



This is the first in a series of articles on rural economies throughout the Fifth District.

Next up:
Northeastern
North Carolina

APPALACHIAN DIVERSIFICATION

WEST VIRGINIA AND REGIONAL HISTORY COLLECTION, WEST VIRGINIA UNIVERSITY LIBRARIES

In the heart of Appalachia, the people of Southwest Virginia are creating economic opportunities to replace coal jobs

BY KARL RHODES

When the Woodtech plywood plant shut down in Tazewell County, Va., Steve Taylor and two other employees refused to quit. Even after their paychecks stopped coming in August 2002, they kept on working. They struggled to winterize \$36.5 million worth of equipment. They contacted potential customers, and they worked on a business plan to reopen the plant.

Woodtech was in bankruptcy and so was its parent company, Fancy Tsuda of Japan. The company's primary lender had failed, and its plant was in sad shape. There was no electricity, no heat, and no running

water — except the rain that seeped through dozens of leaks in the roof.

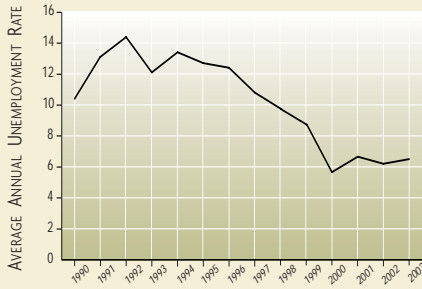
Looking for help, Taylor took his plan to reopen the plywood plant to Tazewell County's Industrial Development Authority (IDA). He didn't snare any financial assistance, but he did catch the attention of IDA board member Bill King, a former mayor of nearby Bluefield, Va., who had cashed out of the cable television business in 1999.

King was so inspired by Taylor and his cohorts that he resigned from the IDA board and started investing his own money in the project. A new company, Blue Ridge Wood Products, was born.

The story of Blue Ridge Wood Products showcases the hardworking, bootstrapping mentality that permeates Southwest Virginia, the geographic center of Appalachia. The people here are fiercely independent and self-reliant. They are as rugged as the mountains that separate them from the socioeconomic blessings and curses of big cities. For generations, their culture produced strong churches and cohesive families, good neighbors, and mountain music.

But their culture also valued manual labor at the expense of formal education. Many teenagers quit high school as soon as they could to work

Unemployment in Virginia's Coalfield Region



SOURCE: Virginia Employment Commission

in the coal mines, recalls Donald Baker, mayor of Clintwood and chairman of the Virginia Coalfield Economic Development Authority (VCEDA). “It was a family tradition. Your grandfather was a miner. Your father was a miner. You’re a miner, and your children will end up being miners. But that’s not the case anymore.” (For more on the IDA, VCEDA, and other development authorities, see the sidebar.)

Coal’s impact on the region’s culture and economy has decreased substantially since the late 1970s. New mining techniques and equipment have eliminated thousands of jobs in the seven-county area covered by the VCEDA. “It took 900 to 1,000 people [in the 1950s] to produce the amount of coal that 10 people can

produce now,” says Baker, who spent 35 years in the business. “With long-wall mining, it’s nothing to produce 2,000 to 3,000 tons of coal in an eight-hour shift with six to eight people.”

Baker says the region’s county governments were slow to promote economic diversity in the 1970s and ’80s. Looked at one way, this may have been a reasonable decision. The region’s residents did what was most profitable — coal mining — for as long as they could. But when the coal-mining industry took a turn for the worse, the region was destined for hard times.

“When things were going OK ... no one seemed to be all that concerned,” Baker recalls. “All of a sudden one morning, they woke up and said, ‘We need to do other things!’ ... I think they let a lot of time slip by.”

Stepping Out of Denial

If anyone doubted that things in Southwest Virginia had taken a turn for the worse, a 1987 socioeconomic study of Virginia’s coal counties entitled “Income Uncertainty and the Quality of Life” put those doubts to rest. The study, written by three Virginia Tech economists, found that per-capita income in the region was only 68 percent of the state average. And to make matters worse, the region’s income was “more variable” and “less evenly distributed.”

The study painted an empirical picture of Southwest Virginia that was hard to ignore. The disparities were dramatic in everything from test scores and dropout rates to “permits for mobile homes” and “housing units with no piped water.”

