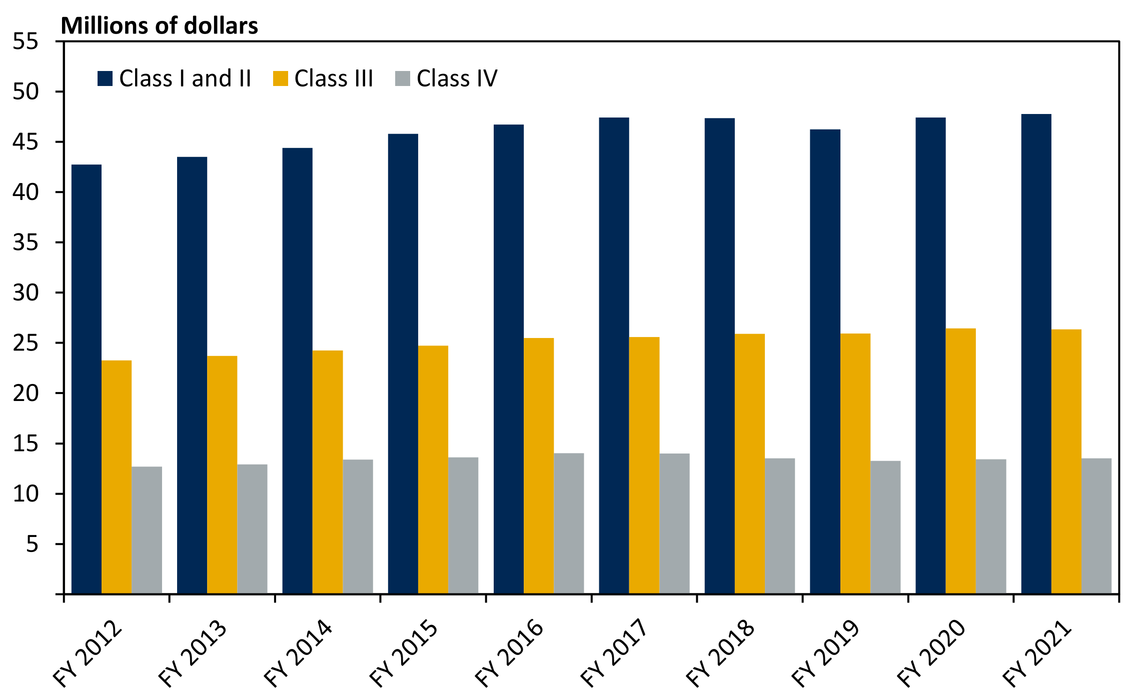
A closer examination of municipal government budget reports will show that property tax revenues are further divided into various categories, including current year property taxes, excess levy property taxes, prior year property tax receipts, and other supplemental property taxes. The most important is current year taxes. In FY 2020, these property taxes constituted, in the aggregate, 10.3 percent of revenues for Class I and II municipalities. In Class III municipalities, revenues accounted for 13.1 percent of revenues, and in Class IV municipalities the property tax accounted for 13.4 percent of revenues (see Figures 13–15). Virtually all municipalities utilize the property tax and, as illustrated in Figure 16, property tax revenues have generally trended upwards in recent years, although there is significant volatility in the figure. Increasing property tax revenues are also reflected in absolute terms in Figure 17.

Figure 16: General Fund Property Tax Revenue Growth



Source: West Virginia State Auditor's Office, Local Government Services Division. Current Year for Current Expense, Base Year FY 2012 = 100.

Figure 17: General Fund Property Tax Revenue



Source: West Virginia State Auditor's Office, Local Government Services Division. Current Year for Current Expense.

Within Class III municipalities there is considerable variation in property tax revenue based on population size. In general, larger communities are able to generate more revenue than smaller communities. Because of variation across Class III municipalities, a closer analysis is warranted. Utilizing tiered population categories, we find variation in property tax revenue streams. Table 3 highlights that larger Class III municipalities generate greater revenue on average.

Table 3: Property Tax Aggregate and Municipal Average (Class III Cities)

Population Tier	Aggregate	Municipal Average
Lower-Tier (n=33)	$13.9 million	$421,212
Mid-Tier (n=9)	$7.5 million	$833,333
Top-Tier (n=4)	$5.0 million	$1,250,000

Source: West Virginia State Auditor's Office, Local Government Services Division. Data is for FY 2020 and reflects current year for current expense.

To provide a more qualitative perspective and insight, we engaged local municipal officials through surveys and through focus group discussions. The importance of property taxes as a revenue source was clearly articulated by many stakeholders across municipal classes. For example, the property tax was uniformly ranked as one of the top three revenue resources across all municipal classes, but for respondents representing Class IV municipalities, the property tax was identified as especially important as a revenue source. Approximately 73 percent of respondents from Class IV municipalities ranked property taxes as either first or second in order of importance.

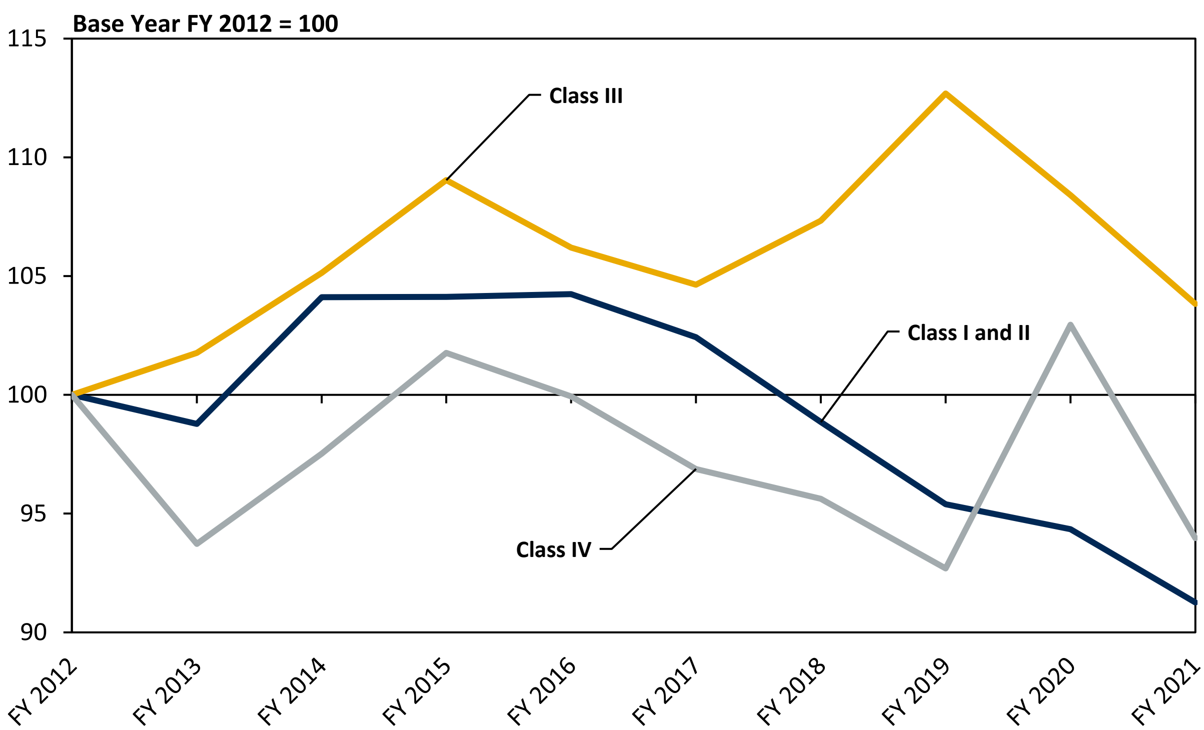
Through our focus group discussions, we learned that local officials see the need to refine and improve property tax policies and practices. Concerns were raised that property tax policies favor idle properties in downtown areas. Suggestions were made that legislation should be adopted that allows for a valuation property tax approach that will create incentives for investments and discourage property owners from holding on to vacant and underdeveloped properties in historic downtown cores. In a focus group discussion featuring both government and non-government stakeholders, the observation was made that the state's property tax classification system makes it difficult to build and provide apartments in municipalities. More flexible approaches were called for that would for opportunities for tax breaks and subsidization to encourage restoration of existing structures and new buildings for business and residential purposes.

4.2 The Business and Occupation Tax

West Virginia provides municipalities the authority to levy a Business and Occupation, or B&O, tax. All municipal classes can levy the tax, but not all do. As noted in one analysis conducted well over a decade ago, "the relatively anemic nature of West Virginia's economy limits the B&O taxes' ability to generate significant amounts of revenue, especially in smaller population municipalities where the local business community's economic health is impaired" (Brisbin et al. 2008, p. 235). A number of states utilize or allow local governments to levy a B&O or a gross receipts tax. This includes our neighboring states of Virginia and Pennsylvania which allow a local gross receipts tax (Walczak 2021, p. 21). The reluctance of smaller municipalities to utilize the B&O tax remains. Our review of State Auditor's data shows that 73 municipalities did not utilize the B&O tax in 2020. Of these, 69 were Class IV municipalities and four were Class III municipalities. Nonetheless, the B&O tax remains a significant source of income for many of our municipalities. As Figure 18 illustrates, B&O taxes have remained a consistent source of revenue over years but have fluctuated with changes in the overall economic climate. As one of our focus group participants noted, the B&O tax, since it's levied on gross receipts, acts as a barometer for economic activity.

In the aggregate, the B&O tax is the main source of revenue across municipal classes, constituting 31.8 percent of general fund revenues for Class I and II municipalities in FY 2020, and 23.8 percent and 19.6 percent of revenues for Class III and IV municipalities, respectively. As detailed later in this analysis, there is variation in reliance on the B&O tax within municipal classes, especially among Class III municipalities. Figure 18 illustrates trends in the B&O tax over time, using a baseline index measure to indicate changes since FY 2012 to allow comparison across municipal classes. As the chart indicates, there is an interesting variation. For example, Class III municipalities have seen revenue growth from the tax, while Class I and II cities' revenues increased until FY 2014 and have been flat or declining since. Class IV communities have experienced periods of decline, growth, and relative stability.

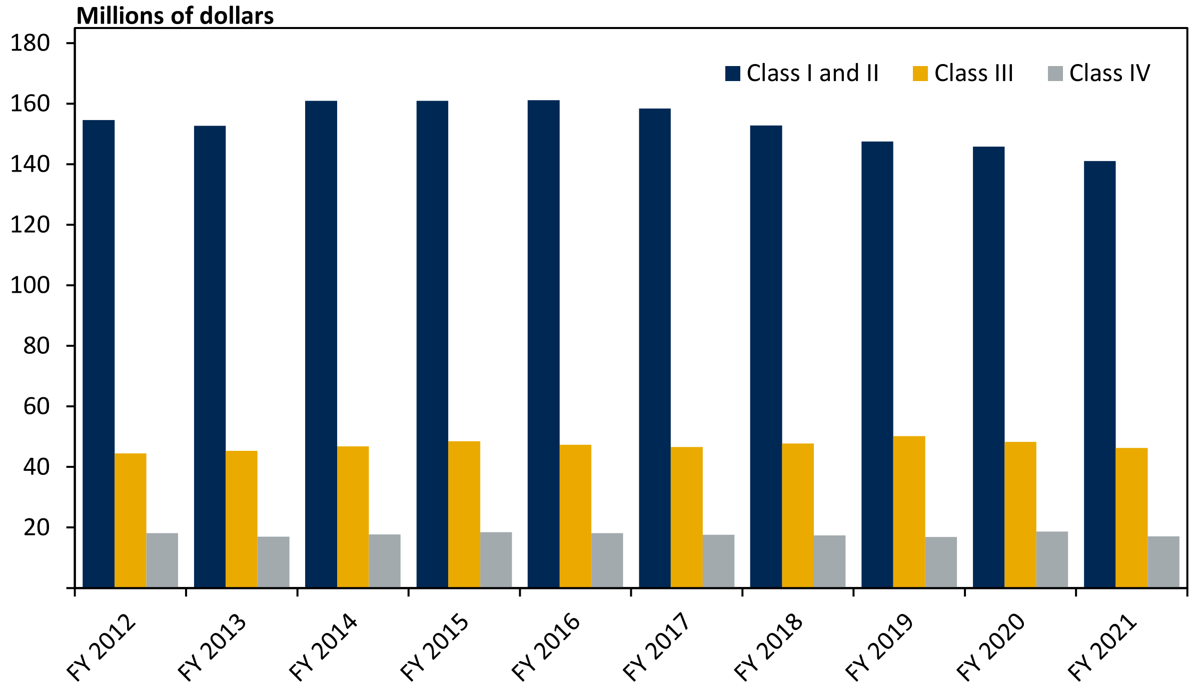
Figure 18: B&O Tax Revenue Growth



Source: West Virginia State Auditor's Office, Local Government Services Division

In absolute terms, there are significant differences in the amount of revenue generated by the B&O tax across municipal classifications (Figure 19). Thus, for example, among the 14 Class I and II municipalities the total combined receipts were approximately $146 million in FY 2020. Among the 43 Class III municipalities using the tax, total combined receipts totaled about $48 million that year. And among the 102 Class IV municipalities using the tax, total combined receipts totaled almost $19 million in FY 2020.

Figure 19: Nominal B&O Tax Revenue



Source: West Virginia State Auditor's Office, Local Government Services Division

A closer look at the data serves to remind us that B&O tax receipts can vary widely among municipalities, even within the same classification. For example, in FY 2020 the B&O tax generated $22.9 million in the aggregate for the lowest third of Class III cities (see Table 4), translating on average to $763,333 per municipality. For the middle tier cities, the aggregate was $12.5 million or on average $1.39 million per community. For the four cities in the top tier of population, aggregate revenues totaled $12.9 million taken together or $3.25 million per municipality. We offer the caveat that there can be wide variation among municipalities. For example, for lower tier population Class III communities, B&O collections ranged from approximately $3,700 to $3.4 million, in mid-tier cities the range was from $550 thousand to $2.5 million and in the top population tier cities, from $1.8 million to 6.5 million.