Newspapers across the country picked up the story, recalls lead researcher Thomas Johnson, who is currently a professor of agricultural economics at the University of Missouri-Columbia. The study was prompted by “key activists in the area who felt that those sort of things needed to be aired,” Johnson says. Southwest Virginia had “some devoted people who wanted to see change.”

The Virginia General Assembly responded by forming the VCEDA in 1988. The authority promotes economic diversity in the counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell and Wise plus the city of Norton — the same region that Johnson and his colleagues highlighted in their landmark study. The VCEDA is funded by 12.5 percent of the revenue from the region’s 2 percent coal severance tax and 37.5 percent of the revenue from the region’s 2 percent natural gas severance tax. (Severance taxes are levied by localities on the value of coal or natural gas extracted — or “severed” — from that locality.)

The authority has used that money to provide \$66.5 million in total

Population in the Virginia Coalfield Region

	1900	1910	1920	1930	1940	1950	1960	1970	1980	1990	2000
Virginia	1,854,184	2,061,612	2,309,187	2,421,851	2,677,773	3,318,680	3,966,949	4,651,448	5,346,797	6,187,358	7,078,515
Buchanan County	9,692	12,334	15,441	16,740	31,477	35,748	36,724	32,071	37,989	31,333	26,978
Dickenson County	7,747	9,199	13,542	16,163	21,266	23,393	20,211	16,077	19,806	17,620	16,395
Lee County	19,856	23,840	25,293	30,419	39,296	36,106	25,824	20,321	25,956	24,496	23,589
Russell County	18,031	23,474	26,786	25,957	26,627	26,818	26,290	24,533	31,761	28,667	30,308
Scott County	22,694	23,814	24,776	24,181	26,989	27,640	25,813	24,376	25,068	23,204	23,403
Tazewell County	23,384	24,946	27,840	32,477	41,607	47,512	44,791	39,816	50,511	45,960	44,598
Wise County	19,653	34,162	46,500	51,167	52,458	56,336	43,579	35,947	43,863	39,573	40,123
Norton*	n/a	n/a	n/a	n/a	n/a	n/a	5,013	4,172	4,757	4,247	3,904
Virginia Coalfield Region	121,057	151,769	180,178	197,104	239,720	253,553	228,245	197,313	239,711	215,100	209,298

*Norton became a city in 1954. Before then, its population was part of Wise County.
SOURCE: U.S. Census Bureau

financing to more than 150 economic diversification projects since 1988, says Jonathan Belcher, the VCEDA's deputy executive director.

Most of that financing has come from the authority's revolving loan fund, which lends money at or below prime rate, Belcher says. About half of the loans go to new industry, while the other half is divided up among expanding businesses, infrastructure projects, land for industrial parks, etc.

"They have changed their dependence on coal mining," Johnson says. "It really is amazing when an area can pull itself back from that abyss."

Plying a New Trade

During the past 15 years, the VCEDA has assisted nearly every major non-coal employer in the region, most recently Blue Ridge Wood Products, the plywood plant that King is trying to reopen in Tazewell County.

King began working on Blue Ridge Wood Products in May 2003. He struck a deal with the bankruptcy court to lease the plant from Woodtech's creditors in exchange for providing security and electricity at the plant.

With his own money, King started hiring a mix of former Woodtech employees and new workers to patch the holes in the roof, repair water lines, and get the HVAC and fire-suppression systems working again. They also started reconditioning the plant's equipment and testing it on logs that King bought.

At the same time, King was lining up potential customers, hiring more workers, and presenting the plant's evolving business plan to any lender who would listen. He needed to borrow enough money to buy the business out of bankruptcy and get the plant "over the hump" to profitability.

"We basically had 22 rejections," King recalls. They were turned down by small local banks, large national banks, and statewide development agencies. In February 2004, King told his wife that he was "probably going to pull out. ... I just couldn't put her through it anymore," he says. King started packing up his office, and he called the Tazewell County adminis-

trator to let him know that he was calling it quits.

That's when one of the county supervisors came up with an interesting proposal: If King were able to buy the plant out of bankruptcy, he reasoned, the county would receive \$608,000 in back taxes that Woodtech still owed. Why not agree to lend that money back to Blue Ridge Wood Products through the industrial development authority to keep the deal alive? Otherwise, the county and Woodtech's other creditors would have to find another buyer, and no one else seemed likely to purchase a plant that had failed before, was in poor condition and was deteriorating rapidly. Under the circumstances, the prospects of new jobs and future taxes outweighed the risk that King would not be able to repay the loan.

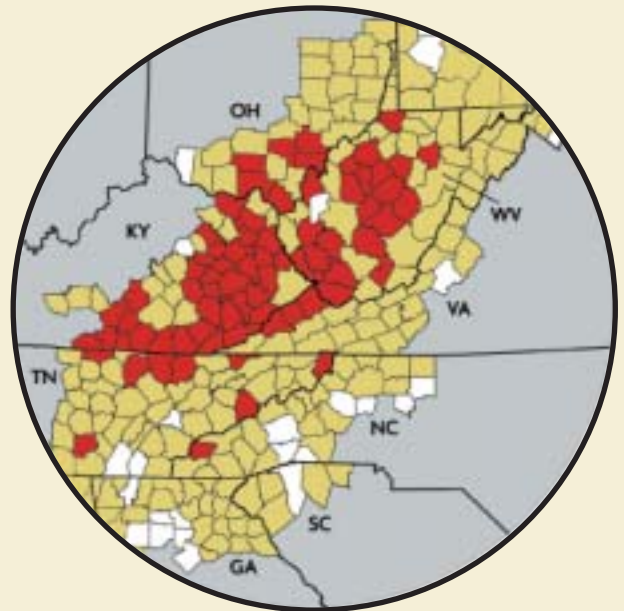
The county's pledge led to financial commitments from the Governor's Opportunity Fund and from the Virginia Tobacco Indemnification and Community Revitalization Commission. And those commitments helped King get a loan commitment from the Bank of Tazewell — one of the banks that had previously turned him down.

The other breakthrough that helped secure bank financing was finding an experienced plant manager who was willing to take a chance on the fledgling company. Enter R.D. Finley, the manager of a similar plant in Princeton, W.Va. The Princeton plant was shutting down its plywood production, and Finley did not want to move to Indiana or Pennsylvania to keep his job.

"I'm a hometown boy," Finley says. "I wanted to stay around here." Finley

County Economic Status in Appalachia

(Fiscal Year 2004)



Distressed

Distressed counties are the most economically depressed. They have a three-year average unemployment rate that is at least 1.5 times the national average; a per-capita market income that is two-thirds or less of the national average; and a poverty rate that is at least 1.5 times the national average; or they have two times the national poverty rate and qualify on the unemployment or income indicator.

Transitional

Transitional counties are those below the national average for one or more of the three economic indicators (three-year average unemployment, per-capita market income, and poverty) but do not meet the criteria of the distressed category.

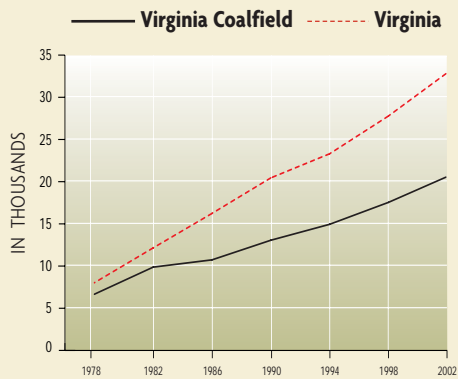
Source: Appalachian Regional Commission

was born and raised in Gary, W.Va., about 35 miles from Bluefield. He returned to Appalachia after traveling extensively with the military. "I've been to Turkey, England, and Germany," says Finley, vetoing each country with a shake of his head. "I just love the mountains. I love the people. I love the natural beauty of West Virginia and western Virginia. ... All of my children and grandchildren are right here."

Down Home

When people try to define the alluring lifestyle of Southwest Virginia, they refer to "family values" more often than both presidential candidates combined. Their most common refrain is:

Per-Capita Personal Income



SOURCE: U.S. Bureau of Economic Analysis

“It’s a great place to raise a family.”

That phrase captures many of the region’s strengths, explains Jessica Horn, a marketing associate with the VCEDA. “It’s the low crime rate. It’s a feeling that you know who your neighbors are and you feel comfortable in your neighborhood,” she says. “A lot of people are here because their families are here. They have that support system for raising their children.”

Lots of rural areas in all parts of the country claim to be good places

to raise families, notes Belcher at the VCEDA, “and by and large that’s true. But here, we also have the beauty of the mountains and the [family-oriented] recreational opportunities,” such as hiking, biking, hunting, and fishing.