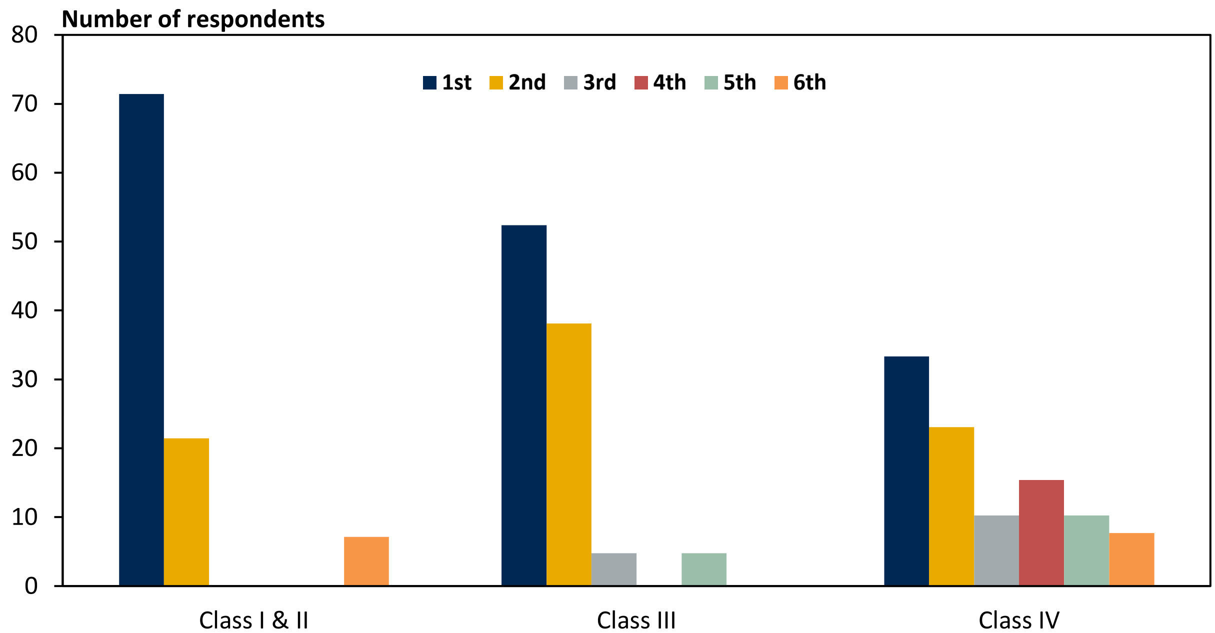
Table 4: B&O Tax Revenues Aggregate and Average Municipal Average, Class III Cities.

Population Tier	Aggregate	Municipal Average	Range
Lower-Tier (n=34)	$22.9 million	$763,333	$3,700–$3.4 million
Mid-Tier (n=9)	$12.5 million	$1.4 million	$550,000–$2.5 million
Top-Tier (n=4)	$12.9 million	$3.2 million	$1.8 million–$6.5 million

Note: Four Class III cities do not utilize the B&O tax and were excluded from calculations. Range data is approximate and not exact values. Data is for FY 2020.

Our survey responses and focus group discussions generated considerable insight and emphasis on the use of the priorities, challenges, strengths, and weaknesses of using the B&O tax as a primary revenue stream. Our survey data show that the tax is considered of high importance. As Figure 20 illustrates, it is ranked highly, but not equally, among respondents from all municipality classifications.

Figure 20: Perceived Importance of B&O Tax as a Revenue Source



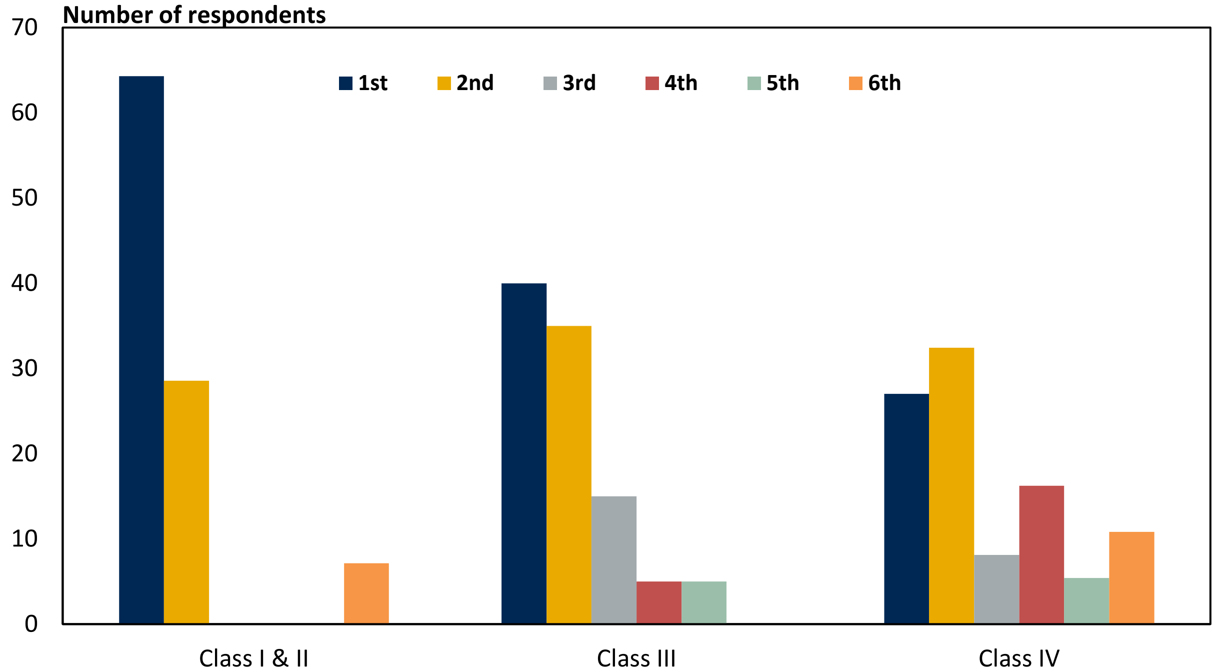
Source: Municipal League survey, question 9.1 (N=74)

As the chart above suggests, B&O taxes are not ranked as highly among respondents from Class IV municipalities. Approximately 35 percent of respondents ranked B&O taxes first and approximately 22 percent ranked it second. This result suggests that smaller municipalities may rely less on B&O taxes and more on other revenue sources, such as special fees and utility taxes.

The lower reliance on B&O taxes is evident from an analysis of select Class IV municipal budgets which highlights the importance of such revenue sources as property taxes and sales taxes, which was also expressed in survey responses. As noted earlier, approximately 73 percent of respondents from Class IV municipalities ranked property taxes as either first or second in order of importance. Almost 36 percent of all respondents from Class IV municipalities ranked service fees as either first or second in importance as a revenue source. In response to a question asking respondents to identify other revenue sources, those representing Class IV municipalities were likely to report wine and liquor taxes and table game and video lottery taxes as important sources of revenue.

In the survey, we also gauged opinion on how important the B&O tax might be in the future. When asked to rank the importance of revenue sources five years from now, the B&O tax continues to be seen as a major revenue source for the future. However, as Figure 21 illustrates, there are indications that the B&O tax may not be quite as important in the longer term.

Figure 21: Perceived Importance of B&O Tax Five Years from Now



Source: Municipal League survey question 10.1 (n=71)

While the respondents continued to consider the B&O tax as an important source of revenue, there are indications that expectations might be shifting among those in Class III municipalities. For example, while over 90 percent of respondents in Class III municipalities rank the B&O tax as either first or second in importance currently, this combined rating falls to 75 percent for expected revenues five years from now.

Our focus group discussions offered insight on perceptions and concerns associated with the B&O tax. For example, some business stakeholders expressed concerns about the burdens associated with managing and reporting their tax obligations, seeing the B&O system as overly cumbersome. Local government stakeholders raised equity concerns between counties and cities. In their view, the B&O tax is a necessary evil that must be used to fund city services. Since counties are not allowed to impose the tax, they have a competitive advantage in attracting and retaining businesses. A common view is that the tax prompts businesses to move out of municipalities and serves as a disincentive for out-of-state business investment in West Virginia. Other facets of this issue involve some of the complexities in determining tax-burden based on point of sale or service.

A practical concern has been raised as to whether B&O tax law and regulation needs revision. The architecture of the law, it is argued, is basically the same as decades ago and fails to recognize new realities. In this regard, concerns raised in the focus group echo concerns that have now been raised for decades in West Virginia about the effectiveness of the B&O tax and the need for reform. For example, 25 years ago a series of statewide economic development forums were held across West Virginia. A common theme that emerged from these sessions was the need for B&O tax reform (Plein and Williams 1996). Most recently, the West Virginia Senate Committee on Finance (2021) adopted a concurrent resolution calling for a study of the B&O tax.

4.3 Local Sales Tax

In 2005, a new law provided municipalities the ability to levy a local sales tax in West Virginia. However, to do so, cities would have to forego the B&O tax. Initially, few municipalities opted to levy a sales tax in lieu of the B&O tax. It is generally held that in many cases sales tax revenues will not match B&O revenues, making the trade-off unappealing. The few communities that originally opted for the sales tax in lieu of the B&O tax were very small communities that likely opted for the new tax due to a lack of vibrant businesses in their communities. Over time, the number of communities opting for sales tax has grown.

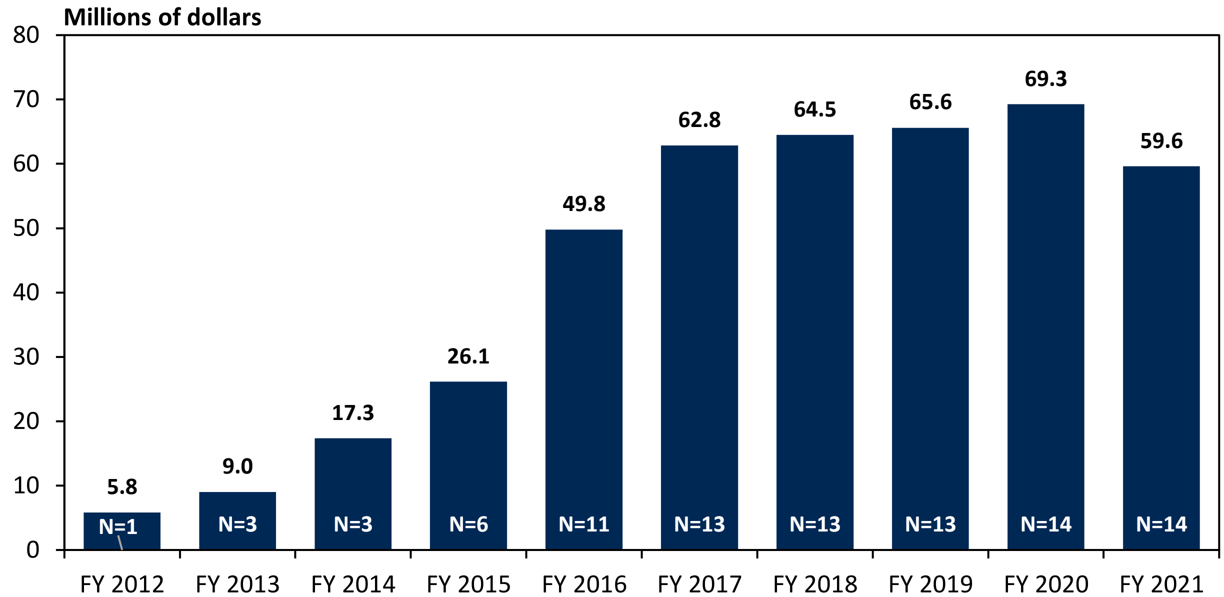
When the Municipal Home Rule Pilot program was established in 2007, more flexibility was provided for local sales tax adoption. Qualifying municipalities were able to utilize both the B&O and local sales tax as revenue sources. As we discuss later in this report, over time the Home Rule program has been reauthorized and expanded, allowing more communities to utilize this approach. However, embedded in this option is some ambiguity and tension. Under the Home Rule program, participating cities utilizing the sales tax are expected to reduce or eliminate the B&O tax. In the absence of clear policy direction, this has become a political question. The dual tax option has helped to generate interest in participating in the home rule program. As of July 2021, no less than 44 municipalities had utilized the home rule program to adopt the sales tax. By that time, 23 cities had utilized the sales tax in lieu of the B&O tax. These are disproportionately smaller Class III and Class IV communities. Arguably, limited numbers of licensed businesses in a small town may make the B&O less politically palatable and effective than in larger communities.

Overall, since 2016 there has been a significant increase in the number of municipalities levying the sales tax. As of 2020, 57 municipalities had implemented the sales tax and received revenue during the fiscal year. By FY 2020, the local sales tax, in the aggregate, accounted for 7.8 percent of revenue for Class I and II municipalities (see Figure 13), 5.1 percent for Class III municipalities (see Figure 14), and 2.7 percent for Class IV municipalities (see Figure 15). The number of municipalities adopting the sales tax continues to increase. By July 2021, the number of municipalities adopting the sales tax had grown to 68. Effective January 1, 2022, seventy municipalities will have adopted the sales tax.

As illustrated in Figures 22-24 below, which are all adjusted for inflation, since FY 2012, an increasing number of Class I and II, III, and IV municipalities have adopted the sales tax, especially from FY 2017 onward. For Class I and II cities, in FY 2012, only Huntington reported sales tax collections, and between FY 2013 and FY 2014 Charleston and Wheeling also reported sales tax revenues (Figure 22). For Class III communities, Williamstown was the only municipality that collected the sales tax between FY 2012 and FY 2014 (Figure 23). In FY 2012, no Class IV municipality levied the tax, while in FY 2013 and FY 2014, only Harrisville, Quinwood, and Rupert reported sales tax revenues (Figure 24).

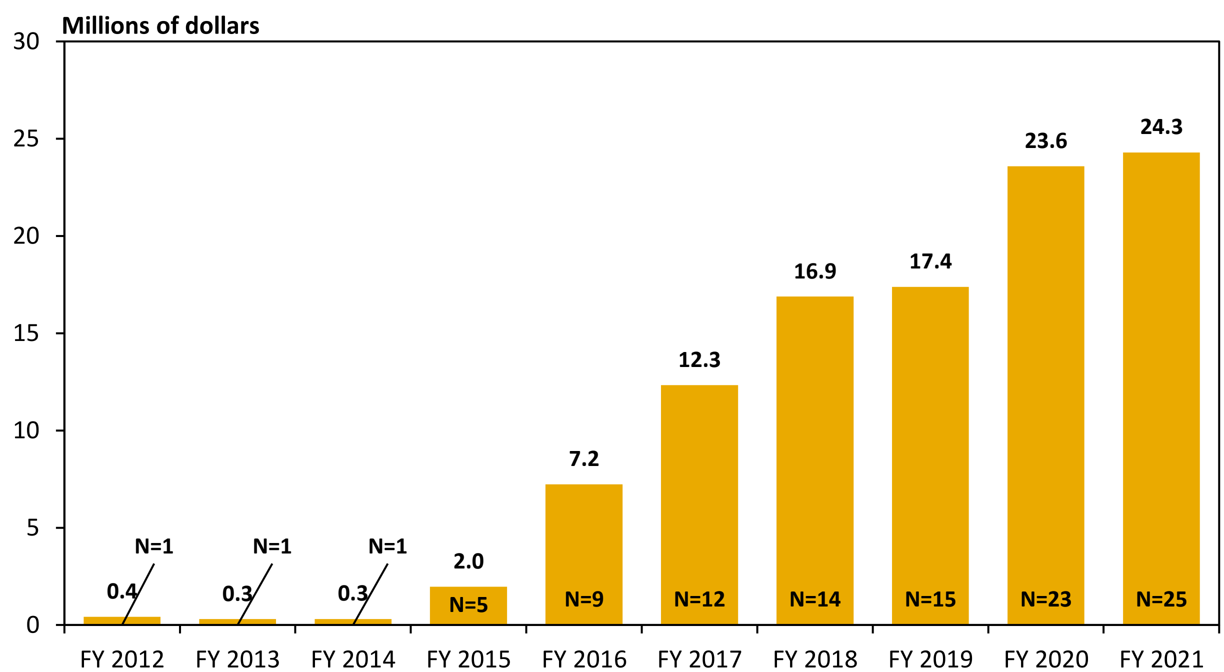
Since the sales tax has not been uniformly adopted across the state, it is challenging to make cross-year comparisons. As described in Section 6.2, between 2007 and 2013, only four municipalities participated in the Municipal Home Rule pilot program. In 2014, the legislature passed a law allowing up to 20 municipalities to participate in the pilot program, and in 2015, this number was raised to 30 cities. In 2019, the legislature enacted a law extending the opportunity to participate in the program to all 230 municipalities.