Education is often cited as the weakest link in the region’s family-friendly culture, but education is the main reason why King moved his family to Tazewell County in 1983. King grew up in McDowell County, W.Va., “in the heart of coal-mining country.” In the 1950 census, the county’s population peaked at nearly 100,000. Now it’s barely above 25,000. The county had 10 high schools in the early 1950s, King recalls. Now it has just three, and that number soon will drop to two.

“I was very happy with the education I received in McDowell County,” King says. But “as we lost population, ... a lot of the teachers had [migrated] to the school system in Tazewell County. ... The math instructor I had in junior high was down here teaching high school math.”

Tazewell County’s school system “does a very fine job of preparing kids

to go on to college,” King says. One of his children scored 800 on the math portion of the SAT, and all three of his children graduated from Virginia Tech.

King was willing to chase educational opportunities for his children, but he didn’t want to leave Appalachia. “Walking down the street, people say, ‘Hello!’ and ‘How are you doing?’” he notes. “That’s the way I like it. I like to go out of my way to try to help somebody. I think it’s one of the things that you are put on earth to do is to be friendly with people.”

King wears his community pride on his sleeve. Today it happens to be the sleeve of a maroon shirt that’s emblazoned with one bright orange word — “Risk.” On closer examination, the word is not “Risk” but “Rish,” the name of a heavy equipment dealer.

As King clarifies the ambiguous embroidery, two men hustle past him with fire extinguishers. Smoke rolls out into the plant as they throw open giant doors to the drying equipment and snuff out smoldering pieces of wood. King takes it all in stride. “It’s like practicing on a football team,” he says. “You run this play, and you run this play. You run it. You run it. You run it. So when you get in a game, you know what can go wrong. ... And when your butt’s been between a rock and a hard spot enough, you know you are going to find a way out of it.”

The biggest risk, King concedes, is investing substantial time, effort, and money into plant and equipment that he doesn’t own yet. That’s not exactly how they draw it up in business schools, but King saw no other way to get Blue Ridge Wood Products going.

“If the deal doesn’t go through, I’m out seven figures,” he says. And if the deal does go through, the company expects to employ 100 people within a month and 160 to 170 people by the end of the year. Finley, the plant manager, relishes that challenge, and he admires King’s entrepreneurial zeal.

“Here is a guy who doesn’t know the first thing in this world about the

By Whose Authority?

Local industrial development authorities — sometimes called economic development authorities — have played increasingly prominent roles in promoting economic activity in Virginia in the past few decades.

Beginning in the 1960s, the Virginia General Assembly has authorized localities to create industrial development authorities (IDAs) that are empowered to acquire, own, develop, and lease property to spark economic growth. The General Assembly has enabled these authorities to finance their activities by issuing tax-free bonds and by accepting loans and grants from government agencies.

Typically IDAs use these funds to develop industrial parks and to offer financial incentives to attract new companies and help existing businesses grow.

These authorities are governed by boards of residents who are appointed by their local

governments. The governing boards and IDA boards are not allowed to overlap, except in towns with populations below 3,500. Even in these small towns, however, members of the towns’ governing boards cannot comprise a majority on their IDA boards.

The Virginia Coalfield Economic Development Authority (VCEDA) is similar to an IDA, but it is unique in several ways. The General Assembly created this authority in 1988 specifically to help diversify the economies of Virginia’s coal-producing counties and city.

The VCEDA takes a regional approach to economic development, and it receives nearly all of its funding from a portion of the coal-and-gas-severance taxes that its member localities collect. The VCEDA board is a mix of local and regional officials, coal and gas industry representatives, and gubernatorial appointees.

—KARL RHODES

wood industry. And he told me that right up front,” Finley recalls. But King has surrounded himself with people who do know the business. Finley says he left a secure job to sign up with King’s operation because “that’s the kind of guy I want to work for. He has put his neck on the line.”

As he waits for his loans to close in mid-August, King admits that the deal is risky. But it also has the potential to turn a nice profit and have a huge effect on the local economy.

“Some of the biggest mistakes I’ve ever made were not making decisions when I had good opportunities in front of me,” King laments. “I was afraid to make a decision. I let it set too long. ... It goes back to this: Would I be satisfied on my death bed had I not tried this deal? No!”

On the Upswing ... Slowly

For the past 15 years, economic developers in Southwest Virginia have tried to diversify the region’s economy and replace the thousands of coal-related jobs that are gone for good. In addition to wood products companies, they have attracted several automotive parts manufacturers and nearly a dozen customer-contact centers. They also have targeted companies manufacturing electronics, pharmaceuticals, and metal products.

Per-capita personal income is about two-thirds of the state average, but that figure has stabilized after years of decline. Meanwhile, unemployment in the region has fallen from 14.5 percent in 1985 to 6.5 percent in 2003. (See the accompanying graphs.)

Part of that improvement can be attributed to four prisons that opened in the region during those years. The VCEDA did not actively seek those prisons, but unlike many areas of Virginia, most local residents did not oppose them either. “We haven’t seen the not-in-my-backyard syndrome with the location of the prisons,” says Belcher at the VCEDA. They provide “steady jobs, sound jobs that are not likely to go away anytime soon. And our work force has adapted well to those positions.”

Most residents also favor construction of a second coal-fired power

plant in Southwest Virginia, according to Belcher. “We have a work force and a citizenry that has a background in coal mining,” he explains. So they view a coal-fired power plant “as an opportunity that goes hand in hand with the mining industry that is already here.”

Another new diversification effort that capitalizes on the region’s existing assets is heritage tourism. Last year, the authority decided to commit \$2.5 million to tourism projects during a three-year period.

One of those projects is the Ralph Stanley Museum & Traditional Mountain Music Center, which is scheduled to open in October on Clintwood’s Main Street. The \$2 million museum pays tribute to Ralph Stanley, a local musician who has become a bluegrass legend around the world. Housed in a turn-of-the-century mansion, it will anchor the western end of The Crooked Road: Virginia’s Heritage Music Trail.

With several stops in Southwest Virginia, the trail is expected to attract thousands of country music fans to the region, says Baker, the mayor of Clintwood. Virginia has been losing tourism dollars to North Carolina, he says. “I think we missed the boat in the past. ... Now we’re in the mode of promoting [tourism]. It’s what should have happened several years ago.”

Here to Stay

Some economists argue that spending tax dollars to promote economic diversification in Appalachia only postpones the inevitable outflow of population to regions that need more workers anyway. But Appalachian advocates counter that many people in the region are not as mobile as other U.S. residents.

Ron Eller, the former director of the Appalachian Center at the University of Kentucky, called residents of the region a “placed population” in a discussion published in *Appalachia Magazine* in 1998. “The larger society, especially in the late 20th century, assumes that jobs are available ... and that people are free to move wherever the jobs may be,” Eller said. “That simply is not the case for many of the poor in Appalachia. They

don’t have the education to be mobile. In many cases they are tied because of a need to take care of a disabled or older relative or tied emotionally to their place.”

The people interviewed for this story are not poor, and most of them have at least one college degree. None of them expressed any interest in leaving Southwest Virginia. In fact, as the region’s unemployment rate has declined, the population has stabilized, and many people are gravitating back to their mountain homes.

At Blue Ridge Wood Products, King finally closed his loans and purchased his plywood plant. He rejects the suggestion that people live in Appalachia because they lack education. “Growing up in the coalfields, there were a lot of smart people — a hell of a lot of smart people,” he insists. “And a lot of those people are coming back.”

RF

READINGS

Bradley, David H., Stephen A. Herzenberg, and Howard Wial. “An Assessment of Labor Force Participation, Rates and Under-employment in Appalachia.” Appalachian Regional Commission, August 2001.

Caudill, Harry M. *Night Comes to the Cumberlands: A Biography of a Depressed Area*. Boston: Little, Brown & Co., 1963.

Hibbard, Walter R. Jr., and Theodore J. Cutter. *Virginia Coal: An Abridged History*. Blacksburg, Va.: Virginia Center for Coal and Energy Research, Virginia Tech, April 1990.

Kraybill, David S., Thomas G. Johnson, and Brady J. Deaton. “Income Uncertainty and the Quality of Life: A Socio-Economic Study of Virginia’s Coal Counties.” Bulletin 87-4, Virginia Agricultural Experiment Station, Virginia Tech, September 1987.

Wesman, E.C., Christopher Haycocks, and C.E. Zipper. “Estimation of Southwest Virginia Coal Reserves.” Publication 460-139, Powell River Project, Virginia Tech, June 2000.

Wood, Lawrence E., and Gregory A. Bischak. “Progress and Challenges in Reducing Economic Distress in Appalachia: An Analysis of National and Regional Trends Since 1960.” Appalachian Regional Commission, January 2000.

Visit www.rich.frb.org/pubs/regionfocus for links to relevant sites.