Figure 22: Class I and II Sales Tax Revenue



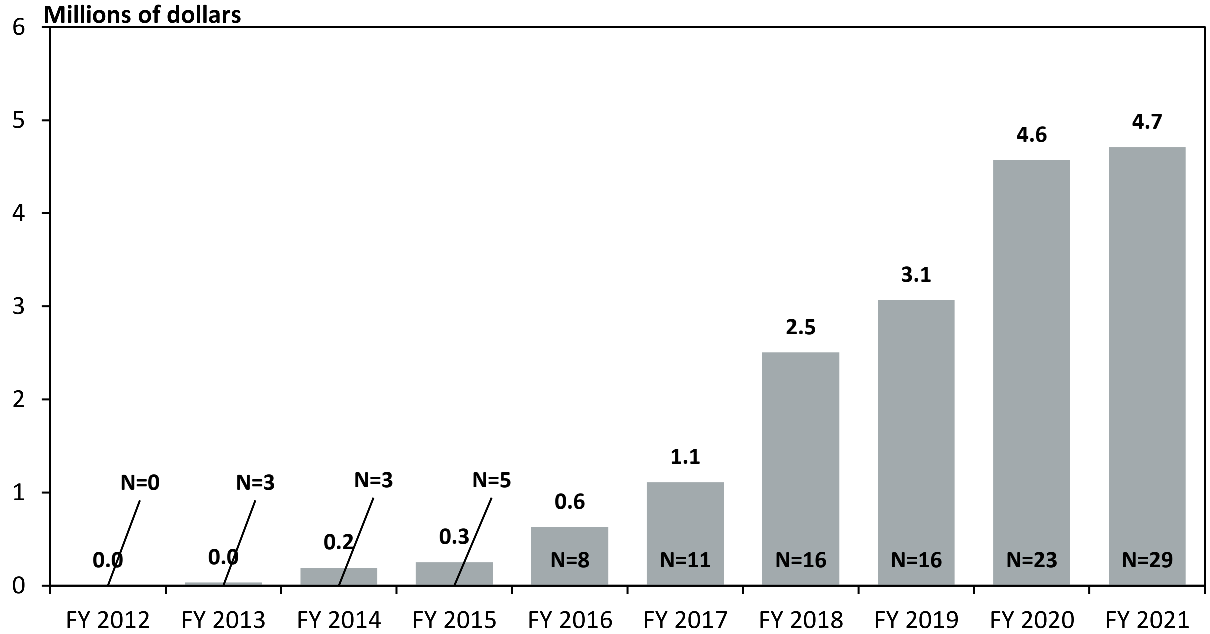
Source: West Virginia Treasurer's Office
Note: In FY 2012, only Huntington collected the sales tax. In FY 2013 and FY 2014, only Charleston, Huntington, and Wheeling collected the sales tax.

Figure 23: Class III Sales Tax Revenue



Source: West Virginia Treasurer's Office
Note: Between FY 2012 and FY 2014, only Williamstown collected the sales tax.

Figure 24: Class IV Sales Tax Revenue



Source: West Virginia Treasurer's Office
Note: In FY 2013 and FY 2014, only Harrisville, Quinwood, and Rupert collected the sales tax.

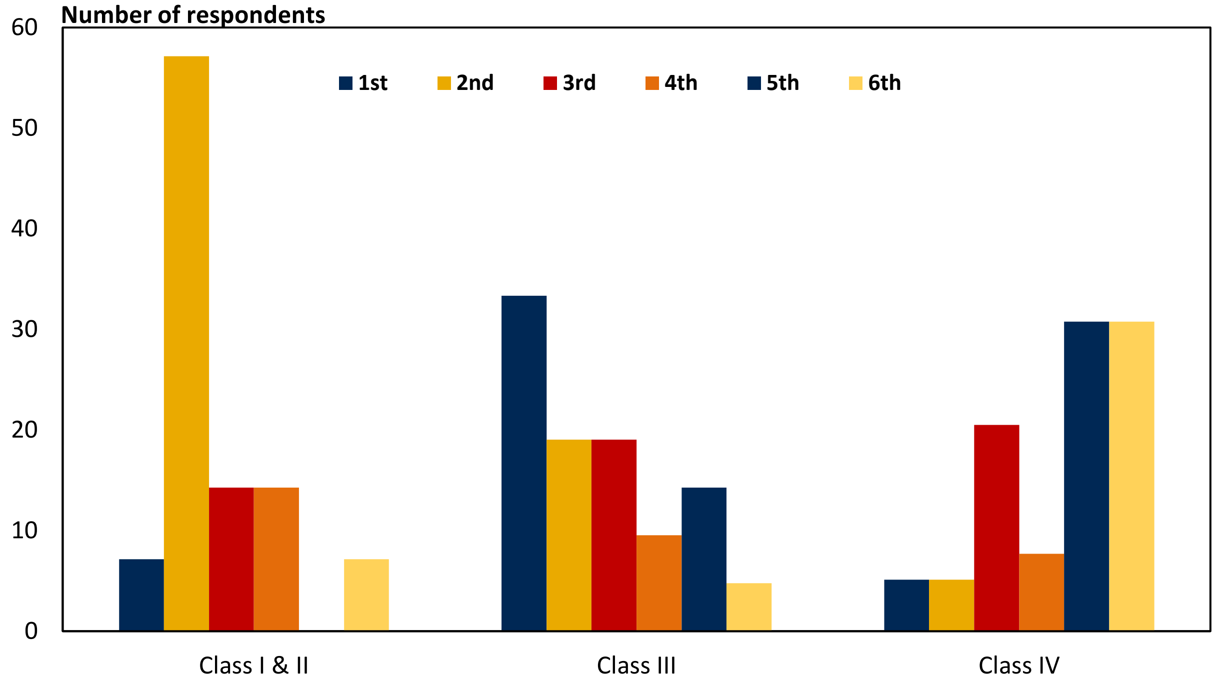
As above, we break down sales tax revenue for Class III municipalities into three tiers. Of the 46 Class III municipalities, in 2020, 22 received remittances from the state tax department for sales taxes collected. Eleven municipalities were in the lower population tier, eight were in the mid-tier, and three are in the top tier (see Table 5). As is detailed below, local sales tax revenue across all three tiers of Class III municipalities were appreciable, but also highly variable.

Table 5: Sales Tax Remittances by Classification and Average Municipal Average (2020)

Population Tier	Aggregate	Municipal Average	Range
Lower-Tier (N=11)	$7.3 million	$663,675	$131,920–1,689,776
Mid-Tier (N=8)	$9.45 million	$1,180,850	$583,039–1,883,276
Top-Tier (N=3)	$6.83 million	$2,276,568	$917,212–4,056,652

Source: West Virginia Tax Department Sales Tax Remittance Data. Note: Chester, WV, had sales tax but did not receive revenue and is excluded from calculations.

Figure 25: Perceived Importance of Local Sales Tax as Current Revenue Source



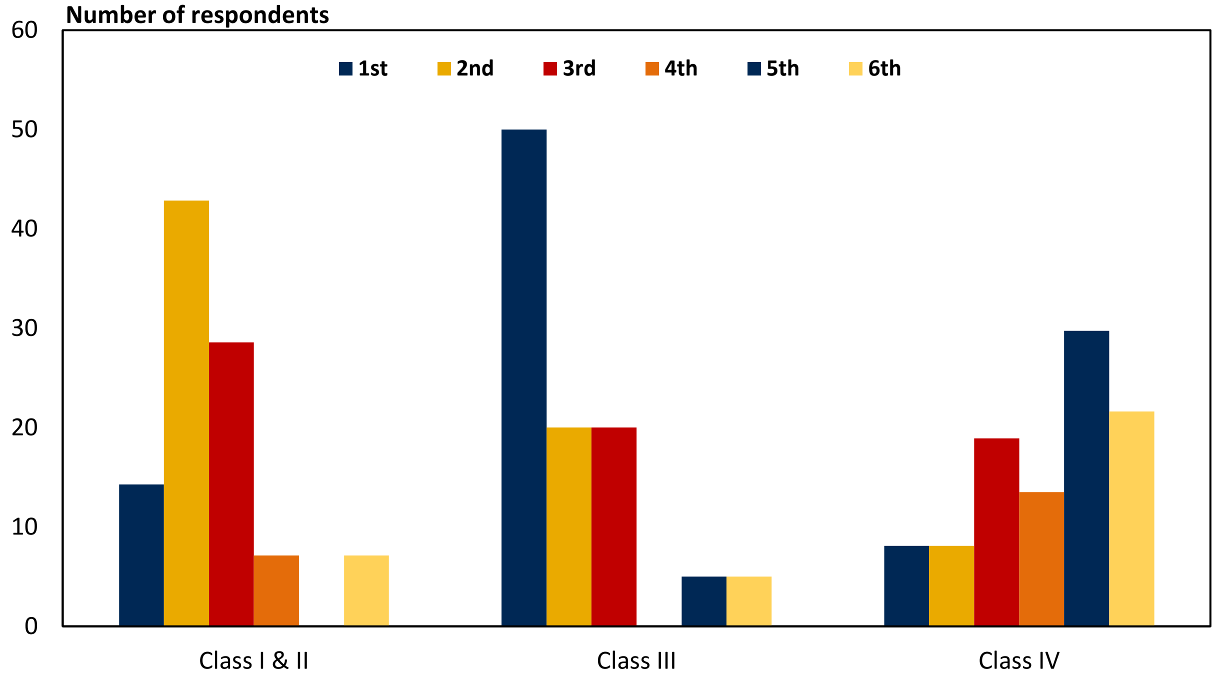
Source: Municipal League Survey question 9.3 (n=71)

Among respondents from Class I and II municipalities, over 57 percent rate the local sales tax as second most in importance as a current revenue source after the B&O tax (Figure 25). Among Class III respondents, one-third sees the local sales tax as the most important revenue source, with another 19 percent ranking it second. The future prospects of the local sales tax as a key source of revenue are indicated in responses to the survey question asking for forecasted rankings five years from now.

As Figure 26 illustrates, while Class I and II respondents see an incremental increase in the importance of local sales tax, 50 percent of Class III respondents project that the tax will be the most important revenue source five years from now, with an additional 20 percent expecting it to be the second most important revenue source.

In sum, our findings from the Municipal League finance survey indicate that there is wide agreement regarding the importance of both revenue sources for local government finance. In the survey, municipal officials were asked to rank the importance of various revenue sources. Across all municipal classes, the B&O tax is recognized as the most important revenue source. Over 70 percent of respondents from Class I and II municipalities ranked it first as a source of revenue. Over 52 percent of respondents from Class III municipalities ranked it first. Notably, over 92 percent of respondents from Class I and II municipalities ranked the B&O tax either in first or second place in importance. Similarly, the combined rating among Class III respondents is approximately 91 percent.

Figure 26: Perceived Importance of Local Sales Tax as a Revenue Source in Five Years



Source: Municipal League survey, question 10.3 (N=71)

Additionally, 93 percent of respondents from Class I and II municipalities reported that their city utilized the B&O tax. For Class III municipalities, 96 percent reported that their cities utilized the tax. Among Class IV respondents, 62 percent reported the use of the B&O tax in their municipalities (Q11, N=81). The use of the local sales tax was reported by 86 percent of respondents from Class I and II municipalities, which suggests the widespread adoption of this new revenue tool. Among Class III respondents, 68 percent respondents noted that their municipalities were utilizing the local sales tax. Given that these taxing powers have yet to be fully extended to Class IV municipalities, it was not surprising to see that only 21 percent of respondents from these incorporated towns utilized the tax (Q12 N=79).

Provisions of the home rule law allow municipalities to utilize both the B&O and sales taxes, subject to approval of the state's Home Rule Board. In our focus group discussions with municipal officials, the common perception and perspective was that both taxes are complementary and should not be seen as a substitute for one another. Instead, their utilization, along with other revenue streams, helps to round out the revenue portfolio of municipal governments. This is indicated as well in survey responses describing how local sales tax revenues are utilized in municipal finance. Among survey respondents, 63 percent report that the sales tax is allocated to the general revenue fund, 17 percent cite that the tax is allocated to special revenue accounts, and 26 percent state that the tax is allocated for both general and special revenue accounts. This allocation is common across municipalities regardless of class size. However, it is not uncommon for revenues to be partially or solely directed to special revenue funds. In focus group discussions, participants indicated that funds are directed to public safety and other uses).

The survey data, state auditor records, and state treasurer data suggest that a combination of B&O and local sales taxes are utilized to support municipal services and operations. In our focus group discussions, there was considerable concern that some state policymakers, especially in the legislature see the local sales tax as a substitute for the B&O tax. As one local official expressed, it is difficult to conceptualize how a one-percent sales tax could serve as a substitute for the B&O tax. Others stressed the need for municipalities to preserve various revenue tools, like the sales tax and the B&O tax.

As discussed later in this analysis, public officials at both the state and local levels share the opinion that local sales taxes will be an important part of the future for municipal finance in our state. For those municipalities who opt for a sales tax in lieu of the business tax, careful consideration needs to be given to the trade-offs involved. As observed some years ago by the West Virginia Tax Department, "In most instances the revenue generated by a municipal business and occupation tax substantially exceeds the revenue that would be generated by a one percent sales and use tax. Consequentially, municipalities that impose a business and occupation tax often cannot afford to impose a sales tax…" (2017, p. 1).

For those communities in the home rule program, pursuing both may require clear justification and consideration of revenue levels and how funds are directed to specific uses. This is reflected in part in the common practice of directing sales tax revenue to dedicated purposes, such as public safety. We found through our focus group discussions, that some localities proactively engaged residents and businesses to develop and adopt local sales taxes. One justification offered emphasized how outsiders, such as travelers passing through town and visitors, would be helping to shoulder the burden of the tax. Others recounted how public discussions focused on how the sales tax would be used to help fund police departments as well help with infrastructure maintenance. Such public engagement is increasingly recognized nationally as a necessary and best practice in charting the course of municipal finances in challenging times (Okubo 2010, Government Finance Officers Association 2021).

5 Expenditures: Trends, Projections, and Perceptions

The measure of expenditures is a reflection not only of existing outlays, but also an assessment of the capacity of a local government to meet current and future needs. In a sense this is a measure of confidence in the ability of municipalities to meet both everyday needs and longer-term obligations associated with personnel, infrastructure maintenance, and the delivery of public services. In this regard, surveying local government officials can help in assessing and anticipating future trends. As noted by Leiser and Mills (2019), “Local officials can contribute forward-looking, context-specific, and difficult to quantify insights about local economic and political conditions, future spending needs, management quality, and other factors that may influence fiscal health.” The purpose of this section is to build on previous data presented in the Municipal Finance Trends section to provide more information and perspective on future trends in municipal finance.

West Virginia is distinct among the states in vesting considerable responsibilities for street maintenance and improvements to municipal governments. Counties in West Virginia do not have these same obligations because the state Division of Highways maintains county and state roads. In some municipalities, there is shared responsibility for road maintenance when state highways pass through the local jurisdiction. In focus groups, matters of funding, prioritization, and coordination of street maintenance and improvement often surfaced in the discussions. A focus group participant from a Class III municipality mentioned that although the town has enough funds to pave streets—which is funded through its street levy—state roads are in poor condition. In our survey, we found that the confidence in meeting the costs of street and related maintenance and improvements varied significantly by municipal class.

Table 6: Municipality has Adequate Revenues to Meet the Costs of Street and Related Maintenance Improvements

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	85.7 percent	65.0 percent	27.5 percent
Neutral	14.3 percent	5.0 percent	17.5 percent
Strongly or Somewhat Disagree	0 percent	30.0 percent	55.0 percent

Source: Municipal League survey, question 22 (N=74)

As Table 6 illustrates, there are clear differences in opinion regarding the capacity of municipal governments to manage street maintenance and improvement costs. The larger the municipality the more it believes it is capable of meeting responsibilities related to street maintenance and improvement. Approximately 86 percent of respondents from Class I and II municipalities strongly agree or somewhat agree that their municipal governments have sufficient revenues to meet the costs of street upkeep. For Class III municipalities, 65 percent of respondents believe that their municipalities can meet such obligations, while 55.5 percent of respondents from Class IV municipalities strongly disagree or somewhat disagree that their communities have enough revenues to maintain their streets.

Table 7: Municipality has Adequate Revenues to Meet Current Personnel Expenses

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	84.7 percent	85.0 percent	66.7 percent
Neutral	7.7 percent	10.0 percent	19.0 percent
Strongly or Somewhat Disagree	7.7 percent	5.0 percent	14.3 percent

Source: Municipal League survey, question 19 (N=75)

As depicted in Table 7, most respondents from Class I, II, III, and IV municipalities believe that their communities have sufficient revenues to meet current financial obligations related to personnel. Approximate 85 percent of Class I, II, and III respondents strongly agree or somewhat agree that their municipal governments have adequate revenues to pay for personnel expenses. Almost 67 percent of Class IV respondents strongly agree or somewhat agree that their towns have enough revenues to cover such expenses.

Table 8: Municipality has Adequate Revenues to Meet Long-Term Personnel Obligations

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	64.3 percent	90.0 percent	47.6 percent
Neutral	14.3 percent	0 percent	14.3 percent
Strongly or Somewhat Disagree	21.4 percent	10.0 percent	38.1 percent

Source: Municipal League survey, question 20 (N=76)

Table 8 demonstrates variation in confidence regarding long-term liabilities. There is mixed confidence, across all municipal classes, on their respective municipal governments' ability to meet long-term obligations related to personnel expenses. Approximately a third of respondents from Class I and II, III, and IV communities (21.4 percent, 10 percent, and 38.1 percent, respectively) strongly disagree or somewhat disagree that their revenues are sufficient to cover long-term personnel costs. Respondents from Class III (90 percent) and Class I and II (64.3 percent) demonstrated the strongest confidence in their cities' ability to meet such financial obligations.

The overall sense of confidence in the ability to address long-term personal costs may reflect efforts by state leaders and administrators to proactively address pension and other post-employment benefits through debt consolidation and management. While some of our focus group participants expressed concerns over the uncertainties of long-term underfunded liabilities, there were also those who expressed optimism.

Since the late 1980s and early 1990s, West Virginia has made strong and proactive efforts to bring order and stability to long-term underfunded pension and other post benefit employment benefits at both the state and local level. Qualifying municipal personnel are eligible to participate in the state's Public Employee Retirement System (PERS). Municipalities have the option of being a participating employer in the system (WV Code §5-10-16). Excluded from this system have been firefighters and police officers. In 2010, legislation (WV Code §8-22-16) was enacted which provided the opportunity for municipalities to opt into a newly established Municipal Police Officers and Firefighters Retirement system in order to take advantage of economies of scale of financial pooling of retirement contributions and investments and to provide management and stability for long-term obligations. At the end of fiscal year 2021, it held over $25 million in funds and its financial position was strong. There were 37 employers (e.g., municipal police or fire services) participating in the program in 2021. Along with the PERS program, it is one of nine state retirement funds managed by the West Virginia Consolidated Retirement Board (2021, p. 2, 18-19).

The provisions of the state Municipal Police Officers and Firefighters Retirement (MPOFR) system provided the opportunity for municipalities to close their existing pension programs and to establish new plans under the MPOFR. Ongoing management of legacy programs (i.e., programs closed but still requiring financial management and with obligations) is assisted by the state's Municipal Pension Oversight Board (MPOB). So too are plans that remain open to enrollment. The board provides education to local government plan trustees as well as managing reporting processes and making disbursements from dedicated to state funds (such insurance premium surcharges). The MPOB was enacted through legislation in 2009. Currently 53 pension plans are overseen by the board. As of the end of fiscal year 2018, 32 of these plans were closed while 21 remain open. Unfunded actuarial liabilities for many of these plans remain high. Twenty-one cities had funded ratios of 32 percent or less. In general, municipalities with closed systems tended to be in better financial shape as long-term financing efforts helped to close the gap between assets and unfunded actuarial liability (West Virginia Municipal Pensions Oversight Board, 2020).

5.1 Infrastructure

Among the most pressing challenges facing any community is the provision of safe and effective water, sewage, and stormwater management systems. The challenges for West Virginia's communities are well-known and evident. In many places, aging infrastructure, more stringent environmental quality standards and regulations, and declining population and revenue bases make upkeep and management challenging. Elsewhere in the state, the prospects of growth and development are placing new demands on updating and improving water systems and other infrastructure. West Virginia's unenviable situation is documented in various studies and reports, including annual "Report Cards" issued by the American Society of Civil Engineers (2020). The most recent report card graded our state with a "D", and while some might find solace in that fact that our nation's overall rating is a D as well, the report details the challenges that the state and municipalities face in such critical infrastructure as drinking water and wastewater treatment, as well as roads and bridges.

As indicated in focus group sessions with representatives of all municipal class types as well as in our survey findings, fulfilling infrastructure development and maintenance responsibilities is of key importance to city governments. Because of topography and geography, there is also a sense that circumstances have saddled municipalities with a disproportionate share of the problem when it comes to water-related infrastructure. It is common that due to the natural and built environment, municipalities are downstream from non-incorporated areas and thus bear the burden of stormwater from outside of municipal boundaries. Communities are often located at the confluence of rivers and streams that drain larger watersheds. Larger cities like Charleston, Fairmont, Huntington, Parkersburg, Morgantown, and Wheeling immediately come to mind, but this is a situation common with smaller cities throughout our state.

Survey results reflect an interesting contrast of opinions as expressed by municipal class regarding storm water management (see Table 9). While respondents from Class I and II municipalities were confident in their abilities to meet stormwater maintenance and improvement costs (64.3 percent either strongly agreed or somewhat agreed to this statement), for Class IV municipalities, there was concern that their communities had inadequate revenues to meet these needs (64.3 percent who strongly disagreed or somewhat disagreed). Concerns are also acute among Class III municipalities, with 60 percent disagreeing somewhat or strongly that they had revenues to meet stormwater maintenance and improvement costs.

Table 9: Municipality has Adequate Revenues to Meet the Costs of Stormwater System Maintenance and Improvements

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	64.3 percent	30.0 percent	19.0 percent
Neutral	7.1 percent	10.0 percent	16.7 percent
Strongly or Somewhat Disagree	28.5 percent	60.0 percent	64.3 percent

Source: Municipal League survey, question 23 (N=76)

Our focus group discussions yielded detailed and nuanced discussions of the local stormwater and other related challenges. One concern that was expressed is that some stormwater systems are tied into sewer systems. As a result, during times of heavy rain this leads to overflows into creeks, streams, and rivers. In turn this can violate environmental regulations. The need to retrofit or correct systems can be expensive and take time. Other focus group participants noted that, given aging water and stormwater systems, that ownership and responsibility among jurisdictions and between the city and the state are not always clear. Still another participant noted that the state attaches too many “strings” to grants which complicate on the ground efforts and increase cost.

Given our state’s economic and demographic challenges, we might assume that infrastructure concerns are bound up only in the challenges of limited growth and development. This is not the case. Some focus group participants noted the need for more proactive action to improve infrastructure as a means of attracting business investment. One participant noted lost business opportunities due to a lack of water and sewer systems to accommodate needs. Other focus group participants pointed to TIF districts as a means of making needed infrastructure investments to attract business activity and investment.

Table 10: Municipality has Adequate Revenues to Meet Long-Term Liabilities Associated with Capital Improvements

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	85.7 percent	55.0 percent	35.7 percent
Neutral	0 percent	25.0 percent	33.3 percent
Strongly or Somewhat Disagree	14.3 percent	20.0 percent	31.0 percent

Source: Municipal League survey, question 21 (N=76)

As shown in Table 10, nearly 86 percent of respondents from Class I and II cities strongly agree or somewhat agree that their municipal governments have enough funds to cover long-term liabilities related to capital improvements. Although at a lower percentage (55 percent), most respondents from Class III municipalities strongly agree or somewhat agree that their communities have sufficient revenues to meet long-term liabilities associated with capital improvements. For Class IV towns, responses were almost evenly split with 35.7 percent of respondents strongly agreeing or somewhat agreeing that their communities could meet such obligations, 33.3 percent neither agreeing nor disagreeing, and 31 percent strongly disagreeing or somewhat disagreeing.

Differences in perception between larger and smaller municipalities may reflect the ability of the latter having more discretion and ability to issue long-term bonds and the greater likelihood that they can partner with other jurisdictions or utilize special purpose governments, like utility boards, to address infrastructure concerns and needs. For the many smaller jurisdictions located in rural parts of our state, concerns may emanate from the fact that they may have their own city owned water, sewer, and stormwater systems that are aging and that there may be fewer alternatives in secure shared or long-term financing to address needs.

6 Other High Priority Issues

Through focus groups and survey data, several additional high-priority issues were identified by municipal stakeholders. An overarching concern is that municipal governments are not well understood by state policymakers. This sentiment is not unique to West Virginia and has been recognized as a trend common across the nation (Nelson and Sternberg 2018). There is the perception that legislative action may be hindering effective local government and, in the process, hampering positive community and economic development opportunities. As the survey results illustrate below, stakeholders expressed concerns not only in state-local level relations in general, but also specifically regarding specific policy and governance matters. The picture that emerges is one where there needs to be better understanding and communication regarding those jurisdictional and substantive matters that require intergovernmental coordination, primarily between municipalities and the state, but also between municipalities and counties and with federal actors.

6.1 State-Municipality Coordination

It is clear, in the minds of many municipal representatives who participated in the focus groups, that a sense of tension exists between municipalities and state government. This tension is especially pronounced in relationships with the state legislature. There is the perception that legislators do not fully understand or appreciate the needs of local governments. This was a prominent theme expressed in focus group discussions as well as in survey responses. Much of the criticism focused on relations with the legislature, but concerns were also expressed regarding state administration.

That a sense of tension exists between state and local officials should not be considered unique to West Virginia. National studies and research suggest that at the local level there may be frustration due to state policies and laws constraining what some call the “fiscal policy space” or scope of discretion that local governments have to address budgetary and other needs (GFOA 2021, p. 6). However, the current political climate where policy agendas are dominated by states’ rights issues, moral matters, and advocacy for reducing taxes and the role of government may have attenuated what have been long-standing tensions between state and local governments in our state and elsewhere. Our survey results illustrate in broad terms some of the frustrations and concerns that exist.

As Table 11 illustrates, there is a significant level of dissatisfaction with the state legislature that is expressed by respondents across municipal classes. These concerns seem most pronounced among respondents from Class III municipalities. In an open-ended survey response, one Class III respondent noted that, “The legislature seems to be passing more regulations that tie the hands of local government and give authority to larger bodies of government” (Q 45). Another comment from a respondent from a Class III municipality noted, “The legislature continues to erode local government authority” (Q 36). A respondent from a Class I municipality noted, that there “Needs to be better communication on bill at state level that effect cities” (Q 36).

Table 11: In General, the Legislature Understands the Needs of Local Governments

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	28.6 percent	5.0 percent	34.2 percent
Neutral	14.3 percent	25.0 percent	12.2 percent
Strongly or Somewhat Disagree	57.1 percent	70.0 percent	53.7 percent

Source: Municipal League survey, question 44 (N=75)

While there is considerable criticism of the legislature, attitudes toward the role of state agencies in the context of economic development efforts were somewhat mixed. As Table 12 notes, there exist persistent concerns about state and municipal coordination across municipal classes. In an open-ended comment, one respondent from a Class I and II municipality noted that, "State Agencies need to modernize and streamline permitting for approved services" (Q36).

Table 12: Relationships with State Agencies Lend Themselves to Good Communication and Coordination on Business Development and Retention

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	35.7 percent	30.0 percent	28.5 percent
Neutral	21.4 percent	25.0 percent	40.5 percent
Strongly or Somewhat Disagree	42.9 percent	45.0 percent	31.0 percent

Source: Municipal League survey, question 41 (N=76)

In sum, there exists strong sentiment that municipal governments need to have more discretion and leeway in managing local affairs and setting their course for the future. This viewpoint is especially prominent among those who replied to the survey from West Virginia's Class I & II and Class III municipalities (see Table 13). One respondent from a Class I and II municipality noted, "Some state officials need to learn about [the] City and the challenges we face. Some have no clue but still try to dictate policy" (Q 45).

Table 13: West Virginia Grants Adequate Discretion to Municipalities to Manage Local Affairs

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	28.5 percent	30.0 percent	47.6 percent
Neutral	14.3 percent	15.0 percent	35.7 percent
Strongly or Somewhat Disagree	57.1 percent	55.0 percent	16.7 percent

Source: Municipal League survey, question 35 (N=76)

Concerns over state and municipal relations were also expressed in our focus group interviews. A frequent theme of concern was perceived state legislative intrusion over municipal authority and discretion. Some saw the legislature as too intrusive and pleaded for the legislature to "keep their hands off our budgets." Another commented that legislators, "have to have trust in the fact that we're smart enough to make fiscally responsible decisions to run our city." Another theme involved a misapprehension of current policy, for example one local official lamented that there was a failure to understand that the sales tax is not necessarily a substitute for the B&O tax and that both can be used simultaneously. Similarly, another participant argued that cities need to be allowed to use all the revenue tools already delegated to them without being under scrutiny.

Apart from gauging the general situation in state and local relations, we also sought to examine attitudes towards specific policy issues and governance matters. One prevailing topic dealt with land-use and economic development policies and powers. For example, focus group participants talked about the need for greater local flexibility to encourage business and residential development. While acknowledging recent legislation aimed at the issue, there remain concerns about addressing dilapidated properties. Concerns were also raised about tax classification schemes for rental properties that create challenges for downtown renewal efforts. More specific illustrations of state codes restricting redevelopment efforts were also noted. A major theme that was raised involved annexation powers and recent legislation that is perceived as further constraining municipal discretion. Table 14 provides results from a survey question dealing with this matter.

Table 14: Municipality has Adequate Authority to Expand Boundaries through Annexation to Meet Service Delivery Needs

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	42.9 percent	15.0 percent	35.7 percent
Neutral	7.1 percent	10.0 percent	35.7 percent
Strongly or Somewhat Disagree	50.0 percent	75.0 percent	28.6 percent

Source: Municipal League survey, question 34 (N=76)

As is illustrated in the survey responses, there is significant concern expressed by those in Class I & II and Class III over a lack of authority regarding annexation. These concerns were also expressed in some of the open-ended comments offered in the survey. As one respondent noted:

> "Annexation is necessary for our city to grow physically and economically. We have no areas to redevelop inside limits. The areas right outside our boundaries are benefiting from their location because of good fortune and wise leadership of our city. Those businesses should be licensed by the city so that boundaries do not create an unfair advantage" (Q36).

> "The state legislators continue to ignore that municipalities are the economic engines of this state. We me must have freedoms like annexation in order to continue economic growth. We need the power to deal with properties that degrade communities" (Q45).

The issue of annexation figured prominently in our focus group discussions. Some participants lamented recent efforts by the legislature to further constrain annexation options at a time when there is a need for minor border adjustments to better align local business and residential activity. For example, some noted that annexation allowed for a more efficient and effective mix of residential and business properties within a community that would allow for more effectively matching revenue to service needs. Others noted that developable space had been exhausted in their communities, while some businesses desired locating within city limits. As one participant noted, limitations on "annexation is the single biggest issue" holding back economic growth and development in municipalities.

6.2 Home Rule

In the early 2000s, the West Virginia Legislature created a framework allowing municipal governments to seek approval for various policy actions providing greater flexibility and discretion to meet community and economic needs and to enhance and improve the delivery of public services. In 2007, the state's Municipal Home Rule Board was established to manage the Municipal Home Rule Pilot program and to provide review and determinations on municipal applications for programming at the local level. The enabling legislation for home rule authorized that up to five municipalities could participate in the new initiative. The inaugural class of communities included Bridgeport, Charleston, Huntington, and Wheeling—all Class I or II municipalities at the time. Since then, the Home Rule program has been amended and rewritten to expand opportunities for municipal participation. In 2019, legislative action made the pilot program permanent and allowed up to four Class IV municipalities to participate each year. As of 2020, 48 municipalities were participating in the program (West Virginia Municipal Home Rule Board 2021). Typical powers and discretion sought under applications to the Home Rule Board include the option to levy sales taxes, addressing dilapidated buildings through issuing liens, tax increment financing and other economic development initiatives, and issuing ordinances to address specific needs and concerns (West Virginia Municipal Home Rule Board 2021).

When enacted, the program opened new opportunities for municipalities in budget, finance, and regulatory powers. As originally structured, program participation was restricted to just a few of the state's larger communities. The home rule powers were implied, with broad constraints against actions violating the state or federal constitution or being in violation of federal law. More specifically, participating municipalities were prohibited from setting up their own pension and retirement systems under the demonstration or pilot program. As noted earlier significantly, the pilot program opened the door for more flexibility in implementing local sales taxes. While long a power granted to municipalities, heretofore municipalities had to opt for either a local sales tax or the business and occupation tax. Under home rule flexibility was permitted to allow both to be utilized. By 2012, both Huntington and Charleston had elected to pursue this option.

In 2013, the home rule program was amended and reauthorized allowing up to 20 municipalities to participate, including Class IV municipalities. In 2019, the program was made permanent, though it limited Class IV participation to four new communities per year. With reauthorization and expansion there came additional restrictions and conditions for home rule designation. The 2013 amendment, and retained in the 2019 reauthorization of the program, specified actions that municipalities *could not* take under the program. This included prohibitions against adopting ordinances and policies relating to environmental law, criminal code changes, firearms, annexation, marriage and divorce laws, and other matters. In addition, discretion was limited regarding the development of new policies to comply with Freedom of Information Act standards, open meetings, bidding procedures, and other municipal functions.

Interest in and participation was reflected among our survey respondents. Thirty-six reported that their municipalities were participating in the Home Rule program, and three noted that their municipalities had applications to the Home Rule Board pending. Another 31 reported that they were not participating in the program. The few remaining respondents, all from Class IV communities, were uncertain of their status.

Because of the conditions attached to Home Rule designation, we note that there is some concern among municipal leaders regarding the direction and effectiveness of the program. This sentiment can be characterized as a perception that home rule is being “chipped away” by the legislature as further restrictions and conditions have been placed on program participation. This sentiment was expressed in our various focus group discussions.

Despite these concerns, municipal leaders see the value and potential of home rule provisions. One participant noted how home rule had been “absolutely wonderful” and lamented that some in the legislature do not recognize this. Some noted that given high-turnover rates in the legislature that newer policymakers may not fully appreciate just how far cities and towns have come over the years when granted more discretion. Another participant noted how home rule had improved the quality of life in their city, in part by granting them the ability to address dilapidated housing issues. Yet another remarked that innovations developed in one municipality under home rule can be adopted and implemented by others. The general sentiment that emerged is that the story of home rule is one that should be shared and told.

6.3 Tax Reform Proposals and Consequences

Our modern economy and society create distinct challenges to both state and local finances. Since the beginning of the 21st century, various proposals and reforms have been advanced in our state to address challenges in public finance and budgeting. Much of the attention has focused on tax reform. These efforts have included a wide array of proposals, including reduction or elimination of the state’s personal income tax; personal property tax reforms that would exempt various forms of business and personal property; sales tax reforms that have at once sought to lower some burdens on consumers while expanding the tax to professional and other services; increased reliance on various excise taxes; revisions to state severance tax systems; the repeal or reform of business license taxes; greater flexibility in local government use of sales taxes; and the repeal of the municipal business and occupation tax. Some of these reforms have been adopted in whole or part, other proposed reforms remain part of the political agenda and often are prominent matters of debate and discussion during the legislative session.

Among the more significant and recent proposals has been the Justice Administration’s proposal for a fundamental overhaul of the state’s tax system. Major features of proposals offered in 2017 and again in 2021 included a phase-out of the state’s personal income tax which would be offset, in part, by increased excise taxes, more flexible severance taxes to take advantage of energy market demand, and increased sales taxes. The proposal generated attention at the national level. One analysis noted the advantage of state income tax repeals, but also noted that the Governor’s plans were built on assumptions of growth that might be difficult to obtain (see Walczak 2021). The Governor’s proposal was not successful in the 2021 legislative agenda, and it remains to be seen whether this or similar proposals will be advanced in future legislative sessions.

The 2021 session also saw passage of HJR 3—the proposed constitutional amendment “To amend the State Constitution by providing the Legislature the authority to exempt tangible machinery and equipment personal property directly used in business activity and tangible inventory personal property directly used in business activity and personal property tax on motor vehicles from ad valorem property taxation by general law.” This proposal has fairly deep roots in West Virginia politics. For example, it was the focus of considerable debate in the 2020 legislative session. Its origins extend back to at least the Manchin administration when a Tax Modernization study project in 2009, which recommended a similar recommendation, with the caveat that such proposed action take into account “the impact the amendment would have on local governments” (WV State Tax Department 2009).

The pending constitutional amendment awaits a vote in 2022. It is a prominent matter of discussion, not only in regard to the potential ramifications of exempting certain classes or types of personal property from taxation, but in also granting the legislature new powers to shape the state's property tax system. While the direct impact on local finances will be felt mostly by counties and school districts, our focus group discussions yielded some concerns about municipal stakeholders as well as others that we engaged.

Other items on the legislative agenda have not generated as much general attention but are of specific interest to the leaders and residents of municipalities. Chief among these is a proposal that would abolish the municipal Business and Occupation tax. The 2021 legislative session saw adoptions of Senate Concurrent Resolution (SCR) 78 which calls for the study and consideration of abolishing the B&O tax. This may be seen as a prelude to bills that will be introduced in future legislative sessions to end the tax. According to our focus group discussions, there is a perception that some proponents are concerned that the tax is too cumbersome and complex to effectively administer. Others sense that municipalities may be taking advantage of perceived "loopholes" that allow them to levy both the B&O and local sales tax, while still others see the tax as a deterrent to business investment at both the local and state level. There is also disagreement over how many states use B&O and analogous taxes, which creates further challenges in policy development and analysis. For example, SCR 78 identifies only four states, including West Virginia, as utilizing a B&O tax. The Tax Foundation identifies seven states with a statewide gross receipts tax and four, including West Virginia, with a local gross receipts or B&O tax (Cammenga 2020). It is also important to note that states reserve the option of adopting the B&O or gross receipts tax. Just because a state does not use the tax does not preclude its future use. For example, in Wyoming falling severance tax revenues from coal and other energy sectors has led to emerging legislative consideration of a statewide gross receipts tax (Black and Haderlie 2021).

As we discussed above, based on focus group discussions and the results of the municipal official survey, that in the absence of other viable sources of revenue and support that the B&O tax is necessary. The data from our review of sources for general revenue budgets also demonstrate how dependent municipalities are on the tax.

There has also been recent interest in repealing the municipal business tax or license requirement. In 2021, legislation (HB 2780) was introduced but not fully considered or passed to repeal the tax. Like other policy initiatives, this has been a matter of interest for some time. Significantly, in 2010 the requirement for annual renewal of the state business tax was abolished and replaced with a one-time registration tax or fee of $30 (West Virginia Code: Chapter 11-12-5). The one-time fees have generated on average $725,000 per year since 2017 for the state (West Virginia Tax Commissioner 2021, p. 19). Apart from exempting non-profits and governmental units, the registration tax is notable in that it also exempts private entities that gross less than $4,000 per annum in revenue.

Municipal governments are also able to levy their own Business License or Business Registration Tax and have the option of doing so on an annual basis requiring yearly renewals. For this analysis, we looked at selected municipalities which provide information on their government websites about the business registration tax, and we looked at general trends for select cities and towns in annual budget reports provided to the State Auditor's Office Local Government Division for fiscal year 2019.

The rate charged by municipalities varies, but a $20 annual license fee is quite common. Some businesses, notably those that remit beer, wine, and liquor taxes pay larger license fees as provided for under state law. A review of selected municipalities reveals that there is considerable variation in the way the tax is constructed and applied. For example, some municipalities favor a high degree of specificity in business types and corresponding tax rates. For example, the town of Ranson classifies businesses into 25 categories, and within many of these categories are further sub-categories. Corporations with assets under $5,000 pay a $20 annual business tax. Those with over $5,000 are charged $25 dollars per year. Rates are also differentiated by occupation or profession, with for example, attorneys paying $15 and palmists (fortune tellers) paying $200. For fiscal year 2019, estimated general revenues for the tax were $12,000.

In neighboring Charles Town, 39 separate categories are utilized. Here attorneys are charged $5 per annum, while the maximum occupational rate is $500. The town raised an estimated $17,500 for general revenue funds in fiscal year 2019. Further south in the state, the town of Welch utilizes a $15 flat fee augmented by other rates based on occupation, profession or service offered. In the fiscal year it received an estimated $8,500 for its general fund. Larger cities like Charleston, Clarksburg, and Morgantown have opted for a more streamlined approach in tax administration. In Charleston, a $20 flat fee is charged for most businesses; in fiscal year 2019 an estimated $100,000 was received for the general fund. Clarksburg charges the same rate and received approximately $88,000 in fiscal year 2019. In Morgantown, the annual license is $20 and raised an estimated $175,000 in fiscal year 2019. Smaller communities also utilize this approach, such as Elkins, which saw an estimated $21,000 in revenues in fiscal year 2019 and Lewisburg which received an estimated $26,000 in fiscal year 2019.

A review of select cities and towns also suggest that a core function of the Business Registration License or Tax is to assist in coordinating various regulatory functions aimed at protecting the wellbeing of individuals and other businesses. For example, in both Parkersburg and Wheeling, the application is bundled together with a review process that considers zoning, building code, public health and other factors. The tax is also closely tied to the State Business Registration Tax. Cities and towns are most explicit in requiring that documentation of state registration be provided as a condition for receiving a municipal business license.

Proposals relating to municipal business registration tax reform might benefit from consideration of four important points. The first involves how the tax is used less as a revenue tool than as an administrative device to ensure accountability, fairness, and well-being as it relates to municipal oversight of public health, zoning, and public safety. Second, there may be some consideration given to whether there might be a more uniform approach to standardizing application and tax procedures across municipalities. Wide variation may create ambiguity and barriers to business retention and attraction. Assessing the utility of complex categorization systems may be in order. Third, assessing the degree of state and municipal cooperation and coordination in sharing registration data may be in order. Fourth, consideration might be given to whether both the state and municipal business registration tax is adequately capturing business activity. New economic activities associated with internet-based businesses, part-time entrepreneurial activity, and other developments may have resulted in not all business activity being documented.

West Virginia is not the only state that is considering tax reforms during changing and challenging times. There is growing concern and interest over tax effectiveness, equity, and efficiency—especially in local finance. Across the country, recent events have helped to reveal some of the systemic challenges involved in responding to crisis, maintaining infrastructure, and providing and maintaining quality services to residents. Various experts and authorities are also recognizing that traditional approaches to local tax and finance may need to be revisited. The changing nature of our economy has made business activity more interconnected and less local. E-commerce, delivery services, and other factors contribute to businesses being less-placed based. This creates challenges in sales and gross-receipt tax administration. Added to this is the difficulty of accounting for small-scale “gig” and part-time entrepreneurs who may fly under the taxation radar. Personal wealth is increasingly tied to intangible assets, such as stocks and retirement funds, rather than personal and real property. This can raise questions about fairness and equity if tax burdens are disproportionately shared by lower income families whose main assets are real estate and property (Government Finance Officers Association [GFOA] 2021). Others have noted that too much variation between jurisdictions in their tax and revenue generation discretion can create complex and unequal economic and social conditions that harm businesses and citizens alike (Goodman 2019). This sentiment is recognized in West Virginia as well, especially in disparities between counties and cities in their tax and revenue options.

6.4 County-Municipality Coordination

Another important theme raised throughout the focus groups has been the need for improved county and municipal coordination. Both the pressures of growth and decline are prompting discussions about more regional or collaborative approaches towards matters of common concern like infrastructure development and maintenance, land-use coordination, jail fees, and other service delivery concerns. As shown in Table 15, most respondents from Class I & II municipalities (57.1 percent) believe that their cities have good communication and coordination with county governments on matters related to infrastructure planning and management. Respondents from Class III communities were the least likely to believe that their municipalities work well with their respective county governments on such matters, with 40 percent of respondents strongly disagreeing or somewhat disagreeing with this statement.

Table 15: Do you think our relationships with the county(ies) lend themselves to good communication and coordination on infrastructure planning and management?

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	57.1	45.0	46.5
Neutral	14.3	15.0	25.6
Strongly or Somewhat Disagree	28.6	40.0	27.9

Source: Municipal League survey, question 38 (N=77)

As depicted in Table 16, half of respondents from Class I and II cities strongly agree or somewhat agree that their interactions with the county or counties lead to good collaboration on efforts related to business and residential development and retention. Most survey respondents from Class III municipalities (55 percent) do not believe that their relations with county or counties lead to good communication and coordination on such matters. For Class IV towns, 60.5 percent of respondents were neutral or strongly disagree/somewhat disagreed with this statement.

Table 16: Do you think our relationships with the county(ies) lend themselves to good communication and coordination on business and residential development and retention?

	Class I and II	Class III	Class IV
Strongly or Somewhat Agree	50.0	20.0	39.5
Neutral	14.3	25.0	30.2
Strongly or Somewhat Disagree	35.7	55.0	30.2

Source: Municipal League survey, question 39 (N=77)

In our focus group discussions, we heard examples of how cities and counties are able to work together, but we also heard instances where there was tension and some disagreement. As the survey data suggest, there are mixed views on cooperation based on municipality classification and based on issues. Thus, for example, respondents from Class I and II municipalities were much more optimistic about cooperating with counties on business and economic development strategies, while those from Class III municipalities were less optimistic. This may be a function that large municipalities often have a large economic and demographic footprint reflected in voters and economic activity. In contrast, Class III municipalities may have less critical mass to shape overall economic and political behavior.

In our more interactive and interconnected economy and society, there is much need for effective inter-jurisdictional cooperation between local governments, such as counties and cities. There is also an expressed need for symmetry in terms of authority and responsibility. This has been recognized in national studies (see, for example, Goodman 2019, Propheter 2019), and within our state as well (see, for example, Bowen et al. 2017). In 2009, the state's Tax Modernization Project recommended the study and consideration of, "the possibility of authorizing counties and cities to enact county wide sales taxes with shared revenues". The study noted the efficiencies that would be gained by levying a county-wide tax that would not have to take into account changing municipal borders and the equity that would be achieved by mitigating business location decisions to avoid a city sales tax (West Virginia Tax Department 2009). Nationwide, county sales taxes are not unusual. One recent study identified 33 states that authorized county sales taxes (Alphonso 2017, p. 33).

6.5 Rainy Day Funds

Rainy Day Funds are recognized as a best practice in public budgeting and finance (Government Finance Officers Association 2015, McFarland and Pagano 2020b). Just as it is prudent for a family to set aside monies for unexpected expenses or loss of income, so too is it for governments. Municipal governments can be especially sensitive to changes in the economy or other events that disrupt the flow of expected revenues and budget outlays. Reserve funds help to plug budget gaps and address unexpected events—like a natural disaster or a pandemic. Setting aside funds is not only prudent but also necessary in anticipation of shrinking federal and state support to municipalities. And as is the case of the state's rainy-day funds, a robust reserve fund helps a municipality's credit rating, making it more affordable to issue bonds for capital improvements and other long-term investments (McFarland and Pagano 2020b). Furthermore, rainy day funds can help to smooth fiscal disruptions that might otherwise lead to tax or fee increases to cover the unexpected revenue loss (Government Finance Officers Administration 2015).

In many ways, the term "rainy day fund" is an imprecise phrase. Generally, it can apply to "unassigned" funds that are carried over into the new fiscal year which are not otherwise committed, restricted, or encumbered and thus can be assigned to other general fund budget lines. More specifically, it can apply to formally designated funds, such as reserve funds or, as found in some West Virginia local governments, budget stabilization funds. Because of the ambiguity surrounding this term of art, our survey of local officials on the topic gives some general impressionistic perspective (see Table 17).

Table 17: Does your Municipality have a rainy-day fund or similar reserve account to address short-term finance needs?

	Class I and II	Class III	Class IV
Yes	100 percent	85.7 percent	61.4 percent
No	0 percent	14.3 percent	38.6 percent

Source: Municipal League survey, question 15 (N=79)

In our survey, we asked respondents to estimate their rainy-day fund accounts as a percentage of their municipality's annual budget. Most of our respondents noted that rainy day funds account for less than ten percent as compared to their annual budget (Table 18).

Table 18: In percentage terms approximately how much does the rainy-day fund compare to your annual budget?

	Class I and II	Class III	Class IV
10 percent or less	46.2%	66.6%	59.3%
11 to 25 percent	38.5%	33.3%	25.9%
26 to 50 percent	15.3%	0%	11.1%
51 percent or more	0%	0%	3.7%

Source: Municipal League survey, question 16 (N=58)

Our survey data provide only a snapshot as to the status of rainy day or reserve account holdings in our municipalities. The Government Finance Officers Association (2015) recommends that municipalities set aside funding equivalent to two months of the annual general fund budget to address contingencies. That would translate into setting aside funds equal to about 17 percent of the annual budget. Our data provides some tentative evidence that while cities and towns are seeking to do anticipate future need, they may be facing challenges as well. West Virginia code stipulates that formally designated budget stabilization funds must not be more than 30 percent of the general budget originally adopted (§8-73-3).

Those who study rainy day funds note that one way to assess these reserve funds is to assess general fund ending balances which are transferred to the next fiscal year as a measure. A recent national study suggests that rainy day funds of these kind approached approximately 30 percent as compared to annual general budgets for communities with over 10,000 residents (McFarland and Pagano 2020a, 2020b). More specifically "unassigned" general fund balances provide the most discretion with these carryover funds since they are “unencumbered,” are tangible and have not been assigned or restricted to specific expenditures. In West Virginia, municipalities report these as “Unassigned Fund Balance” in their annual budget statements submitted to the State Auditor’s Office Local Government Division. In order to get a rough estimate on the average amount that is carried forward, we average the amounts in the top 25 percent (in terms of population) of Class 1&2 and Class III municipalities. We then did this for approximately the top 10 percent (in terms of population) of Class IV towns and villages (see Table 19).

Table 19: Unassigned General Fund Carry Over (FY 2020)

Classification	Municipal Average	Range
Class I and II (n=4)	$3,465,312	$100,000–9,451,842
Class III (n=11)	$1,215,228	$0–5,230,582
Class IV (n=20)	$167,282	$0–647,584

Source: State Auditor’s Office, Local Government Services Division

Detailed information on unassigned balances can also be found in municipal reports, such as annual single-audit reports. Thus, for example, at the close of FY 2020 Charleston had an unassigned fund balance of over 34.8 million (City of Charleston 2021, p. 9). Huntington had an unassigned fund balance of over $15.4 million (City of Huntington 2021, p. 10). For Beckley, the unassigned fund balance in FY 2020 was approximately $8.6 million (Municipality of Beckley 2021, p. 7). For Parkersburg, the unassigned fund balance was over $5.1 million for FY 2019 (Municipality of Parkersburg 2020, p. 17). For Weirton, the amount was approximately $3.8 million (City of Weirton 2021, p. 8).

Under West Virginia Code (§8-37-3), municipalities are authorized to establish a Budget Stabilization Fund for the express purpose of encouraging municipalities to “maintain a prudent level of financial resources to try to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls, unpredicted one-time expenditures or emergency situations.” Thus, for example, in 2020 Wheeling utilized its stabilization fund to cover a $400,000 shortfall that was the result of the economic disruption of the COVID-19 pandemic (Ayres 2020). An important provision of the law is that stabilization funds “may not exceed thirty percent of the municipality’s most recent general fund budget, as originally adopted,” and if this amount is exceeded funds are to be transferred to the funds as appropriate (§8-73-3). Counties have similar budgetary authority under West Virginia Code (§7-21-3).

As in the case of Wheeling illustrates, stabilization funds can be used to address unexpected short-term shortfalls. Stabilization funds can also be used to help funds long-term capital projects, as evidenced by Charles Town which used some of its stabilization or “residual fund” to help finance sewer and water projects (Municipality of Charles Town, p. 20). These funds provide a cushion or buffer should financial exigencies occur and can also be used strategically to maintain a good fiscal position over time. Other examples of municipalities that we examined with stabilization funds include Parkersburg, which held over $4.2 million at the end of FY 2019 (Municipality of Parkersburg 2020, p. 17). Charleston had on hand over $4.7 million at the end of FY 2020 (City of Charleston 2021, p. 57). Fairmont held over $3.4 million at the end of FY 2020 (City of Fairmont 2021, p. 43). Weirton held over $2.7 million in stabilization funds at the end of FY 2020 (City of Weirton 2021, p. 28). For Clarksburg, the funds held in the stabilization fund totaled $112,770 at the end of FY 2018 (Municipality of Clarksburg 2019, p. 41).

We found a number of municipalities that maintain stabilization funds in West Virginia, but a fuller accounting is in order. The lack of systemized recording of municipal policies and practices relating to stabilization funds and the use of unassigned general funds precludes a comprehensive analysis of rainy-day fund arrangements in West Virginia's cities and municipalities. Future study may be in order to review rainy day fund patterns across the state. We might expect experiences to vary. As national research suggests, the desire to set-aside funds may not be matched by the capacity of local governments to raise funds due to underlying economic conditions and constraints on revenue generating authority (Gorina et al. 2019). More specifically to West Virginia, it has long been noted that economic context has created challenges to meeting day-to-day needs, yet alone longer-term fiscal management strategies (see Dougherty and Plein 1997; Dougherty, Klase, and Song 1999).

6.6 The Pandemic and Beyond

The COVID-19 pandemic has proven to be complex and unpredictable in its effects on health, society, and economy across the country which has also disrupted established patterns and trends in municipal finance (McFarland and Pagano 2000a). For this reason, as noted earlier, we focus much of our analysis leading up to our early in the pandemic (e.g., through state fiscal year 2020). This approach has been utilized by national authorities as well, to better gauge local finance trends (National League of Cities 2021). However, through analysis of subsequent data and through our survey data and focus group discussions, it is clear that our state's municipal leaders have given considerable attention to and consideration of the pandemic and its consequences.

As the COVID-19 pandemic continues to unfold, West Virginians communities will face additional challenges and uncertainties. At the state and local level, West Virginia has weathered this unprecedented public health crisis quite well. The relative health of state and local finances is rather good. However, with disruption we may anticipate unforeseen consequences and outcomes that are difficult to gauge at present. As noted earlier in this report, our study concentrates on data prior to, or early in, the pandemic. Trend data would otherwise be distorted by the shocks encountered in the immediate economic disruption and the subsequent corrective actions undertaken by federal and state government. However, recent policy developments and the insight of those who participated in focus group discussions and our survey provide some perspective of future possibilities.

Through focus group discussions, we gained perspective on how cities and towns were immediately affected by the crisis and learned of efforts to bounce back and build resilience. The first months of the pandemic brought a loss of revenue and the need to reduce expenses. However, cities and towns began to recover, assisted in part by relief and recovery support provided by federal and state sources. As additional funds begin to be directly transferred to the local level through the American Rescue Plan Act (ARPA), we learned that some local officials see this as an opportunity to make long-term investments to strengthen community level assets and capacity. Investments in broadband capacity were offered as an example moving forward. Another focus group participant noted that ARPA funds might be used collaboratively between cities and counties to make strategic investments. As one focus group participant noted, the "Rescue Act is going to give us the opportunity to show off the capacity and innovation at the local level." However, because federal recovery funds are a one-time infusion, and that larger and more systemic issues should not be overlooked in supporting and sustaining effective city and town services and finances.

The influx of federal assistance may create fiscal management challenges, especially for smaller municipalities and towns. Early in this research, focus group sessions with representatives from West Virginia's smaller cities and towns revealed some concerns about what spending might be allowed under ARPA distributions. This situation is not unique to West Virginia and indeed is a nationwide concern (Brown and Bauer 2021, Quinton 2021). National organizations and experts recognize the importance of intermediaries who can assist small city and town governments in the management of ARPA funds. These intermediaries may include state agencies and officials. In West Virginia, the State Auditor's Office has made proactive efforts to engage municipalities in guidance and assistance.

At a sociopolitical level, the pandemic may serve as a catalyst to draw more interest to West Virginia. The state has been discovered as a travel destination for many, which may lead to continued interest and attendant challenges and opportunities for our state's cities and towns that serve as regional hubs for tourism activity. The pandemic is also generating interest in a new type of "back to land-movement" where those are attracted to West Virginia's small cities and towns, as well as countryside, as a refuge from cities. As one focus group participant explained, after the pandemic "people are going to gravitate to smaller cities." Another said that "we need to take advantage of the opportunity at hand" to promote West Virginia as, "one of the geographical treasures of the Eastern United States." But raising the visibility and attracting visitors and new residents will also require cities and towns to be able to meet demands and expectations through enhanced and sustainable amenities and services.

Arguably, increased interest in West Virginia as a travel destination as well as place of residence predates the pandemic. At both the state and local level, there has been widespread and increasingly coordinated interest in attracting others to visit and live in the state. For some of our communities, this creates both opportunities and challenges in terms of the efficient and affordable delivery of public goods and services. The unique disruptions of COVID-19 have heightened awareness of the prospects of change. On a practical level, we should expect some dynamism and tension surrounding property tax valuations in the months ahead due to increased demand for second homes and residences in some parts of our state. There may also be short-term impacts of the automobile shortage, which might see a corresponding increase in personal property tax costs. While of greater concern for counties and school systems, this is an issue that will shape to some degree local finance in general. More immediate concerns were raised by some of our focus group participants, which included concerns over the proliferation of Airbnbs in their communities and the corresponding loss of affordable housing stock.

Both the COVID-19 Pandemic and the release of the 2020 Census results brought into focus distinct demographic and economic challenges facing our state. The Census results remind us that West Virginia's population has been in steady decline for some time, but the results also illustrate that change has been uneven across the state. Some cities and towns are experiencing population growth and economic expansion, while others are facing the challenge of population decline and economic contraction. Growth opportunities predicated on tourism development and in-migration of a new remote workforce may be amenable and feasible in some regions of the state but not as much in other parts of the state. These challenges and opportunities have long been noted, not only in West Virginia but beyond our borders (Berkebile and Hardy 2010). The pandemic has helped to shed new light on the perils and promises of new economic development strategies due to both actual and expressed interest in visiting and living in West Virginia. The problems and opportunities that we face do not lend themselves to generic explanation or one-size fits all solutions. As one focus group participant succinctly put it, "We all have our customized challenges."

7 Conclusion and Recommendations

Some 90 years ago, Justice Louis Brandeis famously observed that states are “the laboratories of democracy” where ideas and innovations can be incubated, implemented, and shared with others for consideration and adoption. The same can be said for municipalities where the delegation of responsibility and discretion to address both challenges and opportunities can lead to best practices that can be modeled by others.

Our review of West Virginia’s 230 municipalities suggests that this spirit of creativity and accountability is alive and well in our state. Local leaders and officials have expressed a sense of optimism that municipalities can make a positive contribution to the lives of West Virginians. But this optimism has been tempered by concerns that policy, political, and fiscal constraints may dampen the ability to support community and economic development and hamper efforts to address challenges created by long-term factors, such as our declining population and lack of economic diversification, and short-term needs, such as our response to and long-term recovery from the COVID-19 pandemic.

Part of our charge in undertaking a comprehensive review of West Virginia’s municipal governments is to offer a set of observations and recommendations that the West Virginia Municipal League and its members can consider for strategic planning purposes. Our role precludes our suggesting which of these recommendations should be adopted or prioritized. Our intention is to help set the context for more deliberation and discussion among municipal leaders and their stakeholders.

7.1 Taxation

All taxes are imperfect. However, tax revenues are essential to responding to the needs of citizens, visitors, businesses, and other stakeholders. Our research reinforces the importance of the Business and Occupation (B&O) tax, the Local Sales Tax, and Property Taxes as useful and necessary major revenue sources for municipalities. But this does not preclude the need to revisit and assess how these taxes are structured and managed in the pursuit of taxpayer fairness and effective administration. Assessment and evaluation of taxes should be an ongoing process that benefits from the input of stakeholders, the consideration of changing conditions, and comparative analysis within and between states and their municipalities.

Like a number of state-level policymakers, many local officials recognize that current tax structures are in need of assessment and potential improvement. For example, new economic realities that see increasing activity from service-related and internet-based business alter both the underlying assumptions and the administration of local sales and B&O taxes. Our property tax system, which is constrained by constitutional and legal provisions, also may need further study and assessment. West Virginians, by the way, should not feel alone in this quest. National authorities, like the Government Finance Officers Association, are leading efforts to better understand economic trends and concurrent tax practices and options in the 21st century.

It is best to consider individual taxes in context of others. Like prudent investors, municipalities are best served by retaining a diversified revenue portfolio that spreads risk and burden across a number of sources. Our research suggests that local officials are highly cognizant of this. Concerns have been expressed about proposals to replace one tax with the other, such as replacing the B&O tax with a local sales tax. Instead, the emphasis should be placed on optimizing the mix of these and other taxes and fees to equitably distribute tax burden and to facilitate tax administration practices which are user-friendly to the taxpayer as well as municipal governments. Both our statistical analysis of revenue trends and opinions offered by local officials through survey research and focus group discussions highlight the need for diverse revenue portfolios.

7.2 Planning for the Future

Prudent fiscal management and planning includes setting aside funds for unexpected contingencies. Rainy day or budget subsidization funds are a function of the capacity to raise funds, the need to set aside funds, and legal constraints and inducements. Because of the lack of aggregate data on rainy day funds, we are unable to provide a clear picture of trends. However, it appears that a number of municipalities are making conscientious efforts to set aside funds to deal with revenue shortfalls and unexpected expenditures.

7.3 State-Municipal Relations

In a political arena, proposals often take the form of grand gestures and calls for bold action. The practical realities of policy, however, suggest that it is best to carefully study and assess both the assumptions of need or action and the solutions that are proposed. In recent years, there have been a number of proposals to reform state and local tax powers, practices, and options.

Careful consideration of the potential collateral effects and consequences on citizens, business, and levels of government are required. These assessments should accompany not only the consideration of broad and far-reaching reform proposals, such as an overhaul of the B&O tax, but also narrower and more discrete efforts, such as those considering the repeal of the municipal business registration fee or tax.

7.4 Home Rule

Municipal finance issues are nested in a broader set of concerns and priorities focusing on how municipalities can best serve citizens and promote community and economic development. Our research surfaced concerns about the state of home rule legislation and law in West Virginia. In general, those officials involved in home rule in their cities and towns note the improvements and innovations that have been made in their jurisdictions. Specifically, they cite greater flexibility in tax and revenue collection and more discretion in addressing barriers and challenges to economic development, such as dilapidated housing and inadequate infrastructure.

However, there is a widely shared sentiment, expressed both in our survey research and focus group discussions, that discretion under the home rule program is being “chipped away” as legislative proposals and actions that have advanced are aimed at delimitating conditions and requirements. These are seen as constricting discretion and flexibility. Our research leads us to the recommendation that further effort be given to opening lines of communication between municipalities and state officials, especially legislators, to allow the opportunity for concerns and experiences to be shared. We also recommend a more systematic study of municipal home rule practices in West Virginia, with attention given to cumulative results and outcomes.

7.5 Annexation and Land Use

Municipal officials also have expressed concerns about other legislative proposals aimed to restrict annexation powers and otherwise constrain local authority and responsibility to address land-use management for purposes of community and economic development. As articulated by some municipal officials, annexation and land-use discretion are essential to adapting to changing economic and demographic conditions. Without these, there are concerns that municipalities will be unable to serve as the "engines" of economic development that are so needed in many of our communities.

7.6 Population and Demographic Change

There is remarkable variation and differentiation among West Virginia's 230 municipalities. Through our research, we recognized that regional economics and demographics set the underlying context for many of the challenges and opportunities facing our municipalities. For example, the path of economic development in the Potomac Highlands might be much different from the paths of opportunity in the Northern Panhandle. Census figures reveal a changing landscape where many municipalities are losing population, while others are gaining. Some are losing population in regions that have seen overall growth, but many are seeing population declines track along with regional and state trends.

Notable among West Virginia's municipalities and their variation are Class III municipalities. With populations between 2,000 and 10,000, these municipalities form the backbone of much of the local government and economic activity found in our state. With the results of the 2020 Census, the state now has 44 Class III municipalities. We provide a closer look at these places by considering tax and revenue receipts and trends, but further research may be in order, especially in the exploration of those cities that are located in rural settings and those that populate the state's larger metropolitan areas.

7.7 Long-Run Impacts of the COVID-19 Pandemic

Without exaggeration, many would agree that the COVID-19 pandemic has changed the world as we know it. Apart from its global and national effects, it has made a difference within our state and local communities. In the short term, municipalities will benefit from guidance and perspective as they put federal recovery funds to innovative and needed uses to build resiliency and opportunities for the future. Even more fundamentally, there are clear indications that West Virginia is now being seen in a different light by those both within and outside of the state. An economic growth strategy embraced by recent gubernatorial administrations and many legislative leaders has centered on bringing West Virginians home and attracting newcomers as well. The COVID-19 pandemic has further heightened interest in these prospects as options for remote work and a desire to live in less densely populated areas has taken an even deeper hold. By serving as regional hubs, providing amenities and services, places of business and residence, our state's municipalities will have a crucial role to play in this potential transformation.

7.8 Conclusion

West Virginia's municipalities play a vital role in the economic and civic life of our state. In partnership with other local governments and with state government they have the capacity to meet the demands and expectations of 21st-century society. If municipalities are indeed the engines that help to promote, foster, and sustain economic growth, then revenue is the fuel and local government discretion helps guide these engines. Working in concert with stakeholders across the state, West Virginia's municipalities can further contribute to the wellbeing of the state.

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Appendix 1: Survey Method and Approach

We designed and administered a survey of municipal government leaders to obtain the full array of information needed for the project. We worked in conjunction with the WVML to administer this survey and to encourage a complete response to the survey. In general, the survey was organized around themes emerging from focus group discussions, as well as gaps in administrative data. Themes include:

- Trends in revenue source variation over time, including perceptions of business, property, severance taxes as well as grant in aid and other transfers.
- Trends in expenditure demands and variation over time, including perceptions of the pressures associated with state and federal mandates, infrastructure, human resources, and other matters.
- Reflections on COVID-19 experiences, especially in terms of municipal response and lessons learned.
- Regional and geographic variation, including assessment of challenges facing both high-growth areas and those areas that are facing community and economic development difficulties.
- Trends and perspectives on municipality-county, municipality-state, and municipality-federal relations.
- Identification of best practices and innovations in municipal finance and economic planning that might be adopted by others.

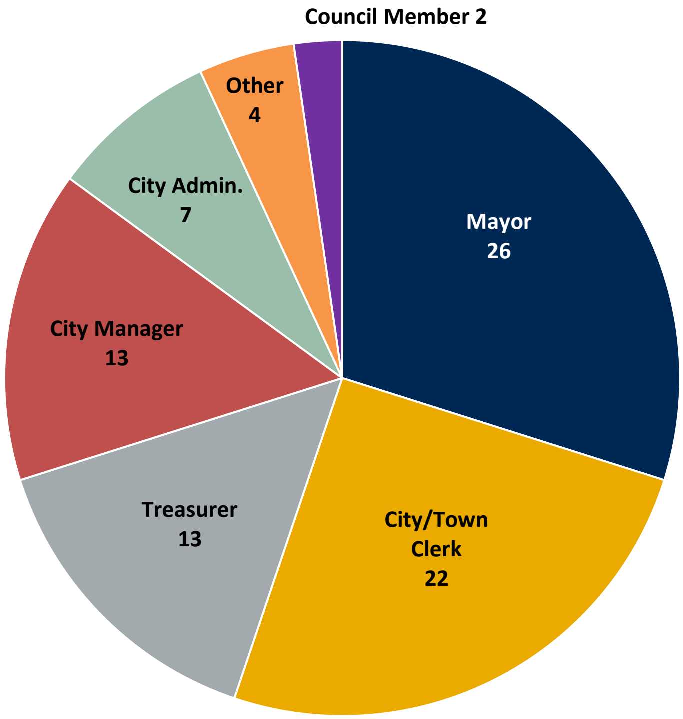
The survey was reviewed by the WVU Institutional Review Board and approved for use and implementation. Utilizing Qualtrics as an online platform, the survey was sent to 232 municipalities in West Virginia. We received 87 responses. Table 20 illustrates the number municipalities by class and the number of responses from individuals representing each class type. The survey was designed to preserve anonymity and as such we cannot control for whether there were two or more responses from any one municipality. Since our interest is in the perspective of those experienced in municipal government in communities of different sizes, we do not see this as a limitation to the study. Municipal classes are as of May 2021 and do not reflect any changes that might result from the 2020 Census.

Table 20: Municipal League Survey Responses by Class

Municipality Class	Number of Municipalities	Number of Responses per Municipal Class
Class I or II (Population > 10,000)	14	14
Class III	46	23
Class IV	172	50
Overall	232	87

We are also interested in the breakdown of respondents by their official role in municipal government. As Figure 27 illustrates, 26 percent of respondents are mayors, followed in order by city/town clerks, city managers, and treasures. The results allow for broad cross-section of informed perspectives.

Figure 27: Municipal League Survey Responses by Role



Source: Authors' calculations

Appendix 2: Municipal Population

Table 21: West Virginia Class I & II Municipal Population Growth 2010-2020

Class I and II Municipalities	2010 Population	2020 Population	Percentage Change	2010 Class	2020 Class
Charleston	51,400	48,864	-4.9	I	II
Huntington	49,138	46,842	-4.7	II	II
Morgantown	29,660	30,347	2.3	II	II
Parkersburg	31,492	29,738	-5.6	II	II
Wheeling	28,486	27,052	-5.0	II	II
Weirton	19,746	19,163	-3.0	II	II
Martinsburg	17,227	18,777	9.0	II	II
Fairmont	18,704	18,416	-1.5	II	II
Beckley	17,614	17,286	-1.9	II	II
Clarksburg	16,578	16,061	-3.1	II	II
South Charleston	13,450	13,647	1.5	II	II
St. Albans	11,044	10,861	-1.7	II	II
Vienna	10,749	10,652	-0.9	II	II

Table 22: West Virginia Class III Municipal Population Growth 2010-2020

Class III Municipalities	2010 Population	2020 Population	Percentage Change	2010 Class	2020 Class
Bluefield	10,447	9,658	-7.6	II	III
Bridgeport	8,149	9,336	14.6	III	III
Oak Hill	7,730	8,179	5.8	III	III
Moundsville	9,318	8,093	-13.1	III	III
Dunbar	7,907	7,480	-5.4	III	III
Hurricane	6,284	6,961	10.8	III	III
Elkins	7,094	6,934	-2.3	III	III
Nitro	7,178	6,624	-7.7	III	III
Charles Town	5,259	6,534	24.2	III	III
Princeton	6,432	5,872	-8.7	III	III
Ranson	5,000	5,433	8.7	III	III
New Martinsville	5,366	5,204	-3.0	III	III
Buckhannon	5,639	5,186	-8.0	III	III
Keyser	5,439	4,864	-10.6	III	III
Grafton	5,164	4,722	-8.6	III	III
Barboursville	3,964	4,456	12.4	III	III
Point Pleasant	4,350	4,070	-6.4	III	III
Westover	3,983	3,955	-0.7	III	III
Weston	4,044	3,952	-2.3	III	III
Lewisburg	3,830	3,922	2.4	III	III
Ravenswood	3,876	3,865	-0.3	III	III
Welch	2,406	3,590	49.2	III	III
Pleasant Valley	3,149	3,498	11.1	III	III
Summersville	3,572	3,431	-3.9	III	III
Williamson	3,191	3,083	-3.4	III	III
Ripley	3,252	3,079	-5.3	III	III
Kenova	3,216	3,033	-5.7	III	III
Williamstown	2,908	2,997	3.1	III	III
Kingwood	2,939	2,980	1.4	III	III
Philippi	2,966	2,929	-1.2	III	III
Madison	3,076	2,913	-5.3	III	III
Fayetteville	2,892	2,887	-0.2	III	III
Follansbee	2,986	2,848	-4.6	III	III
Milton	2,423	2,811	16.0	III	III
Bethlehem	2,452	2,605	6.2	III	III
Paden City	2,633	2,541	-3.5	III	III
Moorefield	2,544	2,524	-0.8	III	III

Wellsburg	2,805	2,450	-12.7	III	III
Winfield	2,301	2,393	4.0	III	III
Shinnston	2,201	2,328	5.8	III	III
Petersburg	2,467	2,284	-7.4	III	III
Hinton	2,676	2,245	-16.1	III	III
Chester	2,585	2,208	-14.6	III	III
Spencer	2,322	2,063	-11.2	III	III

Table 23: West Virginia Class IV Municipal Population Growth 2010-2020

Class IV Municipalities	2010 Population	2020 Population	Percentage Change	2010 Class	2020 Class
Mannington	2,063	1,952	-5.4	III	IV
St. Marys	1,860	1,831	-1.6	IV	IV
White Sulphur Springs	2,444	1,806	-26.1	III	IV
Belington	1,921	1,805	-6.0	IV	IV
Stonewood	1,806	1,798	-0.4	IV	IV
Star City	1,825	1,779	-2.5	IV	IV
Romney	1,848	1,724	-6.7	IV	IV
McMechen	1,926	1,697	-11.9	IV	IV
Richwood	2,051	1,660	-19.1	III	IV
Harrisville	1,876	1,631	-13.1	IV	IV
Ronceverte	1,765	1,572	-10.9	IV	IV
Eleanor	1,518	1,542	1.6	IV	IV
Shepherdstown	1,734	1,531	-11.7	IV	IV
Salem	1,586	1,529	-3.6	IV	IV
Marmet	1,503	1,504	0.1	IV	IV
Glen Dale	1,526	1,496	-2.0	IV	IV
Nutter Fort	1,593	1,493	-6.3	IV	IV
Mullens	1,559	1,480	-5.1	IV	IV
New Haven	1,560	1,476	-5.4	IV	IV
West Liberty	1,542	1,454	-5.7	IV	IV
Oceana	1,394	1,449	3.9	IV	IV
Wayne	1,413	1,443	2.1	IV	IV
Logan	1,779	1,439	-19.1	IV	IV
Terra Alta	1,477	1,415	-4.2	IV	IV
Sistersville	1,396	1,412	1.1	IV	IV
Ceredo	1,450	1,408	-2.9	IV	IV
Granville	781	1,355	73.5	IV	IV
Mabscott	1,408	1,341	-4.8	IV	IV
Chesapeake	1,554	1,335	-14.1	IV	IV
Parsons	1,485	1,327	-10.6	IV	IV
Ansted	1,404	1,303	-7.2	IV	IV
Montgomery	1,638	1,275	-22.2	IV	IV
Benwood	1,420	1,252	-11.8	IV	IV
Buffalo	1,236	1,211	-2.0	IV	IV
Barrackville	1,302	1,201	-7.8	IV	IV
Rainelle	1,505	1,190	-20.9	IV	IV
Belle	1,260	1,169	-7.2	IV	IV

Sophia	1,344	1,130	-15.9	IV	IV
Glenville	1,537	1,129	-26.5	IV	IV
Mount Hope	1,414	1,125	-20.4	IV	IV
Pennsboro	1,171	1,054	-10.0	IV	IV
Hamlin	1,142	1,039	-9.0	IV	IV
Bolivar	1,045	1,036	-0.9	IV	IV
Chapmanville	1,256	1,020	-18.8	IV	IV
New Cumberland	1,103	1,020	-7.5	IV	IV
Marlinton	1,054	998	-5.3	IV	IV
Alderson	1,184	975	-17.7	IV	IV
Monongah	1,044	965	-7.6	IV	IV
Athens	1,048	962	-8.2	IV	IV
Rupert	942	877	-6.9	IV	IV
Belmont	903	875	-3.1	IV	IV
Poca	974	874	-10.3	IV	IV
Mason	968	866	-10.5	IV	IV
Sutton	994	863	-13.2	IV	IV
Cameron	946	861	-9.0	IV	IV
Carpendale	977	860	-12.0	IV	IV
Clendenin	1,227	854	-30.4	IV	IV
North Hills	832	834	0.2	IV	IV
Rivesville	934	828	-11.3	IV	IV
East Bank	959	822	-14.3	IV	IV
Bethany	1,036	781	-24.6	IV	IV
Gary	968	773	-20.1	IV	IV
Man	759	772	1.7	IV	IV
Gassaway	908	759	-16.4	IV	IV
Smithers	813	754	-7.3	IV	IV
Bath (Berkeley Springs)	624	753	20.7	IV	IV
Addison (Webster Springs)	776	731	-5.8	IV	IV
Elizabeth	823	724	-12.0	IV	IV
Cedar Grove	997	718	-28.0	IV	IV
Piedmont	876	718	-18.0	IV	IV
Lumberport	876	717	-18.2	IV	IV
Middlebourne	815	717	-12.0	IV	IV
Glasgow	905	703	-22.3	IV	IV
Grant Town	613	685	11.7	IV	IV
Fort Gay	705	675	-4.3	IV	IV
Danville	691	672	-2.7	IV	IV
Triadelphia	811	669	-17.5	IV	IV

West Union	825	653	-20.8	IV	IV
Pineville	668	645	-3.4	IV	IV
War	862	623	-27.7	IV	IV
Beverly	702	622	-11.4	IV	IV
Thomas	586	611	4.3	IV	IV
Davis	660	600	-9.1	IV	IV
White Hall	648	597	-7.9	IV	IV
Ridgeley	675	591	-12.4	IV	IV
Mill Creek	724	560	-22.7	IV	IV
Beech Bottom	523	553	5.7	IV	IV
Gauley Bridge	614	553	-9.9	IV	IV
Reedsville	593	530	-10.6	IV	IV
West Hamlin	774	524	-32.3	IV	IV
Anmoore	770	513	-33.4	IV	IV
Masontown	546	510	-6.6	IV	IV
Hartford City	614	503	-18.1	IV	IV
Franklin	721	495	-31.3	IV	IV
Grantsville	561	494	-11.9	IV	IV
Cowen	541	487	-10.0	IV	IV
Pratt	602	483	-19.8	IV	IV
Clearview	565	472	-16.5	IV	IV
West Milford	630	449	-28.7	IV	IV
Peterstown	653	448	-31.4	IV	IV
Rowlesburg	584	438	-25.0	IV	IV
Delbarton	579	422	-27.1	IV	IV
Capon Bridge	355	420	18.3	IV	IV
Union	565	419	-25.8	IV	IV
Matewan	499	412	-17.4	IV	IV
Paw Paw	508	410	-19.3	IV	IV
Jane Lew	409	408	-0.2	IV	IV
West Logan	424	399	-5.9	IV	IV
Clay	491	396	-19.3	IV	IV
Burnsville	510	394	-22.7	IV	IV
Farmington	375	392	4.5	IV	IV
Bancroft	587	387	-34.1	IV	IV
Junior	520	384	-26.2	IV	IV
Fairview	408	373	-8.6	IV	IV
Pine Grove	552	363	-34.2	IV	IV
Whitesville	514	361	-29.8	IV	IV
Windsor Heights	423	361	-14.7	IV	IV
Lost Creek	496	359	-27.6	IV	IV

Lester	348	338	-2.9	IV	IV
Gilbert	450	333	-26.0	IV	IV
Meadow Bridge	379	324	-14.5	IV	IV
Kermit	406	317	-21.9	IV	IV
Mitchell Heights	323	314	-2.8	IV	IV
Flemington	312	309	-1.0	IV	IV
Hedgesville	318	300	-5.7	IV	IV
Tunnelton	294	296	0.7	IV	IV
Bramwell	364	276	-24.2	IV	IV
Valley Grove	378	275	-27.2	IV	IV
Harpers Ferry	286	269	-5.9	IV	IV
Wardensville	271	269	-0.7	IV	IV
Flatwoods	277	264	-4.7	IV	IV
Newburg	329	259	-21.3	IV	IV
Iaeger	302	257	-14.9	IV	IV
Hundred	299	255	-14.7	IV	IV
Albright	299	249	-16.7	IV	IV
Hillsboro	260	232	-10.8	IV	IV
Durbin	293	231	-21.2	IV	IV
Northfork	429	231	-46.2	IV	IV
Henderson	271	228	-15.9	IV	IV
Hendricks	272	228	-16.2	IV	IV
Handley	349	223	-36.1	IV	IV
Quinwood	290	222	-23.4	IV	IV
Ellenboro	363	221	-39.1	IV	IV
Hambleton	232	218	-6.0	IV	IV
Elk Garden	232	212	-8.6	IV	IV
Davy	420	209	-50.2	IV	IV
Bradshaw	337	207	-38.6	IV	IV
Bayard	290	201	-30.7	IV	IV
Womelsdorf (Coalton)	250	189	-24.4	IV	IV
Sand Fork	159	180	13.2	IV	IV
Worthington	158	179	13.3	IV	IV
Cairo	281	176	-37.4	IV	IV
Keystone	282	176	-37.6	IV	IV
Sylvester	160	171	6.9	IV	IV
Falling Spring	211	170	-19.4	IV	IV
Anawalt	226	165	-27.0	IV	IV
Huttonsville	221	163	-26.2	IV	IV
Reedy	182	150	-17.6	IV	IV
Kimball	194	145	-25.3	IV	IV

Montrose	156	145	-7.1	IV	IV
Leon	158	137	-13.3	IV	IV
Pax	167	136	-18.6	IV	IV
Pullman	154	135	-12.3	IV	IV
Oakvale	121	133	9.9	IV	IV
Brandonville	101	129	27.7	IV	IV
Camden-on-Gauley	169	126	-25.4	IV	IV
Blacksville	171	118	-31.0	IV	IV
Smithfield	145	103	-29.0	IV	IV
Friendly	132	101	-23.5	IV	IV
Harman	143	95	-33.6	IV	IV
Auburn	97	79	-18.6	IV	IV
Bruceton Mills	85	63	-25.9	IV	IV
Thurmond	5	5	0.0	IV	IV

Appendix 3: Municipal Expenditure and Revenue Categories

Table 24: Expenditure Accounts by Category

General Government	
Acquisition of Property	Federal Grants
Building Inspection	Finance Office
Charter Board	Housing Authority
City Attorney	Insurance Program (Self-Insured)
City Auditor	Internal Audit
City Clerk's Office	Litigation Reserve
City Council	Local Government Access Channel
City Hall	Main Street Program
City Manager's Office	Market House
Civil Service	Mayor's Office
Clearance	Parking
Community Development (Housing)	Personnel Office
Complaint Department	Planning & Zoning
Consumer Protection	Police Judge's Office
Contingencies	Program Planning
Contributions to Authorities and Entities	Public Grounds
Contributions/Transfers to Other Funds	Public Works Department
Custodial	Purchasing Department
Data Processing	Recorder's Office
Economic Development	Regional Development Authority
Elections	Rehabilitation of Property
Electrical Services	State Grants
Employee Wellness	Transfers/Reimbursements
Energy Savings Contract	Treasurer's Office
Enforcement Agency	Zoning Board
Engineering	
Public Safety	
Ambulance Authority	Fire Fee Distribution
City Jail	Fire Hydrants
Civil Defense	Flood Control/Soil Conservation
Communication Center/Central Dispatch	Investigative Services & Control
COPS Grant	Juvenile Justice Diversion Program
Dams and Dredging	Local Law Enforcement Block Grant
DARE Grant	Police Department

Dog Warden/Humane Society	Police-Special Duty
Drug and Violent Crime Control Grant	Traffic Engineering
Emergency Services	Watershed Project
Fire Department	
Health & Sanitation	
Garbage Department	Recycling Center
Grants - Culture and Recreation	Sewer-Source of Supply
Grants - Health and Sanitation	Storm Sewer
Landfill and Incinerator Department	Water and Sewer
Local Health Department	Water-Source of Supply
Other Health Programs	
Culture and Recreation	
4-H Camp	Human Rights/Affirmative Action
Aging Program (Senior Citizens)	Ice Arena
Arts and Humanities	Law Library
Beautification	Library
Bingo Expenses	Museum Commission
Cemeteries	Parks and Recreation
Civic Center-Municipal Auditorium	Playgrounds
Civic Promotions	Rails to Trails
Community Center	Social Services
Community Council	Stadium (July 2006—Charleston)
Fair Associations/Festival	Swimming Pools
Golf Course	Travel Council
Grants - Social Services	Visitors Bureau
Historical Commission	Youth Program
Human Resources	
Capital Projects	
Culture and Recreation	Health and Sanitation
General Government	Public Safety
Streets and Transportation	
Airports	Signs and Signals
Central Garage	Snow Removal
Grants - Streets and Transportation	Street Cleaning
Port Authority	Street Construction
Printing	Streetlights
Public Transit	Streets and Highways
Sidewalks	

Table 25: Revenue Accounts by Category

Taxes	
Property Tax—Current Year for Current Exp	Tax Penalties, Int. & Pub. Fees
Property Tax—1st Year	Gas & Oil Severance Tax
Property Tax—2nd Year	Excise Tax on Utilities
Property Tax—3rd Year	Business and Occupation Tax
Property Tax—4th Year	Wine and Liquor Tax
Property Tax—Supplemental Taxes	Animal Control Tax
Property Tax—Surplus	Hotel Occupancy Tax
Property Tax—Delinquent & Non-entered Land Fund	Amusement Tax
Redemption from State Auditor	Coal Severance Tax
Property Tax—5th and any other prior year taxes	Insurance Premium Surtax
Property Tax—Tax Lien Surplus	Motor Vehicle Operator's Tax
Property Tax—Tax Loss Restoration	Horse and Dog Racing Tax
Property Tax—Excess Levy	Sales Tax (1% for FYE 2008)
Fines & Forfeitures	
Fines, Fees & Court Costs	Regional Jail Operations—Partial Reimbursement
Parking Violations	
Licenses & Permits	
Licenses	Franchise Fees
Building Permit Fees	Inspection Fees
Miscellaneous Permits	IRP Fees (Interstate Reg. Plan)
Charges for Services	
Employee Health Insurance Premium Charges	Airport Revenues
Retirees' Med Ins. Charges	Jail Fees
Retirees' Prescription Ins. Charges	Special Assessments
Private Liquor Club Fee	Refuse Collection
Cemetery Revenues	Police Protection Fees
Dog Pound Fees	Fire Protection Fees
Emergency Communication Fee	Planning Commission Revenue
Emergency Service Fee	Landfill/Incinerator Fees
Parks & Recreation	Street Fees
Municipal Service Fees	Housing Program Revenues
Parking Meter Revenues	Civic Center/Coliseum
Off-Street Parking	Floodwall Fees
Collection of Delinquent Accounts	Charges to Other Entities
Rents, Royalties, & Concessions	Ambulance Fees

Intergovernmental	
Federal Government Grants	Federal Payment in Lieu of Taxes
State Government Grants	Federal Payment in Lieu of Taxes
Other Grants	Flood Reimbursement
Contributions from other Entities	Payroll Reimbursement
Contributions from other Funds	Transfers from Rainy Day Fund
Charges to other Funds	Gaming Income
Payment in Lieu of Taxes	
Miscellaneous	
Capital Lease Rev. (Jan 2007)	Accident Reports
Map Sales	Library Fees
Gain/Loss Sale of Fixed Assets	Bingo Revenue
Interest Earned on Investments	Recycling Program
Reimbursements	Property Rehabilitation
Refunds and Rebates	Interest on Special Assessment
Sale of Fixed Assets	Confiscated Property
Sale of Materials	Employees Ret. Cont. (Police/Fire)
Commissions	Proceeds from Sale of Bonds
Insurance Claims	Video Lottery (LVL)
Filing Fees	

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